HOUSE OF COMMONS

Third Report from the

TREASURY AND CIVIL SERVICE COMMITTEE

Session 1981–82

EFFICIENCY AND EFFECTIVENESS IN THE CIVIL SERVICE

Together with the Proceedings of the Committee, and the Minutes of Evidence and Appendices

VOLUME II
MINUTES OF EVIDENCE

Ordered by The House of Commons *to be printed*
8 March 1982

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The Treasury and Civil Service Committee is appointed under S.O. No 86A to examine the expenditure, administration and policy of the Treasury, the Civil Service Department, the Board of Inland Revenue, and the Board of Customs and Excise and associated public bodies, and similar matters within the responsibilities of the Secretary of State for Northern Ireland.

The Committee consists of a maximum of eleven members, of whom the quorum is three. Unless the House otherwise orders, all Members nominated to the Committee continue to be members of the Committee for the remainder of the Parliament.

The Committee has power:

(a) to send for persons, papers and records, to sit notwithstanding any adjournment of the House, to adjourn from place to place, and to report from time to time;

(b) to appoint persons with technical knowledge either to supply information which is not readily available or to elucidate matters of complexity within the Committee's order of reference.

The Committee has power to appoint one sub-committee and to report from time to time the minutes of evidence taken before it. The sub-committee has power to send for persons, papers and records, to sit notwithstanding any adjournment of the House, and to adjourn from place to place. It has a quorum of three.

Monday 26 *November* 1979

The following were nominated as members of the Treasury and Civil Service Committee:

Mr Kenneth Baker
Mr Anthony Beaumont-Dark
Dr Jeremy Bray
Mr Edward du Cann
Mr Timothy Eggar
Mr Michael English
Mr Terence L Higgins
Mr Robert Sheldon
Mr Richard Shepherd
Mr Richard Wainwright
Mr Ken Woolmer

Mr Edward du Cann was elected Chairman on 29 November 1979.

The following changes in the membership of the Committee have been made.
Friday 30 January 1981: Mr Kenneth Baker discharged; Mr Jock Bruce-Gardyne appointed.
Friday 13 March 1981: Mr Robert Sheldon discharged; Mr Michael Meacher appointed.
Friday 13 November 1981: Mr Jock Bruce-Gardyne discharged; Mr Ralph Howell appointed.
Friday 5 February 1982: Mr Ken Woolmer discharged: Mr Austin Mitchell appointed.

The cost of preparing for publication the Shorthand Minutes of Evidence taken before the Committee and published with this Report was £1 975 14

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THURSDAY 11 JUNE 1981

Members present:
Dr Jeremy Bray, in the Chair

Mr Timothy Eggar
Mr Michael English
Mr Richard Shepherd
Mr Richard Wainwright

Examination of Witnesses

Sir DOUGLAS HENLEY, KCB, Comptroller and Auditor General, and Mr D A DEWAR, Director, Special Studies Unit, Exchequer and Audit Department, called in and examined.

Chairman

1. Sir Douglas, may we thank you and Mr Dewar for coming along this afternoon to give the initial evidence in an inquiry which we are embarking on into the efficiency and effectiveness of the Civil Service. This is obviously a matter with which you are primarily concerned and in which you have served the House of Commons and the Public Accounts Committee in ways with which we are in general familiar but not, I am sure, as well informed as we would like to be. I wonder if you could, just to help the Committee, give any characterisation of the particular role of the C&AG perhaps bearing in mind the differentiation between the role of the C&AG and other central agencies which are concerned with efficiency and effectiveness in government.

(Sir Douglas Henley) Certainly, Chairman. I think the first point I should make is that of course the C&AG's Department are auditors. We do actually have to audit in the normal financial sense a very wide range of accounts. They include of course the appropriation accounts of all Government Departments and a whole range of other accounts, some associated with the Departments and some further removed, and they include a number of quasi-commercial activities in or close to Government. So we do have a very major responsibility, originally our only responsibility, for financial and what we call regularity audit; but for many years now we have of course also developed what we call generically the value for money audit, which I think all, or nearly all, public audit authorities developed, for obvious reasons, and this is a major part of our activity. If you want me to expand on some or all of this I am very happy to do so. I imagine Members will be generally familiar with what is embraced in a financial audit, though there are special characteristics to that in a public service context. "Regularity" is a term that needs definition and explanation if one is talking about Central Government, but value for money audit is perhaps the area that you will be most concerned with in your inquiry.

Mr English

2. I think the PAC has fairly well been over the audit ground and we have that report of course available to us. One of our problems is that rightly and with absolute rectitude the PAC left out the Comptroller side of your functions. They were united in the middle of the 19th century but they are in fact separate. In a technical sense I think they are known as "pre-audit" and "post-audit" but there is not much pre-audit around in the United Kingdom. The Comptroller side, as I understand it at this particular moment, was required to determine whether expenditure was lawful in advance, not as an audit function. Is that a roughly correct description of the Comptroller side of your activities?

(Sir Douglas Henley) Yes, I think that is fair. You used the term "pre-audit".

3. That is a modern one; it is not a 19th century one.

(Sir Douglas Henley) I would not object to that phrase, but I think, as you are well aware, that the main object of the Comptroller function, which as you say was originally exercised by a specific different public officer, is to make sure that all revenue which ought to come into the Consolidated Fund does come in and that none of the money which is asked for by the Government, in fact by the Treasury, is issued from the Exchequer account at the Bank of England unless the C&AG is satisfied that it is covered by a statutory authority.

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4. How did you do that when you had no lawyers on your staff? Most Departments of State these days have large numbers of lawyers. Trade has about 70 lawyers for example, and similarly with other Departments. How can you do that when you do not have a corps of lawyers on your staff?

(Sir Douglas Henley) I think in nearly every case it is perfectly straightforward to see whether monies required for particular purposes are within the terms of the statutes to which they relate. It would only be in a very exceptional case that one would need special legal advice to determine whether a disputed issue was or was not legal. I cannot remember it coming up in the context of the Comptroller function though I think it has occasionally come up elsewhere, perhaps in the audit. In that case we would go to the Treasury Solicitor.

5. We passed an Indemnity Act in relation to the Crown Agents to cover the expenditure since 1837, slightly before the Comptroller and Auditor General's functions were amalgamated, but we had to pass it because all the expenditure was illegal.

(Sir Douglas Henley) So I understand.[1]

Chairman

6. I wonder if we could return to the point of departure which you took, that it is the financial and regulatory audit which is your primary function and the value for money, to go on from that: do you see value for money as including both efficiency and effectiveness? The Green Paper[2] is a little ambiguous about that and it was not cleared up in the PAC report.[3] Value for money was taken to cover "an examination of economy and efficiency, to bring to light examples of wasteful, extravagant or unrewarding expenditure, failure to maximise receipts or financial arrangements detrimental to the Exchequer, and weaknesses leading to them" and "Effectiveness" was, perhaps more broadly, "an examination to assess whether programmes or projects undertaken to meet established policy goals or objectives have met those aims".

(Sir Douglas Henley) Yes. Subject to correction I think the PAC report did in fact take up this point, but our approach is very straightforward. Value for money is a term we use quite generically to cover all aspects of our audit which are not related to the statutory requirement for certification, so it would cover in our book what are known around the world now as the three "Es": economy, efficiency and effectiveness. Of course, if you want just to use English as English a lot of this is covered by the word "efficiency" but very briefly the distinction between "economy" and "efficiency", using the first two of the three "Es", is not one I think with respect the Sub-Committee need worry about. We can go into it if you wish, but there is not all that much difference. There is a real difference between economy audit, as we understand it, and effectiveness, and the difference is that simply if you are looking at effectiveness you do try to take the examination a bit further and see whether a particular activity of Government, or whoever it may be, is, in your view, adequately designed and managed to secure the objectives. It is really as simple as that. When I say it is as simple as that, the procedures and the methods and so on are far from simple, but that is the objective of effectiveness audit, and I think it was accepted—in act, I am sure it was accepted—in the Government's Green Paper and has been reiterated in the PAC report that with due care and selection this is a function which nowadays Parliament would expect the C&AG to cover.

7. Would you take it as covering issues which had not necessarily arisen in the financial audit anyway or would you argue that since the financial audit covers everything it must have been raised?

(Sir Douglas Henley) I do not think I would necessarily expect a particular study into the efficiency or effectiveness of Government activities to arise from the financial audit. Sometimes it does. Sometimes, particularly with some of our more recent developments, we are simply looking into particular areas without starting from the standpoint of the straightforward financial audit.

8. Is the work on the efficiency audits and the effectiveness audits organised so that it is carried out by a different lot of people from the people who are doing the financial audits?

(Sir Douglas Henley) If you ask in terms of whether we have two sets of people in the Department, the first lot of whom do the financial audit and the second who do value-for-money audit, except for one or

[1] See Annex, p 21.
[2] Cmnd 7845.
[3] First Special Report, 1980–81, *The Role of the Comptroller and Auditor General*, HC 115.

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two cases of rather special nature, which I can explain if you wish, the answer is no; that is to say, we do expect most of our people to move from one to the other as the requirements of the office and our plans make necessary; but, of course, at a particular time a number of people would be in divisions where they would be concentrating on financial audits and they would not necessarily be spending a great deal of time on value-for-money audit. For example, we have one division where, as a matter of decision and a matter of policy, we did, at any rate for a time, concentrate quite a number of our smaller accounts which we thought needed a good deal of attention from the straightforward financial audit point of view. We would not expect people occupied in that part of that division to throw out very many major value-for-money or efficiency points.

Mr English

9. I think we are in danger of using this word "audit" in rather a wide sense. I do not know whether it is the way in which other people are using it, but I regard "audit" as the looking back on the past to see what has happened, in a sense. I think the Public Accounts Committee has probably looked at this aspect of the C&AG's functions. I am, therefore, more interested in the looking-forward-to-the-future aspect of his functions. I loosely phrase that as Comptroller as distinct from Auditor General, but I am sure that it must be recognised that I am using that as a sort of label and not as a necessary definition. In other countries equivalents of Sir Douglas Henley's Department consist of people drawn from a wide variety of disciplines. I think it is fair to Sir Douglas to say that he has improved the standard of qualification of his subordinates greatly. As I understand it, before 1975 they were not like the First Division; they were not graduates with first- or second-class honours, and they were not necessarily accountants or anything else (they might be by accident). Since 1975, as I understand it, they are required to be graduates and they are required to become, if they are not already, members of an accountancy institute, usually CIPFA, but that means that pre-1975 members of the Department presumably do not have those qualifications?

(Sir Douglas Henley) Mostly, yes, that is right.

10. So that we are in a transitional phase. What I am concerned about is, as I say, that there does seem to be some neglect. Sir Douglas's first comment to you, Mr Chairman, was that audit was his primary responsibility. By law it is not. His primary responsibility is to see that what is approved by Parliament is paid and nothing else, and that is in advance, that is the Comptroller function, not the audit function. I think it has been neglected. It may be right but I think we need a little more comment on it than we have so far had. I do not quite see, as I said earlier, how you decide whether things are lawful or appropriate even if you do not have the professionally qualified people to tell you?

(Sir Douglas Henley) Chairman, there are several points Mr English raises there. Can I try and deal with the point—and I am not sure it is a linguistic point—about the Comptroller function. I think it is arguable myself whether the Comptroller function needs to be continued at all. As I said, others do not take that view. The PAC came down on balance in favour of continuing it, but there is a distinction between authorising issues from the Exchequer as a constitutional requirement and as checking, in fact, on the propriety in the funding of the Treasury and departments, and the audit work, which, as you say, if I may say so, comes afterwards. Audit covers a very wide field. When we started I said that the financial audit was the first requirement in the sense that our statute at the moment requires the C&AG and his Department to do a financial audit of a certain kind, which is laid down in the two Acts. That is, in fact, the only statutory basis for any of our operations, leaving aside for the moment the Comptroller function, which is quite small, constitutionally important but takes only three people, who do other things as well. So, the basic work is audit.

11. I think you mean you only devote three people to it?

(Sir Douglas Henley) Yes. In my view that is plenty.

12. That is why we had to pass an Act of Indemnity.

(Sir Douglas Henley) No, I do not think so, Mr English.

13. We did have to pass one.

(Sir Douglas Henley) I accept you passed one but I do not think you had to pass it because I had only had three people on it. I think if we had 300 people we still

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would not have picked that particular point up.

14. I think that is right, if none of them is a lawyer or an accountant.

(Sir Douglas Henley) I must leave that to you. No, I do not think, with respect, either would have made the slightest difference. Could I go back to the audit point. The audit does cover a very wide range. I think what I would put first and foremost among the qualities of an auditor after a reasonable professional qualification, whether that is secured in-house or out-of-house—and I totally accept that these days it has to be secured out-of-house—would be the right attitudes and the right aptitudes for the work. It is a very demanding specification to be a public auditor and I would say that certainly a large proportion of the people who came in over the years since 1921 and were qualified by internal/external, in-house/out-of-house arrangements—they were run originally through the LSE and the City of London Polytechnic—did acquire an adequate professional background at that time by their work. I would go further and say that in my own experience over the last five or six years certainly a good number of those people will now measure up to the best accountants I have seen in the professional sector outside, but that does not mean we were not right to change to the professional basis we now have. The point I am making is that I do believe that is only a start for the job requirement, and that while a training in accountancy, which I personally believe has to be founded on a training in economics because it is a much narrower discipline, is essential for most of our people, what is even more essential is that they should afterwards by experience or additional training secure the right sort of approaches and attitudes to this sort of work.

15. You have avoided my question. My question was not about propriety, it was about the law. My question was not about audit, it was about the Comptroller functions, and it was not about local qualifications not accepted by any professional institute. Those were answers to questions I did not ask. Could I repeat my simple question, which is this: by law, by Acts of Parliament—they may need revision and I think everybody accepts that they do—there is a duty laid upon the Comptroller and Auditor General to ensure that the issues of the Exchequer are lawful, not in accordance with propriety, which was the word used by the Comptroller and Auditor General, but lawful. My first question originally was, how do you decide that they are lawful, when you do not have a lawyer on your staff (or did not at the time)? I am talking of you as an office. I hope that is understood, because I accept that you have improved the situation, I am not disputing that. How do you determine that they are lawful? Furthermore, who decided that there should only be three people on that job? This is whether Parliament's wishes are carried out in respect of expenditure. It is a matter of some importance, surely?

(Sir Douglas Henley) I decide ultimately who should be on the job. Perhaps I can give you an illustration about this question of whether one needs a lawyer to decide whether an issue, which the Treasury requests from the account at the Bank of England, is within the authority of Parliament. As you know, there are very substantial issues made to the nationalised industries (as it happens, from the National Loans Fund, but it is all part of the Exchequer), which are governed by Parliamentary limitations, by statute. I cannot remember the figures, but say it amounts to £900 million in a period of years. It may well happen that the Treasury comes along to us for £100 million to be issued from the National Loans Fund to the National Coal Board. We would be required to make sure that that is within the total which Parliament has so far authorised. That is a straightforward operation, and as long as we can take it that it *is* being issued for capital purposes for the National Coal Board, or whatever the criteria are, it is a very simple matter to determine whether it is within the limitations or not. I do not dispute that there could arise an example (though I cannot recall one in my time) where there might be a matter which would be much more open to legal argument than that. In that case, if we could not resolve it ourselves by discussion with the Treasury, we would perhaps have to secure legal advice, but that would be a very exceptional case. I think the case that Mr English mentioned—of the Crown Agents borrowing without legal authority—was something which I would be bound to accept was a matter we ought to have picked up over the 100 years, or whatever it was. I do not dispute that at all. We were not alone in failing to pick up a number of things in the area of the Crown Agents, and I am not

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using those other shortcomings (if they were shortcomings) as excuses.[1]

16. I never suggested that you were alone in that. I do suggest that if you, as a long-stop, fail, then all our recourses have failed. The point I was really making was that you did mention the National Loans Fund. I was actually talking about the Supply Estimates, something much more direct.

(Sir Douglas Henley) The same point applies to the Supply Estimates. It is not a difficult matter, in 999 cases out of 1,000, as long as you have a conscientious person doing it, to make sure that money being issued from the Exchequer is within the amounts authorised by Parliament for particular purposes. If the department receiving the money then spends it on something which is outwith the terms of their vote, that is something which we ought to pick up at a later stage; and if we do not do that, we may well be at fault.

17. You are saying, in effect, that if an atomic bomb is constructed without the authority of Parliament—as happened—that is no concern of the Comptroller and Auditor General?

(Sir Douglas Henley) I was not addressing myself to that particular question.

18. No, I was just using it as an illustration, just as you used the Coal Board.

(Sir Douglas Henley) On that illustration, the money required for the development or production of an atomic weapon would go out under the relevant vote of the Ministry of Defence.

19. It did not.

(Sir Douglas Henley) If the money requested was not covered by that particular vote, we would have a question. If, after the event, money which was issued for one purpose was diverted to another, equally our auditor function would be called in question; we should have to decide if we needed to report on it.

Mr English: Since it is more than 30 years ago, perhaps we could have the papers.

Chairman: I do not think we will enquire into that today.

[1]See Annex, p 21.

Mr Wainwright

20. I would like to follow up this question of audit and the definition of "audit", which I think is of importance to our inquiry in relation to value for money. It is the transfer (deliberately, no doubt) of the term "audit" from what has previously been known as financial audit to value-for-money audit. Would you agree that if the term is to be reasonably properly used, this must involve transferring also at least some of the main characteristics of an audit?

(Sir Douglas Henley) Yes.

21. One of the main characteristics of an audit, am I right, is that the audit must be in relation either to some statutory requirements or some objective standards; an audit cannot take place in the void, without reference to some established facts?

(Sir Douglas Henley) I think Mr Wainwright's question is in two parts. Certainly one aspect of an audit is to discover whether expenditure has statutory or other regular authority. I think that is part of the discussion that the Committee was having earlier. As to whether an audit has to be carried out according to standards, I would not dispute that as a broad proposition, but I think you have to decide what you mean by standards, and how they apply in various ways to the different types of work, because it is very diverse.

22. But you would agree that there has to be reference to something objective, such as a standard or a laid-down requirement? For instance, if I may offer you an example, an audit is not the same as a judge telling somebody who has been in the dock that he leaves the court without a stain on his character; it is not a generalised procedure, is it?

(Sir Douglas Henley) No, I do not object to the word "standard"; it is just that I think one needs to go into it a good deal more deeply, to see exactly what you are meaning.

23. Yes, indeed. What I am meaning is that although I have some familiarity with this field, I still do not feel properly informed as to what the objective standards are for value-for-money audit in a national field where, unlike local government, there are not a variety of authorities which can be compared one with another in the same country.

(Sir Douglas Henley) I do find the word "standard" slightly difficult in this context.

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I am just trying to think of aspects of a value-for-money audit which one could describe as "audit". If Mr Dewar, while I am thinking, can suggest some himself, I am very happy for him to do so. All I can say is that I do not really think we approach value-for-money audit in that way. We certainly do approach it in the way that we do apply certain techniques, if you like, certain methodology, certain approaches to departments, certain standards of operation. It would be necessary, I think, to go into those and to explain how we do it.

(Mr Dewar) I think it is true to say that in a value-for-money audit (which I would regard as an audit) the normal characteristics of an audit do apply in terms of audit evidence, proper documentation of results, proper exercise of judgment of results, proper planning to ensure the correct coverage of the subject under study. However, in terms of, as it were, the value-for-money equivalent of SSAPs (or whatever it is may apply in a more normal financial audit in, say, the companies sector), one is talking very much more in terms of standards of good management and good operational control and so on, which are matters which you derive during the audit by looking at what is done, assessing what the people need to do, identifying the characteristics of their operation and what they need to have to do it properly, efficiently and economically, and using those developed standards rather than, as it were, written-down standards, in the same context as SSAPs. The field of value-for-money audit has not anywhere been regularised in terms of external standards of that kind. However, it is an audit in the sense in which I have described it.

24. That I would more readily understand if we were talking about administration audit. However, I think we are, by common consent, talking about value-for-money audit, are we not?

(Mr Dewar) Yes.

25. Although I accept that everybody has to feel their way in this field, and I am not suggesting that anything has been neglected, is it your view that there is a long way to go yet, before a value-for-money audit, with the best will and the greatest efficiency in the world (or at any rate in this country), can be fully useful and effective?

(Sir Douglas Henley) No, I would not agree that there is a long way to go, in the sense in which Mr Wainwright is suggesting. I think the broad approach, the methods, the type of examination, the way we operate with Departments, the way we operate with Parliament, is extremely well understood and apart from certain developments here and there I think that it is soundly based. Where I think there is scope for development, and one has to be careful in this field, is moving to perhaps wider areas of audit, partly in the area of financial management or financial information systems, partly into areas of effectiveness of policy. I think this is where one gets into areas to some extent of contention, and certainly, as we are finding, to some extent of greater difficulty in operating. The reason for that is that whereas it is well understood in this country that the C&AG and his Department do have an established role and are reasonably expert in, for example, examining the appropriateness of and the efficiency with which large contracts are carried out, as this is an area we have traditionally done a great deal of work in, we are not yet so experienced in certain areas for example of manpower control.

Chairman

26. For the record, Mr Dewar said SSAP. What does that mean?

(Mr Dewar) Statements of standard accounting practice. I beg your pardon.

Mr Wainwright

27. On value for money, is not the acid test whether a product or service of the same quality in the same conditions could have been achieved more cheaply?

(Sir Douglas Henley) That is entirely right as one aspect of value for money. As I was explaining earlier to the Chairman, I think we happened to use the broad term "value for money" as a compendium term. It means everything that we do right across the spectrum except for the fundamental financial certification audit.

28. With this country being in membership of the European Community, has any thought been given to the possibility of comparing the value for money of certain government operations which are reasonably comparable at any rate in certain other of the more neighbouring European states?

(Sir Douglas Henley) These international comparisons are always a thing one thinks about looking at and, as I am sure the Sub-Committee knows, they are full of pitfalls. I do not think I would see a

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comparison of actual substantive examinations of that kind as being very valuable at the moment. What I would say is valuable and we do investigate is the way in which other national audit offices carry out this kind of work.

29. Yes, but I was thinking more of an actual direct comparison not miles away from the comparisons which an expert shopper makes, or indeed, if I may give an example, the way I have seen some local government councillors make visits to say a town like Amsterdam where with eagle eyes they will look at the cost of disposing of a dustbin full of rubbish compared with the same operation in Leeds.

(Sir Douglas Henley) In principle I do not dispute at all what you say. I have not spent a tremendous amount of time and resources in making this comparison. All I can say at the moment is I think we have plenty to do simply by investigating our Government Departments and others at home.

30. You do not rule this out though as an eventual prospect, at any rate for investigation?

(Sir Douglas Henley) No, but I think I should add that an audit investigation which is properly done, well based on what has been happening and carefully authenticated, is quite an operation and to go and do that in France or Belgium or Holland or elsewhere would take a tremendous amount of time. It would also require, to be effective, a full understanding of the government organisation, the relationships and the financial system of that country, before you even began to start.

31. Although the test surely could be for example cases where for instance under their national health service a normal child's tonsils were removed at very much less cost, or whatever the operation might be.

(Sir Douglas Henley) In principle yes, but that after all, I would say, is a thing which in the first place the DHSS ought to be concerning themselves with if they think it worthwhile, and in a sense we are at the second remove. However, if for example I asked my division that deals with health to see what they could do in Europe, to find examples of that kind, I am fairly confident that while they would pick out certain statistics and figures and begin to relate them to what goes on here, that would be beginning on a very long and difficult road and frankly I do not think that kind of information would pay off.

(Mr Dewar) The responsibility for securing value for money is that of the spending Departments. It is, as it were, our job to oversee the means by which they do it. The responsibility for securing value for money for the expenditure of public funds is predominantly the responsibility of the persons, the spending Department, to whom those funds are given. The ways in which they do it, the routines, the standards if you will, by which they spend this money, the investigations they themselves make, domestically or by international comparison, are predominantly a matter of their function. We would for our part ensure that this had been done. We would pursue the results of their investigation, and this is the characteristic again of an audit, of coming along to see that those with prime spending responsibility, where that lies, have carried out their functions properly. So this I think has to be recognised, that VFM is the responsibility of the spending Department. It is our job to see whether and how and how successfully they have gone about it in a systematic, selective way.

32. In that case you do at least inquire whether appropriate international comparisons should be or have been made?

(Sir Douglas Henley) There is nothing against that, if I may put it this way. If we thought it worthwhile we would do it. I would be very wary myself because I think I have seen enough in other parts of my career of pitfalls of that kind to be wary of rushing in.

Chairman: Mr Dewar picked up a point that Mr Wainwright asked you about. You said at one stage that you use certain techniques, certain methodology, in VFM audits. Can you say what techniques and what methodology you are talking about?

Mr English

33. Perhaps he could send us a note about it.

(Sir Douglas Henley) Yes.

Chairman

34. Could you answer, Sir Douglas?

(Sir Douglas Henley) What I had in mind was the way in which we proceed, normally from an examination of the records, the accounts and expenditures, the minutes of meetings and so on, of the

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Department concerned with a project. It may be that we examine that from the point of view of financial management, maybe adequate organisation, construction contracts and so on, and at a certain stage we do in effect a fairly considered report which we call a reference sheet, which we put to the Department with a number of specific questions to which we require answers. This is taken very seriously by the Department and we get a detailed answer to each of our questions and often, in fact I think invariably, a considerable commentary on our recitative, how we have understood the project and its management. At that stage we decide whether or not it is a subject that might merit a report to Parliament and then we go through further stages of drafting and clearing the report. That was methodology. Of course one would add that on the project or the investigation in question one might also examine at certain stages various systems of control, systems of financial information and so on, but that is what I had in mind, the way we go about the job.

35. You mean to include in methodology the techniques? You do not distinguish techniques from methodology?
(Sir Douglas Henley) Not off the cuff.

Mr English

36. Sir Douglas mentioned SSAPs, whereas the Accountancy Institutes pointed out our inability at putting everybody's accounts, companies as well as nationalised industries, on the same basis. Was there ever a Comptroller and Auditor General's report relating to, say, the Department of Industry, that said it would be desirable to have all the accounts on the same basis?
(Sir Douglas Henley) I do not think we have made such a report as Mr English suggests, Chairman. I am not sure either whether he has in mind appropriation accounts or, for example, nationalised industries' accounts.

37. No, I am talking of the basis upon which the accounts are constructed.
(Sir Douglas Henley) Then if one is talking about Government accounts they are basically on the same system.

38. But in the case of the Department of Industry you were not concerned whether the nationalised industries for which they were responsible were reporting in different ways?
(Sir Douglas Henley) No. I do not, of course, have any responsibility for auditing the nationalised industries.

39. I know that. I am saying that in your audit of the Department of Industry you did not point out that they were not concerned about their nationalised industries reporting in different ways?
(Sir Douglas Henley) The straight answer is no, we have not made such a report. I think the further answer is if I thought it was desirable to make such a report it would be open to me to say if I so believed, but it would not be the Department of Industry, it would be a number of departments.

40. The Treasury?
(Sir Douglas Henley) The Treasury have not apparently taken any other steps, in my view, to secure uniformity of accounting, but it would be open to me to do that. We have not done that because I do not believe they have failed to address themselves to the question.

41. So it was done in outside organisations first?
(Sir Douglas Henley) Many people have commented on the different forms of the accounts of the nationalised industries. The problem there is to get a form of accounts which is acceptable to all those nationalised industries and which the Government feels could, as it were, in the last resort be imposed on them.

Mr Shepherd

42. Sir Douglas, I am impressed with the extraordinary breadth of your role and duties as set out in the Green Paper. How many staff do you have to assist you in these duties?
(Sir Douglas Henley) We have just over 700 at the moment.

43. How many of those are professionally qualified accountants?
(Sir Douglas Henley) At the moment about 40, with about another 180 in training.

44. It is not a condition of employment that they have a professional training?
(Sir Douglas Henley) It is now.

45. Since when?
(Sir Douglas Henley) 1975.

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46. So that seems to indicate that the bulk of the people that are talking about being professionally qualified are post-1975?

(Sir Douglas Henley) Yes. I must make it clear that when I say "professionally qualified" I mean they have the relevant letters after their name. Those who came into the office between 1921 and 1975 were not required to become chartered accountants or certified accountants or any other sort of accountants, but they were required to undergo a professional training which took, on and off, three years and which covered, of course, such areas as economics, law, accountancy.

Mr English

47. But was not recognised by any professional body?

(Sir Douglas Henley) No, that is quite correct.

Mr Shepherd

48. Since 1975 what is the actual qualification you are looking for?

(Sir Douglas Henley) We require all our new entrants in grades of auditor and above to be graduates, and we do not specify which discipline they should have graduated in. We then require them to take the full professional examinations of the Chartered Institute of Public Finance and Accountancy, but if by chance one of them is already launched on one of the other institutes' training, or exceptionally when we take people in at higher grades who have been appropriately qualified, then we do not mind which qualification it is.

49. You sat in on the evidence, I understand, that was given by Mr Steele Craik, the Australian Auditor General?

(Sir Douglas Henley) Yes.

50. He said he has, I think, some 500 professional staff, all of whom are qualified, and he is dealing with a smaller range of responsibilities and duties, as I understand it. Is that correct?

(Sir Douglas Henley) I could not say from memory but I daresay you are right, yes.

51. My concern is that perhaps the value-for-money and the effectiveness role does need training, and whilst I accept, of course, that on-the-job training is extremely useful, the professional qualification and the background of individuals concerned in this must be vital. Mr Steele Craik was asked in the course of the interview what qualifications he himself had, and I therefore looked you up in "Who's Who" and I see you went to LSE, and are a B.Sc(Econ.). Does that mean you were trained in accountancy? Was that your subject there, for instance?

(Sir Douglas Henley) No, I was trained in economics.

52. Do you have any accountancy training? Are you a member of the accountancy profession?

(Sir Douglas Henley) No. I do not usually display this but for the Higher School Certificate I did take accountancy, but I hasten to add I do not make anything of that!

53. But what sort of degrees are you looking for in your graduates—general degrees or specific degrees? I notice in the evidence of Mr Steele Craik he says, "We are looking for a good analytical mind and the sort of people I have in the Efficiency Audit Division includes engineers, statisticians, industrial chemists, etc." Do we have any of those?

(Sir Douglas Henley) We have all those and good deal more, in the sense that we have a very wide range of people who took these subjects, or even less immediately relevant subjects such as music and, I think, aeronautics and archaeology in their first degree. But I would seriously make again the point I made earlier, that I do think that the essential thing is to have the right basic aptitude and training and I do not think you get this exclusively from any one range of disciplines, though I would add that I do not regard accountancy as an adequate training in itself if it is not based on at least some familiarity with economics.

54. How many of your staff are what I call outside entrants, people who have had experience in business? Are they mostly graduates who come into you fresh from university or from another Government department?

(Sir Douglas Henley) They are mainly people who come in immediately from university, but some have been in other jobs, either in local authority or perhaps in business, but that would be very small. It so happens my private secretary is a young man who does not have a degree, who came in from a bank, but that is purely incidental.

55. I notice the Australian system—I am sorry to revert to that but I know you sat in

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on the relevant evidence to the Procedure Committee so you will recall some of these points—actually encourages people to go out into private enterprise or business for a year or two and has people from private business or enterprise who come into the Auditor General's office. Do we have anything comparable to that?

(Sir Douglas Henley) I know my Australian counterpart, who has now retired, incidentally, extremely well and I know the Australian system quite well. I think you are right in what you say about their intention to have exchanges of that kind. I am not sure (I do not know whether Mr Dewar can help me) to what extent they have actually moved in that direction, but it would be facilitated in Australia by the fact that they have had more people with the normal professional qualifications recently than we have. We would have the same objective but it is very difficult in practice to achieve it, particularly when you are still seriously understaffed and you are trying to get your staff up to the levels of numbers and of training which you think necessary. We do have one or two people who have been extremely valuable to us in on secondment from, for example, one or two of the major accountancy firms, and for certain special duties we have got one or two people in from Whitehall, who are not trained accountants but have a relevant training or experience of other kinds, and I would hope to develop this but it is quite a difficult business in practice.

56. Can I recap. Do you have anyone outside in private business at the moment perhaps doing a two-year secondment?

(Sir Douglas Henley) We have one or two people who may be training in commercial accountancy firms.

57. But not in a business as such, a trading enterprise?

(Sir Douglas Henley) No.

58. So they are not necessarily exposed to the commercial disciplines of a particular type of organisation?

(Sir Douglas Henley) That is right.

59. It would be true to say—and please correct me if I am wrong—that your organisation does not actually employ within it people who have experience of business?

(Sir Douglas Henley) I think that is correct. There may be the odd person but that is broadly right.

60. I say that because it is, following on very much from what Mr Wainwright said, the idea of some sort of basis of comparison, benchmarks, the experience one seeks from outside or other organisations, and I wondered to what extent your organisation could claim to have that?

(Sir Douglas Henley) With respect, I am very much in favour of people having as wide an experience as possible but I think one can overdo this. There will not be, in my view, any very definitive experience in, say, an ordinary business job which will lead someone in my organisation to be in a better position to do the kind of work we do than someone who has been in the office and trained or has come in from a university and had a professional training.

61. What worries me about that comment—and I appreciate the motives behind it—is that you are advancing it as a public servant with no personal experience of an outside organisation yourself; you are saying it as an insider of Government, a man who has gone to the London School of Economics, who has worked within the Treasury both here and abroad, and who has now, for the last five years, had experience as Comptroller and Auditor General. With that experience, you make the judgment that, in your opinion, you do not imagine that such experience is perhaps a necessary assistance to the way in which your department works. I want to ask one final question on the use of outside consultants in assisting you to do the part of your work which relates to efficiency audits. Do you ever use outside consultants?

(Sir Douglas Henley) We are now just beginning to use a consultant or two in this way, and I think this is something we shall want to develop. Again, if I may say so, it is essential, if you use consultants, to keep them under very close control. They do have to learn a lot of business before, frankly, they can make any contribution. Therefore, it is much easier to start in a small way. There is no scope, in my view, for our bringing in, say, anyone you like—Coopers or PA Consultants—and asking them to do a job for us of any description. That would simply get out of control. I am not criticising those people (I am sure they have great expertise and great ability), but that would not, in my view, lead to any worthwhile results in our case, so we would want to use consultants under a very close control of our own. If I could illustrate the point, we are developing, under Mr Dewar, in a

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relatively small way, the use of some people from Whitehall in value-for-money audits, efficiency audits, whatever you care to call them, of a wider type, who are not accountants. These people are in some cases an economist or a senior principal scientific officer. Those people we find are first class, because they are very carefully selected. However, we do need to mesh them in very closely with our own organisation, and I am sure the same would apply to an accountant. If I could just revert for a moment to your point about my own experience, or lack of it, may I say that I entirely agree.

62. It was not meant as a discourtesy.

(Sir Douglas Henley) I accept that it is a relevant consideration. I should just add that, throughout my career, mainly elsewhere in the Treasury, I have, of course, discussed this kind of issue with business people to quite a large extent. We have seen a number of people coming in from that kind of environment.

63. With regard to the numbers employed by your Department, are they static at the moment, or have you been subject to the restraints of the last two years?

(Sir Douglas Henley) The numbers, over the last several decades, rose very slowly. I could give the Committee the numbers, if you wish, but they did rise quite slowly. Within the last few years, it has been recognised that the Exchequer and Audit Department is (if I may use the term) a special case, and we are not at the moment subject to restrictions.

64. Do you have a high staff turnover?

(Sir Douglas Henley) No, we have a very low staff turnover.

65. So that taking the age profile of the new entrants coming in, they are presumably at the bottom of the pile and have to work their way up?

(Sir Douglas Henley) Yes.

66. You do not actually perform for Whitehall a sort of training ground? Your people would not necessarily expect, after, say, five or ten years, to go out into the departments?

(Sir Douglas Henley) Not so far. If I may say so, you raise a very topical point. You will appreciate that whereas before, under the arrangements I explained, people who came into the Department would not so readily find a post elsewhere because they did not have a professional qualification of that kind, now that all our new entrants are going to be professionally qualified in that way, they are likely to be more marketable. We do expect that we will lose a certain proportion—quite understandably—of some of our younger recruits, in due course. Equally, we would hope that we should be able to retain a large proportion, particularly of the good ones. However, we would have to look some time at the desirability and possibility of undertaking a training role, if you like, which we would expect to be to the advantage of other government departments as well as ourselves. In other words, we would expect some of our people to want to move out to comparable jobs in Whitehall.

67. Are there any staff agreements, with you and the unions or the staff side, that would prevent you, for instance, taking a financial controller from Lucas Industries on a one-year or two-year secondment?

(Sir Douglas Henley) No, I do not think there are any formal agreements, but that is, of course, the kind of thing we would discuss with our staff side, and they would want, I am sure, to look at it very closely. If I may say so, I very much doubt if that kind of experience, at that kind of level, would be of any use to us. Lower down, I think some experience of that kind would be very helpful. But he would not be coming because he was financial controller of Lucas or whatever; he would be coming because he was the right sort of man for our job, and those people, frankly, do not grow on trees.

Chairman

68. Sir Douglas, you said, in answer to Mr Shepherd, that you had 700 people in the Department. Can you say roughly what proportion of those at any one time are working on value-for-money audits as distinct from straight financial audits?

(Sir Douglas Henley) It is a bit difficult, because they do overlap, and some people are doing both at any one time.

69. Roughly.

(Sir Douglas Henley) I would say that at the moment two-thirds of the man hours probably go on financial and regularity audit, and the rest on pure value-for-money audit. However, as I say, the definitions are a little bit fuzzy at the edges, and so is the way they work. I must add—and I men-

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tioned this earlier to the PAC—that I think that that proportion is not, in principle, right. I myself, in the course of time, would want to see it turned round at least the other way. I would think that the financial and regularity audit, important as that is, should not, in due time, take up more than, say, a third.

70. That is: should actually contract, or that the other should expand?

(Sir Douglas Henley) Both, frankly. I am talking simply in man hours or man years at the moment, and the broad allocation of the office's time.

Mr English

71. You did use the word "understaffed". Who controls your numbers of staff, their grades, pay and conditions, and the total amount spent on them?

(Sir Douglas Henley) Formally, the answer to that is that it is the Government, through the Civil Service Department. My staff are civil servants (of course, I am not a civil servant), and they are totally assimilated to the gradings and the pay of the appropriate Civil Service hierarchy. I do have to qualify that very substantially because, as I say, it has been recognised in the last few years that the C&AG and his Department are in a quite special position, in that we are not working for the Government or for ministers, we are working for Parliament. We have made arrangements with the Civil Service Department, which I am satisfied with at the moment, which give us the flexibility I think we need on numbers (and I am sure it would be the case on gradings), and we have made certain changes in the last few years, which the Civil Service Department has readily accepted after discussion.

Mr Eggar

72. Can I go back, if I may, Sir Douglas, to the whole question of effectiveness? Could you repeat—for my benefit at least—exactly what you understand "effectiveness" to be?

(Sir Douglas Henley) Yes. Perhaps I could take a slightly hypothetical but, I think, helpful example of the Humber Bridge. The Humber Bridge is not, of course, hypothetical, it is actual, but the way in which I am going to use it is hypothetical. We did look at certain aspects of the way in which the Humber Bridge was financed and built, and we reported on it to the PAC, but that was what I would call a straightforward efficiency audit or a financial management audit. If you were looking at the effectiveness of what I suppose must be a policy decision to build the Humber Bridge, you would be considering whether its cost was repaid in terms of the benefits to traffic flows and industrial promotion to which it contributed in South Humberside, Lincolnshire and maybe elsewhere. It would be possible to do a study which indicated the extent to which benefits of that kind had flowed from that particular policy (because, of course, it was not absolutely essential to build the Humber Bridge, one could have improved communications in other ways). I do stress that this is a hypothetical example in that case, and I am not making any specific criticism of the Humber Bridge or alternative ways of dealing with the matter. I am simply using it as quite a good illustration of what you mean by an effectiveness study.

73. How much of your Department's time is spent on that sort of study?

(Sir Douglas Henley) At the moment I could not quantify it but if you narrow it down to that kind of effectiveness study it would be fairly small and this is only a proportion of the kind of report which we work up. It would be increasing but it would be quite small.

74. You have only a third on the value for money aspect. What sort of proportion of that third would you be talking of? 10 per cent?

(Sir Douglas Henley) No. I think it would be a bit more than that. I think it is very difficult to say. I can put it much more easily in terms of the number of projects we are doing of that kind.

75. How many are you doing of that kind?

(Sir Douglas Henley) I have to say half a dozen in the last year or two perhaps.

76. Out of how many projects under the one third category in total?

(Sir Douglas Henley) That is very difficult. I suppose we might have produced last year, for this current year, for the PAC maybe 30, 40, reports, some of which would have been on fairly narrow financial topics, some of which would have been economy or efficiency audits. It is very difficult to make an actual division.

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77. I think, Chairman, through you, it might actually be very helpful to us if you could attempt to classify them for us in a written submission because I must say myself I am amazed at what a small proportion of your time is spent on this aspect.

(Mr Dewar) One point I would make is that it is not necessarily the right measure to talk in terms of numbers of projects which are instances of transactions that have gone through, whatever the arrangements are within a Department. A great deal of our work is directly or indirectly, depending upon the circumstances, directed towards the systems of financial control within Departments which ensure that projects of this type are well managed. This in individual instances is followed through to the examination of a Humber Bridge, though typically that is a one-off situation, so that the number of projects is not a measure necessarily of the impact of value for money work. It is the systems of financial control to which this is directed, either when one is looking at this as a subject in its own right or as the end product of an examination of a project or group of projects, so the impact is quite different from the simple number of projects.

78. I am sorry to keep coming back. I am sure there are 101 qualifications you can make, but I still think you must be able in very rough terms to estimate the number of man hours or proportion of the total man hours your Department spends on that kind of assessment. I cannot believe that would be impossible.

(Sir Douglas Henley) I suppose we could make a stab at that. I do not honestly think it would be very helpful to the Sub-Committee to produce some kind of figure. It is quite clear that relatively we do not spend a very large proportion of our man hours at the moment on something narrowly defined as an effectiveness study, but we do spend a considerable amount of time on studies, some of which have that flavour to them.

Chairman

79. Would you generally say, because it is the conclusion we are concerned with, that if there had been half a dozen studies over the past year or two which are primarily concerned with effectiveness, in your view that would by no means exhaust the need for that kind of study in Government?

(Sir Douglas Henley) Oh no, it would not exhaust the need, but I would make this point, that effectiveness does tend to take you into a policy area. It is not rewarding in my view for the National Audit Office to make proposals about new policy developments or anything of that kind. There is considerable reserve about the desirability of the National Audit Office undertaking actual effectiveness studies. In recent legislation in both Canada and Australia the role of the Auditor General has been extended substantially, but it has been specifically limited to discovering, as I think Mr Dewar had in mind a minute ago, whether in his view Departments themselves have adequate systems for measuring their own effectiveness. In doing this sort of thing we are already way out beyond that particular limitation. I understand the reason for that limitation very well. It is a carry-over in my view from the systems approach to a commercial audit. I do not regard it myself as adequate but I can understand why the Auditor General does not want to saddle himself with a statutory responsibility for undertaking in effect a wide range of effectiveness studies which are likely to impinge in some people's view on policy. This attitude is very strongly held, in my view again mistakenly, by the local authorities in this country which tend to regard anything beyond a financial and regularity audit as an infringement of the rights of local councils to decide their own policy. I do not want to be controversial about that, certainly not now.

Mr English

80. Feel free.

(Sir Douglas Henley) But the point I am making is that we have to move fairly carefully in this area and there are some areas of effectiveness which I would not myself think it sensible to get involved in at all.

Mr Eggar

81. Surely though somebody, whether it is you or the department, as a question to which we have to address ourselves during the course of the inquiry, has to say, "Has the Secretary of State laid down certain clear aims?", "How have these aims been implemented?", "Have the inputs been combined effectively?", and at the end "Have the objectives of those aims been achieved at a reasonable cost?" Somewhere in the Government machine that has to be done, does it not?

(Sir Douglas Henley) Certainly.

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Chairman: Where?

Mr Eggar

82. You say that you do not want to do it?

(Sir Douglas Henley) No.

83. Or you have some reservations about doing it. Yes?

(Sir Douglas Henley) May I try further? First, the main responsibility for that kind of examination is certainly with Departments. This is central to the whole of their effectiveness and the economy with which they use the resources they have. I am sure, if I may say so, the Sub-Committee will want to go into this. You will not find the Departments are starting from square one. A very great deal of work has been done on this area, and its prospects and its limitations are extremely well known. I am quite sure the Departments will be able to provide you with a fairly extensive amount of documentation which will be directed to just the kinds of things which Mr Eggar refers to. I accept that this is an area in which we should take a role but we have to be careful on two points: first that we do not get ourselves embroiled in an attempt to evaluate policies of a kind which would be unrewarding for us to get into. If I may take an extreme example, I would not dream of getting my Department involved in whether the latest development of the nuclear deterrent was the most effective way to secure the defence of the country, I think for obvious reasons. That is not to say that we would not be investigating other aspects of the development of a major weapons system of that kind, but I would not get involved with its ultimate effectiveness. I might get involved, if we had the resources and thought it worthwhile, with effectiveness in other such areas of expenditure, as I have mentioned. We have for example been involved in quite a major way with the effectiveness of regional development grants in the last year. The second point is that you start, if you are an auditor, with an assessment of where you think the audited body, the Department, is; and if you think that they are getting on with the job reasonably well you probably leave them to it. It is where you may feel that they have not got an adequate amount of effort devoted to measures for assessing effectiveness or efficiency that you would first start.

84. How closely, in fact, do you work with the departments and with the people in the departments making the kind of assessments that you have been talking about?

(Sir Douglas Henley) We work very closely.

85. What does that mean in practical terms?

(Sir Douglas Henley) For all the major departments we have our own people actually in the departments with them, so that they are working with the records and papers which they have there, and they would talk as necessary both to the finance people and other people involved in the particular areas of expenditure.

86. That is quite important, is it not? Are you really saying that you just talk to the finance divisions and that very occasionally you go out to chat to the people in the field or how do you split up your time?

(Sir Douglas Henley) No, we talk to both. Of course, a lot of our business is obviously with the finance people, who are quite central and are very important in any Government department, because most, not all, of Government departments' business has major financial implications. I must stress this. I am not now talking simply about the people who produce final accounts or things of that kind, important as that is. I am talking about the people at varying levels up to Principal Finance Officer who are intimately concerned with the daily financial management of the department's business and the costing and control of all its projects. That is the finance area I am talking of, but Mr Dewar from his own experience may be able to expand on this. Of course, we also as necessary go out into the field, as you say, and see particular installations or particular projects on the ground and would talk to everybody who was there.

(Mr Dewar) I think it is true to say in terms of control of, say, a large development of a weapon system the people controlling this are not just finance people. They are engineers. The project controller will be predominantly an engineer, for obvious reasons, not a finance man. These are the sorts of people one has to go out and talk to. It is a question of an independent examination of the full range of their books and records, monitoring returns and studying evaluations and whatever. So at the project level we do, indeed, regularly go out to examine quantity surveyors, go out to the sites and look at what is actually being done

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as part of our contracts audit, examine the quantity surveyors, the control they are exercising. Though they are not finance people in a broad sense they have financial control for the aspects covered in our audit, over the whole range of departmental activity. In a very routine field, social security for example, our officers will go out to a large number of social security offices over an appropriate cycle to see what is being done on the ground in those areas. This is the way in which the audit is done. It is not just cocooned or insulated in the narrow financial aspect of the work.

87. Do you examine the way in which the Treasury and the CSD themselves assess the efficiency and effectiveness of other departments; in other words, the controls that the Treasury puts on departments?

(Sir Douglas Henley) I think the answer to Mr Eggar's question is that this is an area into which we are now beginning to look. I do not think it is an aspect which would have come up except incidentally in most of our earlier work.

(Mr Dewar) It depends on the way in which one is talking about it, the extent to which traditionally more than perhaps now the Treasury controlled matters in terms of their authority being required for expenditure, the need to go back to them for revised authorities at the right time when schemes were near the pre-set authorised limits, and so on; that aspect of Treasury control in that specific way we certainly do and always have covered during our audit of projects or whatever. In the sense of the way in which the Treasury, as it were, monitor departmental systems of control directly as opposed to doing it through their day-to-day authorisation of projects, schemes or programmes, we have looked at that less in the past, but it is, as Sir Douglas says, an area we are moving into as they themselves develop these sorts of controls more widely.

88. In areas like this do you see yourselves as natural allies of the Treasury?

(Sir Douglas Henley) Yes, up to a point I think that is quite true, although it might well be that we might have certain criticisms of the Treasury to make if we thought, for example, they did not appear to be exercising an overall control, or, if they had overall control, that the departments were not measuring up to it and they were not taking the necessary steps to take action.

89. What contacts have you had with Sir Derek Rayner and his team?

(Sir Douglas Henley) I know Sir Derek Rayner well myself and I have discussed with him his work and our work on a number of occasions. We are in pretty close touch with the very small team in the Cabinet Office that assists him.

90. Are there lessons that you can learn, do you think, from his work?

(Sir Douglas Henley) Yes, I think there are some lessons in the sense that the development of the so-called Rayner scrutinies or studies has certainly made me think, and I am sure it has made my senior colleagues think, whether there are any areas here which we ought to get into as well. I think it is fair to say that the bulk of Sir Derek Rayner's work has been involved with what you would call administrative procedures, the slimming-down of official work, a certain amount of costing, which is a different subject, and although in principle those are the kinds of things which we might be interested in, we have not on the whole got down to the more detailed aspects of departmental procedures. We have tended to concentrate more, I think, on various aspects of financial management in the various categories I have described.

Chairman

91. Why?

(Sir Douglas Henley) Because, Mr Chairman, there is a very important and major area there for investigation. The other main difference between Sir Derek Rayner's approach and ours, which is a very fundamental one, is, of course, that he operates from within the departments and we are external in a constitutional and in a very real sense. I must say I think that that gives the kind of approach which he has been promoting an advantage. I think that if you can, as I think he has, mobilise in departments people to do particular studies—and they may be administrators or engineers or economists or anybody else—who know what it is they are dealing with, who are given a strong remit and complete backing from their Permanent Secretary and senior officers, and it is a fruitful area, you will get results. I hope *we* will get results but we inevitably must operate from outside. We are operating as independent public auditors, not on behalf of a department but on behalf ultimately of Parliament, and you cannot avoid in that

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circumstances a certain degree of defensiveness in the relationship. I accept that.

92. The other distinction has been made that Sir Derek Rayner effectively reports direct to the Prime Minister and not even to the minister in the department. Would you think that that gives him a leverage which you do not have?

(Sir Douglas Henley) I understand Sir Derek does, as you say, report to the Prime Minister. He also, of course, reports to the Minister in charge of the department he may be studying, but I entirely agree that if you have the backing of the Prime Minister you are likely to have a considerable advantage.

93. You have now had six years in the job, Sir Douglas———

(Sir Douglas Henley) Nearly.

94. ———and it is known that you are coming near to retirement. What lessons have you learned? What job specification would you write for your successor?

(Sir Douglas Henley) That is a very difficult question, is it not, to answer in public?

Mr English: Who would you choose as your successor?

Mr Eggar

95. I purposely did not ask that.

(Sir Douglas Henley) This is my personal view. I think the C&AG must have, or if he has not got it he must very speedily acquire it, a very thorough knowledge of Government and of public finance. Certainly he does not necessarily need to be an accountancy or an auditor himself but I think he either must have, or again himself very speedily acquire, an ability to be completely at home with accountant and audit concepts and methods. I think he has to have (which would go almost automatically with the first requirements), apart from the personal qualities one hopes one gets at this level of career, an adequate administrative ability to manage and develop a department of this kind, in present circumstances.

96. That is a fairly formidable list of requirements. If you had another six years, what would you like to do?

(Sir Douglas Henley) Another six years in E&AD?

97. In your present job. What would you consider to be the priorities, if you like, for the next six years?

(Sir Douglas Henley) I think we would continue with the developments that we have been making in the last few years. They fall into maybe three broad areas. Firstly, we ought to get right the kind and type of financial and regularity audit which we do. I have personally found this by far the most difficult aspect of the work, not because I do not happen to *be* a professional accountant, but because I think it is extremely difficult to get the right method and balance of financial audit for government departments. Secondly, I think we should develop further, in pretty close consultation with the departments, but without expecting them to go along with us at every point, the kind of worthwhile efficiency and effectiveness audit that we have been trying to describe. Thirdly (and this really relates to those two), we should develop further our diversification of our staffing and, as far as one can manage this, the exchange of staff and moving our staff on elsewhere.

Mr English

98. I have a question on a different subject, Sir Douglas. Neither in your evidence nor in the Public Accounts Committee's report was the question of the audit of the Exchequer and Audit Department itself mentioned (the audit, if you like, of yourself). As I understand it, the law requires you to audit yourself, but since 1921 or 1922 that has not happened. By the way, the law does not require that nobody else should audit you, as I understand it, but since 1921 or 1922 the only auditor of the Comptroller and Auditor General's Department or the Exchequer and Audit Department has been the Permanent Secretary to the Treasury in his capacity as Auditor of the Civil List, is that right?

(Sir Douglas Henley) That is correct.

99. Would you think it might be a good idea if, say, on a five-year contract basis one of the half-dozen major accountancy firms of the country were given the job of auditing your Department, primarily with the task of saying, "This is the way the job should be done"?

(Sir Douglas Henley) I thought you were going to stop before that last point, Mr English, at which I was going to say that I should be delighted if any reputable firm audited my accounts. Your final few words do make me pause, because while I have no objection to anyone coming in to do, as it were, an efficiency audit of E&AD, I think one has to think very carefully as to who

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could best do that and how best it should be done.

100. But you do not really think the Permanent Secretary to the Treasury is the ideal external auditor, surely?

(Sir Douglas Henley) No, I do not think so.

Chairman

101. May I take you on to another question, Sir Douglas? The point has been made by a number of people, including Sir Derek Rayner in evidence to the main Committee, that they find it odd that more attention is not given to the use of assets in the Government. Are you satisfied with the way in which asset utilisation is examined?

(Sir Douglas Henley) I do not speak from any direct, recent experience of my office (I do not mean personally) in this area as a whole, but I think one has, again, to be careful what one means by different types of assets. If one means that one should account, in a commercial accounting way, for all capital assets used in Government, I would respectfully disagree. You have to decide whether you want to depreciate assets in relation to what you are going to do about the annual allocations for depreciation. I am sorry to be making these rather obvious points, but if you are going to sell goods made by the asset, you obviously need to relate your prices to some kind of valuation of the assets. That, as everyone here knows, is not the easiest thing to do these days. However, if you are simply concerned with an economical use of an asset, that it should not be left to wither away or rust in the storeroom, or that it should be adequately and fully utilised in producing ships or aircraft, or something like that, then you may want to exercise the control in a rather different way. As an example, I think I am right in saying that the Manpower Services Commission are required, under what are ultimately, I suppose, Treasury rules, to account as capital for all the plant and equipment in their training centres, which is quite a job. I am not sure that is worth while. I would want to ask what it is for.

102. If we can take a particular point, supposing a department has some valuable asset such as a building or land, or something like this; it would not in general, if it sold that asset, gain any benefit, would it?

(Sir Douglas Henley) With respect, that is a different point. I think that is broadly true, although I seem to remember that when Sir Patrick Nairne was giving evidence earlier this session to the Public Accounts Committee, he did say, in answer to a similar question, that the NHS now has arrangements under DHSS authority for retaining some of the proceeds of sales of land, for example.

103. Taking a complementary question, supposing it is a local authority in question (and there might be comparable cases in central government); a school might make good use of its playing fields, in the sense that it fitted in with the timetable, but very poor use in that the playing fields were not available for the children in the holidays or for adults at weekends. Is there any way in which assets generally are looked at from the point of view of efficiency of overall use, whether in that particular programme you happen to be looking at, or in some other programme?

(Sir Douglas Henley) I think the answer to that is that it would be incumbent on the departments concerned—in this case, I suppose, the Department of Education and Science, and it need not exclude an interest from the E&AD—to see whether that kind of point was being taken or not.

104. Do you think that in general it *is* being taken?

(Sir Douglas Henley) Frankly, I could not answer that question in general terms. If you are asking me to do not much more than speculate, I would say that there are probably prima facie reasons why certain facilities of that kind might be more widely used. I would be very surprised if, when one begins to look into it, one did not find that there are all kinds of difficulties, complications, extra costs and so on involved. If I can give an example which will be very familiar, over the past few years there has been a great development of the use of university facilities in this way, and they are in some respects very carefully costed and controlled now. That seems to me entirely sensible and reasonable, and I dare say there is further scope for that kind of thing.

105. Does the fact that the assets are not regularly accounted for not introduce a certain laxity into the system?

(Sir Douglas Henley) I think this is a very interesting point. I suppose it is arguable that if you put before the vice chancellor or the bursar of a university, or a

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permanent secretary of a department, that the premises which he is occupying are worth whatever it may be—£5 million or £10 million—and take this down the line to all kinds of other expenditure which has not previously been charged, this will have an effect on the way in which he actually runs his organisation. I will not dispute that. As I am sure the Sub-Committee well knows, this is one of the major points which Sir Derek Rayner is pressing at the moment, to the point where I think the Government has accepted that there should be substantial extension of interdepartmental payments for this kind of thing, for accommodation, for supplies, for stationery and so on. I totally understand the reason for that. I do suggest that it is very much a matter of motivation, that you have to measure the extra costs, which are not inconsiderable, of that kind of adjustment against the tauter control of the more economical administration that it promotes.

(Mr Dewar) The point I was going to make is that when you say that the assets are not accounted for, apart from obvious exceptions such as the trading areas and so on where there is full accrual accounting, in the sense that they do not appear to count in any balance sheet, they are not accounted for; in terms of their physical control through usual records in forms of inventories and terrier sheets etc in controlling the location and ownership of those assets, they are accounted for. What is missing is the ultimate presentation in a value balance sheet and the systems of accounting which work that right the way down through the accounting arrangements of the organisation.

106. It is not only the non-appearance in the balance sheet but there is not necessarily any evaluation, is there?

(Mr Dewar) No. The records are not valued in the sense that you say. They are physically controlled and the scale of them is known, and ownership and so on, but they are not valued.

Mr English

107. The Speaker's bed did not turn up in a farmhouse in Wales because it was sold off officially from a scrap yard of what used to be the Department of Works I think. That did not happen because you were controlling the capital assets. It happened because you were not controlling the capital assets.

(Mr Dewar) Yes. There are weaknesses in the operation of any system but to say that the assets are not accounted for is a general statement which I think requires considerable amplification. How well they are accounted for in individual situations is a matter we have to watch in our audit. In the particular case of assets in the form of stores, the C&AG has a specific statutory responsibility for examining stock and store accounts, operation of stocktaking, and so on, and for reporting the results of his examination to Parliament.

108. We started out with the original question how far were you sure the assets were utilised.

(Mr Dewar) Well, perhaps that is a different question.

Chairman

109. Can I take the same question very much more broadly? Would it be going too far to say that you try to measure or quantify efficiency by measuring inputs and outputs for particular programmes?

(Sir Douglas Henley) I think this is an area again that we are only getting into now and it is an area which is full of its own problems, as I am sure you know. I think I would want to approach this from the point of view of finding out whether there were major areas, important areas, where Departments themselves did not appear to be developing measures of this kind in areas in which we think they might do so. I am sure I do not need to say that whereas inputs are extremely easily measurable, outputs are very difficult. I think you will find Departments are carrying the assessment of what they get for their money quite a long way these days. It is the one area at the moment where I would myself think that the responsibility of the C&AG to see whether other people are doing the job is probably the right approach rather than ourselves seeking to devise output measures which are extremely complicated and which require a great deal of effort and understanding of the particular service involved. I am sure all Members of the Sub-Committee are familiar with that kind of thing: the miles of motorway, the diminution in accidents, the increase of speed, the environmental gain from road development, the reduction in mortality rates, in perinatal mortality or whatever, the throughput of beds and so on in hospitals, and so you can go on through the whole range of services. With respect, I think this is an area which

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the Committee will obviously want to look into and I think you will find it interesting the extent to which this kind of thing has been developed. I am accepting the responsibility to take an interest in it. I am not saying we have gone very far yet. As I have indicated, I think we may have to give more attention to this.

110. Would you think it appropriate for you to be asked not only to take an interest in it but to be charged specifically with the responsibility for reviewing the costs to departments when they do them?
(Sir Douglas Henley) Oh yes. I would regard this as having to be covered in any new definition of our statutory duties.

Mr Shepherd

111. Sir Douglas, much of the evaluation of the area we are talking about—the efficiency and effectiveness of departments—seems to devolve upon the departments themselves. You have this intimate relationship with the departments. Are you in your own mind satisfied that the background, training and experience of the individuals assigned those duties within departments leads them to be able effectively to evaluate the efficiency and effectiveness of their own duties?
(Sir Douglas Henley) I do not think I would want to be committed to a general endorsement of that happy state of affairs, but I would stress that while I in no way underrate the value of having particular specialists involved in some of this work, I do rate much higher, frankly, the need to have people with the right approach and the right aptitude for it, and experience.

112. But there is no common definition of what that right approach or right attitude or aptitude is, is there?
(Sir Douglas Henley) I think only in general terms, that you must have a clear analytical ability, you must have probably, if not formally at least conceptually, a numerate approach to a number of problems, you must be able to assess the relative significance of different kinds of activity and you must have good judgment.

113. And the officers involved in the departments have these qualities?
(Sir Douglas Henley) I am sure some of them have but I would hesitate to say they all have them to the degree required.

114. And the overall methodology of trying to bring together the general qualities of all the departmental functions and process of looking perhaps at these areas does not devolve to you? You are not initiating through the machinery of Government certain criteria and standards to evaluate effectiveness and efficiency within the departments?
(Sir Douglas Henley) No, there is no formal requirement in those terms on me. At the same time I would not want to exclude the expression of an opinion on the adequacy or inadequacy in those terms of particular departments' staffing from my remit. If you can bear with me for a minute, Mr Chairman, I think the right role of the professional accountant as such in the financial control of Government activities is quite a useful illustration of possibly one aspect which Mr Shepherd has in mind. You frankly do not need a professionally trained accountant to be completely competent at running the financial control of a department's finances in the sense of running its public expenditure programme, making sure that its policy divisions properly cost their proposals and so on. I have nothing against such an accountant. If you can get him and he can do that job, fine, but you do not need that particular training for it. I have always thought that where it should be possible to use a professional accountant's training more is in the development of various financial management and information systems for use of management, because I think that not so much has he the technique he can automatically apply but a properly trained and experienced commercial accountant should be very much at home in that field and should be able to assist at any rate in the development of more detailed financial management and information systems.

115. I accept your point about accountants. I was not trying to over-labour the point about accountants. What I was trying to get in my mind was whether there was a common approach to the system followed within the departments, for instance a departmental officer, whether there was a common standard throughout Whitehall for determining whether a programme was efficiently administered or whether there was a methodology that was common to the systems?
(Sir Douglas Henley) I think broadly the answer is yes, Mr Chairman, but I had a little difficulty with the word "standards"

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earlier on and I think you will find that there is a very definite common approach to the kind of problems of the measurement of inputs or resources and measurements or assessment of outputs we were discussing earlier.

116. Is that brought together with you, or who would bring that together?

(Sir Douglas Henley) This would be a matter in the first place, quite definitely, for the departments. As I say, it would be an area into which we should certainly look and may increasingly have to look as an auditor, as an external critic, if you like.

(Mr Dewar) It is also a function in this area of the central departments as well. It is they who have an oversight responsibility in these developments that are taking place. They take quite a lot of the initiatives, though they are not ultimately responsible.

117. We were told by Sir Antony Rawlinson that there was not a common standard.

(Mr Dewar) I was not saying there is a common standard. What I was saying was that, in the across-the-board move to improve performance indicators, measures of performance and the methods by which these are arrived at—the economic research, the operational research, the cost benefit analysis assessments and so on—these are matters which are fostered by the central departments. On the approach and the initiative to develop it, there is not yet an agreed reach-me-down set of standards, because, as far as I am aware, these do not exist anywhere in a comparable environment.

Mr English

118. Like you, Sir Douglas, I have been one of the advocates of your having a professionally trained staff. I have never taken the view that they should all be accountants. As I say, most of the General Accounting Office are accountants, as it happens, but there are a variety who come from other professional disciplines. I hope you will always feel that, as long as you have a highly qualified staff, it is an advantage and not a disadvantage if they come from a variety of disciplines?

(Sir Douglas Henley) I entirely agree, Mr English.

Chairman: Sir Douglas, may we thank you very much for your help this afternoon. We shall obviously be coming across points, during the course of our inquiry, which do overlap with your own interests. If so, we may come back to you, at an appropriate date, at a later stage.

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ANNEX

NOTE BY SIR DOUGLAS HENLEY, KCB

I sought to confirm Mr English's understanding of the reasons for the "indemnity" given by Parliament in the Crown Agents Act 1979, which he stated was needed "because all the expenditure was illegal". He had questioned (Q.4) whether I needed a "corps of lawyers" to carry out my Comptroller function.

As I understand the position, in 1978, during the course of enquiries into the affairs of the Crown Agents, the Government received legal advice that the Crown Agents were servants of the Crown and that in consequence certain of their receipts, depending upon the circumstances of each receipt, should have been treated as revenue of the Crown. Such receipts should therefore have been paid into the Consolidated Fund in accordance with section 1 of the Civil List Act 1952 or corresponding earlier legislation; and it followed that any expenditure to be financed out of such receipts should have been subject to a Parliamentary vote.

By Section 28 of the Crown Agents Act 1979 Parliament rectified this statutory defect by providing that such revenue of the Crown Agents should not be treated as ever having been required to be paid into the Consolidated Fund. This statutory provision did not, in terms, indemnify the Crown Agents in relation to "illegal expenditure".

It was also considered that as a matter of constitutional practice the Crown Agents' borrowing should also require the authority of Parliament; and this too was provided for in the 1979 Act.

In regard to the exercise of the C&AG's "Comptroller" function—relating to control over issues from the Consolidated Fund on behalf of Parliament—no issues were ever made to the Crown Agents without proper Parliamentary authority. E&AD staff engaged on the examination of Treasury requests for issues from the Consolidated Fund were therefore open to no criticism of the way in which they carried out their duties in relation to the Crown Agents. I do not consider that it would be a cost-effective use of trained legal staff to employ them on the examination of requests for issues from the Consolidated Fund.

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WEDNESDAY 17 JUNE 1981

Members present:
Dr Jeremy Bray, in the Chair
Mr Anthony Beaumont-Dark
Mr Michael English
Mr Richard Shepherd

Examination of Witness

Lord CROHAM, GCB, a Member of the House of Lords, attending by leave of that House, examined.

Chairman

119. Lord Croham, may we open our session by thanking you for coming along to help us in this enquiry. You have had a lifetime of experience in the public sector, and in particular have been the official head both of the Treasury and the Civil Service Department, so you have had the major responsibility central to the area with which we are concerned. May we ask, to begin with, whether there are any general observations that you would like to make about the subject of our enquiry and how we should go about it?

(Lord Croham) Yes, Mr Chairman, I think there are, if I may, because my approach may colour my other answers, and it may be easier if I set it out at the outset. I believe that it is essential that the responsibility for efficiency is placed very firmly on line management, with supervisory checks by general management, or direction, of a department. I believe that you do need, as it were, secondary checks from the centre. You may need also special teams of experts to do certain kinds of enquiry, and you certainly need management services in the centre to give advice. It may be that you need external probes as well, but I will keep coming back to the point that efficiency is a job of line management, and that line management must accept it and recognise it and must always be ready to act to put things right. That means that it is important that line management should look at the various techniques which are used to probe into what is going on as helpful techniques, not unhelpful techniques. I would go on to say that whereas, if you were auditing for propriety it would be unexpected if you found many things wrong, when you check for efficiency you are bound to find various things which should be improved, and therefore need to take action to improve them. That is why I stress that the system of finding out what is wrong has to be seen by management as helpful to their objectives and obligations, and not as a criticism which you just try to shrug off. The other general point I would like to make is that I think there are three different things which need to be at the centre of one's mind in looking at the management job. The first is efficiency, which I would define as doing what you are doing with the minimum absorption of resources; the second is effectiveness (are we achieving our aims or our goals?); and the third question which has to keep on being asked if we are to avoid waste is what could be described as worthwhileness having regard to our efficiency and our effectiveness (is it worth doing what we are doing, or going on doing it?). If one contrasts Government with the private sector, it is much easier in the private sector to keep one's eyes on those three things and keep one's eyes particularly on that third thing (is it worth while doing what we are doing?).

120. You spelt out, I think, six different possible means or necessary means of reviewing efficiency. The first of those was that the responsibility is on line management. The second one was supervisory checks by whom?

The management of the department itself.

121. Could you define "line management" more fully?

Yes. It is basically the team, in the department, carrying out specific functions. I would put it, in the ordinary department, as teams which tend to be headed by assistant secretaries or under secretaries. Looking above that, you are dealing with people who are generally perhaps more concerned with policy, but who are also coordinating; with, of course, the senior manager (the permanent secretary of the

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department) and to some extent, in some contexts, the minister. I believe that the top of the department will need to have some facilities available to it which report to it, so that it can check on what are the active areas a department is doing, to check on how *they* are achieving their efficiency, so that at times the top management can decide how to re-deploy resources where certain weaknesses need tightening up and so forth.

122. What support of that kind would the higher management need?

The permanent secretary of a department would normally have to assist him these days at least two officers—his establishment officer and his finance officer. His establishment officer would normally have (certainly in a large department) a staff inspection team to look at the manpower employed. Normally they will not have very much in the way of O&M or management services; they would tend to rely on the centre for that. However, in the large departments it is essential that they have their own inspection team and are responsible for the efficiency of the department, by doing inspection themselves. The role of the central departments would be basically to check on the efficiency of the inspection teams in the departments.

123. Is that an adequate set of services to have available?

I think that there is really no limit to the kind of services that you could contemplate. Certainly, as I said earlier, in the centre there need to be professional services able to give advice on new techniques and specialised equipment. In certain departments you would need other professional experts available to advise on, you might say, the technology of the department. However, as no two departments are alike, I find it difficult to generalise on that point.

124. Can we continue through the list of different people? You referred next to the supervisory checks by the operational people. These would be heads of major establishments in the DHSS, or something like that, would they?

Yes.

125. Then the secondary checks from the centre would be the advisory or supporting bodies to the senior officers in the department?

Yes, they would report to the permanent secretary via, in most cases in this front, the establishment officer.

126. If the specialist teams—which was the fourth category that you mentioned—are located in the central agencies, these would be in the Civil Service Department principally?

Yes. I have to point out that quite a number of things have changed and have been improved since I retired over three years ago. Basically, in the centre you will have staff inspection facilities to check up on the staff inspection performance of the departments, but you will also have experts in various techniques, which used to be described as O&M but can now be described as management services. Particularly these days, with quite a revolution taking place in office development, I would like to see a fairly strong team in the centre for that. The reason for, in the main, deploying it in the centre is that it is quite expensive to have substantial teams of that kind in all departments (though large departments could well justify their own facility). Moreover, there are things to be learnt and developed by what I call the cross-fertilisation of ideas.

127. You mentioned "large departments". By a "large department" you would presumably include something like the Inland Revenue or the DHSS?

I think there is a case for that. If you think of the size of the Civil Service today, I suppose it is something like 640,000; there are over 200,000 in Defence (if you include the industrials), and there are something like 90,000 or more in the DHSS and something like 75,000 in the Inland Revenue. Therefore, those three departments are more than half the Civil Service.

128. Would you put it more strongly and say that they *should* have their O&M and office methods or office automation teams?

I would not necessarily have put it as strongly as that myself. I would say that there is a case for it. I am not close enough to current developments to be able to say whether the case is actually made and established.

129. I would like to bring my colleagues in but could you deal with the two remaining categories. Do management services include any other management services than the ones you have already mentioned?

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There are quite a number of developments, I understand, that have taken place since my day. There have been in the centre psychologists and people dealing with organisation techniques of various kinds. I think there will be a case for trying out all sorts of ideas in that field. Management services are in a real sense services. They are available. They are not part of inspectional checking. Coming back to my point about the responsibility of management in departments, one would expect departments to want to call on those services when they feel the need. Equally, of course, when you are doing inspection from the centre, if you detect a particular weakness, whether it is in accounting, staff control, stock control for that matter, you would normally try to make arrangements for the specialist service available in the centre to be called in to advise the department.

130. Finally, by external appraisal would you mean the C&AG or Sir Derek Rayner or some other?

There is a function there, yes.

Mr English

131. I have four fields I would like Lord Croham to think about. The first is a simple one. Do you think the training of top civil servants could be altered or improved in a way which would improve the efficiency of the civil service as a whole?

The answer to that must be yes, because there are always possibilities of improving training. As I think you are aware, I was particularly interested in the possibilities of developing more adequate training in the Civil Service College as well as always feeling that there were more roles for professional training of all kinds in the service, so the answer must be yes.

132. Do you think we could perhaps take some interest in what the French do in these matters? They seem to be able to train lawyers in economics and accountancy and train economists in the law and produce a very all-round sort of top civil servant who seems to be capable of running departments or running nationalised industries?

I think the French system will always have an attraction to senior civil servants. It tends to get pushed aside on the grounds of being a bit too elitist for some people but I believe there is quite a lot we could copy from the French system.

133. There is another thing. I do not want to go into the ancient Oxbridge arts graduate argument (that is not my question) but there does seem to be a strange lack of professionals in the civil service. As I say, I am leaving out the top ranks. In the top ranks of any organisation the man in charge may come from any discipline. I am thinking about middle management, if you like. Let me give you a few illustrations. I would think it would be much more appropriate if the person in charge of management services in the civil service were a person who had perhaps been in charge of management services in a great private industry or something of that character upon occasion, if not regularly. I was surprised once when the Treasury came before us to discuss the form of the estimates and they had never discussed the matter at all with any accountant. The Government do not have a lot of accountants compared with industry, but not to discuss the form of the estimates or the accounts with an accountant to any outsider seems very unprofessional.

I think the service is becoming more professional and the idea of using more professionals is certainly spreading. Probably in the past we have been too concerned that people should be capable of moving about and going anywhere. I am particularly thinking of that as a requirement for the people who come to the top. I believe that in recent years opinion has changed on that quite a bit, that we see much more advantage in specialisation and various areas are acquiring more professionals. Of course, that is a costly exercise to some extent. I have always been in favour of having rather more accountants in the civil service but if you look at the training of the chartered accountant and the earnings he is capable of acquiring, a lot of his training and quite a lot of his expertise is not relevant at all. It is worth having some of them but it is not worth paying to have every job of dealing with accounts done by a man of that expertise or training. But my general answer is I believe you have a point there. I believe the service is moving in that direction, both in terms of specialisation of people within departments or departmental areas and in trying to widen experience both by sending civil servants out and importing more professional people from outside.

134. I am glad you say that but what I am really asking you to say is, how do you think we could encourage that move to go a bit faster?

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Obviously anything that commands that move is encouraging it. To a large extent departments do not need that degree of encouragement. I think they have the message. It is not easy to arrange one particular lind of idea you have had, that is, bringing people in from, say, private sector O&M into the Government. People get worried about career continuity, among other things. I know when I tried to bring people in from outside it was quite difficult to persuade them to come in for a short time. There is, of course, a case for bringing certain experts in on a permanent basis. On the other hand, as the character of the work is different you may sometimes find that somebody who is absolutely first-class in a particular kind of work in the private sector does not like or does not fit the kind of work in the public sector and vice-versa.

135. My third topic is that there is a lack of central direction. It is a bit like the unprofessionalism I was mentioning before. Again may I quote a case that was in evidence in the last Parliament. You mentioned the Inland Revenue, which has a very large staff. We asked the Treasury who was responsible for reforming tax law in the sense of greater efficiency. We are always told you need all these people in order to collect taxes because Parliament has written the law that way, so we asked the Treasury and they said they left the details on reforming tax law to the Inland Revenue. When we asked the Inland Revenue at the next evidence session they said they never did anything like that unless they were asked to by the Treasury. That is what I mean by lack of central direction. In fact, when we probed into this vast staff at the Inland Revenue we discovered there was not one single person engaged in research into the impact of taxation or engaged in determining how the vast corpus of law could be changed in such a way as to make it cheaper to raise taxes. There is actually nobody doing this, so we were told. There is research department at all in the Inland Revenue of that type.

I agree with your comment. To some extent there is a flaw or has been a flaw in the system. I think there has been a certain amount of interdepartmental rivalry as to who is responsible for what in the tax field. It was only after a great deal of difficulty that I was able to establish a tax area in the Treasury, and although it is a long time since I left the Treasury, I would not be surprised to be told that there are still sensitivities about how far the Treasury should involve itself in tax. I would have thought there is a clear case for having somewhere in the system a clear emphasis on simplification in the form of taxes. It has been considered again and again between the departments. It has not just been left unsettled because I have myself taken part in discussions, very important discussions, connected with the possible computerisation of Revenue functions in which both the Treasury and the Revenue have certainly argued very strongly the case for simplification and the kind of simplification that needed to be done. But I would think, and I repeat that it was 1974 when I left the Treasury, and believe there is still quite a lot to be done on that front.

136. I am really saying there does not seem to be anywhere in the machinery an executive responsible for pointing these things out. It was left to a Committee of this House to point out that the jurisdiction over matters in relation to tax collection did not seem to be clear.

I pointed out to the previous session of this Committee that, human nature being what it is, there tend to be rivalries between departments and sometimes those rivalries, if left unsettled in terms of who can direct what, do lead to things being omitted. I would accept the implication of your argument that there needs to be clear indication of who has the responsibility for tax simplification. I should be surprised if the Revenue did not claim that responsibility, and I am rather surprised that they answered the question you put in the way they did.

137. It is in evidence. My last subject is pay. The French have their *primes*, they have a little amount of money in each department, that they can pay out to the people they consider most efficient (and we gather that it is larger in some departments than in others, but that is another story). The Americans can accelerate people in their pay scales, or on very rare occasions decelerate them (the former being the most common). If we never pay people for being efficient, what encouragement is there, in the Civil Service Department promotion, for their being efficient?

I think in the past we regarded the possibility for promotion as the most important stimulus to efficiency. The idea of paying people on a merit basis has often been considered. It has quite substantial advantages. One important consideration, if

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you are contrasting the public service with the private, is whether the fact of having the special increase is public knowledge or is confidential. I think there are arguments both ways. The staff side representatives are very uneasy about special increments, if they are publicly known, because there is always pressure for somebody else to have the same. However, the idea of merit increases, provided you have an accepted system for deciding where the merit lies, is not one that you would want to dismiss. I have though about it in the past and found obstacles to it, but again it has a case to be considered.

Mr Beaumont-Dark

138. Can I ask you about the political influence on efficiency in a government department? I am sure you now have more time to watch "Yes Minister" (indeed, I have it recorded, so I can have a laugh as well). It seems to make civil servants look like cynical manipulators. The problem is that civil servants and ministers all told me that it is accurate! Do you think that that is a true comment?

It is sometimes difficult to avoid being cynical, but it is not that easy to be a manipulator.

139. I would not argue about the "cynical", but what about the "manipulator".

No, I do not think so. You ask me about the ministerial involvement in efficiency. I believe it is absolutely essential that ministers should take a great interest in the working of their department, and also, in the departments in which I have been permanent secretary, I have always interested my ministers in the efficiency of the senior officials and sought the ministers' ideas about their promotability. If you come to the further points I made about the need to be considering all the time the worthwhileness of what you are doing, almost inevitably that involves a political decision and must involve the minister. I think that is probably something to which we have probably not paid enough attention in the past. It is something to which quite a lot of attention has been paid during the efforts to reduce the numbers of public servants. I would not have thought that there was any question, in real life, of the permanent secretary trying to block the minister's desire to cut something down or change the way of working of a department, where the minister has got all the facts at his disposal and has a firm point of view, or in many cases where the minister has good knowledge and experience of organisation and methods of work or of running some show himself.

140. Sometimes one gets the impression—it does not matter which party it is—that the idea and the compassion behind things that ministers announce are terribly good, and then it turns out to be possibly the most expensive and inefficient way that that compassion could have been put forward. In your high position in the Civil Service, did you try to tell a minister that in fact he had chosen the most expensive and inefficient way to do this, that or the other?

Could I put it this way: when the minister has been in a department for quite a period, you are normally working sufficiently closely with him to be able to stop him choosing the most inefficient way, without at least knowing he is choosing the most inefficient way, because part of your essential job as an aide to the minister is to advise him on the mechanics, as it were, of carrying a thing out. Quite often you stop him choosing something and you say, "That's a bit of nonsense, you can do it in another way". However, where problems do arise is that statements can be made without a minister having had previous experience of a department and knowing the terrible amount of detailed work which is involved perhaps in handling social security payments, for example. You know (and you probably will accuse me of being cynical on this) that I always feel that the main worry for a department is in the early months of the new Administration, when we are having to deal with their manifesto statements. Certainly, when a government has been in power for some time, one would expect the minister himself to have quite a lot of knowledge about how the detailed work of his department goes on.

141. You mean he has become more institutionalised?

Yes.

142. Can I ask you one final point about Rayner (which has had a lot of publicity) and what I would call the scattergun principle of Rayner where he has been put in to "sting like a bee" (or however Mohammed Ali puts it)? Do you think it is an idea that is unsettling to the Civil Service? If it is unsettling, is that good or bad? Or do you

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think it would be a good idea to have three or four Rayners who were doing a similar exercise?

I do not think it is unsettling. It was a possible technique that I included (I hope) in my initial list of ideas. It is interesting that Rayner in general has operated with two or three junior officials of the department he was looking at, and I think that is an excellent technique. Whether you can multiply it in three or four teams, I am not sure. I should think you could if you can find enough people like Rayner, but there are not many people like Derek Rayner.

143. It would be better, would it not, to do it that way than to have an awfully big O&M department set up, which in itself would become institutionalised and would be part of the inside instead of, if you like, changing the inside? It would be better to have outside people coming and going, would it not?

You must not set up enormous O&M departments or similar departments. In particular, you must not set them up away from what I call the line management. Much more is achieved by having a tightly conceived group of people—something like ten or 12 as a maximum—who can perhaps break themselves up into small teams to do operations of this kind. I think you referred to the scattergun principle. The idea of picking on one or two areas which may be productive, and some spot which looks as though it is a weakness, certainly is the best one. You get much more enthusiasm that way, you find more that way, and because you find more that way it is much more effective.

Mr Shepherd

144. May I go back over some of the points, perhaps to amplify them a little in my mind. On manpower, for instance, how realistically can establishment divisions within departments and within the CSD assess line managers' needs or demands for specific staffing levels?

I believe that the technique of staff inspection and assessing requirements has been established long enough to be generally efficient in terms of the method which the department is following, the principles which they have decided to follow to carry out whatever their function is. It has a long history. The people who do it, though not professional, normally have quite a degree of training in it, and they certainly learn a lot of the tricks of the trade by practice. What it probably does not do as well is to question whether some particularly different approach might be better. They can quite often find things, but it is, by and large, a probing by applying certain standards of measuring staff load and work load. Therefore, it has its limitations but it is an essential part of the efficiency check. As regards the centre, as I said earlier, the role that I see for the centre, certainly the role in my day, was to have rather greater expertise in staff inspection, to have experience of having inspected quite a number of different departments and, therefore, to be able to go in quite frequently and work alongside the department's own staff inspection team. They would do the job together and see if they got the right sort of answers together, and that provides the check on the way the departmental team are doing their work and a useful check for the centre on whether the manning of that department is reasonably tight.

145. We have had the hiving-off of certain staff activities into independent agencies. Has that, in your view, made it more difficult to control numbers, for instance?

You are thinking of things like the Manpower Services Commission?

146. Yes.

I am not really up to date with what has been going on there but I certainly felt at the time it would make it more difficult to control numbers, in part because the direction of those agencies was not entirely within the Government machine. Whether it is still having that effect I am not sure. It may not be now.

147. How can line managers be motivated and equipped regularly to review their own activities in the way that Sir Derek has done?

I think you have to stress all the time on line management that that is their job and that is one of the things which they are being, as it were, assessed for. Mr English referred to the possibility of bonuses. We do not have that at the moment but we certainly assess line management for promotion. That is one thing. The other thing is that most people, when they see that an operation like Rayner is producing results, do genuinely wish to see whether they can make some improvement in their own field, so you do get incentive from the fact that it is known that other people are achieving successful paring-down of staff numbers or

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a more efficient way of carrying out the same operation. It is not always a paring-down; sometimes it is a way of doing things more effectively.

148. Is the success, if it is a success, due to his own outside training and professional experience during the greater part of his life? If that is so, is that outside experience, maybe a different benchmark learning, of value to the service? Is there something we can learn from that?

I would expect that his success is a combination of outside training, personality and status, but I would also expect that the experience of working in such a team will produce beneficial results for the people who work with him and the service may be able to use those people more effectively in this way. But when you have somebody with the experience—and it is a very wide experience; Rayner has both outside experience and has functioned in Government before—it is not something that is easily repeated at that level of quality.

149. Is there perhaps out of that a reason for making open by, say, advertising, certain posts within the service to outside specialists to come in for a five-year period?

I have heard it was being done but I do not know to what extent it has been done and been successful. It has certainly been talked about and I think had been accepted as a method of recruiting people at, say, Under Secretary level or above. Yes, I see nothing against it, but it may be difficult to attract the right sort of people in.

150. On the basis of salary?

Salary and their own career position. The danger is that you attract the people who are not doing very well where they are and they will not necessarily be successful. You have to remember that people like that in the private sector can have career expectations of salaries which are four or five times the highest salaries in the public service. They may come in if they believe that the experience will be beneficial to their ultimate career but, unfortunately, when we have brought people in, admittedly for a shorter time, they have not always found it easy to get back, and that is well-known. I think I have told a previous Committee of this House that in the first department in which I was Permanent Secretary, the Department of Economic Affairs, we did bring in quite an important team of industrial advisers. Of that team a very small proportion managed to get back to the firms they had left and that sort of thing certainly discourages a good man coming in to a Government department.

Mr English

151. Lord Croham mentioned management reviews. The steering committee of the management review consists more or less of a couple of people from the CSD and a majority from the department that is being reviewed. Is that roughly right?

Yes. When I mentioned management reviews I was not thinking of that particular species.

152. That is roughly right, is it not?

That is roughly right. You have the department itself, somebody from the CSD—normally somebody who is not connected with either, who may be a retired civil servant—and normally you take opinions from a whole lot of people who have had contact with the department, including, of course, ex-ministers.

153. Yet in the 19th Century the Treasury Committees set up for the same purpose,—as I am sure you know, some of its works were very successful—was almost exactly the opposite way round. It consisted of a majority of civil servants from the Treasury and a couple of people from the department being reviewed and they were very successful. Is it the case that in the 19th Century they were effective and nowadays they are cosmetic?

They are certainly not cosmetic because they have led to quite substantial changes in organisation.

154. But why do we do it the opposite way round? Why do we ask the people of the department to control their own management review nowadays?

I can tell you why it was done. Whether it was the right decision is another matter. It was set up when I was not Head of the Home Civil Service, but it was set up because it was believed that it was the job of management to look after its own organisation, subject to outside checks, and that the investigation of what was being done and how it could be done better was better carried out by the people who would then be responsible for putting in new machinery and dealing with it than by total outsiders. One might argue that was wrong, it should be done the other way round. I am not sure about that myself because I think it comes

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back to my first principle, that management has to be responsible for management, that if you try and push things on people from outside, possibly with less knowledge of what their job is, you will not get a successful result. A business quite regularly reviews its organisation but except when it employs a management consultant to give it advice it normally does it itself; it does not put it in the hands of a totally outside body. But I would agree that there is plenty of room for argument and you can try it both ways.

155. I did not say the 19th Century committees included people from outside the civil service.

No, but they were outside the department, and with the greater complexity of departments and with the point we were talking about earlier, the greater specialisation in departments, because the functions are diverging so much the centre is not necessarily the best source of all the advice on how to organise a department. Let us take the biggest department of the lot, the Ministry of Defence. Any review of the Ministry of Defence must include representatives of the central departments, but I do not think there is anybody in the central departments who, unless they have had an extensive period in the Ministry of Defence, really knows enough about it to be quite clear what they do. What the outsider can do is to ask the awkward questions which the outside person with wider experience can ask, but I think you need a very strong proportion of people from the department either on the committee or giving evidence. Whether that proportion makes a difference, given the evidence, depends very much on the procedure by which you arrive at the committee's report. By and large these review reports are not reached without the agreement of the central departments and I do not think any significant change in proportion would necesarily change the result of the review.

Chairman

156. Could we ask you specifically about these central agencies of which you have particular experience and their role in relation to the three aspects of value for money which you identified—efficiency, effectiveness and worthwhileness. The central agencies I would like to ask you about are the Civil Service Department, the Treasury, the CPRS, the Exchequer and Audit Department under the C&AG and the Rayner programme. Obviously we are concerned about whether their present activities are appropriate, whether they should be extended, whether additional activities in seeking value for money should be added to one or other of the agencies. The first is the Civil Service Department. You have already mentioned it as the location of specialist teams and management services. Would you like to discuss more generally its contribution to these three aspects of efficiency, effectiveness and worthwhileness in the department?

You would obviously get much more accurate information from somebody from the department.

157. In terms of what they actually do, in terms of what they should do—that is what we are interested in from you, Lord Croham.

I believe that the Civil Service Department's key responsibility is for Civil Service manpower and its effective use, its recruitment, its training and its deployment. By and large, C.S.D. having discharged its recruitment function (or discharged it by a process of delegation), and having located civil servants in departments, they are then employees of the departments. Its functions then are to ensure that the general methods of handling manpower that the departments deploy are up to the best practices, to ensure that the departments have an adequate and effective establishment function, which will include its staff inspection, its promotion methods and its attention to training (which can be done in different ways, depending on the size of the department). Another function is to inspect it for its efficiency in its staff inspection (that is a parallel work), also to be able to supply it with advice in terms of management services of many different kinds (and I am not up to date with the whole of those now), and to provide certain services to it, including the advice on those services, which would normally include advice on, and the supply of, specialised equipment. As part of its function, of course, it will also vet the manpower estimates of the department staff numbers. It will also carry out from the centre, and supervise, any general directions that the Government may give about reduction in numbers or anything of that kind. It will also take part—as has been pointed out—in organisational reviews of the departments. In conjunction with the Treasury, it will consider such things as changing certain functions of the department, including the shedding of functions. I think that

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is how I would list it. How they are carried out would depend very much on the staffing available in the Civil Service Department.

158. Lord Croham, in your article "The Problems of Civil Service Management",[1] you made the point that it is difficult to judge the efficiency and effectiveness with which resources are used—and manpower in particular—without considering the objectives and the quality of the services provided, did you not?

Yes.

159. By the way in which you have described the activities of the Civil Service Department—as based primarily on manpower—it seems concerned primarily with one particular input, not with outputs and not with other inputs. Does that restrict its method of activity too much?

The input of government departments is something like 60 per cent manpower, if you are thinking in terms of the organisation of the department itself. I am not thinking of the supply functions of the department or the money that it hands out, but, in terms of the running of the department, I think it is something like 60 per cent manpower, so it is the most important proportion. The Civil Service Department does not normally provide the buildings, though it will have some interest and responsibility for the standards which are being employed by the Property Services Agency. Various other functions concernd with the running of the department are split around, so manpower tends to be the predominant consideration of the Civil Service Department.

160. Speaking in terms of considering efficiency, effectiveness and inut in relation to output, is it fair to separate out the supply function or the money it hands out? For example, in the DHSS, if the aims are (more widely) social welfare, or (more narrowly) the objectives set out in legislation, to achieve that obviously the money handed out is the major instrument, and there are all sorts of questions about the actual efficiency with which that resource *is* handed out. We have had public concern about abuses and so on in the DHSS; we have had concern about whether it is reaching all cases of need and so on. So you cannot really just say that is manpower and not the supply or money handed out, can you?

You asked me about the specific role of the Civil Service Department. With some of these other functions, your assessments involve a kind of dialogue of "trialogue" between various departments. Obviously, in the case of handling public money, the staffing has to be adequate, both in quality and in number, to prevent abuses and to be efficient in getting the money in or paying it out. Therefore, in any dialogue about staffing requirements, the department will argue its case for having more staff in order to do various things. The department is normally the recipient of the criticisms, rather than the centre. The Treasury may also be involved. In the case of, say, Inland Revenue, there will be a series of dialogues between the Civil Service Department, the Revenue Department and the Treasury about the staffing requirements of the tax service; but it is a dialogue. The Civil Service Department itself does not collect all the criticisms of how department functions and try to change that. That is a responsibility for the management arguing with the Civil Service Department about its resources. Do I make myself clear?

161. Yes, indeed. Could we go on to the Treasury which is a central department that cannot but be concerned with some of the wider aspects of effectiveness and worthwhileness? First of all, how does it operate in its own particular questioning of departments in these two particular categories, as distinct from any general oversight of public expenditure or economic policy?

I would myself distinguish two different phases. There is the phase when a new service or some other, different element is contemplated, in which case there would be very strenuous questioning by the appropriate Treasury officials of what it is the department intends to do, how it intends to go about it and cross-refer to the Civil Service Department what its manning needs are for that, whether the estimate that the department makes of the likely cost is accurate. Particularly there is a need for cross-examination where the service demanded is indeterminate rather than a fixed figure, and the estimate is gone into very thoroughly. The Treasury then opposes the bid, and whether it succeeds in blocking it depends on the Cabinet rather than the Treasury. Then you have the next phase when the service is going on. When the service is there, you are watching what is happening against the estimates; you would question the department as to whether it is

[1]Published in *Management Services in Government*, February 1977, Vol. 32, No. 1.

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doing its best to keep down the costs. From time to time—particularly these days when there are squeezes all the time—you will keep asking a department and saying, "We want you to achieve a saving of so much on this service". The department will then argue that it can or cannot do it. But there is this distinction between the initial argument (in which the Treasury has rather more cards up its sleeve than in the continuing argument) and the continuing argument. It very much depends on the political influence or the power of the minister concerned with that department.

162. All this being so, what is your view about the extension of the role of the C&AG from simply a financial audit into questioning the efficiency and value for money of departmental activities? It seems to me that much of what *you* have described is something you have already attributed to the work of the Treasury rather than the C&AG.

It should be the work of the Treasury. The C&AG's work can be a check on it. I ask this question in relation to the C&AG. I put it this way. The work of checking efficiency and effectiveness is work that has to lead to action. That is why I stressed that it is related to management and must be seen as a duty of management, because when you find something is wrong you want action taken. That will apply wherever the checking is done, whoever is doing it, but it is quite important that it should be seen as a facility to the management which leads to action. The traditional role of the C&AG has not always been looked at in that light. It has been looked at to see whether there is propriety, whether the rules are being observed in terms of payments, etc. The C&AG reports to a Parliamentary Committee, which naturally is very fierce on any malfeasances or anything that goes wrong, but I do not think the Parliamentary Committee sees its role as actually having to take action to put things right. Therefore, if one extends the role of the C&AG, and it is certainly a possibility, it must be done, in my view, on the basis that that is a service to the executive which the executive will act on and is not seen as the source of a lot of argument where the objective of management is to try to get a whitewash, because the whole purpose of all these efficiency studies is to assist management to do better and not catch people out.

163. Can one organisation very effectively carry out those two functions if the C&AG has to do the check to catch people out?

It can with the appropriate staffing, but the C&AG by and large examines the whole basis of departmental methods. I may be wrong on this but I believe you get more material results in this field by the short-term concentration on particular areas. Where a firm has its own audit arrangement and can do an internal audit, it normally has a small and highly-efficient, highly-paid specialist team and they pick a programme and go in on it. They do not try and cover the whole field because if you restrict the programme then you have something management can act on, but if you try and cover the entire field in the universal way that the C&AG does its normal activity, you will find either you are putting far too many resources into it for the value of the outcome or the whole thing will be rather flat and flabby.

164. What about the character of the staff required? Would that be different from that required for the financial work for which the Audit Department is primarily staffed?

I would think it would be. I think, as I said earlier, to review the efficiency of departments, whether they are operating efficiently, you probably might require a number of types of expertise not entirely financial. Even in a private firm, which has the advantage that at least it has financial measures, an audit team will normally include people other than just chartered accountants. It will probably include in a manufacturing firm a chemist and a physicist. I think if you really want to make a go of the operation you have to have somewhere available the expertise appropriate to the function of the department and not just an auditing or accounting facility.

165. Can I take you on to the CPRS. This is primarily concerned with the level of worthwhileness, presumably. Do you see it as having a permanent role in achievement of efficiency in Government?

I do not really see it having a permanent role, but, of course, it was originally created to provide, one might say, long-term planning. The thing that Governments keep trying to do is to have some element of Government which looks to the longer term. I find with experience the CPRS has been constantly switched to the shortest-term considerations. You can put a function of this kind in the CPRS. My own belief is

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that the more important jobs which can be done by a unit like the CPRS, attached where it is, connected with major policy and it is only where you are considering the point you made yourself, Mr Chairman, the specific worthwhileness of some fairly important operation, that it is a CPRS job, in my view.

Chairman: We have already asked you about the Rayner inquiry, so I do not think there is anything further we wish to ask you about that.

Mr Shepherd

166. Can I ask you about PAR and your view of it? It presumably filled for a while a gap in Whitehall's evaluation techniques. Would you agree with that?

I think it was a good idea which was rather disappointing; it did not get off the ground. There was a problem of selecting programmes to be done. I think there was a certain amount of reluctance among some departments and some ministers to put resources into PAR when they had other preoccupations. In principle it is an excellent idea. Whether if it is got going again it would succeed any better I do not know. It is important if you are doing that sort of operation to be careful what programmes and what areas you select for it and also, I think, to delimit in some way the options you are going to consider. It may be that the open-endedness of the operation or potential open-endedness might discourage departments because there is no doubt that departments and departmental ministers really had very little enthusiasm for it.

167. How is that gap being filled now, or is it not?

I am not up to date enough to know whether there is any way in which they are filling it. I suspect it is not being filled, expect perhaps by the ad-hoc arrangements that occasionally come about.

Chairman

168. Do you think any of the procedures, Planning Programming Budgeting Systems or Management by Objectives or any of these techniques that have had their day, are capable of resurrection or reincarnation?

They are all capable of resurrection. They had slightly different aims and were all good ideas in themselves. The danger with that is that if you do not watch it you get an enormous number of resources tied up in procedure and do not find very much return from it in the end; in other words, all these procedures themselves must be subject to the test of are they effective and are they worthwhile.

Mr Shepherd

169. If you were taking up your job again as Head of the Home Civil Service and the Prime Minister called you in and said, "Lord Croham, I want you to concentrate if you can on just efficiency and effectiveness and I want snappy, punchy results because I have a political priority," where would you be looking, in what direction would you be looking or how would you set about trying to achieve those objectives for the Prime Minister?

I think I would first of all give myself a little team to work with. I would ask for certain powers, naturally, and I would want to concentrate on a few specific areas. I would ask the Prime Minister, of course, precisely what he or she had in mind, whether it was the economy in numbers or the effectiveness. If it was numbers he or she had particularly in mind I would certainly want to look at the large manpower-using areas. If it was some different consideration I might just question my staff as to where they thought the main weakness in existing departments were, regardless of size. If you wanted to make a quick check I think what you would want to do would be to look at the large departments with large manpower needs and you would want the freedom to question what they were doing and be ready to put up a report on it. Quite often you will find what you raise is not acceptable.

170. Is that freedom to make such inquiries not now available to the Head of the Home Civil Service?

You would have to get the agreement of the department and the departmental minister before you did such an inquiry because you are tying up a lot of departmental staff. You cannot do it without doing quite a lot of inspection. I would certainly want to do it by going in. We talked about the C&AG and his team. By and large the C&AG's technique is to look at the books and papers. You cannot deal with efficiency by looking at books and papers. You can get close but you have to go and look on the ground and that is a fairly time-consuming operation. That is one of the reasons I recommend the small expert team doing spot areas and not trying to do a "blunderbuss" approach,

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because you cannot do it except by soaking yourself in what is going on, finding out about the special problems they are dealing with and hoping that with the outside eye and perhaps some expertise from some other field you can make suggestions which will secure either greater effectiveness or economy. That to some extent is what Rayner is doing in his limited field, that is, soaking himself in the problem before he makes recommendations, and that is what I think you have to do.

171. I was asking, in the first part of that question, what are the gains and improvements you would expect to effect fairly swiftly; and in the second part of the question I was asking what really are the hard targets, from your experience; what would you identify as the difficult ones to get to grips with in terms of efficiency and effectiveness?

I do not know that I would expect to find major gains all that quickly. You tend to find a lot of small gains. The hard targets tend to be where a change in policy will make a substantial saving in manpower, or a speed-up. Let us take a concrete example which is often raised. The United States Internal Revenue Department raises its tax with a much lower proportion of staff per taxpayer or for revenue secured. They do that by a different method—self-assessment. They have less special allowances. We know that if we reduce the number of special allowances we would improve efficiency and revenue. As I understand it, this sort of thing is being looked at. There is a political difficulty there, of course. We also know (though there is no great enthusiasm for it, I believe, in revenue, or at least there was not in my day) that you could make some quite important savings by taking a risk on the revenue to some extent, but by going either for self-assessment or for self-coding. However, there are problems there. That is where where are potentially large gains, but hard stuff, because you come up against the desire to have Pay As You Earn because it is convenient in various ways, and there is the desire to avoid the taxpayer working out certain forms and this sort of thing. There are no easy savings, as I think the last couple of years have proved. By and large, you can find a lot of small ones which add up significantly, or you reduce certain functions at a certain cost either in terms of a service or in terms of some convenience to somebody, and then you can make 10,000, 20,000 or 30,000 savings across the board.

172. Has your experience since leaving the Civil Service suggested to you any specific ways in which efficiency can be improved?

No, I do not think it has. What my experience since leaving the Civil Service has brought out much more firmly to me than, as it were, before, is, in a sense, the greater ease with which you can take decisions in the private sector when you are up against the pressure of profitability or loss, because, having identified your problem, that third stage of whether you carry on is something you have very little time to consider, and you take that decision as a board (in other words, the same people who are really responsible for all the stages take the responsibility for the final decision). In our sector, in Government, so much of what you are required to do is provided for by law or is very much wrapped up in politics that the stage of cutting something out is a very painful stage which takes a long time, and that is a marked difference. Moreover, as I said in my article—and I say again—the profit test is a fairly simple one. It is not quite as simple as it may seem to some people, because your decisions are really taken on a forecast and not on the past, so you may well have to guess. Nevertheless, it is a simple test. You do not want that simple test, and you do not have that simple test, in Government.

173. There seems to be very little literature or merely academic research work done into the area that this Committee is trying to look at (the effectiveness and the efficiency with which the Home Civil Service manages itself, self-evaluates itself, reviews procedures and so on). Would you agree with that?

There is quite a lot of literature. Whether you would find it all that illuminating, I am not sure. There is *this* particular publication (*indicating*) which comes out regularly and has a lot of information about how they go about it. You will find, in various works on public administration, that people have studied the work of departments. However, it is rather diffuse, and it does need a lot of reading to extract a fairly small grain of truth.

174. When you go into United States university colleges and look at the work they are doing on the evaluation of government programmes and whether they are effective, whether they achieve the objectives the Government has set itself out to

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do, there is a considerable body of work, generally speaking, on that. Is there a considerable body of work on those areas within the Civil Service itself?

No, not as large as that in the Civil Service itself. Nor is there as much activity in the academic world here as in the United States. However, there is some.

175. I am a little concerned that maybe we are very closed and introspective. Last week, as you probably know, we had Sir Douglas Henley giving evidence. We were talking about the experience that the Australians had found in this field. You may be interested in what, to me, was an interesting comment in terms of benchmarks and how one looks at effectiveness and efficiency. As you have said, outside experience has led you to believe that it is easier to make some hard decisions there in the nature of cutting staff, or whatever the area is. Sir Douglas Henley was asked about that, and I pushed quite a way on outside experience (perhaps further than was merited). Sir Douglas said, "With respect, I am very much in favour of people having as wide an experience as possible but I think one can overdo this. There will not be, in my view, any very definitive experience in, say, an ordinary business job which will lead someone in my organisation to be in a better position to do the kind of work we do than someone who has been in the office and trained or has come in from a university and had a professional training." That seems to say unto itself that the home Civil Service, or his particular structure, is almost complete in itself, and that there is very little to be gained from outside that could be of benefit to his organisation, for instance. Would you say that that categorises the way the Civil Service looks at its role, in evaluating it?

It is not the way I look at it.

176. Would you believe that that is a correct way of looking at it?

No, I would not. It may be so in that particular department (which I have no experience of), but I would not look at it that way myself. I believe that wide experience is very valuable. There is always a difficulty, however, that experience of that kind takes time to acquire, and there is a lot of experience needed of the various parts of the departments. You cannot have a person who has got all the possible experiences that he could have and that might be desirable, unless he has done nothing but change his job, and then we get complaints that people move too much. I think there is also a gain from having a certain amount of concentrated experience in a particular area. By and large, it always seemed to me that way you often get gains in efficiency is when somebody moves into an area for the first time, having wide experience somewhere else, and can proceed by analogy or by other experience, can find and discover things which the people who have just been in that job have not seen. So I am firmly in favour of moving people about to gain experience, and I have always favoured these interchanges with industry (though so often I have been frustrated at the inability to bring them off).

Chairman

177. Lord Croham, in your Stockton lecture after you had retired from the Civil Service, you noted, as one of the main factors affecting the role of central government, staff consultation and collective bargaining, did you not?

Yes.

178. In this field Sir Derek Rayner has had problems, at least in two of his inquiries (one from the sub-postmistresses and the other from the Excise men), in the implementation of his proposals. Do you think that the unions need to be involved, from the start, in any review of efficiency?

Not necessarily from the start, although it may be advisable to do so. You will certainly have to involve them at many stages. For example, when the departmental reviews of the organisations take place, the staff side of the department are always informed that they are going to take place and are normally given a certain amount of access to material. There are always discussions with them as to what is going to happen as a result of the findings. I think the present style is for staff to demand more and more consultation—and quite often rather more than consultation—on any change that may affect them. This is a problem when you want to reduce the grading of a post because you think the grade is no longer required. Whether or not there are formal agreements, you will find that the staff unions do agitate quite a lot if they believe that the opportunities for their members are being reduced. It is just a fact of life. You can see how Germany lives with quite extensive co-determination. We may be moving in that direction ourselves.

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179. Can you see a method of review working which does not take into account the consultation with unions?

I can see it working if you have unions whose power has been greatly reduced by some factor or another, but I would hope that by and large management would try to bring the staff along with them because I do not think a body in which there is a marked division between staff and management is going to be a very efficient body.

180. Lord Croham, we have read with great interest your article, "The Problems of Civil Service Management" in the journal to which you referred, "Management Services in Government", and we will take that into account in the inquiry, so I do not think we need to ask you about that area. Are there any further points you would like to draw to our attention?

I do not think so at this stage.

Chairman: We would like to thank you very much for the help you have given us. Thank you.

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THURSDAY 25 JUNE 1981

Members present:

Dr Jeremy Bray, in the Chair

Mr Anthony Beaumont-Dark
Mr Michael English
Mr Richard Shepherd
Mr Richard Wainwright

Memorandum submitted by Mr K J Sharp, TD, Head of the Government Accountancy Service and the Accountancy Adviser to the Department of Industry

I took up my appointment as Head of the Government Accountancy Service (HGAS) and Accountancy Adviser to the Department of Industry on 3 November 1975. The appointment of a Head of Profession had been recommended in the report on the use of accountants in the Civil Service by Sir Ronald Melville, KCB and Sir Anthony Burney, OBE published in January 1973. I believe that it is in this role that the Sub-Committee wishes to hear evidence from me and I have not therefore covered my work as Accountancy Adviser in this memorandum.

2. As I noted in my memorandum[1] to the Expenditure Committee (General Sub-Committee) in 1976 accountants in the Civil Service are employed in various Groups and Classes. I am primarily concerned with accountants in the Professional Accountant Class and the Administration Group and these account for about 670 out of a total of about 1,150 accountants throughout the service.

3. Much of my work has been concerned with devising an improved career structure for accountants in the Civil Service to make it more attractive to the accountants already employed, to potential recruits and to Civil Servants considering training for an accountancy qualification. The HGAS post was created with the task of increasing the accountancy input in management and policy making in the Civil Service and I believe that the proposed new structure is essential to achieving this. It will facilitate both the employment of more accountants and their more effective use.

4. The proposed new career structure which I have developed with the Civil Service Department in consultation with the other departments, particularly those who are already large employers of accountants, will remove the present barrier between the PA class and the Administration Group and combine accountants in a "Functional Specialism" within the Admin. Group. The proposals having been endorsed by Permanent Secretaries are now under discussion with the Trade Unions concerned, which are the Institution of Professional Civil Servants who represent members of the PA class, the Society of Civil and Public Servants and the First Division Association, who represent the Administration Grades concerned. The target date for full implementation of the proposals is July 1982 and both the discussions with the Trade Unions and the development of the necessary arrangements within departments are geared towards this date.

5. While I consider the proposed Functional Specialism to be the necessary means of achieving a lasting increase in the accountancy input in the Civil Service, there has nevertheless been some improvement, largely on a piece-meal basis. Briefly, the improvements to-date within the PA class have been a significant increase in the variety of departments employing them and in the tasks on which they are employed. The net increase in the membership of the PA class between 1972 and 1981 has not been large (354 to 381) but it masks a significant reduction in the employment of accountants in what I might term the "traditional" areas, arising from more efficient working methods, and a corresponding increase elsewhere. In the Administration Group, the number of qualified accountants has increased by more than 50 per cent over four years. A substantial portion of this increase has occurred in the Ministry of Defence which has developed an excellent training scheme leading to membership of the Institute of Cost and Management

[1] HC (1976–77) 535–II p. 620

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Accountants, based on the Royal Army Pay Corps Training Centre at Worthy Down. This Scheme is available, subject to capacity, to other departments.

6. It is worth pointing out that the areas in which different departments have increased their use of accountants vary quite considerably. This is a reflection of the different needs of departments and also the different backgrounds of the accountants within the profession generally and in particular in the Government Accountancy Service. While the effective use of accountants in one department can on occasion be imitated by another, their employment is generally dictated by the work of the particular department concerned. There is thus no easy formula for calculating the optimum number of accountants for each department and one should be wary of suggesting that department X should employ at least as many accountants as does department Y. It follows that one could not offer a sensible answer to the question "How many accountants should the Civil Service employ?" without a detailed knowledge of every department and its organisation and functions.

7. Now that the proposals for a functional specialism have reached an advanced stage of development, more of my work is concerned with the government's own financial and management systems ie the areas in which one would expect accountants to be able to make their greatest contribution. The Sub-Committee may know that I am a member of the Financial Management Coordination Group, which is chaired by Mr Geoffrey Littler in the Treasury. I am also involved in various individual projects and other work associated with the central departments. I shall be happy to answer any questions the Sub-Committee may have about my work in general but the remainder of this note is addressed to the specific subject of the Sub-Committee's enquiry into Efficiency and Effectiveness in the Civil Service and it takes account of the Sub-Committee's memorandum of 10 June 1981.

8. I emphasise a fundamental point which is implicit in parts of the Sub-Committee's note; it is the task of *management* to achieve and maintain efficiency and effectiveness in an organisation, It seems to me to follow axiomatically that management should have control over all the resources necessary for the organisation's operations and should be accountable for all aspects of the organisation's performance. In exercise of this accountability management should report its total resource consumption ("inputs") which can then be compared with the "outputs" which are frequently more difficult to measure.

9. In my view no useful assessment of output can be made except in relation to the inputs and this must therefore be the starting point for any assessment of efficiency or effectiveness.

10. It is important to consider what is meant by "total resource consumption". I note the Sub-Committee's view that "inputs are generally measured by numbers of staff and expenditure, which can in turn be broken down into capital (covering equipment, buildings and land) and current". This suggests that "expenditure" is equated to cash outlay. However in the private sector "expenditure" is generally taken to mean total resource consumption and this is a concept which I believe can have relevance to most parts of the public sector and has indeed been adopted in some. It is unlikely that a manager who has access to capital assets purchased in a previous accounting period and conceivably for a quite separate function is inherently more efficient than a manager who is required to purchase capital in the present accounting year. Unless the costs of all resources consumed are taken into account, wrong decisions are likely to be made at the planning stage and wrong assessments made of past performance. Total resource costs will include consumption of items paid for in previous accounting periods (eg depreciation on equipment), in the current period and in future periods (eg pension costs, provision for renewals). I believe this to be a more valid basis of measurement of inputs.

11. On the output side the problems of measurement are frequently considerable and normally the measures used involve degrees of subjective judgment—sometimes nothing but subjective judgment. Monetary measurements where practicable are usually inadequate and other techniques are still in early stages of development. In these circumstances it has been necessary to fall back on judgments of economy, efficiency and effectiveness.

12. The Sub-Committee's note describes the achievement of efficiency as incorporating economy and differentiates efficiency from effectiveness. Many commentators consider the

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"three Es" to be distinct aspects of Administration; however, it is in practice often difficult to draw the lines between the three.

13. I have said above that I consider total resource cost to be a more valid basis of measuring inputs. It follows that I consider it the appropriate basis for assessing the economy of an operation (which is not to say that economy will be the only relevant criterion in the public sector). Further, if a manager is fully aware of his costs he is more likely to act in a way which will minimise them and so improve the economy of his administration.

14. "Efficiency" is the maximisation of output relative to input. In most cases in the Civil Service as indicated above, outputs cannot be measured in monetary terms and there is therefore a growing tendency to use performance indicators appropriate to particular activities. Whilst this is probably the only practical approach there are dangers which must be recognised even though they may be unavoidable. It is particularly difficult to devise performance indicators which take account of qualitative considerations as well as those of quantity. Also if indicators are used as a basis for comparing the performance of two or more units it is important to ensure that the similarities between the units are sufficiently strong to make comparison justified: sometimes the similarities are superficial. The danger can be reduced by using several performance indicators but in all cases an understanding of the managerial realities is essential before conclusions can be drawn. Indicators can be a valuable tool for measuring management's success against target and it is unlikely that a manager who devises no means of measuring his performance will be maximising his efficiency. I believe therefore that the measurement of output is inseparable from the managerial role. Where the independent review agency should be involved is in assessing the reasonableness of the choice of indicators, their accuracy and reliability and the extent to which the manager ensures that the indicators provide guidance for future action.

15. "Effectiveness" is the extent to which activities achieve their objectives. Measuring it involves determining not only which indicators are relevant but also whether there is any causal relationship between the policy pursued and subsequent events. It does not involve questionning the objectives of the policy or activity (which are political judgments) but it may include considering whether different activities could have increased the level of achievement (although in the case of the Civil Service, unlike the local authorities where comparisons can more readily be made between different boroughs, much comment in this area will be hypothetical or speculative). These considerations sometimes make objective assessment impractical. Nevertheless it is clearly essential that management should normally be aware of what long-term indications they expect to see to demonstrate that their activity has been effective.

16. Together considerations under the "three Es" have come to be known as "value for money" (VFM) and from this the phrase "VFM auditing" has emerged. In practical terms VFM is the equivalent of "the bottom line" in commercial enterprises and represents the operational objective of management. To assist in this task, depending on the size of the organisation, management is likely to retain the services of a small review group (internal audit) independent of line management and reporting direct to the Board or senior managers of the organisation. In addition, particularly in the public sector, there is likely to be an external review of efficiency with reports going to an external body (C&AG reports to Parliament). In the private sector an internal review function is likely to exist but the external function is not formally present although it is usual for the external auditors of a company to produce a "Management Letter" commenting on aspects of organisation and control within the company which may have a bearing on efficiency. In both sectors of the economy, the review or audit arrangements do not detract from management's clear responsibility for achieving efficiency.

K J Sharp
19 *June* 1981

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Examination of Witnesses

Mr K J SHARP, TD, Head of the Government Accountancy Service and Accountancy Adviser to the Department of Industry, and Mr M J DYMOND, Career Officer for Accountants, called in and examined.

Chairman

181. Mr Sharp and Mr Dymond, we welcome you as witnesses to this inquiry into efficiency and effectiveness in the Civil Service.

(Mr Sharp) Thank you. Perhaps I should make a very brief introductory comment.

182. May we thank you first for the papers you have let us have? We have your memorandum and also a copy of the Memorandum which you submitted to the Sub-Committee of the Expenditure Committee which was chaired by Mr English.[1] You would like to make an initial statement?

(Mr Sharp) Purely to say this, that you have referred to the Memorandum which I put in, and I hope you will find it useful, but before answering your questions I would just like to say a word about the nature and status of my evidence. You will appreciate that I am bound by the rule applying to evidence given by officials and I am not at liberty to discuss the advice that either I or my officials may have given to Ministers. Whether that rule would permit me to express a view about the extent to which departments in general or in specific instances operate efficiently or effectively I am not clear, but there is the overriding practical consideration that I do not get involved in the day to day working of departments, nor have I carried out any consultancy exercises in any of them. Therefore, I would scarcely be qualified to express such a view.

Mr English

183. On a point of order, Mr Chairman, I must make one thing clear. I know the document from which Mr Sharp is quoting. I do not want to make any adverse comments on what Mr Sharp has just said, but it should be made absolutely and totally clear that the law of the land is that questions addressed by this or any other Committee of the House of Commons, or the House of Commons itself, are the equivalent of questions put in a court of law. You are bound to answer those questions and you are not bound to do anything else. As a matter of courtesy, if a civil servant says that his superior has instructed him not to do something, then we call the superior. Who is yours?

(Mr Sharp) I think I would say that I have two superiors, and the more relevant one for this afternoon's session, I imagine, would be Sir Ian Bancroft. The other superior is Sir Peter Carey.

Mr English: He is coming to give evidence.

Chairman

184. We do not usually have difficulties of the kind to which you have referred, and I do not expect that we shall have such difficulties this afternoon.

(Mr Sharp) The reason I specifically wanted to make this point clear this afternoon is simply that to some extent I am here with a technical status rather than a line status, an advisory status rather than a line status. I do not think we are likely to run into any difficulties on this, but you will appreciate when in some cases I might find difficulty.

Mr English

185. If you say so. As a matter of courtesy, the House of Commons never blames a subordinate for his superior's instructions.

(Mr Sharp) I am grateful to Mr English for his assistance in this matter. Perhaps I should also supplement the first part of my memorandum by introducing Mr Dymond and briefly describing what he does. He joined my staff from the Ministry of Defence one year after I took up my office, and he really is the executive head of the policy area in which I operate; in other words, of the policies which are evolved. He is the person who works out the details and he is also responsible for the operation of existing career machinery for accountants in government, particularly those in the professional classes.

186. Is he a qualified accountant, too?

(Mr Sharp) Yes, he is indeed.

Chairman

187. I wonder whether we could start on that point. You have said what you do not do. How do you see the role which you are

[1] HC (1976–77) 535–II, p 620.

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asked to carry out and what are your objectives in that role?

(Mr Sharp) My prime task as I have interpreted it over the first five or more years of my appointment is to identify accountancy needs in the Service and to seek to create a framework within which those needs can be met. That was likely to lead to the introduction of accountants into a number of places who were not there at that time, and the problem effectively boiled down to how to acquire those accountants. Of course, I also had to find out why it was that accountants were not in the places where it seemed to me to be sensible that they ought to be and what were the causes which apparently created some discouragement to accountants from going into the Service and indeed the Service training more accountants within its own domain. Undoubtedly one of the main difficulties which exist, as I see it, is the separation into separate groups and classes of the areas in which accountants can be used. As is made clear in the Memorandum which I submitted to the Expenditure Committee, some accountants are Civil Servants who joined the Service and then decided to qualify as accountants and underwent training for that purpose, and other are recruited externally and come into the professional accountant class. It is very difficult for those people who come into that specialist class as it is called to move easily into other areas of the Service and be used as flexibly as they could be because the traditions of the Service, reinforced by the practices and agreements with the trade unions, do effectively limit the occupation of some posts to members of particular groups or classes. As far as accountants are concerned—and I would like to make it clear that I speak for no other group of professionals—I identified as one of the major tasks the breaking down of the barriers to permit movement as between groups and classes within the Service.

188. Does that mean accountants moving out of accountancy jobs into general administrative duties?

(Mr Sharp) The way I have interpreted it is to create a situation in which as far as the area we are talking about is concerned all men are administrators and some administrators happen to be accountants. Obviously, for some tasks it is absolutely crucial that accountants should be used, but if you are going to encourage people to go into accountancy in the Civil Service they must not see it as limiting their career opportunities, and it is a regrettable fact that in the case of many people, even those who joined the Civil Service and then qualified as accountants, they tell me that they feel trapped and have regretted obtaining their accountancy qualifications. What is absolutely crucial is to open the door so that if you are to recruit accountants and train them you are going to use them as accountants at any rate in the first instance but they must not feel that their total career is going to be constrained within that framework and they will be prevented from moving, if that is their wish, and they have the necessary qualities, into general management as they are able to do in the private sector.

189. There are two approaches to this, one of which is to allow a greater freedom of movement out of accountancy jobs into general administrative structures with wider prospects of promotion, and the other of which is to try to develop a more attractive career structure for accountants themselves. If you compare it with the situation in a private company, either an industrial or commercial enterprise, there is likely to be an accountant very near the top of the company, but that is not necessarily so in a government department.

(Mr Sharp) That is quite right. There are almost two sorts of accountants: those who see the financial framework as the one in which they wish to spend their whole career, and the interpretation of the financial framework itself can be a matter for argument and discussion, and there are those who see an early accountancy career as a stepping stone on the way to general management, and we want both in the Civil Service.

Mr English

190. Could we try to get a few facts straight? I am sure you recollect, since we have discussed this before, that in 1968 the Fulton Report criticised somewhat the fact that there was only a relatively small number of accountants in government. I do not like using the expression "civil service" because it is not very well defined; let us say "in the service of central government". When the Committee which I formerly chaired investigated this matter the number had not gone up very much. How many accountants actually are there in central government?

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(Mr Sharp) I will ask Mr Dymond to come in on the total details, but, broadly, 1,150.

191. How are they distributed? We are told that in the Treasury, for example, there is only one accountant. How many are there in places where you would expect to find them?
(Mr Sharp) There are some and there are no accountants in some places where I would expect to find them.

192. Could Mr Dymond give an indication of this?
(Mr Sharp) It would be useful if he could.

193. If you want to circulate a paper[1] you can do so.
(Mr Sharp) It would be helpful.

194. It would save the time of the Committee. I think it would also be useful, particularly to our professional colleagues on my right, if we had an indication of the institutes to which they belonged, because there are six.
(Mr Sharp) Personally, I do not regard that as necessarily very important. There are six institutes. There is obviously a slightly different slant which emerges according to the background which you have got, but as far as I am concerned I am not worried about which particular institute somebody belongs to; I am much more concerned about his personal qualities. There are some areas for which one sort of training and experience is better than another, and the reverse also applies, but you can have a breakdown by institutes in so far as we have it.

195. I tend to agree with you that it is helpful to have professional accountants irrespective of the institutes to which they belong. Nevertheless, in the Department of the Environment I would expect to see, apart from the district audit service, on the paying-out side—never mind auditing—some members of CIPFA, and equally on the management accounting side there should be a management accountant in every department of government, but I doubt if there is.
(Mr Sharp) Of course, management accountancy is not exclusively the preserve of any one institute.

[1]See Annex, p 55.

Mr English: By title it is.

Mr Beaumont-Dark

196. How many do you train yourself and how many do you import?
(Mr Sharp) Earlier on Mr English referred to the numbers and talked about the numbers not having grown very much. It is fair to say that the total number at the moment has also not grown very much. Over the last five years what has happened is that there has been a very substantial increase in the amount of in-house training. Several department now have their own departmental training schemes, and the total number of potential accountants in training in various departments, including the departmental classes, the audit classes and the district audit service, is about 500.

197. If they go through these courses and get their qualifications do they get rewarded, as people often are, by being regraded, or do they go on as before?
(Mr Sharp) In fact we are negotiating this at the moment.
(Mr Dymond) Those under various schemes, particularly the departmental classes and the audit service, do gain advancement on qualification, but in the mainstream of the administrative grades there is no formal arrangement for advancement on qualification at this stage.

198. Do they undergo training in their own time or in their employers' time?
(Mr Dymond) In the employers' time with some sponsorship.

199. Are they expected to do that in the evening?
(Mr Dymond) It is usually day release or block release.

Mr English

200. Have you had any discussions about pay of accountants? For example, I do not know whether it is true or not, but I see that in today's *Times* there is a piece to the effect that nobody from outside the Civil Service wants the job of Comptroller and Auditor General. I can well understand that. I should think that a senior partner in any one of the six accountancy institutes would get paid very much more than the Comptroller and Auditor General; it would probably be six figures. Lower down the scale than a senior partner, do you think that even a really bright young man, let us say a man who gets the prize in his institute,

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would come to the Civil Service, or would he be offered more in a partnership?

(Mr Sharp) I would like to say a few words in general about this and then ask Mr Dymond to give some details with which he is well equipped. I do not want to say anything about the Comptroller and Auditor General; he is not a civil servant.

201. I was using it as an illustration.

(Mr Sharp) It is true I am conscious of the fact that I do not earn as much as a senior partner in one of the major firms in the United Kingdom. I do not know how much senior partners would earn, but I think one gets a sort of feel for these things.

202. I asked some of them but I would not publish it.

(Mr Sharp) I think you have to say that if I was going to be paid that sort of amount of money I would be paid very much more than the head of the Civil Service, and I do not think that makes a sensible kind of structure in the Civil Service at all.

203. You might be saying that the head of the Civil Service is paid too little.

(Mr Sharp) That may be so.

204. It does not seem to be an answer to the question. You said earlier that you did not want to talk about scientists and other professional people and I accepted that when you said it. On the same basis, if you were thinking only about accountants and nobody else, do you think that the rates of pay for all the jobs, not the present incumbents, are right?

(Mr Sharp) If you will allow me to develop the point I am trying to make, we will come to this. You have to start at the top, and if, in relation to the organisation you are in, the financial man at the top is paid *x* (and I am second permanent secretary) then it is inevitable that that will have an effect on the pay of people under me: you simply cannot get away from that. The further down you go the more complicated it is. The whole thing is further complicated by the narrowing of the differentials between the ranks of senior principal and under-secretary. The further down you go the less relevant to the argument that becomes in actual pay rates because of the compression. On the other hand you have to appreciate that if you are looking at a career structure and a bright person coming in looks to see what the top man is paid he knows what the top man is paid and that is the potential of the job. Having said that, I think one has to accept that nobody in the Civil Service in the upper reaches earns as much as they could earn if they were in the private sector.

205. Not as much as they could earn?

(Mr Sharp) I am saying that. I believe that most of my colleagues in the higher echelons of the Civil Service could earn more in the private sector, but one chooses to come into the Civil Service. I chose at a very late stage to come into the Civil Service because there were other challenges and other compensations without any doubt at all. I have had enormous job satisfaction. One of the interesting things I find when I go round talking to accountants in the Civil Service is that all of them tell me the extent to which they actually enjoy the job they are doing. This is an almost universal thing, and the wastage rate, once people have been in the job for two years or so, is very low indeed. Sometimes they come in and find that they are in the wrong show and sensibly go out again, but the wastage rate after that period is really very low indeed. That seems to reinforce the view I have expressed. The further down you go the closer one finds the salary levels are to what one can identify as closely as one can as the private sector analogues. One sees surveys being made by various recruitment firms and so on. I have one here to which I can refer and to which Mr Dymond will no doubt refer. They show that at senior accountant and chief accountant level, that is, SEO and principal level, broadly speaking the pay appears to be about on all fours.

206. Could you answer the specific question whether you would be able to pay a first prize winner of one of the six institutes the same amount as could be paid by one of the senior partners of the six institutes?

(Mr Sharp) I think that perhaps the best answer I can give is to say that one of the people trained within the Service was a prize winner but maybe that does not answer the question.

207. That is not the question.

(Mr Sharp) The answer quite simply is that a prize winner is a prize winner. A prize winner is the sort of person who sees the attractions of the public sector. He may have perhaps a more academic approach and sees the attractions of the Civil Service more than a person who is not so academically inclined and he wants to get into the

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hurly-burly of it, but whether or not somebody is a prize winner or is academically inclined—it is the nature of the beast—there is a certain element of people in the profession who respond to this kind of life.

208. I chose it as a peg on which to hang a price label because in the course of enquiries I did ask what the big partnerships would be prepared to offer such a person. Do you know anybody from outside who has gone into the Civil Service in that situation?

(Mr Sharp) I do not know of anybody who was a prize winner and who has come in.

(Mr Dymond) We have one.

209. Who came in from outside?

(Mr Dymond) Yes—eighth place of merit in the Institute of Chartered Accountants. He is a chief accountant.

Mr Wainwright

210. Let us complete the picture of your own role.

(Mr Sharp) Do you want Mr Dymond to say more about the figures in reply to Mr English?

Mr English

211. I thought we were getting a paper.[1]

(Mr Sharp) You want a paper on that, too?

Chairman

212. If Mr Dymond wants to say anything now he is free to do so.

(Mr Dymond) Briefly, I would like to say that pay is a considerable factor in terms of recruitment of newly-qualified accountants or accountants with two years' experience. With the exception of newly-qualified accountants in London where there is a marginal difference in pay, the information in the survey suggests that we are in parallel. We are in difficulties in that we cannot negotiate the rate; we are tied to scales as to what we can do within that group. We do not offer the same speed of advancement to more senior posts as can be enjoyed by a junior accountant in a major partnership, and at the moment I do not think that many young accountants who are newly qualified perceive the Civil Service or public service as a career option, so we are in difficulties in a number of respects, but pay is not the only factor.

213. The big chartered accountancy firms who recruit large numbers of people every year also offer standard rates of pay for new recruits, do they not, rather than a negotiated rate?

(Mr Dymond) Yes. I have no evidence of this, but I imagine that where they wish to keep somebody they can be more competitive, and in terms of recruitment competition we find that some of the people coming to us are surprised that we cannot haggle about the rates we appear to offer.

Mr English

214. It is fair to say that under the American system of civil service pay the grade has a very much greater extension than in the United Kingdom and you can put people in it in different places.

(Mr Dymond) We have the option to enter people according to their experience and qualifications at accountant and senior accountant level, but it does not give us the same negotiability as with a commercial company where there can be negotiations about cars or whatever.

Mr Wainwright

215. As to your own role, you tell us in paragraph 7 with regard to government financial systems that you are a member of the Financial Management Coordination Group. Can you enlarge on that Group? What scope does it give you personally?

(Mr Sharp) The existence of this Group is public knowledge.

216. But not its purposes and its *modus operandi.*

(Mr Sharp) I interpret my role as a member of that Group as being primarily to see the extent to which the accountancy information within the Service, and indeed any reports from departments to the House and so on, is in the most useful form for its purpose, bearing in mind that in presenting financial information you have to know the objectives of the organisation. All financial information should be useful to somebody for the purpose of taking decisions, so you have to decide who is going to take the decisions, what sort of persons they are, what level of comprehension they are likely to have, what degree of detail they want and the time scale both as to periodicity and after the event, that is, how soon after the event the information should come out. My role is to make a contribution in that area to provide suggestions as to how we can identify the needs or assist management

[1]See Annex, p 55.

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to identify its own needs, and perhaps assist Parliament as well (I am sure you are much better at that than I am), and then to seek to meet those needs, subject to the costs of so doing. Does that explain how I see my role in that area?

217. Yes. If I might ask a further question, for instance, there is your own professional view about the total resources for which a Civil Service manager should be accountable which rather differs from the traditional understanding of it. Is it through this Group that you are able to push your professional view?

(Mr Sharp) That is one of the special places in which I do push this point which I regard as very important.

218. Moving on from that, in paragraphs 9–12 you express the view that managers should be accountable not merely for cash but also for the capital assets which may have been purchased before they took over responsibility, and you do say that there should be a system of accounting for total resources consumed. Has that been adopted in some government departments? We understand that there are some government departments which in a subsidiary way do operate certain trading accounts, but, leaving those aside, which departments have really grasped the nettle of accounting for total resources consumed?

(Mr Sharp) What I had in mind when I wrote that—and I do not suggest that my answer will be exhaustive—was primarily the trading funds and also the dockyards which is not a trading fund, in general in the MoD. There might well be some other areas which I have not mentioned, and I can only apologise for that, but that was what I had in mind when writing those paragraphs.

219. But if you take the total resources consumed as a factor for which Civil Service managers are responsible it widens it considerably. Can it be done without a fairly substantial increase in the accountancy power of the Service?

(Mr Sharp) No, I do not think it can; I think it will require a very considerable professional input actually to bring it about, and I think it will take quite a long time. First of all, I think we need to experiment a bit in one or two different areas to find out what the snags are. I think one would be very ill-advised to go wholesale for the whole Service and say, "Let's change the management systems and change the information flows right across the board." I think we need to move in those areas in which it would clearly be most obviously helpful, and it will need a very considerable professional input to bring it about; there is no doubt about that, and that is why in my Memorandum I deliberately placed this second because it is the second stage of my strategy. First of all, you have to provide the facilities to get the people who can do it, because if I get involved in case work I will soon get bogged down and not able to do my job properly.

220. Moving now to what you yourself showed to be the very difficult field of performance assessment in a national service which, unlike local government, has no comparable units anywhere in the same country, do you regard it as a condition precedent to establishing proper unit costs that there should, first of all, be what is now lacking, that is, accountability for total resources consumed?

(Mr Sharp) Yes. It seems to me that there are two aspects to this. First of all, to achieve proper control and decision-making a manager should be accountable for all of the resources which he uses, and there is a difference between control and decision-making. If a manager is responsible for using resources, whether or not those resources are made available to him in specific cases—we are not talking about the totality of the resources he has but the sort of resources he uses—those resources are effectively put under his control even though they may be provided by somebody else. The other aspect is the point of view of the user. One can see that there is both the use of financial information for management decision-making and the use of the financial information, stewardship reports if you like, which people like yourselves are likely to be more concerned with. It does seem to me that we hear the phrase "value for money", and before we come on to the very difficult areas of value I would like to see a more clear and specific identification of what we mean by "money". It seems to me that the only rational interpretation of that word is the total resource cost involved in the activity. In the phrase "value for money" there is the concept of exchange; you put in money and get out value and the value is supposed to be at least equal to the money you have put in. It seems to me that you cannot compare alternative courses of action, either potential or retrospective,

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unless you have a common standard against which to judge it, and it seems to me that the total resource cost is the only sensible approach which you can take to it. None of that necessarily makes it easier to arrive at the very difficult value judgments and choices which have to be made, but at least you are made aware of what the cost of these alternatives is. It is perhaps for others to judge the value, but at least they ought to know the money measurement of what it is you are proposing to do.

221. Would you say that we are a very long way off achieving the very desirable objective you have just outlined?

(Mr Sharp) Yes, though, funnily enough, we are moving quite rapidly. We have a very, very long way to go, but we are moving more rapidly in some places than in others.

222. Bearing in mind the comparisons which local authorities are able to make with each other, do you see us eventually reaching a stage where the unit costs of some of the important operations of government can be compared with very similar operations in, for instance, the northern countries of the EEC?

Mr English: Or even not the EEC.

(Mr Sharp) I am a bit hesitant about putting too much on this. I am even fairly hesitant about rushing into comparisons in respect of local authorities; you can see that the figures are different but you cannot draw instant conclusions because all local authorities, even if superficially very similar, appear to have different performances. It is cause for enquiry that they have different performances, but the results of that enquiry are by no means a foregone conclusion just by looking at them. You do need quite a number of performance indicators each one of which is inadequate fully to decide whether or not performance is good enough—so much the more when you move into the international sphere. Certainly I think there is scope for some research in this area. The whole approach of accounting in some countries within the EEC, particularly the northern ones, is different in some ways from the approach which we have in this country, so the Germans, or Dutch, or French, may well produce figures which appear to refer to the same thing but which in fact on close enquiry indicate that the measuring rods are totally different. I think a lot of work and research would need to be done. I do not want to discourage it from happening, but it would be dangerous to rush in now and say, "The French do such and such a thing for x pounds and it costs us y pounds"; it would be very dangerous to do that without some careful research and possibly the development of new methods.

Mr Shepherd

223. That inquiry is not implicit in the functions of your office?

(Mr Sharp) It has not been done yet, and I would not say that it was not implicit in it, but it is not very high up the list of priorities which I have at the moment. I do go to Germany and France as well as other countries from time to time and talk to officials and members of the profession, but this is only to get the feel and not in any way to carry out any detailed work in this area. I think this is something which lies in the future. There is no particular point in trying to compare us with another country when at the moment we cannot measure ourselves on the basis of the sort of criteria about which I have been talking.

224. But perhaps that is a clue to how we can measure ourselves, because sometimes we cannot see the wood for the trees.

(Mr Sharp) I am not trying to hide behind the trees but, funnily enough, not many countries have moved towards, or even begun moving towards, total resource costing for central government activities, least of all countries in Europe. In some ways they are rather different, but, broadly speaking, they report—and I am not sure how they manage it—in cash terms. There has been some move and experimentation in this direction in America where they have drawn up a thing called Prototype of the Consolidated Financial Statements of the United States Government. It is an interesting experiment.

Chairman

225. Who is "they"?

(Mr Sharp) It has been done by the United States Treasury under the guidance of a committee composed of both officials and representatives of the accountancy profession. It was begun in the Nixon era and has been going on ever since, but I am not sure whether it still has a very strong head of steam behind it. There are some very interesting documents to look at, but I am not sure that as at present presented

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they are necessarily useful. Indeed, I believe that in some respects they are actually misleading, and certainly it is very noticeable that the Comptroller-General of the United States has declined to offer his services as an auditor in respect of them.*

Mr English: He is due to retire anyway.

Mr Wainwright

226. In paragraph 16 you use the term "value for money", but let us call it "value for resources consumed". You mention review groups which you are willing to have described as "internal audit". This means grading, altering or developing the understood functions of the present internal audit sections in departments?

(Mr Sharp) It means developing those functions very much in response to the recent memorandum to the Public Accounts Committee by the Comptroller and Auditor General.

Mr English

227. Every local authority has a set of internal auditors and at the very least they would be headed by an accountant and sometimes they would have many more accountants in them. Does every department of state have that?

(Mr Sharp) In general terms, every department has internal audit, but very few are headed by accountants.

Mr Wainwright

228. In your memorandum to Mr English's Expenditure Committee in 1976 you did say that you looked forward to accountants being seen as playing a more significant role in internal audit. How far has that gone?

(Mr Sharp) I think it has been waiting for the breakthrough which is coming following the Comptroller and Auditor General's report.

Mr English

229. You mean since 1968, if you go back to the Fulton Committee?

(Mr Sharp) My life did not start with Fulton.

230. But if you chose that as the point of origin you would be waiting longer?

(Mr Sharp) Yes.

Mr Wainwright

231. Whereas at the moment the Home Office internal audit section has no qualified accountant, the Department of Employment has no qualified accountant and the whole of the Department of the Environment has four qualified accountants in internal audit, if you succeed in getting this change which you described earlier this afternoon you would expect that picture to change fairly soon after the grading changes and so on?

(Mr Sharp) In terms of the internal structure, the thrust behind internal audit within the Civil Service is now very considerable indeed; it has a very big head of steam behind it, and I hope and indeed expect that this change will come about so that not only accountants but also in appropriate cases other professionals with appropriate skills are involved in both that and indeed in any external audit areas.

232. But, as things stand now, is it correct to say that on the whole internal audit in departments is not the most coveted posting?

(Mr Sharp) That is right, and it is regrettable because it has always lacked the glamour of management consultancy to which it is really first cousin. The burdens on a good internal auditor are rather akin to those on a management consultant, and in some ways the contribution which can be made to an organisation is greater. I hope to see changes in the status of internal audit coming about not only in the public sector but in the private sector.

233. When you say "changes in the status", do you agree that to carry out value for money audits on an internal basis, that is to say, amongst the very people with whom these staff are living within departments and not on the basis of consultants who put in reports and then vanish, requires people of exceptional character and ability?

(Mr Sharp) Yes, I think it will. My own view is that across the profession, not just in government, this is the next big growth area.

234. Do you think the Treasury is fairly well convinced of the desirability of allocating more resources to this?

(Mr Sharp) Yes.

Chairman

235. If I may return to an earlier point to tidy it up, when you talk about account-

**Note by witness:* The Statements are unaudited, although the Comptroller General is a member of advisory committee and chairs an inter-agency committee to consider technical problems.

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ing for total resources in paragraph 10 you say that there has been some move in this direction and you wish to see more. Can you set out any principles as to what kinds of assets you would wish to see being accounted for? For example, let us suppose that an asset has no conceivable alternative use, like a motorway, would you wish to see that dealt with and in some senses included in the balance sheet of the Department of Transport?

(Mr Sharp) I think that is a question which goes rather beyond the distance I have thought about so far. A minute ago we were referring to the consolidated accounts of the United States Government. I think that if one were to go down that road in this country one would have to be careful to consider, first of all, whether one was going to produce balance sheets in respect of individual departments in the sense of including in those balance sheets all of the assets over which the departments had control. But in principle my instinctive reaction is that to know that the road had been built would certainly not be significant to the management of the department once it had been completed. That is my first response. Over the next year or two I would like to think further on this subject, but that is my first response. I cannot see from the point of view of management that anybody is actually managing that road as an asset with, as you say, no alternative use. This is dependent upon whether you use a public authority, or a local authority, or whether it is some central force, but conceivably you could have a central body of road maintenance people to look after motorways. Then they would be assets and those assests would actually be under the control of the management and would need to be properly accounted for, because the management would actually be using them at that time. I do not know the answer at the moment, but I am just wondering whether it would be useful to put that sort of information in a departmental balance sheet which would be a sort of stewardship balance sheet so that you gentlemen would know what the cost, or replacement cost, was of all of the roads which we had. If you will excuse me for the pun, I think you would have to go a long way down the road before putting a motorway on a balance sheet. What one has to concentrate on are the assets which management is actually using which are entrusted to management and for which management has to account. Though I cannot speak for the Department of Transport, I do not think that anybody is accounting for roads which have already been built.

236. There are the beginnings of a principle there. What about an asset for which there is an alternative use, like the land on which a prison is built? Should the Home Office be chargeable for that? It would be perfectly possible to sell the site on which a prison was built and presumably build it on cheaper land elsewhere.

(Mr Sharp) If the prison is already built there the first concern is the prison rather than the land on which it is built. There may be some new theory of penology which renders prisons as we know them unsuitable. In those circumstances one would say, "Yes. What are we going to do with this land?" Of course, at any time in a formal sense there are potentially alternative uses of the land on which the prison is built, but again it is very necessary to be practical and we are at the early stages of any development along these lines. If there is not the remotest contemplation of abandoning the prison the utilisation of the land on which it stands for alternative purposes is, I think, a little bit speculative. However, if the whole of the prison building policy is in the melting pot it does become a relevant factor. Formally, I would say, yes, the management should be totally conscious of all the assets for which it is accountable, but we have to look at the thing in practical terms and be realistic, because there is a need to go first to those places where clearly there are choices actively available rather than potentially available.

Mr Shepherd

237. As far as prisons are concerned, where you come to replace an asset which is coming to the end of its useful life and you have to rebuild another prison to replace it, who is responsible for the comparative costings of that?

(Mr Sharp) I simply have no knowledge of how decisions are taken on this matter within the Home Office.

238. There would be no costings on replacing the prison on the existing site, as Dr Bray has said, or resiting it somewhere else?

(Mr Sharp) I do not know; I have not got the information on which I can answer that question as a specific question.

239. Is that a question which is asked in general?

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(Mr Sharp) It is the sort of question which ought to be asked and I think it is undoubtedly asked.

240. Why do you not know it for sure?
(Mr Sharp) If I may say so, in what I have been propounding I am not concerned with what questions are being asked so much as ensuring that the information upon which those questions can sensibly be answered is as adequate as possible for the purpose, and I suspect that in some areas the traditions of public accounting have provided an information system which perhaps is not as adequate as it should be for the purpose.

Mr English

241. Do you mean that in some departments it is never considered?
(Mr Sharp) I am not saying that. I am saying that a very large number———

Mr English: Can I give an illustration?

Chairman

242. No.
(Mr Sharp) A large number of exercises are carried out and I know that in some of them, in making these decisions———

243. Let us take a third category of assets. We started with the motorway for which there is no alternative use, and there are prisons for which there is a long-term use in respect of the land. What about an asset like vehicles of a standard type owned by a government department? Should those not appear on the balance sheet?
(Mr Sharp) Yes, I think they should; those are things which are continuously and actively in use over which management has control and for which management should account. They should account for those vehicles on a continuing basis and I think they must enter into the detailed resource costs for which management should account.

244. We have the beginnings of a principle on the lines that where there is an alternative use, or where the assets may increase or decrease over a period up to some limit, there ought to be in the balance sheet the depreciation and capital charges and all the rest of it in relation to those assets, and might the time horizon be something like ten years?
(Mr Sharp) I would not necessarily put a time horizon on it. Do you mean the time horizon of the anticipated life of the asset?

245. I am talking of the purchase or disposal of an asset.
(Mr Sharp) I would not put a time horizon on it. I see no particular relevance in a particular limit or life of some assets which are in active use.

246. You have misunderstood my question. I am not talking about the life of the asset but the period during which a decision might be taken about the use, disposal or purchase of that asset. For example, it may be argued that it is unrealistic to propose the rebuilding of prisons within the current Public Expenditure White Paper, but if the valuation of prisons does not feature in a balance sheet anywhere the question will not necessarily be raised five years from now, so it is to bring matters on to the agenda for consideration within realistic planning horizons.
(Mr Sharp) To some extent I think we are at cross-purposes because you have been concentrating on the potential alternative use of assets, which is an important financial management factor, whereas I have been looking more at the aspect of accountability measurement where one wants to know the total resource cost of the activity and to compare it with other activities, or to decide whether to continue with it at all. I think that both types of information are valid, but perhaps that is why the answers I have been giving to some of your questions appear to be slightly odd.

247. What I am trying to get from you is: what are the principles on which you are thinking of accounting for resources used? You have distinguished between alternative uses and measurement of inputs in relation to outputs, and you have also talked about pricing, valuation and so on. What I would like to hear you set out are the principles upon which you are guided as to the practical relevance of accounting for the use of resources in government.
(Mr Sharp) I think I start by looking at the tasks of individual managers. One might be able to lay down some general principles, but I have not come here with a ready-made set because I think that the first principle to take on board is that for different activities different information is required. For example, the sort of information you need to run a capital-intensive

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activity is very different from the sort of information you need to run an activity which is ephemeral—organising transfer payments in Social Security. The information is of a different nature and of a different complexity. Therefore, my first principle is to identify the objectives of management and in conjunction with management to identify the information needs. It may well be that management has to be encouraged and taught in some areas as to how to identify its needs, and provided that is done—I am thinking primarily here, if you like, of the internal accounts, the sort of information which management will use inside—the management down at the operating level is just told to run a prison and is not concerned about the alternative use of that prison. You then get up to a higher level until ultimately, presumably, you reach the Cabinet where you should or ought to be looking at the alternative use of assets, if that is a relevant consideration in the circumstances at the time. The information one needs, the information base, may well be similar, or one may have to devise a slightly different information base for the accountability side of the operational manager and the accountability side of the more senior departmental level or, if you like, the person who is thinking of alternative uses.

248. Mr Sharp, if these are the beginnings of the principles which you are formulating should they not be tested in a department?
(Mr Sharp) I would like to see some experiment being done.

249. Are no experiments being done?
(Mr Sharp) I am not involved in any experiments.

250. Are you aware of any experiments?
(Mr Sharp) No, I am not, though I did say earlier that there were some areas, particularly in the MoD, in which I knew this had developed over time, though I do not think it has ever been done as an experiment in a more administrative kind of area—I am not quite sure what the word is—or a more non-manufacturing kind of area, or a service area.

251. Is it your job to initiate such experimentation or to encourage its initiation?
(Mr Sharp) It is my job to encourage it, and in fact I do talk to my colleagues, as I have been talking to you, and I think we are moving in that direction, but I cannot say that something has yet started.

Chairman: Mr Wainwright embarked on the question of internal audit. I do not know whether he wants to resume.

Mr Wainwright

252. Not on that point. As you are aware, there are other forays in this field of examining value for money. We have had evidence in another context from Sir Derek Rayner, and I believe there have been forays inside the Department of the Environment. Are these in any way linked up with your own work? Are you made aware in great detail of what has been discovered in the course of, for instance, Sir Derek Rayner's departmental investigations?
(Mr Sharp) Yes. I am not personally directly concerned with any of Sir Derek Rayner's activities, but I am kept aware of what is going on and I am in close contact with his office on a continuing basis.

253. In paragraph 14 of your memorandum you assign to an independent review agency the difficult task of assessing the right choice of performance indicators.
(Mr Sharp) Did I say "assessing" or merely talk about judging whether they have the right ones?

254. It is the last sentence of paragraph 14.
(Mr Sharp) Yes—"assessing the reasonableness of the choice of indicators"; in other words, in doing the audit of a particular department they will see the indicators which the department has used, and it is the department's job to choose its own indicators. Management's job is to manage, and in the course of his audit I envisage that the external auditor will assess the reasonableness of the department's choice; in other words, what was the method by which the department chose the indicators? Did it look at a wide range and choose a selection, or did it say, "That is a good one", without consideration of possible alternatives? Was the department taking rational decisions, and, if so, how are they working out in practice, and should they be linked on a systematic basis to the purpose which they serve? One of the traps which we all tend to fall into is to build additional information on top of existing information, and it is necessary from time to time to go

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on a weeding expedition and to scrap information not being used.

255. For the purpose of hitting on the right indicators, what access do your people have to the worldwide body of information on performance assessment and performance review?

(Mr Sharp) I think that international exchanges are much more at the Auditor-General level than at my level because I have no analogues in other countries.

Mr English

256. But he is not an accountant.

(Mr Sharp) All I am saying is that it is in that area where the comparative studies are being done on an international basis. I know the auditors-general of a number of countries and I talk to them, but I have no systematic access because, as I say, I have no obvious opposite numbers in other countries. Everybody is fascinated by the fact that I exist.

257. Perhaps because their auditors are accountants.

(Mr Sharp) That could be so.

258. Or they are at least professionally qualified. I would like to follow up one of Mr Wainwright's questions. You mentioned that the Treasury was keener—they are my words—on encouraging a bit of professionalism in this field which we are talking about. You will recollect coming before the former Committee of this House when we were discussing the form of the estimates and discovered that the Treasury had never consulted you or any accountant about that. Is that sort of thing now done?

(Mr Sharp) I definitely have my say, not on the details of the estimates but on the approach to the estimates very much in the way we have been talking about this afternoon.

259. For example, how many accountants does the Treasury have?

(Mr Sharp) I do not know whether Mr Dymond can answer that, but something like 20.

(Mr Dymond) It is not as many as 20. With the transfer of the Accountancy Finance and Audit division to the Treasury it will be 20.

260. I mean as it is before that.

(Mr Dymond) Without AFA it is four.

261. The second thing which worries me is that I do not quite understand what powers you possess.

(Mr Sharp) I can answer that in one word—none.

262. Let me ask you an open-ended question. It may sound like a trick question but it is not. If you think that 150 years ago this country dominated the world economically there must be some responsibility on the part of this House, the other place, government as a whole and everybody who works for the government for our relative decline in efficiency. Let us stop blaming other people. If you were asked how you think we should reform the system and reform the country in order to make it more efficient what would you say?

(Mr Sharp) I think that is a question which is way, way outside the scope of my office.

263. In your professional field.

(Mr Sharp) I am bound to say that one of the answers I might give might please some Members of the Committee more than others because there are some aspects of the governmental system which are in need of reform. But, with respect, I think it is far too general a question and, frankly, I want to duck it because I think it would put me in an embarrassing position if I answered it honestly and truthfully.

264. I will make it more specific. We have had before us the former head of the Civil Service and I said "Do you think there is a lack of professionalism in the Civil Service so that they do not rely on professionals?" and that includes other fields apart from your own. His answer was in two sentences, but in effect he was saying "Yes". Do you agree with that?

(Mr Sharp) Yes, in many areas that is true: there is too much concentration on one particular kind of professionalism. I would be the last person to say that my colleagues, having worked with them for five years, are not professional.

265. I also asked him whether the administrators were trained as well as they are in France, and you will read his answer to that question as well. The point I am trying to get at is: In your field what would you say was important to this country? How should we actually encourage a greater sense of numeracy and a greater feeling for how much something costs instead of for the

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literary correctness of sentences. How do we encourage accountants to run bits of the central core of government? What concerns us on this Committee in another capacity is that we are now investigating the finances of the nationalised industries. I will not go into details of that, but, strangely enough, we have the feeling that quite a lot of professional people in nationalised industries, in considering how to run their industries better, are being vetted by arts graduates and historians. How far do your people and your accountants come into the question, as far as the Department of Industry is concerned, that all of us are considering in terms of the financing of nationalised industries? How far are they drawn into it? How many members of CIPFA are in the Department of the Environment vetting hundrds of members of CIPFA in local authorities? That is what I am getting at.

(Mr Sharp) I think that your first question comprehended the whole of the parliamentary and government system.

266. It was open-ended.

(Mr Sharp) I think it is a bit beyond my remit. To take your first more general question: I think the most important thing to do is to remove any inhibitions or physical or psychological barriers which there may be to good people in any walk of life wanting to come into the Civil Service and to exploit their particular talents within that service as best they may, and if I did not believe that I would not be sitting here now and doing my present job. I am totally persuaded that as far as accountants are concerned the structure which inhibits them from getting directly involved in the policy-making sector has led to some administrators, shall we say, who are not the best qualified administrators. I am in no doubt about that at all, and everybody knows that I think that. Having said that, you then went on to ask a number of specific questions. It would be wholly untrue to say that the accountants who are in the Service are not involved in the monitoring of nationalised industries. The extent to which they are involved tends to vary a certain amount from sponsoring department to sponsoring department, and I know more about the Department of Industry than about the inside workings of some of the other departments. But the accountants in the Department of Industry are used to a substantial extent in the monitoring of nationalised industries. Whether they could be used more, or whether they are used in the best way and are deployed in the best way, is a matter which I discuss with management.

267. Why on earth do we have to leave it to your Institute to decide how to create a reasonable degree of standardisation in the accounts of nationalised industries? You are surely well aware that the profitable ones were depreciating their assets in 30 seconds flat and the less profitable ones were taking rather longer.

(Mr Sharp) I did notice that the accounts of the nationalised industries were adopting the same methods as used in the private sector from company to company.

268. That is not a fair answer. Let us take the subsidiaries of a single multi-national holding company. Why should our nationalised industries be allowed more freedom than, say, the subsidiaries of a great multi-national company?

(Mr Sharp) I am not a constitutional expert and you can put me right if what I say is wrong, but, as I understand it, each Secretary of State is separately accountable to Parliament (it is not a presidential system in this country) for the area of his administration, and he can be responsible only for the accounts of the industry which he sponsors and not for the accounts of some other industry, and there is no actual constitutional framework which can require nationalised industry boards to adopt a universal procedure other than the observance of accounting standards.

269. Do you appreciate that the answer you have just given is the exact opposite of the statement with which you started your evidence to this Committee? You started by making a point about collective responsibility; you said you were bound not to disclose advice in respect of other persons in the service of government responsible to the Crown, and you have just ended your last answer by saying that each Secretary of State is separately responsible.

(Mr Sharp) I do not think there is a confiict there because the Civil Service as a whole has collectively certain rules which guide it. I am getting somewhat outside my professional remit, but the Civil Service as a whole operates under common standards but it serves the separate Secretaries of State, so———

270. Would you agree that it operates under common standards but not in respect of accountants?

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(Mr Sharp) It operates———

Mr English: It obeys the Cabinet collectively but the Cabinet has never been asked to discuss the subject of accountancy in the nationalised industries and certainly it has never succeeded in enforcing its will.

Chairman

271. If there is any single question which clearly falls in the accountancy field it must be the accounting practices of nationalised industries, and if there is any single department outside the Treasury which is concerned with it it must be the Department of Industry. Have you not sought to clarify or put forward some framework which ought to be followed?

(Mr Sharp) I have been closely involved in the development of the accounting standard on current cost accounting and it is that accounting standard which has pushed towards the uniformity of presentation of the accounts of nationalised industries. There are still three options available to any nationalised industry, and I think it quite possible that all three options will be used by those nationalised industries, but the philosophy of reporting is that it is the job to report to the Secretary of State, and the board reports under the terms of the Act which nationalised the particular industry. Those Acts contain a sentence which says "in accordance with generally accepted accounting standards or regular practices" and so forth, so any commercial practice or any accounting standard which is available to those boards may properly be used by those boards in reporting to their Secretaries of State. I think it is worth reflecting for a moment what might happen if in areas where there were no existing accounting standards we adopted some practice of requiring nationalised industries, where it was practicable to require them to do so under the law, to report in a particular format. We might very well find that we were then requiring nationalised industries to report in a format and in due course the Accounting Standards Committee might say that the commercial sector was wholly different, so we would find that the nationalised industries *en bloc* had to convert, and this could lead to confusion and in some cases misleading information. Although I have some sympathy with the feeling that it is obviously irritating that when you want to compare the performance of one nationalised industry with another you find it difficult to do so on the basis of their published information, the remedy to some extent lies with Parliament in the accounting requirements which they have laid down in the respective nationalisation Acts. You cannot criticise a chairman for reporting in accordance with the Act under which his industry was nationalised.

Chairman: But we tend to get an Act through perhaps every four or five years for each nationalised industry within which it would be possible to change the statutory requirement and to standardise it in a relatively short period, particularly if it is known that that will be a problem. Individual back bench Members of Parliament have sought to systematise the practice of current cost accounting of nationalised industries, but, being back bench Members, we know it is quite impracticable to get it through as back benchers without the Government accepting it. In these circumstances, is it not a dereliction on the part of Government that it has not set forth a clear policy, and is that not your primary responsibility?

Mr English: Could I supplement that?

Chairman

272. Could you answer that?

(Mr Sharp) It is not my primary responsibility for the quite simple reason that in my answer to Mr English as to what powers I had I answered quite truthfully that I had none. I can advise and I can recommend but I cannot require. I am a member of the Accounting Standards Committee, though not by virtue of my present office. The whole purpose of that programme is to achieve comparability as between companies. I really feel that bearing in mind the very different activities which the various nationalised industries carry out it is very difficult to require them to conform to an accounting policy, if you like, which is not laid down in the legislation, which is not comprehended by an accounting standard and which companies subject to similar sorts of legislation interpret in varying ways. I am not without sympathy for what you feel.

273. You have not responded to the question I put to you, namely, that it is your responsibility to give advice as to the form of amendment by nationalised industries statutes which at least would give the Secretary of State or the Treasury power to require certain accounting standards. It

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could be specified by order. Have you or have you not sought to move in any direction which would give Parliament properly presented accounts from the nationalised industries?

(Mr Sharp) I have given advice. For the reasons which I gave at the beginning I cannot tell you what that advice has been, or I hope that I will be excused from telling you what that advice is. I have given advice and I have, as I say, taken part in the Accounting Standards Committee, and there is a sub-committee of the Accounting Standards Committee which deals with nationalised industries.

Chairman: We can pursue the question of the response to that advice.

Mr English

274. I can see the desirability of SSAP 16 and all the rest of it and I approve of its existence and welcome it. I used to work for a multi-national company. The analogy I was quoting was this, that any big company in the world has subsidiaries doing a variety of things, and it is ridiculous to think that a multi-national company is concentrating on one particular product or anything like it, but it does require minimum accounting standards of all its subsidiaries which are much greater than any common standards fixed by the institutes. For example, I was literally talking to somebody about this this morning. All of the information about the subsidiaries of his company is fed into the central computer all at once; it does not even reach a human being. It is in a sufficiently consistent form for that one computer to deal with all subsidiary companies at once, involving a variety of industries. There is nothing like that in government. You talk about the consolidated accounts of the United States. Is there anything of that kind in the United Kingdom? Is there any central collection on a consistent basis of the results of the nationalised industries by the Treasury, for example?

(Mr Sharp) I am not entirely clear what you envisage as being the end product of the exercise.

275. Comparison.

(Mr Sharp) In other words, is there a common form? The Treasury concerns itself very much with performance of nationalised industries, particularly their investment proposals and their performance in response to investments. I am not certain that they do get some information beyond that which is published in the accounts; I do not know whether or not that is so.

276. But is it on a comparable basis?

(Mr Sharp) If you are saying, as I thought you were leading up to, that the nationalised industries are subsidiaries of some sort of central company———

277. Yes; we own them.

(Mr Sharp) I am advised by my colleagues that that is not in fact what the law says; I am told that the law does not introduce the concept of ownership into nationalised industries.

278. We bought them.

(Mr Sharp) We paid for them, which perhaps means something slightly different from "bought". If they are not owned and if they report to different Secretaries of State who are separately accountable to Parliament it seems to me that the concept of group accounts, which I think perhaps you are aiming for, is in those circumstances not valid. If anybody said, "Let's change the law so that they are seen as a group", it creates a wholly different game, and no doubt I would take part in that game, but as things stand now I do not think that the concept of "subsidiary" is a valid one.

279. But that is what it is.

(Mr Sharp) Yes.

Mr Wainwright

280. Since accepting this appointment you have been located mainly in the Department of Industry, and I suppose that you will remain in the Department of Industry for the period of your appointment. I will not ask you to comment upon your own location, but when the time comes for a successor to be appointed in what department of state do you think he should be located?

(Mr Sharp) I have not begun to think of my successor yet and it will certainly be a year or two before I do. I think that when that time comes to some extent the nature of this job may well move on to a different sort of game. At the moment my prime task is the organisational task of getting places for accountants, getting accountants in, training them and encouraging accountants to come and join us. It may be that there will come a point when that task moves on to a much more care and maintenance-type basis and it will not occupy anything like as

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much in my successor's time. It may be that that will be the appropriate time at which to consider in relation to the task whether it is properly organised in all respects. One thing I do say is that I am in absolutely no doubt that the right place for me to be put when I joined the Service was the Department of Industry.

Chairman

281. Mr Sharp, does that imply that the Department which you are primarily concened to get accountants into is the Department of Industry?

(Mr Sharp) No, it does not imply that and I am sorry if that implication seems to come through. The reason why I am quite sure that the Department of Industry was the best place is that not only is the Department itself keen on the use of accountants as seen in a number of examples but also because it has within it the Accountancy Service Division which is a group of probably 80 accountants or so. That covers a wider spectrum of activities than any group of accountants within the Service, and it has been possible for me to use it particularly in relation to other departments from time to time in a very flexible manner. I said earlier that I had no power. Funnily enough, I do have power—forgive me for calling it that—in that they report to me and they are responsible to me and I am able to use them in a flexible fashion to some extent, but I would not have been able to do that if I had been in some department which had very few accountants or none at all.

282. But that is primarily for enterprises where the activities have a trading account.

(Mr Sharp) No, not at all. Quite often a department will ring me up and say, "We have a problem about this or that. We are involved with some private sector company doing this or that and we do not quite understand what we should be doing. Can you help?"

283. But in that case the trading account is the trading of the private sector company.

(Mr Sharp) I see what you mean, yes.

284. If you were concerned primarily with accounting for management control purposes this would be a function which would apply equally to public sector activities and presumably the location would more relevantly be in the Treasury?

(Mr Sharp) I do not think it necessarily follows. It is certainly one of the locations which could be considered if a change was contemplated.

285. But if the task is concerned with the use of accountants generally both in the control of public expenditure and the full use of resources in government activities and also business enterprises, and if it is a purely persuasive function, would not the appropriate location be the CSD?

(Mr Sharp) Yes. There are arguments which can validly be put forward on a conceptual basis for both places. The Cabinet Office has been considered. The question is: Would the post best be located in the centre or is it more effective where it is. Up to now I do not think it has really made very much difference as far as some part of the task is concerned. I think that as a means of introducing improvements and being able to help and provide assistance to departments, and having at my elbow a corps of skilled people who cover practically all of the facets of accountancy within that group, it has been very useful and convenient, and although in terms of a military plan you might say that it is better for it to be in the centre, in practical terms it is better to have it where you can use the troops most effectively.

Mr English

286. Earlier on I asked about the lack of accountants in high positions in government. Do you think that the training of accountants is appropriate for central government? If you recall, apart from chartered accountants, cost accountants and others created a separate institute, and the old municipal treasurers have now a different institute because they have a different field of expertise. Do you feel that accountants are properly qualified for working in central government?

(Mr Sharp) Yes, I do.

Chairman

287. Thank you very much for answering our questions. If there are any matters to which you want to draw our attention later on in our investigation please feel free to submit any written evidence you like.

(Mr Sharp) We will send you the memorandum for which you asked.

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ANNEX

Note by Mr K J Sharp, TD

THE GOVERNMENT ACCOUNTANCY SERVICE: STATISTICS, SECONDMENTS, PAY

Introduction

Mr K J Sharp, Head of the Government Accountancy Service (HGAS), accompanied by Mr M J Dymond, Career Officers for Accountants, gave evidence to the Treasury and Civil Service Sub-Committee on 25 June 1981 in connection with the Sub-Committee's Enquiry into Efficiency and Effectiveness in the Civil Service. In the course of giving evidence Mr Sharp undertook to produce a paper for the Sub-Committee giving the statistics, in various respects, of accountants in Government service; some information about the secondment of accountants between Government service and the private sector; and an illustration of accountants pay in Government service compared with the private sector. This paper responds to that undertaking and deals in turn with the topics indicated.

Statistics

NUMBER OF ACCOUNTANTS EMPLOYED IN THE SERVICE

2. In his Memorandum to the Sub-Committee dated 19 June 1981 Mr Sharp stated that there is a total of about 1,150 accountants in the Civil Service and that he is primarily concerned with accountants numbering about 670 in the Professional Accountant Class and the Administration Group. The enquiries leading to the production of this paper have brought to notice a number of corrections which in total mean that the figures reported by Mr Sharp should have been 1,055 and 662 respectively. The main change arose from the inclusion in the previous total of 104 individuals in the District Audit Service who are not professionally qualified accountants but who are Civil Service qualified. Annex A shows the breakdown of these figures by group and class as at 31 March 1981 with a brief descriptive note and compared with 1975.

BASIS OF THE STATISTICS

3. A number of minor changes also came to light in the preparation of this paper. These reflect the problems involved in quantifying the number of accountants in the Civil Service, not least in the Administration Group where much has depended on the reliability of individual input to computerised personnel records.

The statistics now reported are based on a count of serving established civil servant accountants employed by the Departments indicated. They should be read in conjunction with the appended notes, which in particular refer additionally to accountants seconded in to Departments or locally employed by fringe bodies. No account has been taken (except where indicated) of unfilled vacancies.

MANAGEMENT ACCOUNTANTS

4. There are a number of individuals who have passed all the examinations needed for membership of an Institute, usually the ICMA, but who have not taken up membership. In some cases these individuals are awaiting completion of the necessary professional experience requirements but mostly it has been a matter of personal choice not to take up membership. Such individuals, particularly in MOD where most are to be found, have been used as professional accountants and they have been included in these statistics. The numbers involved are indicated in Annex C, Detailed Statistics of Accountants in the Administration Group.

COMPARATIVE FIGURES

5. The figures given for comparison in these statistics are dated 1975 and are taken from briefing material prepared for Mr Sharp when he took up appointment in November 1975. Subject to the comments already made about the reliability of some of the figures, they give a reasonable indication of the general increase in size of the Government Accountancy Service (GAS) over that period, of the wider incidence of the use of accountants across the Service and of the increase in the number of senior posts.

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6. Earlier comparisons based on Fulton (1968) and Melville Burney (1972) have not been included in detail, mainly because the published information is not sufficient to give a full set of figures and it is not certain that the figures have been produced on a consistent basis.

In total the comparisons appear to be:

	Professional Accountant Class	*Administration Group*
Fulton 1968 (see Appx D para 7)	309	Not given
Melville Burney 1972 (see para 7(ii) and (iii) and Appx 1)	354	120
HGAS Brief 1975	360	180
31 March 1981	384	278

ANALYSIS BY FUNCTION

7. Annex D attempts to analyse accountants in the GAS according to the functions in which they are employed.

(1) *Accountancy Services* covers the investigatory and advisory functions, mainly carried out by members of the PA Class and largely but not entirely addressed to Government's dealings with the private sector or with other parts of the public sector, eg nationalised industries, fringe bodies, etc.

(2) *Financial Management* has been divided into line accounting, typically the development and operation of management accounting systems, and internal audit, which may include the audit, on behalf of departmental management, of funds administered by departmentally sponsored fringe bodies.

(3) *Other* includes all other members of the GAS, some of whom may be employed on duties for which their qualification is highly relevant, though outside the categories defined here. For the remainder their qualification is either useful background for particular jobs or in a few cases, of no relevance at all.

It should be noted that this categorisation is approximate and that in some cases the distinctions may be arbitrary. In particular accountancy services divisions may provide advice and continuing assistance in financial management, eg Rayner scrutinies. But, taken with the notes attached, the Annex gives a reasonable indication of the disposition of GAS resources over the functions described.

ANALYSIS BY INSTITUTE

8. As indicated in the note to Annex A the GAS regards each of the six member Institutes of the Consultative Committee of Accountancy Bodies as having a contribution to make to Government service. Moreover, as Mr Sharp said in evidence, it would be misleading to assume too precise a correlation between membership of any particular Institutes and specific accountancy functions. However, in response to the particular request of the Sub-Committee an analysis of the GAS by Institute has been prepared and is attached as Annex E. 25 accountants are reported as having dual membership; the majority combining membership of the ICMA with that of another Institute. There will be other accountants whose dual qualification has not been recorded.

TRAINEES

9. In his Memorandum to the Committee and in evidence Mr Sharp referred to the emphasis now placed on training civil servants to professional qualification. Annex F gives brief details of the various training schemes now in operation in various parts of the service and Annex G gives the estimated number of trainees by Institute and by Department as at 1 February 1981. Of the 580 trainees about 340 are likely to enter the departmental classes, including E&AD 210 and District Audit 99. The remaining 240 are potential members of the GAS.

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Secondments

10. Since 1975 a number of secondments have been arranged both of accountants from the private sector into Government departments and of civil service accountants to the private sector. Most but not all of these arrangements have been made with professional accountancy firms. Full statistics are not readily available but the figures given below, by types of secondment, are indicative of the extent of secondment during the period covered.

(1) Senior level inwards, where particular private sector experience is needed, eg HM Treasury, DOI—IDU. The figures given indicate the number of individual secondments. In most cases these are successive arrangements at (say) two-year intervals in the same areas. 40

(2) Main grades inwards to cope with short-term overloads of work or to cover for civil service accountants loaned within the service for other professional work. 6

(3) Main grades exchanges to enable accountants trained within the service to gain professional office experience and private sector accountants to gain Whitehall experience. 5

(4) Trainee grades outwards for training under the Chartered Accountant Bursary Scheme. 20

PAY

11. In his evidence to the Sub-Committee Mr Sharp referred to independent evidence which suggested that, with the possible exception of newly qualified accountants in London, Civil Service salaries for accountants are not markedly out of line with those generally on offer in the private sector. The evidence referred to is the Survey of Salaries in Accountancy and Banking published twice-yearly by Accountancy Personnel.

12. It must be emphasised that the tables set out below are in no sense a scientific comparison of pay on PRU lines. The rates given are simple salary levels, with no adjustment for superannuation, conditions of service or fringe benefits. For the purposes of comparison it has been assumed that civil service grades are comparable with private sector salaries related to loosely defined status and years of qualification. Moreover, the private sector figures report the experience of a single recruitment agency and are conditioned by the appointments with which the agency was concerned during the period under review. The information is therefore at best indicative, and not in any way conclusive evidence.

13. Civil Service salaries given below are those in operation for 1980–81, including Inner London Weighting £1,016 where appropriate. Private Sector salaries have been extracted from the Accountancy Personnel Survey of Salaries in Accountancy and Banking for Spring 1981. The detailed tables from which the Private Sector salaries have been extracted are given in full in Annex H.

	CIVIL SERVICE	PRIVATE SECTOR
	Accountants (from age 25; age decrements below that point)	*Newly Qualified Chartered Accountants* (Table 4a)
Inner London	£7,966–£9,571	£8,500–£10,000
Outside London	£6,950–£8,555	£6,250–£9,500
	Senior Accountants (from age 27)	*Supervisory Seniors Audit Managers/Qualified Accountants* (at least 2 years qualified) (Tables 5 and 11)
Inner London	£9,616–£11,516	£8,800–£15,000
Outside London	£8,600–£10,500	£7,000–£10,500
	Chief Accountants	*Chief Accountants/Finance Directors* (Tables 12 and 13)
Inner London	£11,616–£15,016	£9,000–£15,000
Outside London	£10,600–£14,000	£6,800–£16,000

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ANNEX A

THE USE OF PROFESSIONAL ACCOUNTANTS IN GOVERNMENT SERVICE: DETAILED STATISTICS

Number of Accountants Employed in the Service

	31/3/81		*1975*
Professional Accountant Class	384	Recruited as qualified accountants, and mainly employed in Government's dealings with industry and commerce, eg procurement, assistance to industry.	360
Administration Group	278	Mainly trained within the service and employed in line accounting posts in Trading Funds and other quasi-commercial activities.	180
Sub Total	662	The Government Accountancy Service.	540
Exchequer and Audit	43	Out of an audit staff of 580, of whom 342 are Civil Service qualified, E&AD now trains all its recuits to professional qualification.	4
District Audit Service Department	156	Out of an audit staff of about 533, of whom 104 are Civil Service qualified. DAS now trains all its recruits to professional qualification.	124
Dept of Trade Insolvency Service	54	Out of a professional staff of about 350. Accountancy training, but not full qualification, is a substantial part of the training for this group.	62
Inland Revenue Tax Inspectorate	140	Professional training in accountancy is not essential but is one means of entry to the Tax Inspectorate.	101
Sub Total	393		291
Total	1,055		831

Note:
An accountant is a member in good standing of one of the six UK accountancy institutes, whose members are eligible for entry to the PA Class, viz:
The Institute of Chartered Accountants in England and Wales.
The Institute of Chartered Accountants of Scotland.
The Institute of Chartered Accountants in Ireland.
The Association of Certified Accountants.
The Insititute of Cost and Management Accountants.
The Chartered Institute of Public Finance and Accountancy.
These institutes act in association, through the Consultative Committee of Accountancy Bodies, in making representations to Government.

The GAS regards each of these institutes as having a contribution to make to Government Service.

Source:
1981 GAS Quarterly stats based on PRISM/GAS Stats extracted from Departmental returns.
1975 Extract from brief prepared by CSD for Head of the Government Accountancy Service 1975.

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ANNEX B

GAS STATISTICS:

Breakdown of the professional accountant class by department and grade as at 31 March 1981 with comparative totals for 1975

Department	*Open Structure*	*Prin Dir*	*Dir*	*Ass Dir*	*Chief Acct*	*Sen Acct*	*Acct*	*1981 Total*	*1975 Total*	*Notes*
Agriculture, Fisheries and Food and IBAP				1	3	12	1	17	9	
Central Office of Information						1		1		
Civil Service Dept (inc College)					5	1		6	5	i
Defence		1	3	11	33	99	9	156	197	
Education and Science			1		3			4	5	
Employment (+MSC)			1	1		3		5		
Energy				1				1		ii
Environment/PSA			2	1	4	6		13	11	iii
ECGD					1			1	1	
Health and Social Security			1	1	1	4		7	3	viii
Home Office					1			1	1	
Industry	2		3	5	23	49	1	83	85	ii, vii
Inland Revenue			1	2	15	18		36	28	
Land Registry					1		1	2	1	
Monopolies and Mergers Commission			1	1	4	3		9		iv
OFT				1		1		2		
Ordnance Survey				1		1	3	5	1	
Scottish Office					5	10		15	2	v
Stationery Office			1		5	8	3	17	10	
Trade			1		1			2		ii
Treasury						1		1	1	vi
Total 1981	2	1	15	26	105	217	18	384	—	
Total 1975		2	7	21	95	222	13	—	360	

Notes to 1981 Figures:
(i) Includes PA Class members of AFA Division now transferred to HM Treasury.
(ii) Accountancy Services Division provides common services for the Departments of Industry, Trade and Energy.
(iii) Not included in these statistics is an accountant on secondment to the Department of Transport at AS level from private practice.
(iv) Apart from established civil servants there are also two Chief Accountants locally employed by MMC.
(v) On 1 July 1975 Accountancy Services Division, Glasgow formerly Department of Industry transferred to the Scottish Office (three Chief Accountants and ten Senior Accountants).
(vi) Not included in these figures are two accountants (at Chief Accountant and Senior Accountant levels) on secondment to the Treasury from professional accountancy firms.
(vii) Not included in these figures are ten accountants at Deputy Director (3) and Chief Accountant (7) levels on loan to the Industrial Development Unit from the private sector.
(viii) Does not include vacancies at Chief Accountant (1) and Senior Accountant (1).

Source:
1981—GAS Quarterly Stats based on PRISM and amended as at 31.3.81.
1975—Extracted from brief prepared by CSD for Head of Government Accountancy Service 1975.

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ANNEX C

GAS STATISTICS:

Breakdown of qualified accountants in the administration group by department and grade as at 31 March 1981 with comparative totals for 1975

	Open Structure	*Asst Sec*	*Sen Prin*	*Prin*	*SEO*	*HEO*	*EO*	*CO*	*1981 Total*	*1975 Total*	*Note (1)*
Agriculture, Fisheries and Food and IBAP							1		1	3	
Central Office of Information					1				1		
Civil Service Department		1	3	7	2	1			14	12	1
Customs and Excise	1			1	1				3	6	
Defence		6	14	24	36	84	29		193	122	86
Education and Science										1	
Employment and MSC		2		2	2	6			12	1	7
Energy										1	
Environment/PSA		1	1	3	1	1			7	4	
FCO/ODA				2					2		
Health and Social Security			2	1	1	3		1	8	11	3
Industry (Trade and MMC)	1			5	1				7	9	
Inland Revenue		1			1		1		3		
Office of Fair Trading	1			1					2		
Ordnance Survey					1				1		
Registry of Friendly Societies				1					1(2)	2	
Royal Mint			1	1	1	2			5	2	1
Scottish Office		1	1	2	1	1			6	2	
National Savings, Dept of				1	1				2		
HMSO				1		1			2		
Treasury	1	1	2	2					6	4	1
Welsh Office				2					2		
Total 1981	4	13	24	56	50	99	31	1	278	—	99
Total 1975	3	10	19	51	35	46	16		—	180	—

Notes:
(1) The 1981 totals include the number of officers indicated who have passed professional examinations but who have not taken up membership—see paragraph 4.
(2) Does not include an accountant at Asst Sec level seconded from the private sector.

Source:
1981 figures—GAS statistics based on Departmental enquiries.
1975 figures—From CSD brief for HOTGAS in 1975.

[Continued]

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ANNEX D

GAS STATISTICS:

Total numbers of accountants by department, class and function as at 31 March 1981

	Government Accountancy Service			*Financial Management*				
	PAC	*Admin Group*	*Total*	*Accountancy Services*	*Line Accounting*	*Internal Audit*	*Other*	*Comments*
MAFF	17	1	18	6		10	2	i
COI	1	1	2			1	1	
Civil Service Department	6	14	20		11	3	6	ii
Customs and Excise		3	3				3	
Defence	156	193	349	138	166	24	21	
Education and Science	4		4	4				
Employment and MSC	5	12	17	4	12		1	
Energy	1		1				1	
Environment/PSA	13	7	20	7	6	3	4	iii
ECGD	1		1		1			
FCO/ODA		2	2			2		iv
DHSS	7	8	15	7		7	1	
Home Office	1		1		1			
Industry, Trade and MMC	94	7	101	88		1	12	v
Inland Revenue	36	3	39	36			3	
Land Registry	2		2		2			
Office of Fair Trading	2	2	4	2			2	
Ordnance Survey	5	1	6		6			
Registry of Friendly Societies		1	1	1				
Royal Mint		5	5		5			
Scottish Office	15	6	21	18			3	
National Savings, Dept of		2	2		1	1		
Stationery Office	17	2	19		18		1	
Treasury	1	6	7				7	vi
Welsh Office		2	2			1	1	
Totals	384	278	662	311	229	53	69	

Notes:
(i) The 17 accountants in the Professional Accountant Class are all members of Audit and Costings Division carrying out the functions as indicated.
(ii) Six of the qualified accountants listed are employed on lecturing duties at the Civil Service College. Accountancy Finance and Audit Division including 13 accountants and other staff provides a consultancy service on management accounting and audit to all Departments. This function has since been transferred to the Treasury.
(iii) There are ten members of the Professional Accountants Unit including three accountants carrying out the Property Services Agency Internal Audit function. The six accountants in the line accounting function are dealing with the PSA Supplies Division Trading Fund.
(iv) The Chief Auditors in FCO and ODA are both qualified accountants at Principal level.
(v) Accountancy Services Division provides management accounting advice where needed.
(vi) Included in the seven are two accountants who are part of a branch providing general financial and accounting advice on commercial and public sector accounting questions.

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ANNEX E

GAS STATISTICS:

Total number of accountants by department, by institute as at 31 March 1981

	Total No of Accs	*ICA(EW)*	*ICA(S)*	*ICA(I)*	*ACCA*	*ICMA*	*CIPFA*
MAFF	18	10			3	5	
Central Office of Information	2				2		
Civil Service Department	20	3			2	12	3
Customs and Excise	3	3					
Defence	349	76	12		30	231	
Education and Science	4	2				1	1
Employment and MSC	17	2			5	10	
Energy	1	1					
Environment/PSA	20	6			5	6	3
ECGD	1				1		
FCO/ODA	2	1					1
Health and Social Security	15	3	1		6	3	2
Home Office	1					1	
Industry and MMC	101	70	2	1	16	12	
Inland Revenue	39	29	1		9		
Land Registry	2					1	1
Office of Fair Trading	4	1	1		2		
Ordnance Survey	6	1				5	
Registry of Friendly Societies	1	1					
Royal Mint	5					5	
Stationery Office	19	6			5	8	
Scottish Office	21	3	10		7	1	
National Savings, Dept of	2					1	1
Treasury	7	3			3	1	
Welsh Office	2	1			1		
Total	662	222	27	1	97	303	12

Notes:
(1) There are 25 accountants with more than one qualification. In most cases these include an ICMA qualification but for the purposes of this exercise they have been listed only under their other qualification.
(2) ICMA figures include those officers indicated in Annex B who have passed professional examinations but who have not taken membership.

[*Continued*

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25 *June* 1981] [*Continued*

ANNEX F

SCHEMES FOR TRAINING CIVIL SERVANTS TO PROFESSIONAL QUALIFICATION

Department	*Qualification*
1. All Departments —Bursary Scheme	ICAEW & ICA(S) (Chartered)
2. MOD —with places available service wide in Bursary Scheme	ICMA (Cost and Management)
3. DHSS —for NHS Audit Service	mainly ACA (Certified)
4. MAFF	ACA (Certified)
5. Scottish Office	ACA (Certified)
6. Industry	ACA (Certified)
7. DOE —for District Audit Service	CIPFA and some ACA (Public Finance and Certified)
8. Exchequer and Audit	CIPFA (Public Finance)

Notes:

1. Other departments, notably Defence and PSA, are in process of setting up schemes for the Certified qualification.
2. All schemes offer special paid study leave, including block release or day release, paid for examinations and reimbursement of fees and cost of books (or supply on loan).
3. In the departmental schemes, Nos 7, and 8 qualification is rewarded with promotion to HEO equivalent. There are not at present any comparable formal arrangements for automatic promotion to HEO under schemes 1 to 6 for members of the Administration Group. But various arrangements exist whereby promotion to HEO level for accountancy posts can be achieved soon after qualification, particularly by transfer to the Accountant grade in the PA Class and in MOD's specialist temporary promotion scheme for accountants.
4. The Department of Trade Insolvency Service does not train to full professional qualification. But HEO equivalent is achieved after passing the second Departmental Test for which entry qualification from June 1982 is success in level 1 and 4 papers of level 2 examinations of the Association of Certified Accountants.

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ANNEX G

STATISTICS OF CIVIL SERVANTS TRAINING TO PROFESSIONAL QUALIFICATION, ESTIMATED AT 1 FEBRUARY 1981

1. *By Institute*

Institute	*Bursary Schemes*	*Departmental Schemes*	*Other*	*Total*
Chartered	10			10
Certified		117	63	180
ICMA	42	79 (MOD)	22	143
CIPFA		228	19	247
Total	52	424	104	580

2. *By Department*

	Chartered	*Certified*	*ICMA*	*CIPFA*	*Total*
MOD			79		79
E&AD		12	5	193	210
DAS		61		38	99
DHSS		34	14	4	52
C&E		30	2	6	38
IR		14			14
Scottish Office		17		1	18
Other	10	12	43	5	70
	10	180	143	247	580

Notes:
1. These figures are total numbers under training estimated at 1 February 1981. The normal period for training to full qualification is three to four years.
2. The Department of Trade Insolvency Service has 190 staff, not included above, studying for Foundation or Professional 1 Stages of the Certified Qualification. However, less than 10 per cent of Insolvency Service students normally progress to full qualification.

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ANNEX H

PAY: TABLES PUBLISHED BY ACCOUNTANCY PERSONNEL, SPRING 1981

TABLE 4(a)

Chartered Accountants—Newly Qualified and Leaving the Profession to go into Industry (Spring 1981)

After Training Contract served with:	*Small Firm (usual age 22–24)*	*Medium Firm (usual age 23–25)*	*Large Firm (usual age 24–26) + Degree*
	£	£	£
London	8,500–9,500	8,500–9,500	9,000–10,000
Birmingham	6,400–7,250	6,400–7,500	7,200– 8,200
Cardiff	6,250–7,250	6,500–7,500	7,000– 8,000
Croydon	7,500–8,000	8,250–8,750	8,500– 9,500
Guildford	7,000–8,000	7,500–8,500	7,500– 9,000
Leeds	7,000–7,750	7,500–8,000	7,750– 8,250
Leicester	6,850–7,500	7,250–8,000	7,500– 8,500
Manchester	7,400–7,600	7,500–7,800	7,500– 8,000
Nottingham	6,600–7,300	7,000–7,750	7,500– 8,500
Sheffield	7,000–7,500	7,000–7,800	7,250– 8,000
Slough	6,750–7,250	7,000–8,000	7,500– 8,500
Southampton	7,000–8,000	7,500–8,000	8,000– 8,750
Wolverhampton	6,250–7,000	6,250–7,250	6,800– 8,000

TABLE 5

Chartered Accountants in Public Practice—Supervisory Seniors and Audit Managers

Number of years' experience post-qualification or year of qualification	*2 Years Nov. 1978 and May 1979*	*3 Years Nov. 1977 May 1978*	*Prior to 1977 (According to responsibilities)*
	£	£	£
London	8,800–9,500	9,200–10,500	10,000+
Birmingham	7,400–8,700	7,600– 9,400	8,500+
Cardiff	7,500+	8,000+	9,000+
Croydon	7,000–8,000	7,750– 8,500	9,000+
Guildford	8,500–9,500	9,000+	10,000+
Leeds	7,800–8,800	8,000– 9,250	9,000+
Leicester	7,500–8,500	8,000– 9,200	8,500+
Manchester	7,500–8,500	8,000– 9,000	8,500+
Nottingham	7,200–8,500	7,800– 9,000	8,500+
Sheffield	7,500–8,000	7,500– 8,250	8,500+
Slough	8,000+	8,500+	8,500+
Southampton	8,000–9,000	8,000– 9,000	9,000+
Wolverhampton	7,000–8,250	7,250– 9,000	8,000+

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TABLE 11

Qualified Accountants (ACA, ACCA & ACMA) in Industry and Commerce

Year of Qualification	*1980–81* £	*1979* £	*1978* £	*1977* £	*1976* £	*1975* £
London	9,000–10,000	9,000–10,500	9,500–10,500	10,000+	10,000–15,000	10,000–15,000
Birmingham	6,400– 7,700	6,700– 7,900	6,800– 8,200	7,000–8,500	7,500– 8,500	8,000+
Cardiff	7,000– 8,000	7,250– 9,000	7,500– 9,500	8,000+	9,000+	9,000+
Croydon	7,500– 8,250	7,750– 8,750	8,000– 9,250	8,500–9,750	9,000–10,500	10,000+
Guildford	7,000– 7,500	7,250– 8,500	8,500+	9,000+	9,000+	10,000+
Leeds	7,250– 8,250	7,750– 8,750	8,500+	9,000+	9,500+	9,800+
Leicester	6,750– 7,750	7,000– 8,250	7,300– 8,750	7,750–9,000	8,350+	8,750+
Manchester	7,500– 8,000	7,800– 8,200	8,000+	8,750+	9,000+	9,500+
Nottingham	6,800– 7,800	6,950– 7,950	7,200– 8,400	7,800–8,800	8,000–9,000	8,500+
Sheffield	7,250– 8,000	7,500– 8,500	8,500+	8,500+	9,000+	9,000+
Slough	7,500– 8,000	8,000– 8,500	8,500+	8,500+	9,500+	9,500+
Southampton	7,000– 8,500	7,500– 9,000	8,000+	9,000+	9,000+	10,000+
Wolverhampton	6,600– 7,600	6,700– 7,800	6,700– 8,100	7,000–8,000	7,500– 8,500	8,200+

TABLE 12

Chief Accountants

Size of Company:	*Under 100 Employees* £	*100–500 Employees* £	*Over 500 Employees* £
London	9,000–11,000	9,500–12,000	12,000+
Birmingham	6,850– 8,750	7,750–10,500	10,500+
Cardiff	7,250– 8,500	8,000–10,000	9,000+
Croydon	8,500–10,000	10,000–13,000	12,000+
Guildford	9,000–10,500	9,500–11,000	10,000+
Leeds	9,000+	10,500+	11,000+
Leicester	7,750– 9,250	8,500–11,000	10,000+
Manchester	9,000+	9,500+	10,000+
Nottingham	7,500– 9,000	9,000–10,500	10,000+
Sheffield	9,000+	10,000+	10,000+
Slough	8,500+	9,500+	10,000+
Southampton	8,500+	9,500+	10,000+
Wolverhampton	6,800+	7,650+	9,000+

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TABLE 13

Finance Directors

Size of Company	*Under 100 Employees* £	*100–500 Employees* £	*Over 500 Employees* £
London	9,500–12,000	11,000–15,000	14,000+
Birmingham	9,500–11,000	10,000–12,500	13,500+
Cardiff	9,500+	11,000+	12,000+
Croydon	10,000–14,000	12,000–16,000	15,000+
Guildford	12,000+	12,000+	12,500+
Leeds	10,000+	11,000+	12,000+
Leicester	8,500–11,000	10,000–13,500	13,500+
Manchester	10,000+	12,000+	13,000+
Nottingham	9,000–10,500	10,000–13,000	12,500+
Sheffield	10,000+	10,000+	12,500+
Slough	9,000+	10,000+	12,500+
Southampton	9,000+	10,000+	12,500+
Wolverhampton	9,000+	10,000+	12,500+

Extracted from "Survey of Salaries in Accountancy and Banking, Spring 1981" published by Accountancy Personnel, 63–65 Moorgate, London EC2R 6BH.

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WEDNESDAY 8 JULY 1981

Members present:
Dr Jeremy Bray, in the Chair

Mr Timothy Eggar
Mr Michael English
Mr Richard Shepherd
Mr Richard Wainwright

Memorandum Submitted by the Civil Service Department

SUCCESSION PLANNING

Letter to the Clerk of the Committee

Paragraphs 31–33 of the White Paper on the Future of the CSD (Cmnd 8170) said that proposals for building on and improving the present systems of succession planning and career development were being developed. In a written answer to a recent Parliamentary Question put down by Mr Tim Eggar, the Minister of State said that a further announcement on the proposals would be made as soon as possible.

I enclose 25 copies of a paper which describes the progress that has been made, for circulation to members of the Committee.

R D J Wright
Central Division

12 *June* 1981

SUCCESSION PLANNING AND CAREER PLANS

1. The Government indicated, in paragraphs 31–33 of its Observations on the First Report from the Committee ("The Future of the Civil Service Department", Cmnd 8170), that thought was being given to the way in which the Civil Service had hitherto identified and prepared, by formal training and otherwise, those who were to hold senior positions a decade or so later. It said that proposals were being developed for building on the present systems for defining the requirements of key posts, for identifying in advance suitably qualified successors to the existing holders, and for ensuring that key staff acquired the experience that would fit them to fill such posts, with attention being particularly focussed on posts with major responsibilities for management and control of resources. The proposals would make it possible to put on a more formal footing existing practice of specialisation in administrative work, and to ensure that those likely to occupy the highest ranks in the Service had direct experience of the management of both people and money; the approach would be adopted in other appropriate areas of the Service, for the Government regarded it as important that the staffing of finance branches, for example, should have full regard to experience, in-Service training and external qualifications. This note sets out, for the information of the Committee, certain changes which are being introduced.

2. The Government's starting point was recognition that, despite the reforms of the past decade, there remained room for improvement in the forward planning for the filling of senior posts in the Civil Service. Considerable effort is already put into succession planning, but until now there has not everywhere been formal machinery to remind senior officers of every post for which forward planning would be necessary. Action sometimes began too late, and the scope for preparing for the succession was sometimes too limited. Moreover, in the past management skills have not always been properly valued or sufficiently developed. There has in recent years been some progress—for example, work in the Establishments field is now looked upon as an important area of experience for rising officers; Principal Establishment Officer posts in major departments are now more often held by younger officers likely to rise to the top of the Service; and a number of Permanent

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Secretaries have been Principal Establishment Officers. The Government intends to ensure that policies along these lines are more effectively applied, and in particular that everything possible is done to ensure that, when vacancies in key posts occur, suitably qualified officers are available to fill them. The main objectives of the new procedures are: to identify potential successors to important posts early enough to allow them to be given an appropriate blend of training and experience; to reduce the frequency of moves of administrative staff; to enable those whom the Civil Service refers to as "generalists" increasingly to specialise in particular areas of work; and to provide those likely to occupy the highest ranks in the Service with direct experience of the management both of people and of money.

3. There has for some time been regular annual discussion between the Civil Service Department and other departments about senior posts and those likely to fill them in the future, and there is a considerable degree of central involvement when promotions to senior grades are actually made. The Government has decided to go further, and to arrange for the production each year of a succession plan for every post in the Open Structure (Under Secretary and above) and for all posts at Assistant Secretary level for which careful succession planning is required. Each succession plan, which will have attached to it a job profile, will indicate officers who could succeed if the post were unexpectedly vacated at short notice; who would be suitable to succeed in the normal course of events; and who should be in the field for the next but one succession. These succession plans will of course be subject to change, and flexibility will be essential. However, the succession plans will identify possible shortages, and highlight the need to develop the careers of the individuals mentioned in them in the particular ways appropriate for the senior posts in question. Departments will therefore also prepare individual career plans for all officers named in succession plans (save those aged 55 or over). When this system is in full operation, it should ensure a supply within the Service of people with suitable backgrounds for most, if not all, senior posts. No doubt events will frustrate a certain amount of the detailed succession and career planning, but shortages and problems will be identified sooner, and there will be more time to sort them out.

4. The new procedures also call for the identification early in their careers of officers likely to rise to the highest levels in the Service and the preparation of suitable career plans to ensure that they have a sufficiently broad range of experience, including, as mentioned earlier, the direct management of people and money.

5. The new procedures will not reduce the amount of central involvement in the filling of senior posts. Departments will be required to send to the Civil Service Department each year succession plans for the most senior posts and other key posts, together with the related individual career plans. The role of the Civil Service Department will be to ensure reasonable consistency of approach throughout the Service and to satisfy itself that suitable preparations are being made for the filling of key posts or those for which it is difficult to find a suitable candidate and that the Service as a whole has a pool of suitable size from which the top managers of the future can be drawn. It will as appropriate arrange secondment for officers needing experience outside their present department, and look out for new needs for training or specialised experience.

6. The Government is satisfied that the benefits from these changes though unquantifiable, will fully justify the extra work that is to be done. The introduction of the new system is now beginning; it will be fully operational by 1983.

12 *June* 1981

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Examinations of Witnesses

Sir IAN BANCROFT, GCB, Head of the Home Civil Service and Permanent Secretary to the Civil Service Department and Mr R W L WILDING, CB, Deputy Secretary, Civil Service Department, called in and examined.

Chairman

288. Good afternoon. Thank you for coming along to help us in our inquiry into effectiveness and efficiency in Government and also for having brought out the White Papers on Efficiency in the Civil Service[1] and the memoranda on departmental responsibilities[2] which followed the day after. We have also all read with interest your RIPA lecture in which you discuss the subject of our inquiry. Much of the preoccupation of Government with the Civil Service seems to be concerned with numbers games. Do you think there is some danger in that being seen to be the one measure by which effectiveness and efficiency of Government is judged?

(*Sir Ian Bancroft*) I do not think so. What we are trying to do is to advance on two fronts and that is to apply a manpower squeeze, which in itself creates the right climate for an approach to greater efficiency. Within that climate, and helped by the manpower squeeze, we are trying to select specific targets where we think there is scope for greater efficiency. Then by a whole variety of means, whether it is reviews of Rayner scrutinies or whatever, going for quite specific areas helped by the general squeeze on manpower.

289. Is the problem put in the best perspective by the memoranda on departmental responsibilities where in the statement of responsibilities there is no mention of effectiveness or efficiency or the methods of review of these being a part of the responsibility either of the Treasury or of the Civil Service Department?

(*Sir Ian Bancroft*) If that is a comment on where does responsibility for effectiveness and efficiency lie in the Civil Service, my short answer would be that primarily it lies with the line manager in the spending department. He, in turn, has to deal directly or indirectly with his specialists near the top of his department—his Principal Finance Officer, his Principal Establishment Officer—who between them fix financial and manpower and staff-related allocations for him. Then there is obviously the Permanent Secretary and his top management group in that department.

290. But if that is so for the line management responsibility for effectiveness and efficiency within the department, surely that is also true of the line management responsibility for manpower? Yet the statement of departmental responsibilities says, "The CSD performs a similar function"—that is to say similar to the Treasury's on finance—"in respect of Civil Service manpower". There is no mention of efficiency.

(*Sir Ian Bancroft*) We would subsume the question of efficiency in shorthand in that particular paper under the heading of manpower. I agree that it is crude. I agree that it is shorthand but I was going on to say that in addition to the intra-departmental people who are concerned with effectiveness and efficiency, the two central departments—the Treasury and the Civil Service Department—are also concerned in the sense that not only do the Treasury lay down financial allocations for a department, and the Civil Service Department manpower allocations for the department, but they also try and help the management of that department to monitor the effectiveness of its output. That is particularly, putting it quite crudely, the responsibility of the Treasury. The CSD seeks to help in monitoring the inputs. In very many cases that is primarily the manpower.*

291. The CSD is said to be responsible for central policies related to the pay and management of the Civil Service, and for computer policy—both, no doubt, important questions but neither of them really bearing quite the interpretation of overall interest in effectiveness or efficiency. Can you explain the origins of this memorandum? It was produced by the Treasury. Why by the Treasury? Are they responsible for the

[1] Cmnd 8293.

[2] "Control of Expenditure: Departmental Responsibilities" HM Treasury/CSD, 28 May 1981; "Responsibilities of the Principal Establishment Officer" CSD, 17 June 1981; "Responsibilities of a Principal Finance Officer" HM Treasury, June 1981.

**Note by witness:* Paragraphs 11(iv) and 12 of the memorandum refer explicitly to responsibilities of the central departments in relation to efficiency.

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allocation of departmental responsibilities? It was the Prime Minister.

(*Sir Ian Bancroft*) It was produced jointly by the Treasury and the Civil Service Department.

Chairman: There is no mention of that actually in the press release. Furthermore inquiries directed to the CSD related only to the Principal Establishment Officer.

Mr English: I am sorry Mr Chairman. Inquiries were directed to the press office of HM Treasury.

Chairman

292. All other matters were directed to the Treasury but only the Establishment Officer questions to the Civil Service Department.

(*Sir Ian Bancroft*) Simply on logistical grounds. It is very difficult to take a reasonably seamless robe, like that memorandum on the relations between the centre and departments, and slice it down the middle and say that questions can be directed indifferently to the Treasury and the Civil Service Department press offices.

293. Taking it more broadly: if this is not symptomatic, what positive evidence is there that the Civil Service Department does have, not a functional but a staff responsibility for methods or efficiency and effectiveness reviews in general?

(*Sir Ian Bancroft*) I should have hoped the White Paper and the very organisation of the department in which we have in Mr Wilding's group the Management and Organisation people, the Manpower people, the Functions and Programmes people, all of whom deal with efficiency, as well as the Computer Agency.

Mr English

294. Why do we not simply pay more efficient people more money?

(*Sir Ian Bancroft*) Performance related pay?

295. Yes.

(*Sir Ian Bancroft*) That is something which has been considered from time to time in the past but has not as yet been adopted.

296. Let me give you an example of which I am sure that you are aware. In the United States if you are in some low grade your pay scale may extend over 40 years. If you are a high grade it may only extend over five or indeed not have an extension at all. But, according to your efficiency you can be advanced, or indeed on rare occasions retarded, in that grade. If you wanted to make the Civil Service more efficient what better method could you suggest than paying people more if they were regarded as more efficient?

(*Sir Ian Bancroft*) One answer has always been—and I to some extent agree with it—that motivation, the incentive is not for very many civil servants getting extra pay as compared with their peers. It happens of course. It happens in a very narrow series of fields like scientists where you have merit promotion and so on. There is also the whole question of the advancement of people through the grades. In other words, the very simple motivator of promotion or lack of it.

Chairman

297. The White Paper, Efficiency in the Civil Service, contains no mention of effectiveness anywhere in it. Even on efficiency it concentrates overwhelmingly on manpower questions. You said that in general terms the Civil Service Department is concerned with questions of effectiveness but why has it not produced anything to fill the gap left by the demise of PAR?

(*Sir Ian Bancroft*) To some extent the system of Rayner scrutinies, plus the lasting reforms, will indeed help to fill the gap left by PAR, if gap there was. By the time that PAR actually died the death it had not been fulfilling a terribly useful function, to be quite frank. I think that if one looks at some of the Rayner scrutinies, for example, and also at the review of the statistical service, one will find there a combination of the two things, effectiveness and efficiency, coming together very strongly indeed.

(*Mr Wilding*) That is certainly true. Another example of a Rayner scrutiny which covered both was the review of the payments of benefits to the unemployed and the paper which was published on that in March. This showed that when one comes to look at large executive operations, one very frequently gets through into the question, not just, are they being conducted as efficiently as possible, but is what they are producing at the end of the day worth having for the cost. The question of the compulsory registration of the unemployed at the Job Centre in order to get unemployment benefit was an example of that kind. It does not follow, at any rate from the

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demise of PAR as a centralised system for stimulating policy review, that a great deal of policy review is not going on. Many of the things which have been done since the Government came into office, in terms whether of deciding to drop functions or of deciding to discharge major functions in a different way, have been of a kind which might well have been considered by the PAR programme in earlier days.

Mr English

298. Except in the Inland Revenue where, out of their tens of thousands of people, they do not have one single person devoted to research into the impact of taxation or how it can be changed to make it more efficient.

(*Sir Ian Bancroft*) They would say that they work in very close cahoots with the Treasury. They would agree that they do not have a central unit devoted solely to research into the impact of taxation. What they would say is that they have this close liaison with the Treasury. They have their management division, but most of all they have their policy divisions, each of which have some responsibility for doing this sort of research as well as commissioning outhouse research.

299. You are actually saying the same thing. They did not say they did not have a central unit; they said they did not have a single person devoted to that job.

(*Sir Ian Bancroft*) Yes.

Chairman

300. Is the implication of the reply that you gave about Sir Derek Rayner, that that is to be regarded as the main instrument of the Government in reviewing effectiveness in terms of any centrally organised activity?

(*Sir Ian Bancroft*) No, not at all. The Treasury do this on their spending departments' side continuously. We do it continuously too, mainly on the input side. We do it partly by these trans-departmental cost cutting exercises which are not aimed solely at manpower but they do quite often have a manpower spinoff; rather boring subjects like messengers, typists, transport and so on. We also have reviews with individual departments, whether it is the rather more formal management review or a less formal review with the department as well as the trans-departmental reviews which are designed to look at efficiency, and, to the extent that efficiency and effectiveness are interlocked, even though one may come at them from different directions, at effectiveness too.

301. Who is actually responsible for defining policy objectives in a way in which effectiveness can be assessed? Is it just the departmental Minister and his Permanent Secretary?

(*Sir Ian Bancroft*) I do not think myself, with great respect, that one can have a universal policy objective for the whole of the Civil Service, or for the whole of Government.

302. That was not the suggestion. I said, "who are responsible for defining".

(*Sir Ian Bancroft*) The persons responsible for defining it are the Ministers and the Permanent Secretaries of each department, all of which are very different in kind, very different in size, very different in function.

Mr English

303. Not the Government as a whole? We have this principle of collective responsibility of Ministers—which I have always doubted in reality. We are told that policy objectives of the Government in the non-unitary sense, are determined by individual departmental heads and Permanent Secretaries. Is that right?

(*Sir Ian Bancroft*) Let me reply in two ways: one is that the general objectives of a Government of the day are defined in the election manifesto. But when I said that individual departmental Ministers and Permanent Secretaries define their objectives, if those objectives, as they almost invariably do, impinge on the activities of the central departments and other departments, then they are endorsed collectively.

Mr English: Forgive me saying so but the Head of the Civil Service sounds as if he was a supporter of some of the extreme left wing of the Labour Party.

Chairman

304. I do not think that is relevant to our present inquiry.

(*Sir Ian Bancroft*) Nor was it my intention.

305. I am clear from your reply that the definition of policy objectives is the responsibility of the departmental Minister and his Permanent Secretary. But if you define them in such a way that the effectiveness can be measured, in such a way

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that you can assess progress towards the achievement of the objectives, is there no kind of central role there which goes beyond the kind of financial audit that the Exchequer and Audit Department and the Comptroller and Auditor General carry out?

(*Sir Ian Bancroft*) Yes, there is. In some areas of policy-mongering it is really very difficult indeed to measure performance. In other areas, normally of a fairly repetitive kind, whether one is talking about the performance in an unemployment benefit office or in a social security office one can in fact measure performance and it is done. One can in fact compare, for example in a local office department, the performance of one local office against another. That is why, in terms of local authorities, it is much easier to do a comparison which results in some form of performance indicators being established because you have a number of authorities performing broadly speaking the same functions.

Mr English

306. In terms of . . .?

(*Sir Ian Bancroft*) In terms of efficient performance.

307. No, did you say local authorities?

(*Sir Ian Bancroft*) Yes.

308. In the technical sense?

(*Sir Ian Bancroft*) Local government, yes, local authorities.

309. Are you saying that it is easier to compare them than to compare the local offices of central Government?

(*Sir Ian Bancroft*) No. I said that one of the reasons why it is fairly easy to compare local offices in, say, the DHSS one with another is that broadly speaking they are performing the same function in the same way that one can compare the performance of local authorities, broadly speaking, in their different manifestations because they too are doing broadly the same function.

Chairman

310. If it is the responsibility of the Civil Service Department to make sure that the general methods are properly carried out inside departments, then, given the point you make about the diversity of different departments, would you not expect that a part of the central role would be to see that there was effective transfer of lessons learnt and methods found to be effective in different departments from one to another?

(*Sir Ian Bancroft*) This is precisely the function of one of the divisions in our Function and Programmes group. It has to pick up and grab the lessons learned from individual reviews, whether they be CSD inspired reviews, whether they be reviews inspired by the department itself with which we have been associated, or whether they be Rayner scrutinies, and anthologise those and read them across as many departments as possible.

(*Mr Wilding*) You were asking how far there was a central role in pursuing and promoting the search for measures of the effectiveness of policies. There is indeed a central role there. When it comes to the effectiveness of expenditure policies as a whole the lead in that role lies with the Treasury and the Committee may want to ask them more about this and we keep abreast of what they are doing. They have indeed done quite a lot of work in trying to pull experience together and to disseminate it across departments. The things that have been done in a number of the spending departments—Transport, Health, Agriculture—are examples of advances that they are making in ways of trying to measure their final outputs, and to find measures for the effectiveness of their policies.

311. Could you be more specific about the departments that you have mentioned? What have they transferred?

(*Mr Wilding*) Certainly. There is a fair amount of published material on this. In the Department of Health, for example, papers have been published and indeed have been published by the Select Committee on Social Services, about the measures that are used in such matters as the care of the elderly, and the effectiveness of the use of resources in hospitals. The Department of Transport published last year their White Paper on the policy for roads. This contained a lot of material on how far you can and how far you cannot determine the extent to which you can reduce accidents, you can reduce journey times and so on, by building a mile of motorway. There is a good deal of this material and what I was saying was that there is work in the centre in trying to pull them together and disseminate their lessons.

312. What form does that dissemination take? One form which it could take would be for staff who have been particularly concerned and successful with a type of review in one department to be brought into

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the Civil Service Department to propagate the methods elsewhere. Do you have a large turnover of staff from other departments coming in specifically to progagate methods of effectiveness review?

(*Mr Wilding*) On this topic of the effectiveness of expenditure programmes the lead is in the Treasury and it is the Treasury who take the lead in this business of dissemination. I cannot comment on the way in which they do that. For our purposes we do indeed have people coming into the Civil Service Department from other departments who sometimes have had experience of doing this in their departments or otherwise who get the experience with us of discovering what the departments in question are doing and disseminating what they are doing to others to see if other lessons can be learned.

Mr English: On a point of order. We have the Head of the Civil Service before us as a principal witness. I do not really think that we can have this fairly frequent banter saying that some other department is responsible. I think we really should ask Sir Ian whether he wishes to comment on dissemination. It is not sufficient to say that the Treasury is responsible.

Chairman

313. I do not think that is a point of order. Obviously, Sir Ian, if you wish to reply to any specific question you will do so and if you wish Mr Wilding to reply then you are of course at liberty to ask him to do so. Mr Wilding, when you said that specific people come in to propagate the use of techniques can you name a particular method of review of efficiency which a person has brought in from another department into the Civil Service Department and is propagating in other departments?

(*Mr Wilding*) No, because we do not do it that way. We keep in close touch with the other departments about the ways in which they are improving their management information systems, their performance measures and so forth. They tell us about these. We go out when need be to talk to them about it, ask questions about them, and then we will let the other departments know about it. It is helpful to us to have people from other departments who have experience of this and other things, coming into the CSD for a spell and going out again. But we do not invite an individual to come in and spread his personal experience.

Mr English

314. I was talking about incentives to efficient people in the Civil Service and I meant money. I did not mean KCBs; I meant money. Can you think of any better way of making people more efficient in the Civil Service than offering them more money if, in the opinion of their superiors, they are?

(*Sir Ian Bancroft*) Yes, the occasional word of appreciation.

315. Would they not like both?

(*Sir Ian Bancroft*) They would obviously like both.

316. Would their wives not like both?

(*Sir Ian Bancroft*) I would think an ounce of appreciation is worth a pound in reward.

317. Would not their wives and children like the money as well?

(*Sir Ian Bancroft*) No doubt they would.

318. Do you not think that oddly enough one of the things that may be wrong with the country is that we do not rely enough upon financial incentives?

(*Sir Ian Bancroft*) No, because if one looks outside the Civil Service one finds quite a quiverful of financial incentives and I do not think that any of us would say that at this particular moment the country is riding on the crest of an economic wave of prosperity.

319. I meant that the public sector, which is a very large part of the country, dominates it in a sense and is to some extent responsible for the effectiveness of the United Kingdom in economic terms. Ministers and Civil Servants think they are responsible for its effectiveness except when it goes wrong. It might be better if they were paid according to results. But could I ask about professionalism. You will have read the evidence earlier. The Fulton report suggested that the central Government, Civil Service, call it what you like, was not very keen on putting professionally qualified people into relevant posts. Mr Wilding has just said that "we"—I presumed he meant himself in relation to the Civil Service Department—make a decision. Does that mean that everybody who makes decisions on professional matters in the Civil Service is a professional in the field?

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(*Sir Ian Bancroft*) I am sorry to sound carping but it depends what you mean by "a professional matter".

320. In that case let us start again if you are going to quibble. I have quoted in evidence Mr Wilding's own lecture. He knows that. He gave evidence to a former committee of mine. I quoted his own words back to him where he said that he actually did not have a professional qualification in the field for which he is responsible. Those were his own words, not mine. Is that general in the Civil Service?

(*Sir Ian Bancroft*) In terms of the administration group, yes it is. But as you know, we have a very very large number of qualified professional people ranging through every discipline; about 60 different disciplines. They are responsible, in their professional capacity and with their professional backgrounds, for taking decisions on a lot of these professional matters.

321. Do they all have an equal chance of promotion?

(*Sir Ian Bancroft*) They do not have an equal chance of getting to the top, as you know. We have been through the figures with you before. That is, in my view, not so much the prejudice of the administration group against them but is due to a number of factors, one of which is the fact that they are professionally trained in a particular discipline and it is very difficult, particularly in their earlier days—witness the not very successful so far Senior Professional Administration Training Scheme (SPATS)—to get them out of their discipline into a management or administration job in their late thirties or thereabouts, even though they have a return ticket back to their discipline.

322. Apart from money which you have dismissed, one of the incentives to efficiency, namely the prospect of promotion, is barred to professional people basically. Is that right?

(*Sir Ian Bancroft*) No, that is not right at all.

323. To most professional people?

(*Sir Ian Bancroft*) What I am saying is that the promotion to the very top of the Whitehall mountain is not as open to them as it is to others.

324. So if they are more efficient than some of the people who are not professionally qualified they will not get promoted to the top, whereas the people who are less qualified will. Is that right?

(*Sir Ian Bancroft*) No. I can think of a number of specialists who have decided to broaden themselves at some stage in their career so that they have got more than their specialism going for them and who have reached the top. Equally the specialist will reach the top of the tree in his own specialism.

325. Could I go back to a point you made to the Chairman. You said that is was very easy to assess local authorities.

(*Sir Ian Bancroft*) I did not say that it was very easy. I said that the fact that they were performing broadly speaking the same function as each other in their various different tiers made it that much easier to assess their performance than if one is dealing with two disparate departments. Whereas I conceded absolutely readily that within one department one could in fact assess performance of one local office against another because it was doing roughly the same thing.

326. You did say local authorities, did you? I tried to pick it up at the time.

(*Sir Ian Bancroft*) Sure.

327. Why on earth then do we have the county which is just about the lowest in terms of rates per head in technical terms being penalised by central Government. It happens to be Nottinghamshire. Let me declare a constituency interest. Why is a good Conservative authority, as it was at the time we are talking about, penalised by the Government for having the lowest rates in the United Kingdom?

(*Sir Ian Bancroft*) With respect, that is a question you ought to address to the Secretary of State for the Environment.

328. You did say that it was easy to assess efficiency; he does not seem to have found it so. The other point is on the DHSS. Mr Wilding mentioned this. Do you not think that it is a pity that none of the, let us say one dozen in round figures, regional secretaries of the Regional Health Authorities can ever be promoted, however efficient they are, to be in charge of the National Health Service?

(*Mr Wilding*) I have to say that I do not know about, and cannot comment on, the structure of the National Health Service.

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329. Do you mean that you have never read the report by the Chairmen of the Regional Health Authorities a few years ago? You have read it because you once said you had.

(*Mr Wilding*) That does not make me the right person to comment on it.

330. Sir Ian Bancroft is here. He is the head of the Civil Service.

(*Sir Ian Bancroft*) The National Health Service is not in the Civil Service. I have no jurisdiction over it whatsoever.

331. It is not in local government either, is it? It is a pure matter of quibbling definition. All the million people who work in the National Health Service are not counted as civil servants so Ministers can say that the Civil Service has been reduced by 10,000 last year. This is a quibble. It is nothing to do with efficiency. It has nothing to do with effectiveness. The question that I am asking is very simple. There are eleven people—or whatever the number is precisely—in charge of the regions of the National Health Service which costs the country an enormous amount of money and employs over one million people. Why can none of them ever be put in charge of it?

(*Sir Ian Bancroft*) I do not know and it is not my job to know.

Mr Wainwright

332. One stated intention which is common to both of this year's White Papers on the Civil Service and to this latest memorandum on responsibilities is Government's undertaking to strengthen internal audit. May we first of all establish from where we start. Is it a fact that hitherto a Civil Service posting to Internal Audit has not been the most attractive?

(*Sir Ian Bancroft*) Broadly speaking that is true. It is also true that we have realised, since 1973 that we have been too slow—I do not in the least deny that—in trying to instil a much more vigorous approach to internal audit. As you will know better than I, the Public Accounts Committee report has just been published on this subject. That, while certainly criticising, and rightly criticising, some departments for not paying enough attention to internal audit, does at least acknowledge the vigour with which it is now being attacked.

333. Even so, at this present time, a relatively small number of civil servants on internal audit have outside professional qualifications.

(*Sir Ian Bancroft*) That is true; too few.

334. If internal audit is to be strengthened, and its remit widened towards value for money as well as regularity, would you agree that once you extend the range of internal audit, so that it transcends routine checks and becomes rather more subjective in its judgments, it then requires people of rather outstanding calibre to be able to mix with their colleagues in the department but at the same time to be sitting in judgment with them?

(*Sir Ian Bancroft*) It needs people—I would not necessarily agree with the word "outstanding"—of very good calibre. It also needs a greater leavening of people with professional qualifications. I hasten to add, because we have many very good internal auditors who do not, as it happens, have a professional qualification, that they have had immense experience on the job and are of very good quality. They do an extremely good job. But I repeat that I do not disagree with you for one moment that we need a greater number of professionally qualified able people in internal audit in the Civil Service.

335. Can you describe to us how this strengthening is to be done?

(Sir Ian Bancroft) What we are doing at the moment is that I have written a letter jointly with Sir Douglas Wass and sent it to all Permanent Secretaries and heads of departments, laying down a programme for the improvement of internal audit, giving dates by which they had to make returns about appointments; dates by which they had to make returns of progress made. I think that a copy of this was sent to this Committee.

Chairman

336. It was published in the Public Accounts Committee report today.

(Sir Ian Bancroft) I think you will find that quite interesting reading because we have tried there to lay down a pretty specific programme to bring about the improvements that we think necessary.

Mr Wainwright

337. In the memorandum which we have just had on the responsibilities of finance officers and establishment officers in connection with increasing the efficiency of the Civil Service, it is stated categorically under

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the heading of the Principal Finance Officer and only in that part of the memorandum, "Internal audit reports to him". What is the reason for internal audit reporting first of all only to the Finance Officer and not jointly to the Establishment Officer and secondly is it really a considered procedure that the internal auditor should report to the head of the section on which he is sitting in judgment?

(Sir Ian Bancroft) That is a very good question, if I may say so. I cannot recall the detail of the memorandum off hand, but I do think that we recommend that there would be virtue of having audit committees in departments so that one would not simply have the Principal Finance Officer sitting in judgment, as it were, on the chap who is in effect criticising him. Also, we have gone out of our way, certainly informally if not formally, in the memorandum to suggest that the head of internal audit in a department should have the right, if he wishes to exercise it, of direct access to the Permanent Secretary.

338. But this is not spelled out in these memoranda.

(Sir Ian Bancroft) Well that is what happens in my department.

339. Would it be helpful perhaps if that were spelled out to all departments so that what happens in yours———

(Sir Ian Bancroft) Yes, I think it would.

Mr Eggar

340. Why has it not been?

(Sir Ian Bancroft) Because we did not do it at the time.

(Mr Wilding) I am pretty sure that in almost every case I can think of it has in fact. It has been a regular feature of every recommendation that we have made to departments about their internal audit in past years. I will be happy to check if there are any exceptions and let the Committee know.

341. Have the recommendations been carried out?

(Mr Wilding) I think, but again I will check if my memory is at fault, that the head of internal audit in every department has a right of access to the Permanent Secretary and the Accounting Officer.*

342. It would be very useful if we could have that.

(Mr Wilding) Yes.

Mr Shepherd

343. I wanted to ask your views on PAR. Presumably it was a response to what was considered to be an area that needed covering. How do you view it and is there a role for something similar to PAR?

(Sir Ian Bancroft) I think PAR took off at a time when there was a perceived gap There was considerable enthusiasm for it amongst not only Ministers of the day but also civil servants of the day. Over a period of years it became over-formalised, over-rigid, over-bureaucratic. One found that departments were in fact constructing their PAR programmes on the basis of looking round to see what they had got on the stocks already and saying they would give it a PAR label. It became so complex and rigid that it is fair to say that Ministers got bored with it and if Ministers get bored with something that does need a tremendous Ministerial and top official push then the thing is on the whole on its way out. So it proved with PAR. I repeat that with the programme we have got with the Treasury, with the CSD, with departments, with Derek Rayner assisted and helped by Select Committees of this House, that we have got now an edifice which is actually doing things on the ground in a practical way, getting down to the nitty-gritty and not going for some rather ambitious over-arching the whole of Whitehall system like PAR.

344. Would you say that Rayner, the Select Committee and other things you identified there, are a substitute for what PAR did or attempted to do?

(Sir Ian Bancroft) Yes, I would.

345. It seems somehow very imprecise or an amateurish response to something that was intended and invested with a great deal more intellectual force than is perhaps suggested in your answer?

(Sir Ian Bancroft) I do not think one ought to underestimate the amount of intellectual force that goes into the reviews that I have mentioned, into the Rayner scrutinies that I have mentioned, or the suggestions which have come to us from Select Committees of this sort.

346. As I understand it, PAR attempted to actually look at the effectiveness, the worthwhileness of programmes.

**Note by witness:* Paragraph 6(d) of the memorandum on the Principal Finance Officer lays down that the Head of Internal Audit has access to the Permanent Head of the Department.

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(Sir Ian Bancroft) Yes.

347. What is doing that now other than Rayner, which although a very import contributor—I accept that absolutely—is a fairly small scale effort?

(Sir Ian Bancroft) Not all that small scale. In addition, I come back to the point the Chairman took me up on earlier on, is that fact that there is a continuing squeeze on departments in terms of the cost of their staff and staff related expenditure, which in itself means that one is operating now in a totally different climate than when one was dealing with PAR. Departments on the whole are beginning of themselves, and rightly so, to ask themselves very serious and searching questions before they embark on programmes of any sort in terms of effectiveness, cost effectiveness and efficiency.

348. The professionalism of the individuals to do that is what is questioned and clearly you have been talking about the changing nature of the civil servants coming up for the succession. But when Sir Derek came in front of us he said that one of the qualities that he would expect of an Accounting Officer, was that he was numerate. He imagined that most Accounting Officers were numerate; he accepted that. Are any of the Accounting Officers qualified accountants?

(Sir Ian Bancroft) No.

349. What special training would they have had for their role as an Accounting Officer?

(Sir Ian Bancroft) They would have had experience in the service generally. Many of them would have had experience in the finance branch of their department or some other department. If younger than myself they would have been on courses to the Civil Service College or outside—not necessarily at all in order to secure a fully fledged accountancy qualification, but at any rate to give them sufficient knowledge about accountancy and figures and numeracy, which Sir Derek feels strongly about, so as to enable them to call with knowledge on the assistance of professionally qualified people.

350. Is there really still a gap if one is looking across the service? Presumably there are many Accounting Officers who are not in that happy state of knowledge?

(Sir Ian Bancroft) Yes, there are a number.

351. Why have we not responded to that seeming omission earlier? What I am asking perhaps is what mechanism do we have within the service that identifies a problem like that, which clearly is one that has been identified many times, responds to it and remedies it? Here we are now in 1981 looking at Accounting Officers of our major departments of state who in some instances are not very professionally qualified in terms of numeracy or the characteristics you were identifying as now deemed to be necessary?

(Sir Ian Bancroft) It is a problem that one has to solve over time. We have been running accountancy courses at the Civil Service College now for many years and what we are doing in response to the pressures which have come upon us—and rightly so—is to set about increasing the number and the duration of these accountancy courses.

352. I was really trying to look at the mechanism that you have for evaluating what is needed, how you respond to omissions in patterns that are in existence now. The Accounting Officer is just one of them. PAR presumably tried to respond to the way a programme was evaluated and looked at. What mechanism do you have now for doing that?

(Sir Ian Bancroft) To be quite frank we do not have a single mechanism for doing that at all. But we do have very frequent meetings at various levels, whether Permanent Secretaries or Principal Establishment Officers, or Principal Finance Officers. The Civil Service College has its own particular network of contacts with departments and in each of these we try and identify where there is a perceived gap and to do something about it. What you are saying is that we have been too slow about it. To some extent I agree.

353. I get the impression—please correct me if I am wrong—that the heads of departments are like Chinese warlords. They run their own department more or less within a sort of common agreement of certain rules and measures but there is actually no overguiding hand that is systematising, maybe setting down a matrix of proper ways of responding to problems, identifying them in that coherent way one would expect the centre perhaps to do. Am I wrong?

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(Sir Ian Bancroft) I would not regard them as Chinese warlords. Each one does have a department to run. Each one does have a Minister to whom he is accountable. Each one is an Accounting Officer in his own right and is therefore held to account by the Public Accounts Committee amongst others. Each one is also at the disposal of his marking Select Committee. Each one can be in command of a department of 1,000 on the one hand and of 220,000 on the other. So I think—and here I am showing that in your view I am perhaps too pragmatic and not systematic enough—that I find it difficult to conceive of an overarching Whitehall system which would be sufficiently specific to be helpful and useful and at the same time be tailored to meet the demands of each of those Permanent Secretaries and each of those very very different departments.

354. I notice in the White Paper that there is mention of secondment outside the service and that that is being developed. What about secondment into the service?

(Sir Ian Bancroft) We are finding that we have not at all got a bad story to tell in relative terms; though in absolute terms you might think it fairly minuscule. We have roughly doubled the number of secondments into and out of the Civil Service and industry over the last three years. We ourselves have got roughly twice as many civil servants out in industry as we have been able to persuade industry to lend to us in the Civil Service.

Mr English

355. People in industry are paid more.

(Sir Ian Bancroft) Not always; very frequently indeed I would agree. But that can quite often be overcome by a system of secondments under which the lending firm pays its man and we pay the lending firm the Civil Service going rate and vice-versa.

Mr Shepherd

356. Paragraph 30 of our document CS119—Interchange of Staff between the Home Civil Service and Industry[1]—implies that secondments really are not clearly focussed enough to get the maximum benefit for the participants. Are you taking steps to remedy this and what are those steps?

[1] "Interchange of staff between the Home Civil Service and industry: report for 1980", CSD, June 1981.

(Sir Ian Bancroft) We are not taking specific steps at the moment. I readily concede that. We did have for a time a special unit which was designed to encourage in particular the secondment of scientists and technologists into and out of the Civil Service in relation to industry, but that in fact did not prove a very great success. What we rely upon at the moment very greatly is the personal contact between myself and a number of people in industry and especially the contacts between Permanent Secretaries and their people, their opposite numbers in industry, to try and make sure that one does get a good fit and a rather better focus. At the moment my firm belief still is that if one is going to get the maximum good from these secondments then they have got to be really very good people going to very high quality jobs.

357. If I were to ask you, in reviewing your own stewardship of the department, what would you say you brought to it that advanced its controls and efficiency and effectiveness, what would you particularly identify as characteristic of your contribution to the department?

(Sir Ian Bancroft) I had not really thought of myself in that way. One thing that I have found enormously useful to me is having served in operational departments and having served as the Permanent Secretary of a very big department, the Department of the Environment, which gives me an understanding, I hope, of the problems of the operating departments at the coal face; so that one on the one hand is pressing them where you think it is sensible and useful and worthwhile to press them and on the other not meddling too much in matters of tiny detail. I can remember being very resentful from time to time when I was in the Department of the Environment at some of the things which my present department urged upon me.

358. That seems to be more a statement of personal philosophy in terms of your general management but I was trying to see if there was perhaps an element you brought to the department that you could identify as characterising the Bancroft stewardship, which shows the thrust of how you view that?

(Sir Ian Bancroft) What I have tried to do is to build on the work of my predecessors and to get a rather more systematic and professional approach to the whole question of senior appointments. This seems

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to me an extremely important and sensitive area.

Mr Eggar

359. It seems to me very clear that you have conceded that you perhaps should have gone further, that you have quoted in aid things such as Rayner and Select Committee reports. Certainly my idea and understanding of the original function of the CSD was that you would be doing all these things and you would not need outside pressures to make you do them.

(Sir Ian Bancroft) We have been doing them ever since the department was invented in 1968; first of all under Sir William Armstrong and then under Sir Douglas Allen. I have been trying to show, that we are now trying to do all these things which we have been doing but with a greater degree of emphasis and vigour. To that extent, I repeat, we have been helped greatly by the fact that we have now got an administration which has as one of its very very top priorities the effectiveness, the efficiency and the slimming of the Civil Service. That is something, again, which we have not always had in the past. We have also got what we have not always had in the past, Sir Derek Rayner. We have also got, quite recently, the Select Committee system. But the idea that we were sitting on our hands waiting for someone to come and kick us where it hurts just is not on. I can remember when I joined the Treasury in 1947 my first Permanent Secretary who was head of the Home Civil Service was Sir Edward Bridges. When he left in 1956 he was succeeded by Sir Norman Brooke and both of those two men were extremely distinguished, extremely able, and took a great deal of trouble in trying to encourage great efficiency and effectiveness. I do not think that it really is a true bill to say that we have not been doing anything until very recently.

360. OK, so for the past two years you have had everything going for you. What have you achieved?

(Sir Ian Bancroft) A lot.

361. Yes?

(Sir Ian Bancroft) To begin with—this may not cheer some of your colleagues—the Civil Service has been cut by one of the largest amounts in terms of its numbers that has happened this century in the period of two years. That is no mean achievement, I would have thought.

362. Has that been an achievement of your department?

(Sir Ian Bancroft) It is an achievement partly of the collective will of Ministers. It is an achievement partly of those directing the other departments such as Mr Heseltine and his MINIS management information system.

363. Where did that idea come from? Did that come from your department?

(Sir Ian Bancroft) No, that came from the Department of the Environment and we have been spreading the news around. But a great deal depends on the personal commitment of a Minister in charge of a department, as to the amount of time and energy that he is going to give to putting very deep probes down into the tasks and the manning of his department. There are not all that many Mr Heseltines around.

364. Did the Minister bring this idea in with him from outside or was it a nice little package that was waiting for him that had been developed by the Department of the Environment?

(Sir Ian Bancroft) He brought the germ of the idea in from outside and it was seized on and developed by his civil servants.

365. You have been there for 13 years and it has needed a Minister to come in and give you this idea, or give a department the idea, to get it developed. I simply cannot understand why you have to pray in aid developments of this kind which really should have been originated by your department?

(Sir Ian Bancroft) I do not agree in this particular case. This is specifically tailored to the wishes of a Minister who takes a very keen interest and devotes a very great deal of time to the management of his department. That system, as it is in the DOE, would only be applicable to a department who had a Minister in charge of it with Mr Heseltine's particular aptitudes and attitudes.

366. Fine, but with respect, I had understood that it was your department's job, one of them but a very major one, to try and inculcate in the Civil Service, and perhaps even to try and put the idea into Ministers' minds that they might be interested in developments of this kind. Surely it is no good your sitting back and saying that we have got to wait until we get the kind of Minister who is interested in programmes?

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Surely you should be putting things forward?

(Sir Ian Bancroft) We do put things forward. We have put things forward over many years. Could I just remind you that over very many years the attitude of successive administrations towards the Civil Service, its size, its efficiency and its effectiveness, was one of expansion and not contraction. All that I am saying is that we operated as best we could in that climate and put ideas forward, many of which were not, as it happens, accepted. Now we have an administration which is very receptive to them.

367. Regardless of the mood of whether it is expansion or contraction, presumably you can expand and have no improvements in efficiency and effectiveness or you can expand and actually have a proportionately greater increase in efficiency and effectiveness. So the political mood should really be irrelevant.

(Sir Ian Bancroft) It is not. It is not irrelevant I assure you. Nevertheless, I do assure you that we have not been sitting on our hands waiting to be kicked.

(Mr Wilding) The MINIS system in the Department of the Environment is a very complete and very elaborate system for bringing before the eyes of the Minister a lot of detail about the way staff are deployed, their costs and the rest of it. That was something which Mr Heseltine wanted to do in his own department and it has produced some very good results indeed. We have, for a good many years, been advising departments, where it was needed—and some of them were already doing it for themselves—that they did need to have proper systems of manpower control which reviewed the deployment of staff and set about the allocation of the resource and the monitoring of the way it was used in an effective way. A great many departments before May 1979 had introduced such systems; we had something to do with all of them. What has changed is the interest which is taken at the top in the product of those things, the interest in developing the system further and the impetus to the whole of this process.

368. May I change now to the succession planning which Sir Ian said was extremely important. What happens actually before we had this paper. What was the process?

(Sir Ian Bancroft) The process was an annual one. It was built round the annual assessments made on individual officers by their superiors and in the case of the open structure and in the case of Assistant Secretary and Principal "Flyers", so called, copies of these were sent invariably to my department. On the strength of those, every year, a senior member of my department went round—I am talking now about the open structure and Assistant Secretary and "Principal Flyers"—to each department and interviewed the Permanent Secretary and quite often together with the Principal Establishment Officer, with a rather elaborate form which he filled in as he went along. This was designed to show the succession plans for the key posts, in particular the PEO and the PFO, designed to show what the general quality of the Under Secretary line was, designed to show the succession plans for the top posts in particular—the Permanent Secretary though that is not in his gift, it is in the Prime Minister's—designed to show that the CSD knew which officers in these categories ought to have a posting either outside the department to industry or outside the department to a central department. As a result of that we were able to construct a whole series of hypothetical succession plans in our locked war room. In this case that system has been systematised and formalised. I think we will be better for it. But it does mean that there is a grip at the centre over, and has been for some years now, succession planning at senior levels.

369. When did CSD decide that the old system needed formalising?

(Sir Ian Bancroft) It was very much at the suggestion of Sir Derek Rayner.

370. Why did you suddenly think that he was right in making this suggestion?

(Sir Ian Bancroft) Because on the whole it seemed to us that this was something which would give benefit without giving an undue amount of work and was simply an organic development of what had been going on before.

371. I will not ask you the obvious question as to why you had not introduced it before being prodded. But it is a point one has got to make. So when did Sir Derek report to the effect that he thought it needed formalising?

(Sir Ian Bancroft) I am trying to scratch my head and remember. I should think probably about one year ago; a little more.

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372. So it took you one year to produce this three page document?
(Sir Ian Bancroft) A lot lies behind that three page document.

373. What lies behind it?
(Sir Ian Bancroft) A series of close consultations with departments at a number of levels and getting Ministerial approval.

374. One must say that if all this is, is the formalisation of a system that was already in existence in any case, it seems to me to be quite incredible that it takes one year from the moment when the proposal is made to the moment this sees the light of day.
(Sir Ian Bancroft) In that case I am sorry if it appears incredible.

375. Can you give any justification for it at all? Why did it take so long?
(Sir Ian Bancroft) I have told you or at least I have tried to explain to you. Everyone in a big organisation on the whole does not like change of however organic a character, in particular change where it affects the judgments of very many individuals in terms of their careers. So it was necessary to carry along with us all the various interests in Whitehall, of which there are very many, in order to invent what you call this very simple document. That took time.

376. Do you feel that, had a large company taken the same length of time to achieve the same end, that would have been regarded as a satisfactory result by its shareholders and by top management?
(Sir Ian Bancroft) I do not know. I have not been Chairman of a large company. I ought perhaps just to mention that although you got this document only a short time ago it was last spring that departments were asked to put in their first succession plans so it is perhaps not quite as bad as you might think.

377. Except that I did ask in a Parliamentary Question when it was coming out and it has been referred to in two White Papers. So are you saying that in fact you were not giving up-to-date information to Parliament and to this Committee?
(Sir Ian Bancroft) I am not aware of that Parliamentary Question.

378. If the succession planning was actually in effect in the spring, you made a reference to it in two White Papers, the Minister did not answer my PQ, we get it on 12 June, why could we not have been told earlier if indeed it was in place?
(Sir Ian Bancroft) This we asked for on an experimental basis. That is that, I am afraid.

379. There was a report to the PAC by the Comptroller and Auditor General on staff inspection. It was a fairly critical report, as I understand it. Have you any comments to make on it?
(Sir Ian Bancroft) Yes, we had quite a drive—before my time—on staff inspection in the Civil Service Department with other departments. The drive lasted quite well and then the success rates—by that I mean implementation of staff inspection reports,—fell away. It fell away until by 1978 the implementation rate of staff inspection reports in terms of individual posts was only 900. We picked this up in looking, as we did annually, at the staff inspection results and had another drive which has resulted in an implementation rate in 1979 of 1,900 as compared with 900, and in 1980 it is estimated to be rather over 3,000. In other words we proceeded with reasonable vigour on this front as we have on the internal audit front.

380. Fine, but why did it get down to 900 in 1978. Your department was there to ensure that that sort of thing did not happen presumably?
(Sir Ian Bancroft) I was not there at the time.
(Mr Wilding) We got to know what was happening as a result of the reports which departments put to us each year about their staff inspection results for the past year. 1977 was quite a good year; 1978 was suddenly a bad one.

381. Quite a good year meant how much?
(Mr Wilding) I am sorry but I do not have the figure with me. I can supply it if you would like to have it. The falloff in 1978 was quite marked, both in the number of recommendations made for reductions in staff and in the rate of implementation. We got to know about this in the course of 1979, a first suspicion of it at the beginning of 1979 when we got the figures for the first six months of 1978, and confirmed in the summer when we got the figures for the second six months of the year. We then launched a study to find out what was wrong, what was happening and what could

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be done to make it better. The very fact that that was happening inspired a recovery in the course of 1979. At the beginning of 1980 we made proposals at Ministerial level to departments for a set of improvements which have since borne very good fruit. I think I can therefore say in response to your question that as soon as we knew that there was something amiss as shown by what was happening on the totals, we took this up and did something about it.*

382. Can we look forward to a further increase in the number of posts inspected?
(Mr Wilding) In the service as a whole we have got some 500 people who do staff inspection; in the Civil Service Department about 40. I do not think it likely that the coverage in the number of posts they inspect will increase very much. It was something in the region of 60,000 last year. We shall keep that up. I do not expect to expand it. I think that we shall continue to get a high rate of implementation of recommendations because a great deal of attention has been paid to that. Whether we get a further increase in the number of recommendations will depend on what the inspectors find and that I would not attempt to predict.

Chairman

383. In paragraph 32 of the White Paper the different payroll systems used by different departments are mentioned. Are there significant differences and do the differences in the positions of departments really justify having different systems? Could there be more uniformity?
(Sir Ian Bancroft) We are trying to go for a greater degree of uniformity as between families of departments. There are difficulties in terms of the hardware they are using and its compatibility. But at the moment we are working on getting DOE, Department of Transport and the Ministry of Defence uniform.

Mr English

384. Why would it be desirable?
(Sir Ian Bancroft) Economies of scale.

Chairman

385. May we move on to another very large question to which we cannot do justice in the time. A point that you do make in your own lecture to the RIPA is the increasing influence of trade unions within the Civil Service on organisation, methods, introduction of new technology and so on. How would you rate their impact first on the overall question of manning levels?
(Sir Ian Bancroft) On the whole not very great. We do not negotiate on manning levels. It is not a matter on which we can either be taken to or go to arbitration. We naturally consult with the unions but I would have said that after the period of consultation is over that on some occasions—not all that many actually—we alter our proposals in order to meet the views of the unions. In others we proceed by administrative action and do it.

386. What about other aspects of efficiency within the Civil Service? For example, on the introduction of new technology?
(Sir Ian Bancroft) There we have been negotiating—because this is something which we would regard almost as a negotiation—with the trade unions for about 18 months now on a new technology agreement and hoped that we were getting quite near; we certainly made some good progress. What with one thing and another this year that new technology agreement has not yet been secured. We did manage to get an agreement with the CPSA about the much narrower question of the installation of stand-alone word processors which we regard as something very important.

387. You said in the opening sentence of your lecture that the morale of the Civil Service has been badly dented and you developed that. To what would you attribute principally the denting of the morale?
(Sir Ian Bancroft) To a very large extent to the feeling that many people have of the Civil Service that they are really pretty peripheral to the real needs of the country and that what is important—and one would not deny this for a moment—is the product of manufacturing industry and other services which earn exports and so on; and that therefore we as civil servants are on the whole a pretty unnecessary piece of baggage. Civil Servants, however, tend to feel that they are doing in many cases good jobs, in many cases pretty unpleasant jobs, in many cases pretty unrewarding jobs and all that they ask is that they should at any rate be seen as in a sense partners of private industry and not as parasites feeding off it.

388. But in terms of the public view taken of the Civil Service, among all the

**Note by witness:* In 1977, the net reductions recommended were 4,400; the net reductions implemented 2,700.

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criticisms that have been made I have not heard once questioned the basic integrity of the Civil Service. In your lecture you did not even feel it necessary to mention that. Would you feel that the integrity of the Civil Service stands absolutely inviolate?

(Sir Ian Bancroft) I do. It has been very extraordinary during this period of disruptive action that we have been having for some months now, that nevertheless the staff in general have been working very well, have been working quite often harder than normal and have been cooperating extremely well in the introduction of new measures leading towards greater efficiency. It is a very remarkable things.

Mr English

389. We have not yet got your reply on the jobs that civil servants take after they leave the Civil Service.

(Sir Ian Bancroft) We are preparing that.

Chairman

390. In terms of re-establishing the morale and conveying the conviction to civil servants that they have a vital job to do for the country as a whole, do you think that the assurance to the public, to Parliament, to Ministers, and to their colleagues in the Civil Service, that they are doing an efficient and effective job is a part of that process of rebuilding the morale?

(Sir Ian Bancroft) Yes, I think it is and I think this afternoon's hearing has been quite interesting in that connection. We are all in this room basically efficiency and effectiveness seekers; and that means that when one identifies something that can be done better, more efficiently and more cheaply, then the people who have been doing that job for the last X years, unless handled really very carefully, will feel that people are on the hunt for them, that they have been wasting their time, that they have been caught out. It is terribly important if one is going to get the best results from this search for greater efficiency and effectiveness that one tries to handle it in a positive rather than a negative way. That is where we look to this Committee to try and help us.

391. We shall be sending out a questionnaire to departments on which we would obviously appreciate your own comments and help. We shall in due course be seeking to draw conclusions and in drawing those conclusions it would be very helpful to have your further thoughts on any possible developments of the overall structure of reviews of efficiency and effectiveness within the Civil Service. To put the point very simply—and it has been a running theme through the questioning—a possible form or organisation is to have functional departments, staff departments within different departments working closely and enjoying the confidence of the line management in those departments but with a rather strong degree of functional coordination coming into the centre. This spans questions of internal audit and also questions of staff reviews. Obviously we shall be looking for lessons that can be drawn from the experience of particular departments. We would particularly appreciate any systematisation of the views that you might yourself be able to contribute. If you have anything to say immediately now that would of course be of the greatest interest but it might be a matter on which you would like to reflect.

(Sir Ian Bancroft) On the whole it would be helpful to me and probably more helpful to the Committee if I were to put in a paper on this in advance of the questionnaire.

Chairman: There are many questions which we would like to pursue but we must finish at six o'clock. Thank you very much for the way in which you have answered the questions and the answers that you have given.

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WEDNESDAY 15 JULY 1981

Members present:
Dr Jeremy Bray, in the Chair
Mr Anthony Beaumont-Dark Mr Michael English
Mr Timothy Eggar

Memorandum submitted by Sir Derek Rayner

NOTE ON PROGRESS WITH RAYNER EXERCISES

1. This updates my Note of 8 July 1980. Where necessary, I cross-refer to the Government's recent White Paper on Efficiency in the Civil Service (Cmnd 8293).

1979 "Rayner Projects": Progress towards implementation

2. Ministers' decisions are outstanding in respect of two of the 29 "Rayner projects" undertaken in 1979 (*Department of Energy:* Organisation of R&D in New Energy Technologies; *Civil Service Department:* Charging for Courses at the Civil Service College). These are expected very shortly. Both were the subject of substantial follow-up work.

3. Implementation of the remaining 27 projects has begun. In most cases it will be completed this year and next. The reasons why the implementation of some scrutinies extends into 1982 and beyond include computerisation, the phasing in of increased charges for services and changes in large administrative systems.

4. Ministers have generally accepted their examining officers' recommendations in full or subject to slight adjustment. The main exception to this is in respect of the DHSS study of Arrangements for Paying Social Security Benefits. Here policy considerations other than efficiency led to the rejection of certain recommendations, with savings foregone as a consequence of £35–40 million a year.[1]

5. The expected savings from projects on which decisions have been taken amount to £67 million per annum and £28 million once-for-all. (The DHSS project on benefit payments accounts for £35 million of the annual savings, to be achieved over the period to 1987/88.) The number of posts likely to be saved by 1984 amounts to some 1,500.

1980 Scrutiny Programme

6. All 39 scrutinies undertaken in 1980 have been completed and reports submitted to Ministers. As with the 1979 projects, I have been impressed with the very high quality and enthusiasm of most examining officers. Ministers and senior officials have involved themselves either in the course of the scrutiny or in follow-up.

7. These 39 scrutinies have identified *potential* savings of about £128 million per annum and 9,500 posts. Some £75–80 million (5,000 posts) of these savings are associated with the joint DE/DHSS scrutiny of the Payment of Benefits to Unemployed People.[2] As with the 1979 "Rayner projects" however not all scrutinies were aimed at direct savings (eg Health and Safety Executive scrutiny of methods and practices in assessing the costs and benefits of health and safety requirements). Moreover, in many cases, there were recommendations over and above those relating to money savings which would ensure a better quality service, improved staff morale etc.

8. In percentage terms some of the savings are even more substantial than in 1979 (eg 80 per cent savings in staff employed by the Inland Revenue on the issue of PAYE Deduction Cards; 85 per cent of DHSS costs incurred in support of health care exports).

[1]House of Commons Official Report, 12 May 1981, cols 617 and 618.
[2]HMSO, March 1981.

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9. Whilst some scrutinies have involved savings which are small in absolute terms—measured in thousands rather than millions of pounds—they are nonetheless important. In particular, the smallness of an activity may cause it to be overlooked through time.

10. Ministers have taken *firm decisions* in 24 of the 39 scrutinies, securing savings of £22 million a year and 1,700 posts. In a further 5 scrutinies Ministers' *decisions in principle* are subject to the conclusion of consultation and further study; these involve potential savings of £80 million a year and 5,200 posts. Ministers have yet to take decisions in the remaining 10 scrutinies but are expected to do so in most cases over the next couple of months.

11. Where firm decisions have been taken, implementation has begun and will be completed in the main this year and next.

12. The greatest scope for improving the efficiency of Government may come as particular lessons are read across to other activities both between Departments and within Departments. CSD Ministers have been applying a central stimulus to this read across. In addition all Ministers have been informed of the findings of the scrutiny programme and precis have been circulated to all departments.

Current Scrutiny Programme

13. This year's programme will be conducted along the lines adopted last year. As before, I shall be associated with all the topics and especially closely with some which raise particularly important issues. On these I will report to the Prime Minister.

14. So far, 37 scrutinies have been agreed. They are shown in the attached list. In some cases there will be further scrutinies—as yet not chosen—in addition to those in the list.

15. Scrutinies which have already started or been completed are identified in the list.

Review of Statistical Services

16. Reports on the 22 statistical reviews carried out in Departments were submitted to the individual Ministers concerned by their officials last summer and autumn. I then reported to the Prime Minister and to the Lord President of the Council. The potential savings identified amounted to about £20 million and up to 1,700 posts, but there were also important findings and recommendations about the future management of these services. Ministers have already firmly accepted recommendations[1] from the review worth £12½ million a year, with a substantial amount—about three-quarters—to be implemented by April 1982 and most of the remainder in the following year. Savings of a further £4½ million a year have been accepted in principle, subject to detailed consultation. Decisions on possible savings of up to another £2½ million a year will be taken soon. Together with other decisions taken by Departments since 1979 the effect will be to reduce expenditure by £25 million a year (2,500 staff) by 1984.

17. I judge that the extension of the scrutiny technique to a subject which crosses many departments has been successful. The lessons learned in one can often be applied in another. The results should sharpen the contribution of the statistical services in departments; they are in general a further vivid illustration that there is the ability in the civil service to respond well to the Government's policies for managerial efficiency.

Review of Supporting Services in R&D and Allied Scientific Establishments

18. The technique of Government-wide review is being repeated twice this year. One area is the supporting services provided to research and development and allied scientific work. Here, eight Ministers have appointed examining officers to find ways of improving cost-effectiveness and efficiency based on applying the scrutiny technique to a selection of large and small establishments in a coordinated manner. As with the statistics review, there should be scope for reading across from the findings in one establishment to others.

19. I am overseeing and coordinating the eight departmental studies, with the support of a small team in the Civil Service Department. The review is due to be completed by the

[1]Government Statistical Services, Cmnd 8236, April 1981.

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end of the year when I shall report to the Prime Minister and Lord President of the Council.

Review of Administrative Forms

20. I am also overseeing a review of administrative forms, covering

(1) reducing the volume and cost to industry of form-filling;

(2) simplifying and making forms more intelligible; and

(3) controlling the issue of new forms and reviewing existing ones.

21. Eight departmental Ministers have appointed examining officers to cover samples of forms in respect of (1) and (2) in paragraph 20 above. A central team in the CSD is working in support of me and is also responsible for coordinating the work of the review and for (3) in paragraph 20.

22. The review is due for completion at the end of September, when I shall report to the Prime Minister and Lord President of the Council.

23. Departments taking part in the R&D and forms reviews are identified in the attached list.

Annual Scrutiny of Departmental Running Costs

24. The first year's Ministerial scrutiny of departmental running costs (staff costs and overheads) has been completed.

25. Ministers on the whole considered the exercise useful and as one which increases both cost-consciousness generally and their own ability to exercise their management function. It was regarded as a useful starting point for further analysis and for reaching down into the running of departments. The scrutiny is being repeated this year.

26. I believe that the exercise has shown clearly that the administration of government is big business and that the control of these costs (amounting to £8,336 million, including notional costs for pensions and for the rental value of Crown property) is an essential component for the control of public expenditure generally.

Repayment for PSA Services

27. I completed last year a study of the possibility of providing the accommodation services of the Property Services Agency (PSA) on repayment terms, in which I was very much assisted by a small working group of officials under Treasury chairmanship.

28. I recommended that departments should pay PSA for accommodation provided on the UK Civil Estate (office, storage and specialised) and PSA Supplies, which is already a Trading Fund, for furnishings, transport etc. These recommendations have been accepted. There will be a trial run in 1982–83 with a view to introducing the arrangements in 1983–84. PSA are now working up the detail with Departments.

29. My recommendations are aimed at strengthening departmental management. I am firmly of the view that the obligation to pay for what is consumed is a pre-requisite to sound management and cost-consciousness. There is an enormous difference in management terms between knowing what it costs somebody else to provide you with goods and services and having to find the money for them from your own budget. But there is also the very important argument that increasing departmental responsibility (eg for the environment in which the staff work) will make for better management. And the fact that departments will be asked to pay current market rents on Crown-owned properties (not just on leasehold properties) will make them aware of the value of the assets in their charge as well as of the recurrent costs of maintaining such assets.

30. I believe that the proposals, though capable of refinement, represent an important first step towards greater efficiency and economy in the use of accommodation as departments increasingly define need with an eye to cost.

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Rules and Procedures Which Inhibit Effective Management ("Lasting Reforms")

31. Work on "lasting reforms" may be most clearly presented in relation to people on the one hand and certain institutional arrangements on the other. Some of it is still at a comparatively early stage.

32. Work on "*people*" is designed to produce desirable changes and developments in the managerial culture of the civil service. The Civil Service Department is in the lead here, although it is acting in consultation with others, including me. The areas under consideration are:

(1) Special recognition for success in grade; the accelerated advancement of individuals; the entitlement to automatic annual increments.

Ministers have decided to place the main emphasis here on ensuring that talented men and women are brought on as fast as possible.

(2) A "model succession policy" for the Civil Service, so as to promote to management posts, especially the senior ones, individuals with the right track record.

Ministers have agreed arrangements, to be coordinated by the Civil Service Department, to improve existing "succession" arrangement to senior posts, including those of Principal Finance and Establishment Officers.[1]

(3) Possible requirement that official heads of departments should give a regular, personal account of what they have simplified, diminished or saved and that departments should publish an annual statement of their achievement in this respect.

This is now covered by the draft papers to which I refer in paragraph 34(2) below.

(4) A policy for enabling staff, especially those in staff-intensive departments, to give of their best.

I believe that such other reforms as departmental repayment for property services and the way in which talent is rewarded are also relevant to this policy. But the main issue is how senior management can best provide the right conditions of work—including such various factors as the intelligibility and applicability of the rules and procedures which have to be operated by staff and as the working environment.

33. Other work which is relevant to the use of people comprises the current CSD-led exercise on possibilities for shortening and making better use of the hierarchy[2] and the DHSS pilot exercise on work in support of its Ministers' responsibilities to Parliament.

34. Work on "*institutional arrangements*" is intended to clarify the responsibilities for the management of resources of the central Ministers, of Cabinet and of Ministers as heads of particular departments. It assumes that because they themselves have limited time and opportunity, Ministers must delegate much to their permanent officials who have the responsibility for securing and maintaining high standards of administration with suitable guidance and direction from the CSD and the Treasury. The areas under consideration are:

(1) The aims and methods of central control and the balance between it and departmental control.

The Chancellor of the Exchequer has taken the lead in this and Ministers have agreed on a useful definition of the respective responsibilities of the spending and central departments.[3]

(2) How best to express the managerial authority both of Ministers in charge of departments and of their Permanent Secretaries, so as plainly to establish the management functions of each and also to suggest what habits or routines would be most helpful to Ministers.

[1]Efficiency in the Civil Service, Cmnd 8293, para 18.
[2]The Future of the Civil Service Department, Cmnd 8170, para 35 and Efficiency in the Civil Service, Cmnd 8293, para 18.
[3]Efficiency in the Civil Service, Cmnd 8293, para 18.

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15 *July* 1981] [*Continued*

(3) How best to define the responsibility and accountability of officials to Ministers *via* the Permanent Secretary, especially of those who occupy key management posts.

I am preparing papers on these matters for discussion with Ministers and senior officials. Recent work by the Treasury on the memorandum of guidance and letter of appointment which it sends to a new Accounting Officer helpfully updates and clarifies the description of that important supplementary role.

(4) Clarifying the responsibility and authority of and the qualifications needed by Principal Finance and Establishment Officers; steady progression towards the employment of those qualified in financial management and management accountancy.

The CSD and Treasury have prepared memoranda for Principal Finance and Establishment Officers, to complement the papers noted above on the managerial authority of Ministers and Permanent Secretaries. The Treasury, CSD and the Head of the Government Accountancy Service also have work in hand on how best to give effect to the policy, now agreed, that Finance Branches should be staffed by officers with appropriate experience, training and qualification.[1,2]

The crucial need here is to answer the questions, "What is financial management in the civil service? Who are the financial managers, whether in Finance Branches or in line divisions? What skills and experience do they need? How are these best provided?"

(5) Strengthening the financial framework, with particular reference to the structure of Public Expenditure Survey programmes, their relationship with the organisation of departments and the presentation of information on departmental expenditure in the Supply Estimates.

The Treasury is in the lead on the improvement of financial control systems[3] and has set up a small Financial Management Coordination Group to bring together or direct as appropriate the relevant work in hand, eg this year's scrutinies by the Department of the Environment on the feasibility of establishing local cost centres for the control of administrative costs and by the Ministry of Defence on financial management and control.

35. Although it has not been a part of my own programme, I have encouraged the development by the Treasury of cash planning of public expenditure, announced in outline by the Chancellor in his Budget speech. I believe that the focus on cost and value which this will promote will help to improve the framework of financial management, and so support the objectives of much of my own work described in this report.

Derek Rayner

7 *July* 1981

[1]The Future of the Civil Service Department, Cmnd 8170, para 31.
[2]Efficiency in the Civil Service, Cmnd 8293, paras 17 and 18.
[3]The Future of the Civil Service Department, Cmnd 8170, paras 26 and 27.

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DEPARTMENTAL AND GOVERNMENT-WIDE SCRUTINIES, 1981

Department	*Departmental scrutiny*	*Government-wide scrutinies*
Home Office	The Forensic Science Service*	R&D; F
Foreign and Commonwealth Office (including Overseas Development Administration)	The generation and transmission of information. The use made of Diplomatic Service personnel overseas.	R&D (ODA)
Chancellor of the Exchequer's Departments		
HM Treasury	The Treasury's role in promoting efficient systems of financial control in Departments Typing and secretarial services*	
Board of Inland Revenue	PAYE files and their contents Repayment procedures in the claims and PAYE sections of tax divisions† The administration of Schedule D tax†	F
HM Customs and Excise	Procedures for dealing with and amending VAT registrations and deregistrations* The criteria for providing Customs facilities and the basis on which any charges for attendance should be made*	F
Department for National Savings	Post Office errors* Operating procedures*	
Department of Industry	The organisation and staffing for determining the allocation of financial support for research, development and technology sponsored by the Department*	R&D
Paymaster-General's Office	Declarations of entitlement for public service pensioners	
Civil Service Department	The delegation of authority to other departments*	Coordination of R&D and F
Department of Employment Group		
Department of Employment Manpower Services Commission Health and Safety Commission	Work permits administration* Procedures relating to sponsor employers taking part in Special Programmes* Approval testing and certification of products under the 1974 Health and Safety at Work Act*	F
Ministry of Defence	Defence Sales Financial management and control* Defence telecommunications Group passenger travel* Dissemination of information	R&D
Ministry of Agriculture, Fisheries and Food	Fisheries research and the work of the Torry research station	R&D; F
Department of the Environment	Control of administrative costs in DOE central and scope for local cost centres†	R&D; F
Property Services Agency	Custody service provided to departments having no such capability of their own†	F
Scottish Office	Role, organisation, staffing and effectiveness of HM Inspectorate of Schools in Scotland* Fisheries research	R&D
Welsh Office	Procedures for processing compulsory purchase orders and other orders/appeals*	
Northern Ireland Office	Organisation, systems and deployment of resources in the NI Employment Service†	
Department of Health and Social Services	Administrative implications of "final relevant year" provision for pensions* Handling of Casework in DHSS headquarters*	F

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DEPARTMENTAL AND GOVERNMENT-WIDE SCRUTINIES, 1981—*Continued*

Department	*Departmental scrutiny*	*Government-wide scrutinies*
Department of Trade	Handling of routine prosecutions by the Solicitor's Department*	
Department of Energy	International work*	
Department of Education and Science	Role, organisation, staffing and effectiveness of HM Inspectorate of Schools in England and Wales* Victoria and Albert and Science Museums	
Department of Transport	Winter maintenance of motorways and trunk roads*	R&D; F

*Already in progress.
†Completed.

Notes:
(1) The letters "R&D" and "F" indicate that the Department is also taking part in the reviews of supporting services for research and development and/or of administrative forms.
(2) Other subjects may be added later.

Examination of Witnesses

Sir DEREK RAYNER, and Mr CLIVE PRIESTLEY, Under Secretary, Prime Minister's Office, called in and examined.

Chairman

392. Sir Derek, may we welcome you and Mr Priestley in the inquiry into efficiency and effectiveness in the Civil Service. I understand that you would like to make an initial statement, and we would be pleased to hear it.

(Sir Derek Rayner) Yes, I would like to make a statement, because my submission was factual and I thought that, by my own words, I could bring you up to date since we last met. We have gone on looking at specific activities and functions through the scrutiny programme and the Service-wide reviews—and there has been good progress in tackling the underlying causes behind the kind of thing that is shown up in the specific investigations. We have got down to knowing a bit more about what administration costs, including rent, heat and overheads. We have made progress in making arrangements for Departments to pay for the services and assets they use. I think there is a bit more realisation that a great deal has to be done about management roles, responsibility and skills needed, of ministers, permanent secretaries and more specialist staff. I do not claim credit for all these things. As you know, I am an adviser to ministers. Nor can I claim that the job is done. As Lord Soames said in his foreword to the White Paper on Efficiency, a promising start has been made, but much has still to be done. However, many ministers and their Departments are on the right track, in my view (some, of course, further along the line than others). Lessons are being learnt and applied to other areas. Barriers are being broken down. More importantly, I detect a greater awareness of the need for economy, efficiency and effectiveness. For the future, I attach importance to five key issues. Firstly, there are many businesses in Government—the delivery of services to the public, purchasing of large and complex capital programmes, sponsorship, regulation, etc. Ministers need policies of good management for each. The scrutinies and the reviews confirm to me that you cannot deal with efficiency at large, because of the diversity of Government. Therefore, an improvement has to come about through specific activities, and I have no doubt that scrutinies and reviews should be a permanent part of the apparatus for promoting effective administration. Secondly, we must specify in clear, simple and commonsense terms what people are expected to do. I have seen rule books and procedures that ordinary people cannot understand and cannot implement. This is no way to good administration. Policy must not be sacrosanct because highly intelligent and educated officials in Whitehall understand it and appreciate its intellectual qualities. Thirdly, there is need for acceptance that in

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the wide range of Government there is always room for improvement. Supporting services get taken for granted, systems atrophy and lose relevance as circumstances change. What might have been a taut, well-conceived and well-thought-out policy may have been amended piecemeal and supplemented, as attempts were made to compensate for loopholes, and the result can be a jungle of procedures and inefficiencies. The fourth point is that we must push responsibility down the line to where the costs are incurred; define more clearly the framework of accountability, so that, where possible, individual managers have the authority to run their establishments or divisions. This will avoid complex bureaucratic procedures and give financial incentives to those who commit expenditure. I have no time for a centre which second-guesses the experts down the line on decisions they should take on their own responsibility: but I appreciate a centre, in individual Departments as well as in the Whitehall public expenditure system, which exercises a controlling role through making the intelligent effort to define delegated authority and to ensure that departments are operating systems which are adequate for financial management. The fifth point is that we have to close the loop on ministerial and Civil Service responsibility in a way that encourages ministers to feel responsible for the efficiency of their Departments, but recognise that there are practical limits to the extent ministers can manage. It means the Civil Service accepting a heavy professional and moral responsibility for good management. I judge that it has capacity in good measure, but zeal will fade if successive Governments will not invest in decent working surroundings (particularly in local offices), or if Parliament only picks holes and never says thank you for a job well done. To achieve all this we need officials in key positions, with the required skills and unmistakable instructions to run policies for good management; senior officials able to get out and see for themselves what is being done in the name of the ministers, and to challenge what they see. There must be monitoring of performance, which avoids harassment, but which holds individuals to account; a framework of financial management which avoids the worst excesses and encourages judgment, given the basic need to achieve value for money; and succession planning for key posts, which raises the status of getting things done and improves the range of talent in the Service, to ensure the relevant skills and experience. I do not regard any of this as a threat to civil servants who want to do a good job (and most of them do, in my experience). I am sure that they, as much as anyone else, look for vigorous professional leadership. They and the nation are entitled to do so. Thank you, Mr Chairman.

393. Thank you, Sir Derek, that is a useful *tour d'horizon* which I am sure many people will read with great interest. The first issue of the five that you put to us was that there is no single way of dealing with efficiency at large. Nevertheless, in this inquiry we are looking at questions of machinery and arrangements, rather than particular reviews of particular aspects of administration. Are there any suggestions that you would make to us about any institutional arrangements that should be made for the reviewing of efficiency?

(Sir Derek Rayner) As I have suggested, the centre should ensure that good systems are being practised in the Departments. There are a number of things, such as internal audit (of which I am sure you are well aware), where there are ways of doing it, and the centre should insist that the systems are operating. Similarly with operating costs; there are ways of making sure that information is presented in a way that management can respond to, and in my view there is scope for comparisons of costs between one Department and another—not necessarily to achieve the same outturn under the different headings (that would not be practical), but one can ask questions as a result of comparisons, and very often there is scope for asking for improved performance where a Department is way out on elements of overhead costs.

394. Do you think specifically there should be a central agency which is in some way a function rather than line which in some way relates to the functional organisations within departments which is specifically concerned with efficiency? In other words, should you be permanently institutionalised?

(Sir Derek Rayner) That is my view. I think there is scope at the centre to take a lead in these things and to help departments to bring about the changes they often wish to bring about themselves. Often there are barriers that stand in the way of such changes because of some central policies or other issues. So I do see the need for my

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kind of operation to be maintained for some time to come anyhow.

395. Should that operation be located in any particular part of Whitehall?
(Sir Derek Rayner) My view about the centre, I think, is also well known to you. I think whilst the centre remains divided in the way that it is I prefer to see it freestanding in the way that my office is freestanding at the moment.

396. While I am sure you will be there for a long time, Sir Derek, it is conceivable you might not be there forever. If you were ever to go, should the office remain freestanding so long as the Civil Service Department is separate from the Treasury?
(Sir Derek Rayner) In my view, yes. It could, of course, be expanded. It could take on additional tasks, some of which are at present done by the CSD, if it needed to be strengthened when it became a more ordinary part of the system than the way that I am able to work at the moment.

397. Is the essential reason for saying that the direct relationship with the Prime Minister?
(Sir Derek Rayner) It is partly the direct relationship with the Prime Minister and therefore the support one gets from Cabinet. It is also partly because the small unit that I have has, I think, developed a standing for knowledge in the areas in which we deal and, therefore, our advice is readily sought by the departments. At this time I do not think that departments would willingly look to the Civil Service Department for the kind of advice that they freely come to my unit to seek.

398. Why not?
(Sir Derek Rayner) I think we have established in the last two years the fact that this small team, working in the way that it does, has developed an accumulated knowledge from the departments.

Mr Beaumont-Dark

399. You talked about being institutionalised. I cannot imagine you as a person—an institution possibly. I remember it was said at school that China was never invaded successfully because they managed to absorb the invader. Is there not a problem that if you did become institutionalised, you or the idea, that itself would be much more likely to be absorbed into the monolith of the Civil Service than able to stand perpetually above it?

Mr English: Remember Genghis Khan.
(Sir Derek Rayner) While there is a Prime Minister who wishes to use such a unit in pursuit of more efficiency and whilst it is freestanding, I think it is very difficult for it to be absorbed. If there was a change of view by a prime minister about its value then, of course, I believe firmly I would have far more difficulty than to date.

Mr Beaumont-Dark

400. Up until now I think there is no doubt that what you have done has been tremendously successful. In the report you put to us there is mention of £67 million per annum saved and a £28 million once-for-all saving and the number of posts likely to be saved by 1984 is 1,500 which is more than commendable. Leo Pliatzky was making a point—as he does daily—but in this case he was making a point in The Times that he thought that there was little extra to come. Have you done—I will not say easy because we recognise the task you have done has not been easy—the more obvious things and is the road downhill now?
(Sir Derek Rayner) I would say I have not done the more obvious things. I have had a good mix. Some have been easy and I wished it that way because I was thus able to demonstrate quickly percentages of savings and other ways of doing things, but some of the scrutinies have, of course, been very difficult ones. We have certainly not run out of possibilities. The figures you quote are, in fact, those things from 1979 which have already been agreed to and, as you know, there is a great deal more in the pipeline than that. In fact, in 1980 alone I identified £128 million alone and 9,500 posts in addition to that for the statistical exercises, and this year we are taking on two further exercises across the board and I would see that growing in pace. So the answer is, no, we have only begun in my view.

401. Have your inquiries shown a structural weakness in the Civil Service as far as management and financial skill go, or is it just because you can see more because you stand above it—not aloof from but above it?
(Sir Derek Rayner) I think I have to start with what I said before, that in my view there is a lack of understanding of

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financial management in some parts of Whitehall, and I believe strongly that we have to make greater efforts to ensure a succession of people to the appropriate posts in departments and the centre who do have the necessary training. It is not necessarily professional accounting, though that is rather useful—an experience of handling financial management well. Similarly with regard to manpower control and personnel policies I believe that a far greater effort has to be made to ensure that those in principal establishment posts are chosen because they have a flair and a success in that area and not because it is their turn to be promoted to the post which has become vacant.

402. Speaking for myself, except for the present nonsense going on over the pay dispute, I have always found man for man civil servants are easily as good, particularly at top level, as those one comes across in business life. The "tea and no sympathy" civil servant is not something I have found myself. Bearing in mind that genuine regard for the individual civil servant, what do you think it is about the institution of government that seems to make it such a mish-mash as far as efficiency is concerned compared with Marks & Spencer with which you have done so well?

(Sir Derek Rayner) I think I have to reply by turning to political will. There is no question at all that, if it is understood that there is a desire to bring about reforms to achieve value for money and efficiency the Service fully understands that this is the task that they are about and will apply their minds to bringing about such improvements but, of course, so many activities in government are demand-led. A need arises to deliver certain things and it is often considered—and rightly considered sometimes —to be more appropriate to get on and deliver what has to be delivered (being unemployment benefit, or job centres and so forth) than actually to concern oneself initially with how efficiently it is done. So I think the political will is an important part of this and, given that it is sustained, I suspect one would see civil servants delivering. As you rightly say, they are of a very high calibre indeed and those who have worked for me have been of an exceptionally high standard.

403. Bearing in mind that you are almost one man and his dog (not that Mr Priestley is the dog), and bearing in mind that you are a small department, do you think a valuable task you could perform, bearing in mind your own management talent, would be to train and select other people to do what you are doing so excellently for us now?

(Sir Derek Rayner) If I can remind you, my office is indeed small. It consists at the moment of five plus two secretaries. But there are 230 people now who have been involved in scrutiny programmes and in designing the action document, some of whom more recently I am glad to say have been promoted in post to bring about the changes. So I believe that I am helping to train people at assistant secretary and principal level in methods which can be applied in managing affairs in government. So I would accept, yes, if I can be of help there, I certainly ought to make that one of my tasks.

404. What opinion do you hold of the capacity of the Civil Service to carry out longer-term reviews themselves, such as you are doing yourself now?

(Sir Derek Rayner) I would hope that, taken as a whole, it is readily seen now that this scrutiny technique of looking at a thing with fresh eyes is worth doing and does reveal room for improvements. Of course, improvements do not necessarily have to be of a staff reduction kind; they can be of another kind, such as improving service to the public by simplifying the forms, for example. There are many things that can be done to improve, apart from just cutting numbers. I believe that that point is being taken. As I said in my opening statement, in some Departments they have moved quite a long way ahead of me and have set up a number of scrutinies of their own, so it is beginning to happen without my involvement.

405. One of the popular things that people say is that if we could get people out of management into the Civil Service for two or three years, and vice versa, a bit like the French do, we would have a much better Civil Service. Do you feel that that is so, or is it just a popular thing that people say?

(Sir Derek Rayner) I think there is scope for better interchange. I can talk from the business point of view, because we have a continual number of people on secondment to us. The problem always is to find, for such a period, a really worthwhile job where the person can stand on their own feet and

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actually do something. But I would welcome any further efforts to place civil servants for a period in the business world, provided that they are given a real job to do. Similarly, I think it would help the nation a great deal if those in business did spend a spell in the Service. There is much to learn in the Service. Certainly in my case it has widened my experience and understanding of what Government has to do and has enabled me, when a problem does arise which involves the Government, instead of writing a rude letter, to get hold of somebody, and my view will at least be taken and understood.

406. I think we envy you that! Based on the experience of your exercise, what advice would you give us in the investigation that we are making? We are not here to try to have witch-hunts or to do something silly; we are here to try generally to advise Parliament on what we think is the best we can do with what is basically an excellent Service but seems to be grinding along too slowly. What advice would you give us?

(Sir Derek Rayner) The advice I must give—I must come back to my opening statement—is that you should seek out specific things that do inhibit the Service giving of its best. Some examples of that are the way that the regulations grow until they become unintelligible to those who have to handle them, which leads to staff turnover, it leads to wrong decisions being taken, to courts of appeal and all kinds of other things, merely because the instructions become far too difficult. So anything that delivers things to the public I think should be simplified. The second thing is to seek out what things cost. I have been surprised by how often I and my scrutiny officials have not been able to discover what it costs to do something. The third thing is to find out who the client is for some of the activities that go on. When we did the statistical exercise, that was obviously one of the questions, and sometimes we did rather run to ground as to who actually used, and had used, some of the statistics gathered.

Mr Beaumont-Dark: I think it was Dr Bray! Thank you.

Mr English

407. I am very impressed by the earlier part of your paragraph 32, Sir Derek. This is the one that says: "Work on '*people*' is designed to produce desirable changes and developments in the managerial culture of the civil service." It makes it sound rather like an agar culture. You go on: "The Civil Service Department is in the lead here, although it is acting in consultation with others, including me. The areas under consideration are: (1) Special recognition for success in grade; the accelerated advancement of individuals; the entitlement to automatic annual increments." You will recollect perhaps that I was once on the old Expenditure Committee. We went to Paris where they have the *primes*, a highly secret system for rewarding people who the head of department thinks should be rewarded above the average; indeed, the *primes* vary from department to department, so that one suspects that the *Ministère des Finances* has a somewhat larger amount to dispose of than some other Ministries do. We decided that such a secret system would not be appropriate in this society. We also went to Washington where we noted that if you were at a low grade in the civil service you might have a scale that theoretically could extend over forty years; the higher up the grade was, the shorter the scale, but they were all substantially longer than the scales that exist here. There, of course, people can be accelerated or retarded in their position in those scales. I think that retardation was fairly unusual and always subject to appeal, but acceleration was, I believe, quite common. This is what seems to be mentioned here. But then you go on to say: "Ministers have decided to place the main emphasis here on ensuring that talented men and women are brought on as fast as possible", and "brought on" seems to imply that they are promoted rather than accelerated within their grade. Could you clarify what precisely is meant by that?

(Sir Derek Rayner) It is firstly what you suggest it is, but additionally it is that people who have a certain talent should be given the range of experience that will enable them to be promoted, and promoted because they have demonstrated skill and knowledge in that area. So it is two things. I personally am a believer in a wider range within a grade of rewards. Because I practise it, I am a great believer in the use of merit. It is perfectly commonplace, in my experience, to have the pay scale of one grade well overlapping with the pay scale of a grade above it. Of course, that is easier to deliver in the private sector than it is in the public sector

408. You are probably aware that in the evidence we took on 8 July I asked the

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Head of the Civil Service "Do they"—that is, people, if you like, at the top of the Civil Service—"all have an equal chance of promotion". The answer from Sir Ian Bancroft was: "They do not have an equal chance of getting to the top, as you know."For example, professional people have less opportunity of being promoted than non-professional people in the Civil Service. Therefore, how does the second part of this sentence here relate? Does it mean that ministers are deciding to allow people to be promoted on merit in future?

(Sir Derek Rayner) I think one has seen signs of accelerated promotion on merit recently. There have been a number of cases where people have been promoted, to my knowledge, on merit.

409. That answer by the Head of the Civil Service was only given on 8 July.

(Sir Derek Rayner) It does not apply, of course, across the board to all individual cases that an individual does get accelerated promotion because he is identified as having an outstanding talent. The problem, to me, is the scope for promotion. You cannot make a position. If you have got a number of grades, you cannot necessarily acknowledge a man's ability by promotion, because the opportunity may not be there. What I am personally dead against is promoting a man or woman out of a job that they were good at and finding them a job in something in which they have had no experience, or where their success has no relevance.

410. That is right. I think you will find that the question and answer I quoted followed on from a question and answer about the amount of pay: "I was talking about incentives to efficient people in the Civil Service and I meant money, I did not mean KCBs; . . ." My question to the Head of the Civil Service was "Can you think of any better way of making people more efficient in the Civil Service than offering them more money if, in the opinion of their superiors, they are?" Sir Ian Bancroft: "Yes, the occasional word of appreciation." It seems to me, if you are a professional person in the Civil Service in the terms stated on 8 July by the Head of the Civil Service, you have less chance of promotion and also less chance of money. So your incentive is, in the words of the Head of the Civil Service, "the occasional word of appreciation". Do you think that is sufficient?

(Sir Derek Rayner) I do not want to second guess what Sir Ian Bancroft meant but I will have to try because I believe he must have meant that, if the man remained in the narrowness of his profession as his lifetime career, then the chances would be more limited because there is often only one top post. But I know of professionals who have taken on other tasks and done them well and, as a result, promotion opportunities are open to them across the whole range of general skills. Indeed, that is what is needed, not only in the Service but in the nation at large. We should, all of us, make greater effort to take the professional and, if he wishes, to give him an opportunity of widening his experience before it is too late.

411. I think we would probably all agree on that, but leaving the promotion question aside, going back to the question about one man in a grade maybe being more efficient than another man in a grade, may I first ask, do you think everybody should be paid the same amount if they are in the same grade?

(Sir Derek Rayner) No.

412. Do you think it would be possible to create a wider set of scales, if you like, that allowed scope for paying the more efficient people in that grade more money?

(Sir Derek Rayner) I was able to answer the first question quickly because you put it to me as an individual. The second one, of course, gets into the organisation and the pay scales of the Service itself, so it is a more difficult question for me.

413. I was not asking you to give your opinion of the trade union position. We would ask the trade unions that. I am saying, would it be possible to create it?

(Sir Derek Rayner) It would be much more difficult, but I would like to see a greater effort made to reward by pay people who do a good job, including people, for example, who do a good job in saving money annually in the using of resources under their command. So I would like to see an attempt made to reward in that way. As I said, it is perfectly ordinary to do so in business.

414. Given the society in which we live, it would be likely to cost more money to do this?

(Sir Derek Rayner) Well, no, it would not, you see—because if you reward merit to my mind it is equally true that you

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penalise failure. So if you have a pay increase, for example, of 10 per cent some will get slightly more if they have done a good job and some will get slightly less. In my experience it still adds up to 10 per cent.

415. Not even the Americans, who have a considerably different society from ours, find it possible to do that. They find it possible to accelerate but in only 2 per cent of cases do they find it possible to decelerate.

(Sir Derek Rayner) I would certainly not keep people standing still; as you gather from my picking 10, going down to 8 and up to 12, the merit is cumulative because over a period of time you accumulate quite a bit more but the person who is not doing a satisfactory job would certainly get less. I find it difficult to understand why it is not possible to do that, because there is a very elaborate appraisal system that has a series of boxes which comment on people's performance and it would seem to me that, according to where the tick was placed, so a person should participate.

416. I think the real answer is that it is easy for a man to go home to his wife and say "I just got 10 per cent more for being good" and not so easy to go home and say "I just got 10 per cent less".

(Sir Derek Rayner) I think one must not exaggerage the people who will be above and below the average. I should make that point. The bulk lie in the middle unless the recruitment has gone totally wrong. The main bulk of people are good people doing a good job who will gradually grow through service and through promotion in the course of time.

417. I think we accept for the moment the argument that it might cost some more money. Do you agree, in fact, the higher ranks of the Civil Service are rather underpaid? The example I quote is that of the Comptroller and Auditor General. When the post was recently to be filled, according to press reports nobody from outside wanted it. It so happens that the Comptroller and Auditor General is paid more than a permanent secretary but he is paid probably a third or a quarter of what a senior partner in a major firm of accountants gets. In other words, people at the higher levels are very poorly paid in relation to industry and commerce. Would you agree with that?

(Sir Derek Rayner) It depends on their performance.

418. I am talking of the jobs, the jobs are relatively poorly graded.

(Sir Derek Rayner) Well, you have a problem here. You raise the particular one of the Comptroller and Auditor General, and there are some jobs external to government in large organisations which are highly paid. I would be much better off frankly if I had gone to the City ten years ago instead of remaining in a commercial organisation, but at the end of the day one has to choose the kind of career that is appropriate to what one has. I certainly would not take that to the full extent, whilst accepting that particular skills needed for the Comptroller and Auditor General do come from a part of society which somehow or another seems to earn more than some others of us.

419. I only used that as an example. The Permanent Secretary to the Department of the Environment is only paid a few thousand more than a chief executive of one of the counties for which he is in a sense responsible. Do you really think the pay structure at the top of the Civil Service is rational?

(Sir Derek Rayner) I think I really ought to duck that one because, if I respond to specifics, again I think I will get into trouble. The overall view that I have——

—

420. Would Mr Priestley care to comment?

(Mr Priestley) I want to make a point, if in my role of Fido I am allowed to speak. Perhaps just to comment on Mr Beaumont-Dark's reference to one man and his dog I could say one man and his dog did go to mow a meadow. I think one point very relevant to Mr English's question about merit payment is the way in which at the moment under the elaborate system of confidential reporting to which Sir Derek has referred you can get a great evening out of the representation of quality. We were told the other day of a fairly major department of state in which, according to the annual confidential report forms, 93 per cent of the staff were above average. Now, one does not jump from that phenomenon to saying merit pay is the right answer, but I think if managers are obliged to put some money where their mouth is it may make their

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management of staff rather more sharp and effective.

421. Twenty years ago the Institute of Personnel Management wrote a paper on how to rationalise the verdicts given by managers in reports of that character. What you are really saying is, since there are no personnel managers as such in the Civil Service, they have now caught up on that?
(Mr Priestley) That is a point of view.

Mr Eggar

422. Sir Derek, could I first of all start by following up Tony Beaumont-Dark's question? He asked you what we should be doing and you replied still in fairly general terms. Do you think it would be useful for this Committee, for instance, to carry out its own Rayner exercise in some form or other?
(Sir Derek Rayner) My Rayner exercise depends very much on ministers. I firmly believe that if I had set it up in any other way, if I had set up a central kind of operation—and presumably you could get the Auditor General to do so—I would not have got to grips with the kind of thing I have got to grips with. I am not quite certain, given the instruments that you have, that it would be entirely helpful to you. I think you could certainly take specific things using the instruments you have.

423. Have you any suggestions?
(Sir Derek Rayner) I should think, taking the Auditor General's Department, there is knowledge there of control of money, of the internal audit on which he has reported. There are things of that kind; but I think once you tread on a minister's prerogative without the necessary resources at your disposal the likelihood of success is not very great.

424. We are swallowed up by the machine, are we?
(Sir Derek Rayner) It is just that you need the resources.

425. The reason being that I think I certainly have a concern that we are still scratching the surface, we are going round the outside, and we are not actually digging enough into specific areas; that it is very nice seeing you and other distinguished gentlemen, but perhaps we are not getting beneath the skin.
(Sir Derek Rayner) The only advice I can give is the kind of advice I gave to the scrutiny people and the kind of advice I gave to myself, which is to go out where the work is done and ask questions of those who are actually carrying out that work. If my scrutiny officials had not gone to see for themselves, and had the help and advice of those who actually do the work, we would have made very little progress ourselves. So go wherever you can go and see for yourself and ask those who are delivering whatever it is what they think about it all. I doubt if you would come away without some added knowledge and leads on quite important questions.

426. Thank you very much, that is very helpful. Did you read the exchange of views that we had with Sir Ian Bancroft on the succession planning questions?
(Sir Derek Rayner) No, I have not read them. I heard of them; they were reported to me immediately after the meeting.

427. I am delighted to hear that. I put the view then that it was really quite extraordinary that it seemed to take the CSD a year to produce a three-page document on succession planning. Do you think that was an unreasonable length of time to take (after all, it is a very important area)?
(Sir Derek Rayner) We did do a little research trying to discover why it took so long, in order to answer your question, and I will ask Mr Priestley to respond to that, because we did ask that very question ourselves by looking into it.
(Mr Priestley) I would like to reply only in respect of our contribution to the period of time it took. We were interested to see whether we ought to stand in a white sheet before this Committee on the question of whether we ourselves had been incompetently delaying the thing. I think the answer to that is that we did a bit, through the pressure of other work. Some proposals came to us early in September last, at the same time as they went to other Departments, and I see that our own comments went back to the CSD some considerable period of time afterwards, towards the end of November. I would say in mitigation of that that I do not think that other laggards were being pressed, and we were not pressed ourselves. However, that is only a sort of 0.1 per cent mitigation. We would have liked to have dealt with it rather faster. So that to that extent, we do feel that we contributed a bit ourselves to the delay.

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428. But you were not pressed; you took two months, but nobody bothered to pick up the telephone and say "What's happening to it?"?

(Mr Priestley) That is the fact.* I would say, if I may, in mitigation or possible mitigation of what my colleagues were doing in CSD, that they too had a number of other things to deal with at the same time, some in response to our own activities and many others from other quarters, of course.

429. You are very loyal, Mr Priestley.

(Sir Derek Rayner) The problem here, if I can quickly respond, is the amount of consultation that has to take place, and the amount of to-ing and fro-ing that goes on as a result of that consultation. I have always found that the best way to sort something out is to get out and sort it out on a face-to-face basis, because the moment you get engaged in a long exchange of correspondence and comment, it becomes very time consuming indeed. So I suspect that not enough face-to-face work was done, although a great deal of consultation would have been necessary on a document of that kind.

430. Are you dissatisfied with the result of the incubation?

(Sir Derek Rayner) As Mr Priestley says, it is a rather small egg!

431. Yes, that was implied in my question.

(Sir Derek Rayner) All we can really say is that it is a start. As I said in my opening statement, there is a great awareness, particularly in some key posts, that there has got to be more awareness of planning for people to fill key jobs. Indeed, that has happened in a number of Departments, to my knowledge. In discussing Government, the problem is that there are always some people who do it well and some people who do it not so well, but the centre does not necessarily have the kind of influence on those who do not do it so well, as it ought to have.

Chairman

432. If I may extend Mr Eggar's question, Sir Derek, an area where all recent Governments have had considerable difficulty in succession planning is in the nationalised industries; there is no obvious succession planning there reaching beyond the corporation, in that, to the best of my knowledge, no Department receives regular personnel reports on the senior levels of staff in the major nationalised industries. Do you think there is scope for development in that direction?

(Sir Derek Rayner) The only nationalised industry I knew well in times past was the gas industry which, in my view, did well in succession planning.

433. Within the corporation?

(Sir Derek Rayner) Yes, within the corporation.

434. But it is the minister who has to make board appointments, and in particular the chairman. I am not aware of any appreciation of what is to be the succession planning for chairmen of nationalised industries who may well have usefully served a period as deputy chairmen in another industry, or in the private sector, or even in a Government Department. Would you agree?

(Sir Derek Rayner) Yes, I think I would, although I must stress the difficulty of getting candidates from outside to offer themselves up for nationalised industries.

Mr Eggar

435. It is a sacrificial gesture, is it?

(Sir Derek Rayner) I was one of the people who was involved in trying to give advice as to where such candidates could be located. Location I found, but willing participants I did not very often find.

Chairman

436. But partly because of that, if there is good succession planning within the nationalised industry, then it raises morale, does it not?

(Sir Derek Rayner) Within, it should do.

437. Yes, but of people who are within, who should be promotable to chairman?

(Sir Derek Rayner) Yes. I would agree that we should do more with that.

438. Would you go so far as to say that normally the chairmen of nationalised industries should be promoted from within?

(Sir Derek Rayner) Very much so; and that an outsider should only be appointed—and that will happen from time to time, it

*Note by witness. Subsequent checking by CSD officials has indicated that on two occasions (in early October and mid-November) CSD officials telephoned to enquire about progress with comments.

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happens in business—because, for one reason or another, such a man is not available from within.

Mr Eggar

439. To revert very briefly to the succession planning point, one of the things that struck us is the age element. If you look at the permanent secretaries, the average age is, I understand, 56, with a retirement age of 60, and there are still relatively few young men who are coming to the top. What can be done to overcome this?

(Sir Derek Rayner) Frankly, the only thing that can be done is to have the determination to give accelerated promotion to people in their thirties, so that they have gained enough breadth of experience by the time they are in their early forties. You cannot do it otherwise. I think that that is part of the problem; that although much is done to broaden the base of knowledge, not enough is done to ensure that a good man has all the necessary experience to take over as a permanent secretary in his early forties.

440. In your answer to one of the previous questions, Sir Derek, you said that you had acquired a respect within the Service, and that the Service would come to you and your Department. Why do you think the CSD have not achieved the same respect (though it did a decade ago when it was first set up)?

(Sir Derek Rayner) I am going back to my own recollection of the CSD in the early 1970s. I think it had it then. It had been set up to do a specific job, and it got on, went about it and did have a respect at that time. I think that over the passing years it has been tasked with other jobs. It comes back to the fact that I came in with a Prime Minister who was determined to bring about a realisation of certain aspects of the work in Government. I think that if I had not arrived in Government, and the Civil Service Department had been tasked, they would have made progress, given the political lead. However, I have been in the lead. It is to me, rightly or wrongly, that Departments look, because of the knowledge that I possess; and that is the fact, unfortunately or not, today: that I have acquired the knowledge and experience across Whitehall, and not necessarily the CSD.

441. One of the things I find genuinely perplexing is that consistently you and members of the CSD come to us and say "Of course, it is political initiative that we need", and the way our advisers explained that to us earlier was this: they said all the top officials in departments have far too much to cope with, they therefore inevitably themselves select the priorities and, if the government does not put priority on efficient cost-effectiveness, then it drops to the bottom of the pile. Well, one has a very major questionmark over that. What is wrong with the structure of the Civil Service that actually allows the top management to get so overburdened that they cannot manage?

(Sir Derek Rayner) Again, if you recollect, in my opening statement I think I said we have definitely got to change that. There is an element of management there that must not be abdicated, whatever the political element of the day is. We must try hard to make sure that within the career structure of the Service it is clearly marked that a man who knows how to manage, who is a leader of men, will gain promotion as readily as those who are clever and articulate, and that has not necessarily been recognised in the past. Once it is recognised I think we will continue to have that balance at the top because, even if a minister is not imterested in management—and he may well not be for very good reasons—in my view the permanent secretary has a responsibility to make sure that management is taut.

442. What you are really saying is that the whole focus of the open structure has become slanted in some way; the growth of government has sort of become so great that people are still going off on the old traditional functions of the Civil Service which were carried out maybe 20 or 30 years ago?

(Sir Derek Rayner) To be fair to them, there is another problem they have always had. They are continually challenged to implement new policies. A great deal of their time is spent making sure that new things are carried out. They do not give enough time, as the scrutiny programme has enabled me to do, to sitting back and challenging some of the assumptions and ways of working which do belong to the historic past. It is a question of getting the right balance of priority. We cannot move totally one way or another, but there should always be a balance.

443. You feel that, if you can get it right now, it could survive changes of government so that there is a sort of———

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(Sir Derek Rayner) That is what lasting reforms (I use that as a sort of shorthand) are about, but it will not survive unless it is clearly seen that promotion comes to those who make good use of resources, who can manage, and unless, in my view, every permanent secretary as part of his annual account shows what he has saved, what he has done this year to simplify and update his part of the show, just as indeed anybody else would do outside.

444. How long will this take to achieve, Mr Priestley?

(Mr Priestley) I think the important point to recognise is that a lot of the thinking which Sir Derek has briefly summarised comes from the minds and experience of some very able and experienced permanent secretaries and others. Sir Derek referred at the beginning to the acceptance of a professional and moral responsibility by the higher civil servants and I think the conviction of our office is that a number of things are necessary, as follows. First of all, there shall be a clear specification of the nature of the responsibility to which Sir Derek has referred, and there is no point in that being fairly generalised or philosophical; it has to be specific and it has to be rendered in such acts as Sir Derek has referred to, namely, the tendering to a minister at the end of the year of an account of the cost of the department and what has been done to improve upon all its assets and to save and so forth. There is no doubt at all in my mind that we have to be absolutely specific with permanent secretaries and with others. There was some scepticism expressed in your Committee last week, Mr Chairman, about some of the documentation which has been issued in the recent past by the Treasury and CSD on some of these matters. Our own view is that this is part of a valuable start, namely, giving permanent secretaries, principal finance officers and principal establishment officers, a sort of warrant. I think the direct answer to Mr Eggar's question—how long will it take?—is this: that provided we can build on the start that has been made, provided we do not have automatic awards and rewards for people, provided there is promotion for the able, there will be a very rapid understanding throughout the Service generally that these are the new professional, moral principles governing the Civil Service.

445. With respect, provided all these things—and it took the Service a year to produce the three-page document on succession planning—I admire what you are doing, but there just does not seem to be the necessary impetus there.

(Mr Priestley) I think we regard ourselves, with due modesty, as providing a certain amount of impetus. Basically speaking our operation consists of a left hand and a right hand. The left hand is addressed to the effects of management, as it is through the scrutiny and government-wide reviews which provide evidence from civil servants themselves—I repeat that point—which cannot be refused. Some of it is evidence of excellent management, some of it is evidence of very poor management. The right hand is the lasting reforms. I think you are absolutely right to imply those sorts of changes are rather more difficult to achieve because they are cultural, attitudinal, professional, than dealing with intrinsic effects. But we are certainly not dead yet!

(Sir Derek Rayner) I think also there has to be a realisation amongst the younger people that management is an essential part of their career development and I have been encouraged again by the fact that one or two outstanding principals have asked to go and manage a local office, including Sir Ian Bancroft's Private Secretary up to a short time ago. So it is beginning.

446. Could it be an indication that the wind is blowing?

(Sir Derek Rayner) It is not a bad sign when people ask to go from private office to managing local offices.

447. Could I move on to another area? One of the points you made earlier was the need to establish costs so that management knew the input cost. How easy have you actually found that, because it is relatively easy in the private sector—you buy stuff in and you are invoiced. What progress have you made?

(Sir Derek Rayner) I have to get the invoices right. That is what I have been heavily involved in organising, that all common services are in future provided on repayment. Again it will take a couple of years minimum to get that going. I have to get the invoicing right and get rid of the common service label. We have to get the management information, the cost of doing things, expressed in management terms whereas in the past they have tended to be expressed and read in vote terms, which is fine for the resources voted by Parliament but not so good for reviewing the cost of

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doing things. We have gone some way with that, and the Secretary of State for the Environment's scrutiny this year is examining cost centres in the appropriate parts of his Ministry. I have had sight of the report that has come up and it shows the way outstandingly clearly in my view.

448. What is the way?
(Sir Derek Rayner) To have more realisation of what it costs at the given place of work, you know, local office, regional office or command in headquarters.

449. To what extent are those costs fixed?
(Sir Derek Rayner) They are always, some of them, fixed and they certainly cannot change their addresses necessarily from an expensive one to a cheaper one, but there are many consumables on which you can measure performance. Our managers in Marks & Spencer do not have much say in the cost of the building, but all the other consumables they are held responsible for and so I would like to move as far as one can, recognising that there are limitations. But a great deal of progress can be made in making people aware of costs.

450. To what extent are you going beyond the main one we know about, which is PSA? What other areas?
(Sir Derek Rayner) Stationery started a year ago. We have been encouraged by what we have seen as a result of departments getting bills for stationery. One example came to our attention of a bill arriving for a rather large sum of money—some millions—and they said "Well, we haven't bought any stationery". The reply was, "You haven't bought any, that's the cost of warehousing your surplus stock". So it does begin to work in that way. It is an awareness of what you can control that is terribly important. If you are not aware of what you control the whole thing gets out of court. To me it is very important to know the cost of electricity, not because you will sit in the black forever if you are going to change the overall budget but because it affects the whole way you go about your work.

451. Finally, as I am not sure which Member said, at some time or other you will pass on. Do you feel that your job has to be done by somebody from outside?
(Sir Derek Rayner) No, and I would regard myself as a failure if I did not think I could leave it in a way such that an insider could take it on because right from the start I resisted the temptation to bring in too many people from outside as that would have been a short-term expedient. I think one of the successes I suggested is that in the scrutiny programme we now have some 200 odd good officials around Whitehall who have now some knowledge. I would like to develop a skill from within.

452. But is it likely that an insider, so to speak, would ever have the relationship with the Prime Minister of the day, that you have been able to develop?
(Sir Derek Rayner) Providing that they were going about the business as she saw it, I see no reason why not; or providing that they were going about the business as her successors saw it.

Chairman

453. Sir Derek, I have half-a-dozen points which I would like to pick up, to complete the picture, if I may. You refer in paragraph 24 of your memorandum to the ministerial scrutiny of departmental running costs. The most explicit example of that that we have seen is MINIS. What is your view of MINIS?
(Sir Derek Rayner) It is a very detailed, excellent system for a Department, in the hands of a particular secretary of state. The principle is right everywhere. I do not know if that detail is necessarily right everywhere.

454. Why not?
(Sir Derek Rayner) But it certainly should be taken seriously as a way of going about things.

455. Why should it not be right everywhere?
(Sir Derek Rayner) Because the nature of the demands of the DOE lent itself very readily to that system; it developed out of that Department's needs (rightly so). But the principles should be applied elsewhere, and, indeed, you could take the total package elsewhere.

456. Elsewhere in your report you refer to the read-across of the facilities. What steps have been taken to read MINIS across to wherever it is necessary?
(Sir Derek Rayner) Again, these reports are available to each Department, and they are asked to take them into account. It is not within my power to insist that secretaries of state run their Departments like the

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Secretary of State for the Environment, but they are aware of that particular exercise and, indeed, the next one coming up (which is also under the leadership of the Secretary of State) will be equally important, because MINIS is about control, at the end of the day, of manpower, and the rest is about control of all other costs. So you will then have a total package which is very appropriate elsewhere.

457. Is not a part of the problem that ministers are very different animals?
(Sir Derek Rayner) Yes, that is really what I am suggesting.

458. The system has to be such that it can operate with any particular kind of animal at the head of a great Department of State?
(Sir Derek Rayner) Yes.

459. Therefore, does not the system, in a sense, have to have a degree of continuity which can only be provided by the machine?
(Sir Derek Rayner) It does have to have a degree of continuity that can only be provided by the machine, but the MINIS and the cost centres do need a minister. It does not have to be the secretary of state, of course; he could delegate that task to one of his colleagues, and one would hope that within a big Department one of his colleagues would have such an interest and would do that on his behalf.

460. But would it be your view that, whatever provision *is* made of this kind in a Department, there should be a handle by which a minister who is so minded can pick it up?
(Sir Derek Rayner) Very much so, yes.

461. And that it should be designed in that way, with a slot for the minister to carry it out?
(Sir Derek Rayner) Yes.

462. Supposing the situation is that a particular secretary of state does not take an interest in this aspect of his job; is there any means by which the gap can be filled by the role of the central agency?
(Sir Derek Rayner) If the minister does not take an interest, it is very difficult to fill the gap by an external agency. I would like to see, however, the realisation developing that a central agency has the right to insist that certain systems are operated within a Department. But without the cooperation and the involvement of a minister or one to whom he delegates authority, I think it is very difficult indeed to influence the way a Department is run.

463. Supposing, for example, it were felt that MINIS were useful, at least in the Department of the Environment, and that it should be continued, but that the next secretary of state did not continue it; would it be appropriate to make provision that an outside agency would look at it periodically and minute the secretary of state to say "Your chaps have done a first-class job in the management of the Department. Please would you like to notice this"?
(Sir Derek Rayner) Within limits, I think the centre does have such a role, but it is very limited. What the Secretary of State for the Environment will have achieved, I believe, is a system that is now functioning; and in the event of his being succeeded by somebody who was not as interested, there would be the momentum in the Department, there would be a colleague in the Department, who could ensure its moving forward. I doubt if it could be implemented at the outset without the knowledge and involvement of a minister.

464. You do say in paragraph 34 of your memorandum, in sub-paragraphs (2) and (3), that: "The areas under consideration are: . . . (2) How best to express the managerial authority both of Ministers in charge of departments and of their Permanent Secretaries, so as plainly to establish the management functions of each and also to suggest what habits or routines would be most helpful to Ministers." What kind of habits and routines would you like to see?
(Sir Derek Rayner) For example, as we were discussing with MINIS, if they do not feel that that is appropriate to their Department, one would like to challenge them to propose a substitute. However, one would not accept a situation where there was no system at all to review manpower control or cost control. So I think the centre has to ensure that an adequate system is employed, but one must leave it, I believe, to the minister and to the individual Department to make such proposals.

465. It is specifically the minister, not the permanent secretary, whom you would charge with this?
(Sir Derek Rayner) Clearly, he relies heavily on his officials, but I believe the minister cannot abdicate, or the totality of

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the ministerial team cannot abdicate, from this, if they wish good management in their Department; somebody must take an interest.

466. In the next subparagraph you say: "How best to define the responsibility and accountability of officials to Ministers *via* the Permanent Secretary", and the "via" is underlined. Is that just because it is in Latin, or because it needs emphasis?

(Sir Derek Rayner) Just because it is in Latin, it must be. I had not noticed that myself.

467. Are you saying that it must specifically go through the permanent secretary?

(Sir Derek Rayner) Yes, it has to, at the end of the day. The rest of the sentence mentions "key management posts", because it is not just the permanent secretary, it is the principal finance officer and the principal establishment officer, and it has to be divided up very clearly at those levels, in my view.

468. Could we move on to the question of effectiveness, Sir Derek? I think it could be argued that your surveys have been primarily concerned with economy in the means of carrying out functions, rather than just how effectively the function is carried out: for example, in your Department of Employment/DHSS scrutiny the wider questions of the risk of people working and enjoying unemployment benefit concurrently; any relaxation of the pressure on unemployed people to find work (if that, indeed, were needed); the general efficiency of the labour market. How far do you take these wider issues into account?

(Sir Derek Rayner) In the particular case that you quote, very much so. My view is that that requirement of compulsory registration does little to ensure that people seek work who should be seeking work. There are many people who compulsorily register, for a variety of reasons, and it absorbs time quite unnecessarily. If you take the case of a man or woman who retires, in an occupational pension scheme, and rightly or wrongly does not want immediately to take up employment, unless they register as unemployed they are involved in certain other things; at the moment they have to go and register at the job centre, and the job centre has a good idea that it spends a good deal of time interviewing people on its files who are not really looking for a job. I can give a classical, anecdotal example of that: a retired brewery foreman aged 62, after four years on a good pension he put himself down seeking for a job as a brewery foreman and he was not mobile; I asked how many breweries there were in the town, and he said "One", so it did not give him much chance of finding a job. So there are a number of examples where people turn up because they have to get that card to take along to social security or to the unemployment benefit office. I believe that where the payment is made is just as good a place to make sure that payment is not being made falsely as actually registering. They do not have to return to the job centre, you realise, once they have registered. Again I tried to ascertain how far they were able to chase up those who had registered because of other things, as they rightly do. They are not able to do that a great deal.

469. It is obviously a particularly difficult time to assess the working of the labour market, but can you give any examples where you have recommended means of achieving greater effectiveness by the use of more resources rather than less?

(Sir Derek Rayner) More resources will be needed, for example, in working through a five-year period to change the methods by which benefits are delivered. I would certainly say some of the recommendations on PAYE will use, albeit temporarily, I must admit, more resources, but I have always had the view that in certain areas it is right to recommend the use of resources. On follow-up of fraud I was not very popular in suggesting more people could be used in a cost-effective way in following up fraud in the Inland Revenue. So, yes, we have; and officials have been clearly told that it might be the right approach.

470. What about looking for entirely different ways of doing the job?

(Sir Derek Rayner) That is very much one of the challenges we have given to the scrutiny officials and, of course, they have come up with precisely that. The PAYE system will now be substantially changed. As a result of successful scrutiny, whole activities have ceased. The Accounts Register, employing some 160 people, has just been abolished. The vehicle licensing enforcement has not been changed as much as I would have liked or the scrutiny official would have liked, but they did come up with substantial proposals for change. So yes, they have done that.

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471. How would you go about considering the effectiveness of a programme the effectiveness of which is obviously extremely important but difficult to measure? You have taken on, for example, the Schools Inspectorate: how do you look at the effectiveness of that? Is it not almost a matter of looking at the effectiveness of education as a whole?

(Sir Derek Rayner) That particular one is an example of a scrutiny that is not really about economy, it is about the use of resources and the balance between what work they should do for policy-making, as a simple division, and what proportion of their time should be spent in ensuring that the policy is delivered by way of education in schools. That is an example of a scrutiny that is trying to look at the balance of the way they use their day. So I hope that as a result of scrutinising that we will get the balance right. It was set up because there was a considerable weight of opinion that too much of the inspectors' time was spent in helping policy formation and too little in ensuring the policy was implemented.

472. But you would not venture into the field of measuring the efficiency of the education establishments?

(Sir Derek Rayner) No, this really is a balance between collecting for policy and implementing policy.

(Mr Priestley) Could I add a supplement on that? I think there is an excellent question there. Sir Derek mentions the use of these very highly qualified able men and women, most of whom are very substantial individuals in their own right—this at a time when we have some very large secondary institutions, in particular, some of whose heads and staffs in particular parts of the country are really grappling with entirely new problems in managing large institutions with possibly 80 to 90 staff and 1,400 to 1,500 pupils. So there is a very good question often about whether the inspectors are ahead, abreast or behind. I think that we would stop short of some sort of conceptual or philosophical view of the effectiveness of a force like this but would very much try to take a common sense view by observation on the ground of how they are seen in schools, what they are giving back to the schools, rather than taking away for national research and policy oriented activities.

(Sir Derek Rayner) Again I would remind you that it is very much a departmental scrutiny, the Minister will be deeply involved in the detail.

473. That is not necessarily reassuring, Sir Derek. On the general position and posture of your job, it is presented—and you presented it yourself—as mainly concerned with administration rather than with content of policy. You said in your report on the statistical services that under the general principle that information should be collected primarily because government needed it for its own business rather than, for example, the information of Parliament or the awareness of the country as a whole of its own social development. Do you think that is ———

(Sir Derek Rayner) I am a great believer in the client being recognised. I believe if government collects statistics it should be as a result of government policies and not because officials think it is a good thing to do. What worried me was the growth in statistics seemed to have arisen not because anybody in government had said it ought to be done but because somebody in the machinery thought it was a jolly good idea.

474. Can I give you an example? The Select Committee on Housing reported yesterday on the lack of research on, broadly, mobility in housing and the effect that council house sales have on the availability of houses for relet. Now, that is an area of research which to get any solid content would necessarily have to go on over a period and, therefore, necessarily overlapping more than one government. Do you think that, although the Labour Government might have been opposed to the sale of council houses, nevertheless there should have been officials who said "Look, the turnover of council houses is important; this ought to be examined"?

(Sir Derek Rayner) I can easily answer that. I think housing is always going to be something that governments have to take account of. It does arise in governments of both persuasions. I would have thought therefore it was right and proper and understood that governments would need an adequate base of knowledge there. But I do not know enough about these individual subjects to know the background.

475. But in the statistical review, coming back to that, you recommended work on wealth distribution should be stopped. Is that not something which directly reflects the view of this Government?

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(Sir Derek Rayner) Well, no, it did not arise from the view of this Government. These reports have been prepared by officials again and one was looking for a client and what use and value such collections had and what use had been made of them. That was the continual question asked—one asked "Who wants to know?"

476. The distribution of wealth is a matter that opinion outside government regards as quite important; actually to discontinue work on the statistics of wealth distribution does seem rather a political step, does it not?

(Sir Derek Rayner) Not to me. In my view, many of these statistics could be more readily gathered through other agencies, and not ———

Chairman: In this case it is an analysis of the statistics by the Central Statistical Office.

Mr Beaumont-Dark: You are not being a bit biased?

Chairman

477. It is a question of whether in the recommendations you made for the statistical services you regarded the integrity of the statistical services as representing a view of developing society as more important than following the particular administrative views of a particular government at a particular time.

(Sir Derek Rayner) There was no political influence on any of those recommendations. They were the recommendations of the officials—the Chief Statistician was very much involved, and one of his staff, of course, at the time—he has now joined my team. So you might take that view but that is not the reason for any of those recommendations, I do assure you.

478. On another matter, Sir Derek, much of the work that you are doing would, twenty years ago, have been described in the Civil Service as organisation and methods, and in those days the Civil Service was regarded as pre-eminent in the field. Do you think that it would have been possible to avoid a good deal of waste and diversion of effort and confusing argument, had that development of organisation and methods in fact continued on a steady course over the past twenty years?

(Sir Derek Rayner) I do not know what course it has continued along, so I cannot comment on whether it was steady or not. In my own view, it has an important role to play. What I am saying is very much that I am not dealing with organisation and methods; I am dealing with senior management involvement in the efficiency with which the Department is run, which includes using the skills or organisation and methods, but that is only one instrument. However good the team is on organisation and methods, if it is not forming part of a top management approach and top management are not involved, it really cannot deliver. It is like staff inspection. I have reason to believe that they do a good job in a number of areas, but if they are not backed up, and if top management are not interested in their work, good or bad, up or down, they will not win. So it is very important that those instruments are there, but they are not enough on their own.

479. So you are not really pronouncing on the adequacy of any particular instrument or otherwise?

(Sir Derek Rayner) No.

480. You are saying that, whatever the instrument is, it must have top management taking an interest?

(Sir Derek Rayner) Absolutely.

(Mr Priestley) Could I comment that the forms review which is mentioned in Sir Derek's report will be carried out in seven of the eight participating Departments by management services staff.

Mr English

481. By the management services staff of the CSD?

(Mr Priestley) In part, of the CSD; but mainly in seven of the eight Departments which are taking part.

482. It will not be done like a 19th Century Treasury Committee review, when most of the people were from outside the Department being investigated?

(Mr Priestley) I am afraid my memory does not go back that far!

483. Nor does mine, but it is well recorded in the textbooks.

(Sir Derek Rayner) No, we are proceeding on a normal scrutiny method. I am, as usual, taking a close interest in the way they do about their work, and asking appropriate questions frequently.

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Mr Beaumont-Dark

484. I am not a statistician like Dr Bray, but I did welcome your view on the statistical services. I do not know if you agree, but I find that the more statistics you collect, the more the academics want you to collect more and often draw "duff" conclusions from them. I will not ask you to comment on that. You did mention something that I thought was tremendously important, in almost a throw-away line, when you talked about someone being sent a bill for some million of pounds for something they had not ordered, who was then told that that was for warehousing the surplus stock. If that is so, if you have put in a bill for some millions and they had not ordered it, it must mean that somewhere or other someone had ordered many millions of pounds of stuff that was not going to be used or was going to be used over a vast period of time, must it not?

(Sir Derek Rayner) I cannot reflect on the content of that store. Stores are a wasteful element of Government, through overstocks. Very often there is failure to clear up unwanted stock, and people do not realise that it is often cheaper to throw away what you no longer have a use for than to go on storing it forever. A variety of things cause this problem. An awareness of cost of storage I think is very important, because storage is very costly indeed today.

485. Have we any idea how much warehousing is owned or rented by Government,and for what conceivable use?

(Sir Derek Rayner) Not as a total, global picture. We have got to grips with it in a number of areas. We are now getting to grips with it again in supporting services for R and D, which very much includes stores, so we are getting that through specific things again. However, I doubt that I could collect that information, however hard I try.

486. Is not that a fruitful area to look at?

Sir Derek Rayner) It is, and we are getting at it in pieces, by my normal method. I hope that by making people pay for the consumption of storage costs, they will look into what is stored there dispose of what is unusable at least.

487. Did some of them think that that was tremendously unfair, if they had not been used to being charged for the use of it, or for the use of things for that matter?

(Sir Derek Rayner) No. I think the information as it comes in, by and large, is being properly used; people are asking the proper questions. I find no feeling that it was wrong because the information available to people was uncomfortable. Quite the opposite, I think people have taken serious notice.

Mr English: I think the Lord Chancellor was at one point proposing that in order to close the Chancery Lane Records Office, except for viewing records, the Magna Carta should be carried from Kew to Chancery Lane. It seems that that might be somewhat unproductive.

Mr Beaumont-Dark

488. Can I clear up one point? We talked about succession planning. I may be wrong, but I got an implication—I do not know whether it was meant or not—that there had not been much succession planning before you came on the scene. Is that right?

(Sir Derek Rayner) No, there is a great deal of succession planning. We are back to the unevenness of some of these things, and particularly in the professional groups where succession planning should include widening the professional's knowledge as a whole and should certainly include being sure that the man is going to be available at the right time to slot into the more senior posts.

489. So you mean that the succession planning in the system had gone on, but you thought it was going to have the wrong thrust?

(Sir Derek Rayner) Its thrust did not go broad enough, and there were certainly segments where it was not as well done as others in some areas. Of course, it is extremely well done in the Chancery Lane Records Office.

Chairman: Sir Derek, I think you have exhausted us. May we thank you very much for the very helpful replies which you have given to us.

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WEDNESDAY 28 OCTOBER 1981

Members present:

Dr Jeremy Bray, in the Chair

Mr Anthony Beaumont-Dark
Mr Timothy Eggar
Mr Michael English
Mr Richard Shepherd
Mr Richard Wainwright

Memorandum submitted by the Department of the Environment (Central)

RESPONSE TO THE SUB-COMMITTEE'S QUESTIONNAIRE

Introduction

1. The DOE (Central) has a wide range of functions including housing, construction, historic buildings and ancient monuments, planning and development, inner cities, new towns, water, the countryside, environmental protection, regional policy and sport and recreation. The Department also has general responsibility for the structure and financing of local government. The efficiency and effectiveness with which these functions are carried out in the day to day development and execution of Government policies is primarily a matter for line managers in the Directorates concerned. The senior management of the Department is responsible overall to Ministers through the Permanent Secretaries for its effective management. Senior management and line managers are supported by several central groups. These include (a) those responsible under the Principal Finance Officer for financial control systems such as Public Expenditure Survey (b) those responsible under the Principal Establishment Officer for manpower budgeting and the various management services (ie the Directorate of Manpower and Management Services) and (c) those responsible for the MINIS system (ie the Central Policy and Resources Directorate). (See chart I)

2. The Department is currently working toward a comprehensive and systematic approach to management embracing reviews of functions and activities, manpower budgeting, control of non-staff costs and the deployment of specialist management services. The main framework for this is the Management Information System for Ministers (MINIS). Under this system line managers set out all activities, including costs, staffing, past performance and planned objectives. The Committee have already expressed an interest in the operation of MINIS and the separate note at Annex A updates an early paper already submitted.

3. The MINIS system, which was first introduced for 1979–80, is still evolving. The first MINIS round concentrated mainly on the functions and structure of the Department. A number of changes were made designed to improve and simplify accountability, including the bedding out of professional staff in appropriate policy divisions. In the second round the MINIS procedures incorporated a strong manpower budgeting element enabling the MINIS discussions to focus on the identification of manpower savings and the efficient deployment of Departmental resources. It is now intended that the third round of MINIS, which is about to start, will place more emphasis on the assessment of objectives and past and planned performance.

4. Before the introduction of MINIS, reviews of functions organisation and manpower had largely been initiated on a piecemeal basis by the Directorates concerned, or at the instigation of senior management. The Department has always had available a capacity for reviews of this kind through Organisation and Methods, Operational Research and Staff Inspection; and has engaged the help of outside consultants on specialist matters as required. Increasingly the initiation of reviews is likely to emerge from MINIS as the MINIS discussions throw up subjects for investigation or point to the need for improved procedures or organisation.

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DOE (CENTRAL) RESPONSE TO SUB-COMMITTEE'S QUESTIONNAIRE

Background

Q.1. *The Sub-Committee would like to have a broad outline of how the Department spends the money for which it is responsible. Using the 1981–82 Estimates and distinguishing in each case the largest items of expenditure, please divide total expenditure between:*

(a) *manpower*

(b) *administrative costs*

(c) *grants and loans to other bodies (separately)*

(d) *purchases of goods and services*

(e) *other expenditure, mentioning significant offsetting receipts.*

A.1. See Chart 2 attached.

Q.2. *How many people are employed by the Department and its agencies and on what main blocks of work? How many of these are civil servants?*

A.2. See Chart 3 attached.

Q.3. *What significant changes have there been in the functions of the Department in the past five years?*

A.3. The major changes in functions of the Department in the past five years have been those arising from the establishment of a separate Department of Transport (in November 1976). Other functions relinquished include:

- the issue of office development permits;
- oversight of the Community Land Scheme;
- the activities of the British Urban Development Services Unit and the Regional Economic Planning Councils;

Over 200 minor central government controls over local authorities have been eliminated, many of them previously operated by DOE. The abolition of the Location of Offices Bureau, the Environmental Board and 45 other non-departmental bodies has further reduced the functions of DOE.

Responsibilities for works services for museums and art galleries and for the Palace of Westminster have been transferred from DOE(C) to PSA.

New functions include new inner cities initiatives (eg the establishment of Urban Development Corporations for London Docklands and Merseyside).

Further changes currently under consideration include changes of status for the Hydraulics Research Station, the Countryside Commission, District Audit and Ordnance Survey.

Effectiveness

Q.4. *Presumably the resources, financial and manpower, of the Department are devoted to the pursuit of objectives which are the result of political decisions. What arrangements have you got for monitoring the effect of programmes? For measuring and monitoring progress in achieving objectives? For considering alternative programmes for achieving objectives? For reviewing objectives in the light of progress made and alternative programmes considered?*

A.4. The main framework for monitoring the effect of the DOE's activities is the departmental Management Information System for Ministers (MINIS)—see Annex A.[1]

[1]P. 125.

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Senior Civil Servants will also be involved in discussions on policy objectives with Ministers on a day to day basis. The MINIS meetings that the Secretary of State holds with these directorates provide the regular forum for the review of objectives and the consideration of alternative programmes. In addition various ad hoc in depth reviews are undertaken, often as a result of MINIS discussions—see question 5.

Q.5. *What problems are there in devising satisfactory measures of progress? Please give examples of progress reviews.*

A.5. Measurement of progress is only satisfactory in those relatively few areas of the Department where some measure of output is feasible, for example in the Planning Inspectorate where activity can be quantified in terms of the number of cases processed. Elsewhere progress can usually only be defined in terms of general or policy objectives achieved (eg the reduction of manpower) and we are currently working to improve the extent to which MINIS focusses on measuring actual performance both in quantitative and in qualitative terms against previously planned objectives—see Annex and introduction.

Current examples of progress reviews other than MINIS include the regular consideration of Planning Appeal Statistics and the provision of monthly returns of departmental manpower figures to senior management and Ministers who monitor progress towards departmental targets. Other examples of similar reviews are mentioned at questions 19 and 20.

Q.6. *Are reviews restricted to programmes that consume, directly or indirectly, large quantities of resources and/or where the outputs can easily be expressed in quantitative terms? How do you evaluate the effectiveness of, say, regulatory activities or inspectorates?*

A.6. No. MINIS reviews all areas of DOE activities. It identifies the scope for, and desirability of, more detailed reviews of particular functions and programmes, large or small, and irrespective of whether or not their outputs can be expressed in quantitative terms—see above.

In addition, the Department's management services—as well as retaining their traditional role as "consultants" to assist directors in specific instances on demand—are to be more closely geared to intervening in areas which Ministers and/or senior management identify as needing specific investigation resulting from the MINIS/manpower budget process. The capacity will therefore be used more selectively than hitherto, and on the basis of departmental priorities. A start has been made in staff inspection, on which there is a note at Annex B. Through MINIS the effectiveness of the Department's regulatory activities can be evaluated in the light of performance. These have also been the subject of a series of specific reviews as a result of which there have been major reductions, for example in the number of controls the DOE and other Departments exercise over local government, and in the effort devoted to housing project control.

Q.7. *Which individuals, staffs or units in the Department are responsible for programme evaluation and effectiveness? To whom do they report?*

A.7. See introduction above.

Q.8. *How do you monitor the effectiveness of new or experimental programmes?*

A.8. There is no general answer to this question. Each case must be considered within the the MINIS system.

Efficiency

Q.9. Which individuals, staffs or units in the Department are responsible for efficiency in the sense of maximising the outputs from programmes and minimising the inputs to them? To whom do they report?

A.9. See introduction.

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Q.10. *Staff Inspection.*

(i) *To whom are staff inspectors responsible?*

A. Staff Inspection Branch (which provides a common service to the Departments of Transport and Environment) is part of Manpower Division within DMMS—see question 11 and chart 1.

(ii) *Does staff inspection cover the whole Department and all the associated public bodies for which it is responsible (excluding those whose income is not primarily from the taxpayer).*

A. Yes: although the normal practice is to inspect associated public bodies when invited to do so or when there is a particular need to evaluate requests for changes in their staff levels or numbers. The Property Services Agency of DOE has its own Staff Inspection Unit as does the Ordnance Survey.

(iii) *Do staff inspections cover the whole Department every three years?*

A. In the past it was the intention to operate on a three year cycle but in practice some areas were inspected more frequently and others less so because other factors influenced the timing of inspections. A recent review of the role and effectiveness of staff inspection, in relation particularly to MINIS and manpower budgeting led to a decision to abandon the three year cycle. The new system involves selecting areas for staff inspection where there are particular problems or uncertainties which have been identified in the MINIS process (the attached note at Annex B describes the new emphasis of Staff Inspection more fully).

(iv) *What are the arrangements for ensuring the staff inspectors' recommendations are carried out?*

A (a) The report with any dissenting views from line management in the area inspected or Trade Union Side will be referred upwards for decision—normally within three months.

(b) As soon as a final decision has been taken on which recommendations to implement, action is put in hand by Manpower Division to pursue the recommended changes—directorate allocations will be adjusted, consequential personnel management arrangements made and progress monitored as part of the annual manpower budgeting round.

(v) *To what extent are staffing formulae used for routine operations?*

A. Staffing formulae are used in the inspection of certain routine operations in this Department to determine individual workloads on an output per head basis (eg no. of typing units per day, key depressions per hour) and to determine staffing ratios and structures. The formulae may already be in existence and require validating in the particular context or they may have to be developed in the course of the inspection. Obvious areas of work where the formula approach is possible include typing services data preparation and processing and basic clerical processes in large units. Some of the principles and practices associated with this approach can be applied to slightly more sophisticated, but nonetheless routine, operations but the results must be regarded as less conclusive and applied with greater sensitivity.

(vi) *How do you measure whether staff inspections are successful?*

A. Staff Inspection has since the introduction of MINIS played an increasingly complementary role in the Department.

The aim of staff inspection is to identify the work which has to be done and to recommend the appropriate staffing and organisational structure in terms of numbers by grade. A more efficient organisation should result. To the extent that this means reducing staff the effect can be measured; otherwise less direct measures include reductions in non-staff costs, the quicker turn round of work and an improved service generally.

An annual report to the Secretary of State reviews the operation of staff inspection and provides an opportunity for senior management and Ministers to evaluate the effectiveness

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of the unit, particularly in relation to the manpower budgeting process. A copy of this Annual Report goes to CSD for information.

Q.11. "(i) *To whom are Management Services responsible?"*

A. Management Services (MS)—see Chart 1—are responsible through the Director of Manpower and Management Services (DMMS, U/Secretary) to the Director General of Organisation and Establishments (DGOE, Dep. Secretary) and to cover work in all two Departments (DOE(C), DTp, PSA).

Q.11. *"(ii) Do they work by invitation of managers or is there a systematic programme for reviewing the organisation and methods used in the Departments?"*

A. In the past MS normally worked by invitation from managers, as directed by senior management or by identifying possible opportunities from management returns and manpower returns, but a more positive role has now been identified for MS in response to MINIS/Manpower budgeting (See Q6 and Annex C). Operational Research (OR) generally works by approaching line managers with suggestions for aids to improving the effectiveness and efficiency of their activities.

Q.11. "(iii) *What are the arrangements for ensuring that the recommendations of Management Services studies are carried out?"*

A. In order to ensure that implementation of recommendations is maximised, the following action is taken:

(a) Reports are discussed, prior to publication, with clients to confirm factual veracity and the feasibility and acceptability of the suggestions and recommendations.

(b) Reports generally include a section dealing with implementation.

(c) Reports are circulated widely to those directly and indirectly affected or having an interest and to the Trade Union Side (TUS).

(d) Follow-up contacts are made at intervals after the publication of the report to check on the progress of implementation and whether MS can further help the client in this area. Senior management retains an interest as necessary.

Q.11. "(iv) *How do you measure whether your Management Services are effective?"*

A. The effectiveness of MS is assessed by:

(a) The speed and thoroughness with which reports are implemented;

(b) A demonstrable increase in efficiency in the area of the investigation either in measurable terms (eg cost savings) or improvements in management methods, awareness, morale of staff etc.

(see also the answer to 10(vi) on measuring effectiveness)

Q.12. *Machines.*

(i) Q. *"What is the organisation within the Department for* (a) *seeking economical use for machines—including computers and other electrical and electronic devices?"*

A. Responsibility for the examination of requests for machines, the certification of the need and procurement action for the various types of equipment lie as follows:

Reprographic and photographic equipment, calculators, typewriters, mail handling equipment, dictating and telephone answering machines—clerks of stationery (C of S) carry out all aspects including investigation into the need for equipment.

Word processors, specialist typewriters (electronic etc), centralised dictation, plan printers, micro-film and photo type setting equipment—OM investigate, certify and specify the equipment and C of S procures.

Micro-computers—OM investigate and design systems for Computer Central Division (CCD) approval and procurement.

Mini and main frame computers—as recommended by the Longer Term Review of Administrative Computing in Central Government (CSD 1978) the Departments of the

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Environment and Transport, in May 1980, established a small committee of senior managers known as the "Computer Resources and Management Group", to oversee the use of computers in the Departments.

CRMG are supported by Computer Central Division of Manpower and Management Services Directorate who are responsible for the day to day management of computer finance, the examination of proposals for using computers to ensure their technical validity and value for money, the procurement and subsequent maintenance of hardware and software, and the engagement of external computer services.

The development and operation of computer systems in the Department is provided, with some exceptions, as a common service by Computing Division.

For the future, a consultants' study commissioned by CRMG has produced a strategy for administrative computing in the Departments which recommends the decentralisation of computing so that each of the constituent organisational groups (DTp DOE Central, PSA) manages its own service under a separate Departmental Computer Group with central coordination provided by CRMG. These recommendations have been broadly accepted. Implementation of the strategy will begin shortly and is expected to take about five years.

(b) Q. *"Introducing and operating them"*

A. Generally the equipment is introduced together with any staff training by the Branch recommending installation, operation is by the receiving client (except for computers).

(c) Q. *"Assessing the cost benefit of other investment opportunities affecting the running of the Department"*

A. Each of the branches responsible for the various types of machinery and equipment makes efforts to stay abreast of market developments and investigates possible opportunities as they arise.

(ii) Q. *"How is the contribution of machines to efficiency measured?"*

A. An assessment of the benefits accruing to the Department from the use of the machinery is made and compared with the cost of the equipment. Benefits may arise in one of the following ways: a possible manpower saving, a greater throughput of work for the same staff numbers (reducing the backlog and/or elapsed time), an ability to take on extra work for the same staffing numbers, the release of other resources (for example, release of accommodation, equipment etc due to more economical storage methods) improved techniques for testing policies and reduction of errors.

(iii) Q. *"Are there any obstacles to their use within the Department wherever they would be economical?"*

A. Some obstacles to the use of machines are:
- a reluctance to accept change and forsake old methods
- the availability of resources for implementation (staff with the right technical experience, finance and suitable accommodation),
- the lack of national agreements on the introduction of some such equipment with TUS and any periods of non-cooperation,
- the long lead time for the development of computer systems and the procurement of hardware.

Q.13. *What are the arrangements for maximising the efficiency of programmes which are not manpower intensive but consume significant financial resources?*

A.13. Ministers have a regular dialogue with bodies dependent on financial support from DOE about efficiency, and fringe bodies are now being asked to introduce MINIS type management information systems. They are also requested to provide quarterly manpower statistics which the Department publishes together with its own manpower figures. Local authority figures are published through the Joint Manpower Watch.

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The following are examples of the Department's arrangements in relation to some of its main programmes:

(i) *Water Authorities*

At the beginning of 1981 the Department engaged teams of consultants to work in association with individual water authorities to review their proposed level of water charges. As a result, savings were identified and the total of water rates to be collected in England in 1981–82 will be some £86 million lower than had been planned. For the nine authorities as a whole the average increase in main charges has been reduced from a planned 19.4 per cent to 13.3 per cent. A similar exercise is in hand for 1982–83.

(ii) *Block grant to local authorities*

The Department has no direct way of influencing the efficiency of individual councils. Its principle influence is through the distribution of block grant.

(iii) *Housing*

Efficiency within the housing programme is primarily the responsibility of local authorities. However they are given an incentive by the combination of:

(a) The housing subsidy system—under which loan charges on only 75 per cent of admissible costs count towards their subsidy entitlement, and the authority has to find the balance together with the cost of inadmissibles.

(b) The Housing Investment Programme controls over aggregate capital spending which direct resources to where they are most needed: and

(c) The project control system which enables the Department to identify extravagant schemes, encourages local authorities to compare building costs with market value, and requires details of schemes to be open to scrutiny by the local electorate.

Q.14. *Please give examples of significant improvements in efficiency achieved in the last five years, explaining the nature of the improvement and also how the improvement was instigated, ie distinguish improvements flowing from staff inspection, the use of machines or other capital investment, the Rayner exercise and other sources.*

A.14. The biggest change by far has been the MINIS system. In addition there are four specific examples:

(i) *Improvements flowing from the use of machines*—These can be difficult to quantify as in general the beneficial effects of, for example a computer aided system are felt solely by the users and best assessed by them—see question 12ii above. For the future work of Computing Division a monitoring system has been proposed, but until 1980 the DOE was required to report to the Central Computer and Telecommunications Agency each year the value of savings arising from the introduction of new systems or enhancement to existing ones. Over the period 1977–80 work has been undertaken for PSA Supplies; (Stock Control, Bill Payments and Management Accounting), for PSA professional staff (Survey plotting) for Statistics; (Private Enterprise Housing) and for DOE as a whole (the Personnel Management Information System (PMIS)).

Computing Division have also been able to reduce the burden of form filling in the Construction Industry without affecting the quality of the analytical advice produced for Ministers. Management of the analyses has also been achieved with fewer staff.

In addition, savings accruing from the Division's work on maintaining existing cost effective systems has been assessed as the equivalent of at least 1,000 staff.

(ii) *Improvements flowing from O&M Reviews*

(a) An internal O&M Review of Messenger Services in DOE(C) and DTp covered 14 buildings and made a number of general recommendations about messenger management, duties and operating practices. The principal recom-

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mendations however were on staffing levels where the Report recommended a complement of 180, reducing by 73 the staff in post. Almost all of the non-staffing recommendations of the O&M Review have been implemented and the full savings of 73 posts are scheduled for 1.4.82, indeed 45 have already been achieved through natural wastage.

(b) For typing services, an O&M Review showed that £0.3 million could be saved annually by the institution of word processor pools in the four major DOE/DTp buildings—these recommendations will be implemented in full by 1982.

(iii) *Operational Research*

A number of operational research models were developed for the Local Environmental Services Expenditure Sub-Group. The models represented expenditure on capital projects, manpower, waste disposal and recreation and were used by the sub-group to assess the consequences of a range of choices for reducing expenditure. The sub-group then reached agreements in the knowledge that their proposed savings were distributed so as to ensure that no one activity suffered a disproportionate cut in the standard of service.

(iv) *Planning Inspectorate*

In April 1979 decisions on planning appeals stood at a level equivalent to an annual rate of 8,000. By April 1981 the Department was issuing decisions at a rate of 15,000 a year; an improvement in output of nearly 90 per cent. This was achieved by the introduction of a pool of part-time inspectors whose workload could be adjusted to the intake of appeals, by the scrutiny of procedures, and by an increase of productivity of about 18 per cent on the part of the permanent inspectorate.

Q.15. *Please describe how you measure your outputs and whether there are any unresolved difficulties in doing so.*

A.15. This is a particularly difficult area as DOE(C) activities rarely produce quantifiable outputs—see question 5 above. The Department is however, involved in the current CSD exercise on key indicators and is actively engaged in working to improve the contribution of the MINIS system to the measurement of performance.

Q.16. *Have you an internal audit section? Is it headed by a professional accountant? Are internal audit arrangements concerned with effectiveness and efficiency?*

A.16. Yes. The Head of Internal Audit Branch is a Principal who reports through Head of Accounts B/Internal Audit Division to the Under Secretary, Housing, Water and Central Finance Directorate. These posts are not currently occupied by professional accountants, but professional accountancy services are available to give advice as and when necessary.

The Internal Audit Branch serves both the Department of the Environment and the Department of Transport. For each, it is concerned with efficiency and has moved away from the "tick and turn" style of audit to systems audit. At the same time it has strengthened the staff at senior levels which should enable it to move into the field of effectiveness and value for money.

Q.17. *How many staff and what grades are employed on—Staff Inspection?*

A.17. The Staff Inspection Branch is headed by a Principal with three SEO team leaders in post at present. Below this there are at present five HEO level inspectors and a central support unit of one EO and one CA. The staffing of the branch is based on the need to cover DOE(C) and DTp but not the PSA where there is a separate staff inspection organisation.

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Management Services?

Excluding staff inspectors management services staff are as follows:

Under Secretary	1	in part only
Senior Personal Secretary	1	
Assistant Secretary	1	
Principal	4	
SEO	8	
HEO	9	
EO	13	
CO	4	
CA	2	
Personal Secretary	2	
	43	
Senior Principal Scientific Officer	1	
Principal Scientific Officer	3	
Senior Scientific Officer	2	
Higher Scientific Officer	3	
Scientific Officer	5	
Data Processor	1	
	15	

Total 58 plus part of Director and SPS (DMMS)

The above total includes all the staff in OM and OR, covering DOE(C), DTp and PSA, although 15 of those in OM are concerned with DMMS administration generally, the Staff Suggestion Scheme and the control of Departmental forms and codes of Instruction. Of the remainder, 10 work on specific OM studies and 11 examine the application of a wide range of machinery within all Departments.

Additionally in Computing Division, there are 478 staff, 322 of whom are directly involved in operational duties providing computer bureau service to the Departments; 154 provide a project development and software maintenance and support capability; the other two are the Assistant Secretary and his personal secretary. CCD has a staff of 17.

Extending the use of labour saving machines?

The staff involved in this work are not separately identifiable being spread through those areas dealing with the relevant machinery. In addition to the 11 OM staff referred to above, others are engaged in the application of computers, office machinery etc elsewhere in the Department—see question 12(i).

Internal Audit?

DOE/DTp Internal Audit staff are as follows:

Grade	*Complement*	*Staff in Post (11.8.81)*
Senior Principal	1*	1*
Principal	1	1
SEO	4	3
HEO	12	10
EO	25	20
CO	10	9
CA	1	1
	53	44

Vacancies are filled as suitable staff become available.
*Office is also Assistant Director of Accounts B.

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"Other work of reviewing efficiency and effectiveness"

A. As described in Annex A proposals are currently in hand to increase the involvement of senior management in particular and line managers in general in the annual MINIS exercise, and to ensure that staff at all levels participate in reviewing their activities and in the formulation of alternative proposals for future work.

Q.18. *What members of professional institutes or other specialists with professional qualifications directly relevant to the Department's functions are employed in the Department? In what sort of jobs are they employed? How many of such professionally qualified people are employed in non-specialist jobs? How do they contribute to reviewing either efficiency or effectiveness?*

A.18. The DOE(C) employs many staff who are members of professional institutes, who have relevant degrees, or other recognised academic qualifications. Some staff are qualified by experience; formal qualifications do not exist in their specialism. Specialist groups in DOE(C) include:

Economists	46	Planners	87
Statisticians	54	Research Officers	112
Accountants	13	Architects	113
Scientists	660	Planning Inspectors	176
Engineers	5	Lawyers	27
Water Engineers	28	Building Surveyors	12
Chemists	28	Photographers	41
Inspectors of Ancient Monuments	50	Graphic Officers	25
Curators	22	Librarians	46
Information Officers	39	Translators	4

and of course many less numerous, but qualified groups, such as nurses and arboriculturalists.

Most of the people employed in the professional groups hold qualifications which relate directly to their work. Many qualified staff are employed in professional/specialist units, such as the Central Analysis Unit (which includes economists and senior accountant), the Directorate of Statistics, Legal Directorate, the Directorate of Science and Research policy (mainly scientific staff) and Planning and Audit Inspectorates. Other qualified staff work alongside administrators in combined units such as engineers, chemists and other specialist staff in the Air, Noise and Wastes Directorate, and professional planners and research officers in the Inner Cities Directorate.

In addition, there is scope for specialist officers to occupy, either permanently or temporarily, posts in administration and management (eg by filling "open" or "limited opportunity" posts, or by lateral transfer to the administration group).

As with administrators many professional/specialist staff are involved as line managers in the work of reviewing efficiency and effectiveness—see covering introduction. The Central Analysis Unit is directly involved as its work includes specific projects related to the improvement of efficiency in DOE and specialist advice to administrative staff elsewhere in CPRD engaged on review work.

Q.19. *What use does the Department make and in what circumstances of outside consultants or researchers in reviewing effectiveness or in related activities eg devising output measures? How useful have such outside contributions been?*

A.19. The Department employs outside consultants to review effectiveness and to report on the feasibility or desirability of modifications to Departmental policies and methods whenever it is appropriate and economical to bring private sector expertise to bear. Such use of consultants currently covers a wide range of topics and activities. Examples of substantial recent studies by consultants are:

- a computer strategy study (see question 12)
- a management study of the Planning Inspectorate (see question 14).
- a review of Library Services

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- a study of marketing policies and management for the Directorate of Ancient Monuments and Historic Buildings.
- an investigation of pricing and service delivery in local environmental services.
- a study of private sector practice on non-staff running costs.

Q.20. *Who is responsible under the Permanent Secretary for producing management information including management accounts? Does the management information meet the present needs of managers? If not, what more could be done to fill the gaps?*

A.20. Responsible for the provision of management information are:

ACCOUNTS B—part of the Housing, Water and Central Finance Directorate which reports through the Principal Finance Officer and is responsible for detailed monthly returns of expenditure and monthly returns from the Paymaster General's Office APEX system showing expenditure by subhead and subhead item.

PECD—part of CPRD (see chart 1) which reports also through the Principal Finance Officer on the DOE Ministerial quarterly monitoring system for all DOE spending programmes and is also responsible for the Annual Scrutiny of Departmental Running Costs (on which it reports through the Under Secretary head of CPRD).

MINIS UNIT—another part of CPRD (see chart 1) which is responsible for running the MINIS system in DOE(C).

MAN 4—a manpower branch within DMMS (see chart 1) which is responsible for producing profiles and quarterly returns of administrative expenditure for the Treasury's computerised financial information system (FIS) and monthly staff in post figures for DOE(C).

In addition the Department's statistics divisions collect and analyse information much of which is used to assess and monitor the effectiveness of the Department's expenditure on its main policies.

As yet there is no overall management accounting system to meet the needs of all managers, but a year ago the Secretary of State requested the assistance of Sir Derek Rayner, in the preparation of a Report on Non-Staff Running Costs in DOE. It is now intended to introduce a comprehensive new system of management accounting for administrative expenditure involving:

- the setting up of responsibility units, or cost centres, throughout the Department,
- the charging out to cost centres of all departmental costs that can reasonably be controlled at that level,
- the preparation of cost-centre budgets by line managers,
- a computerised management information system providing reports drawing the attention of line managers (and, progressively summarised, of senior officials and Ministers) to variations from planned performance.

Q.21. *What information is provided by the Department to Ministers on questions of effectiveness and efficiency?*

A.21. The main information is that contained in MINIS—see Annex A. Ministers also receive information from most of the systems mentioned in question 20 above.

Q.22. *What role have the Treasury, CSD, E&AD, the Rayner Team and any other central agencies had in promoting effectiveness and efficiency within the Department? How would you assess their contribution in relation to your own?*

A.22. The role of central departments involves the annual PESC reviews and the scrutiny of specific systems and projects. As such it has very considerable influence on expenditure levels.

As far as manpower resources are concerned, once CSD has fixed the estimate provision, the DOE(C) is free to secure the reductions required in the most efficient way. Measures such as voluntary retirement schemes are only introduced after full consultations with

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CSD. Regular checks on the Department's progress towards securing its manpower targets are made through various returns such as the quarterly and annual staff returns.

Also on the manpower side, Staff Inspection and Evaluation Division in CSD have a dual role in relation to Staff Inspection within the Department:

> providing an advisory service for the DOE(C) Inspectors on standards to be applied to gradings (particularly in relation to the more specialised grades), monitoring standards applied to ensure that they conform to service wide criteria;
> and
> taking the lead on special exercises of service wide significance for which DOE(C) has been selected as an area for review (eg the Review of the Grading Structure).

The Secretary of State has worked very closely with the Rayner team on the introduction of the MINIS system and now on the exercise to put non-staff costs on a regular reporting basis.

Other reviews have included a review of DOE/DTp regional organisations and, a service wide examination of statistical services which has secured large scale savings through the adoption of a more selective approach specifically related to the Department's monitoring needs and through the out-bedding of statisticians in client directorates where needs can be more precisely identified. Further Rayner Reviews which are likely to have benefits for the Department are those on the level of provision of support services in R&D establishments (the Building Research Establishment), and the rationalisation of administrative forms which CSD are progressing.

In many of these exercises the Department has contributed its own expertise to the study and it has normally been responsible for implementing the recommendations.

Q.23. *What incentives are there to encourage individual civil servants to improve effectiveness and efficiency?*

A.23. There are two groups of factors, which are also "incentives".

First, whether Ministers and senior management are seen to attach importance to improving effectiveness and efficiency; how far they develop systems (eg MINIS) for promoting and insisting on such improvements, and give their attention and time to them; and how they acknowledge the value of the work their civil servants do. Second, the personal motivation of civil servants to do their job, whatever it is, in a "professional" way; and to increase their satisfaction in their job by doing it, where necessary, by changed methods.

There are two specific incentives.

First the Departmental Staff Suggestions Scheme rewards suggestions which bring about improvements and savings. This service-wide scheme has recently been reviewed by an inter-departmental committee at the instigation of the Secretary of State for the Environment. A report has been drafted recommending improvements to the scheme to increase its effectiveness. Staff can also suggest improvement to their own working procedures through their line management, and thereby receive recognition and job satisfaction.

Second, the Annual Staff Report form in use in DOE(C) asks all line managers to comment on their staff's drive and determination to complete tasks quickly; recent revisions to the form ask also for an assessment of efficiency in the use of resources including staff time and office equipment. The Annual Reporting system is a key element in selecting officers for promotion and a favourable report will affect any individual's career accordingly. It provides the opportunity for outstanding pieces of work or sustained achievements to be recorded on an individual's record.

Q.24. *What influence do trade unions have on (i) manning levels, (ii) the introduction of labour saving machinery and (iii) new ways of organising work?*

A.24. The TUS is kept informed of planned staffing levels resulting from MINIS/Manpower budgeting proposals. It receives copies of both Directorates' MINIS

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statements and draft action statements and is asked to comment. Manpower issues are regularly discussed at Departmental Whitley Council Meetings and at more informal meetings with Manpower Division.

On the other matters, the TUS is notified of assignments by management services, including staff inspection, before they start and are given an opportunity to comment on the terms of reference or to contribute to the assignment. The TUS is kept aware of progress, whether formally or informally and they are sent copies of final reports. It is also consulted on other reviews, including those by Rayner officers and consultants, and on their implementation. Currently, progress on some major proposals for introducing new technology is being held up by the absence of a national agreement on some points of prime concern to unions and their members.

Q.25. *How do you assess the state of morale in your Department? What are the principal contributing factors? What is the present state of morale?*

A.25. Questions of morale are not a matter on which it is sensible to expect certainty or unanimity. And, in a Department as wide ranging as the DOE in its functions and in the professions employed morale can vary considerably between one part of the organisation and another (see also A.25 for PSA).

Q.26. *Do you satisfy yourself that the grants and loans you make to other bodies are efficiently and effectively spent, and if so, how?*

A.26. *Grants*

Apart from RSG and housing subsidies—see question 13—grants made by the Department may be considered under two main headings:

(a) Specific grants to local authorities and other bodies.

(b) Grants-in-aid.

Specific grants are typically given under powers delegated by, and conditions agreed with, Treasury and are approved in the light of examination of the individual scheme to which the grant relates. Such consideration takes account of policy objectives, statutory powers and value for money. With the exception of Derelict Land Grant in assisted areas, rates of grant are less than 100 per cent, so that there is a financial incentive for the recipient to use grant efficiently in that he is contributing an element from his own resources. Grant is payable on expenditure incurred against certified claims; in the case of local authorities claims are subject to scrutiny by District Audit.

Grants-in-aid are provided for a wide variety of other bodies, the most significant being British Waterways Board (£27 million 1981–82), Sports Council (£21 million) Nature Conservancy Council (£10 million) the Development Fund (£17.5 million), the Urban Development Corporations (£70 million) and the Housing Corporation (£12 million). All such bodies are required to ensure not only that the rules and conditions laid down by Parliament and the Department are observed but also that the work of the body is conducted efficiently and economically: in appropriate cases the senior official of the body is appointed Accounting Officer. The Department's responsibility is to satisfy itself that grant in aid is needed by the body concerned and should be paid over to it, and that the body has suitable staff and systems for managing grant.

Expenditure proposals by the body are examined at an annual financial review and the extent to which the body is achieving its policy and financial objectives is monitored continuously by day to day contact with the Department. The bodies' internal procedures and systems are examined by the Department's Internal Audit staff as and when resources permit and in addition, Exchequer and Audit normally audit the accounts or have access to them. Arrangements for ensuring that the many smaller grants made to a wide variety of bodies are used effectively, vary with the size of the grant and the particular circumstances of the case. British Waterways Board is an exception to the general pattern in that as a nationalised industry, it has full responsibility for the detailed use of DOE grant aid to meet deficits of expenditure on its statutory responsibilities for inland waterways. There is however a financial memorandum governing the issue of the grant and

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there is an annual budget produced by the Board on which the amount of grant is based. In the course of the year there is a continual contact with the Board which provides information on its finances at quarterly intervals. The Board is considering recent proposals by the Department to introduce formal performance indicators.

Loans

The Department authorises loans from the National Loans Fund to both the British Waterways Board and the Regional Water Authorities in England. For British Waterways Board there is an annual review of investment which determines the permitted level of borrowing. Major schemes are scrutinised in detail to establish that they meet the required rate of return, and expenditure is monitored regularly. For the one major scheme currently in progress (Sheffield and South Yorkshire Navigation) the project will be reviewed on completion to check that it is meeting forecast targets.

Regional Water Authorities each prepare five year investment plans which are rolled forward annually. Each authority has been responsible for developing an appropriate system for appraising investment and the Department is not in general closely involved in the selection or appraisal of individual projects. In the period 1977–79 regular visits were made to water authorities to check on their appraisal systems. Apart from approving the authority's plans in general terms, it is also responsible for setting financial targets for each authority and fixing annual borrowing limits based on investment needs.

The Monopolies and Mergers Commission recently investigated the water services supplied by the Severn-Trent Water Authority and two private water companies. It made several important recommendations concerning investment and its appraisal. Consideration is currently being given to these and to the possible need for changes in the Department's approach, in addition to the action that is being taken by the STWA and other water authorities on whom the direct responsibility falls.

Q.27. *Have you any arrangements for the systematic retrospective review of the management of programmes in relation to outcomes, so as to identify lessons learned which might be applied to analogous programmes in future?*

A.27. MINIS provides the Department with its principal method of systematic retrospective review. Ad hoc exercises are carried out in specific areas where lessons of the past are most likely to assist in the future management of programmes. Such exercises include a review of Project Control Methods and a Study of Investment Appraisal Techniques, both of which are being carried out by economists in CANU (ie within the Central Policy Resources Directorate—see chart 1).

Q.28. *Please specify expenditures on services bought in from the private sector which could have been bought from government trading services such as HMSO.*

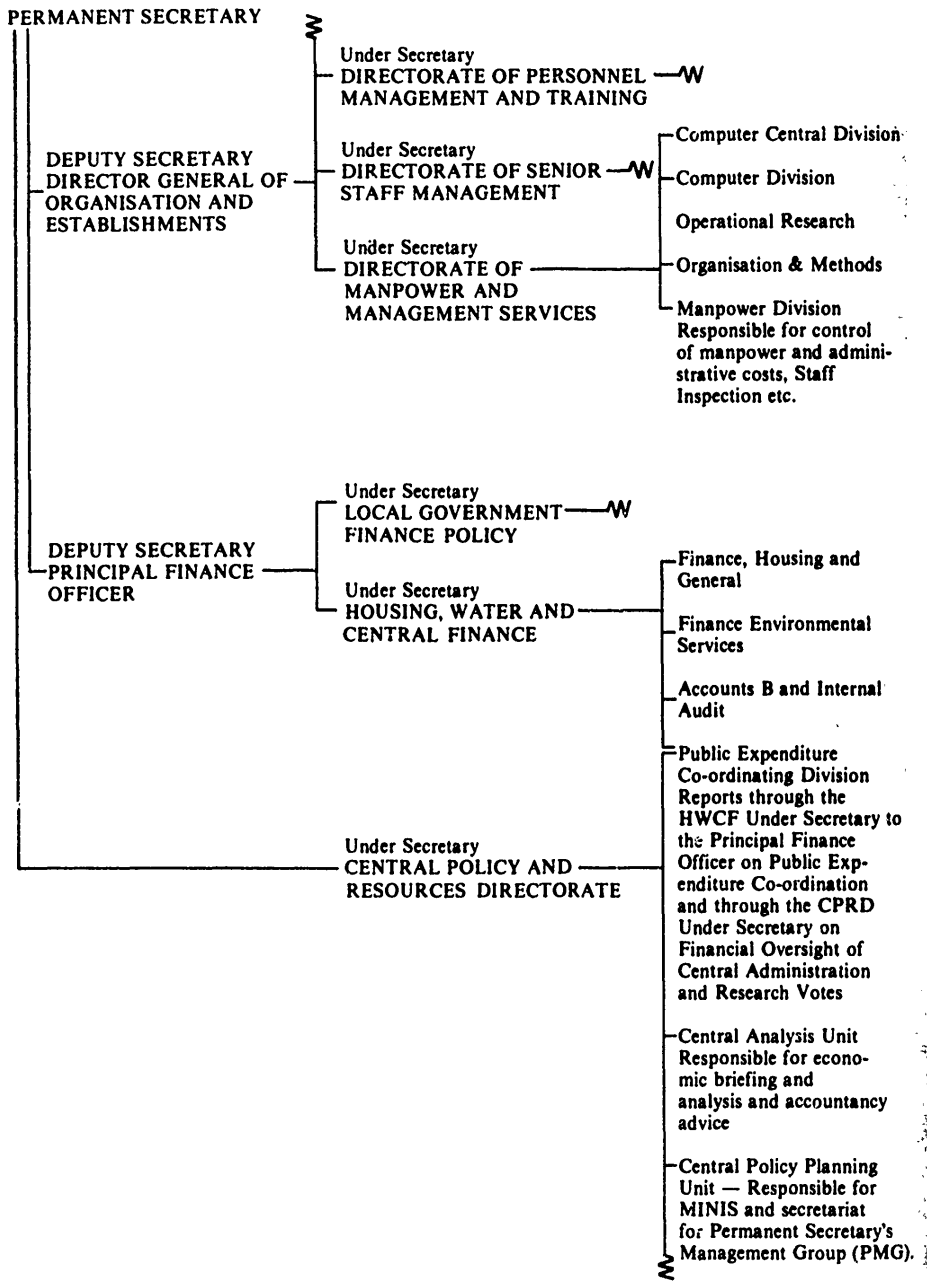
A.28. The amount of expenditure on procuring services for the Department which could have been bought from Government trading services is at present small. The Department is currently considering purchasing direct from the private sector as a proportion of the stationery goods and services that are supplied by HMSO.

Q.29. *How are complaints from the public fed through into improvements in efficiency and effectiveness?*

A.29. There is no single procedure for feeding through complaints of this nature, it rather depends on the way in which the complaint reaches the Department. Particular importance is attached to the results of an investigation by the PCA and suggested improvements are introduced as quickly as possible. A proportion of the causes of complaint can be dealt with by local management action close to the source of work. Others are used to create an invitation for management services to review the procedures generally and make any recommendations they consider necessary to improve working methods. OM division are currently carrying out two such reviews in the Directorate of Ancient Monuments and Historic Buildings.

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CHART 1



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Chart 2

£m (outturn)

Vote	Description	Salaries of directly employed staff	Other administrative costs	Grants, loans, and subsidies	Purchases of goods + services	Other expenditure	Receipts	Total
VII, 1	Housing, England	—	—	1,454	—	—	—	1,454
VIII, 1	Local Environmental Services, &c, England	—	—	38	—	—	—	38
VIII, 2	Central Environmental Services, &c	—	—	83	2	—	—	85
VIII, 3	Local Planning Services, England	—	—	38	—	—	—	38
VIII, 4	Royal Palaces, Royal Parks, Historic Buildings, Ancient Monuments and the National Heritage	7	—	21	30	—	–10	47
VIII, 5	Central Administration and Environmental Research (Department of the Environment)	87	29	31	45	—	–40	151
VIII, 6	Urban Programme Grants, England	—	—	90	—	—	—	90
VIII, 7	Urban Development Corporations, England	—	—	69	1	—	—	70
XVIII, 1	Rate Support Grants (1981–82) to Local Revenues, England	—	—	9,027	—	—	—	9,027
XVIII, 3	National Parks Supplementary Grants (1981–82) England	—	—	4	—	—	—	4
XVIII, 6	Rate Rebate Grants (England) and additional Rate Support Grants (England and Wales) to Local Revenues	—	—	230	—	—	—	230
XVIII, 1A*	Rate Support Grants (1980–81) to Local Revenues, England and Wales	—	—	0.5	—	—	—	0.5

*New Vote introduced by Summer Supplementary Estimate.

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Chart 3

DOE CENTRAL AND RELATED ORGANISATIONS—STAFF AT 1 JULY 1981

	Civil Servants	Other
DOE CENTRAL		
Organisation and Establishments:		
Manpower and Management Services*	662.5	(430.5)
Senior Staff Management*	59	(38.5)
Personnel Management, Training*	1,590.5	(1,034.0)
Central Policy and Resources	40.5	
Ancient Monuments and Historic Buildings	2,249.5	
Environmental Protection and Water	312	
Planning	554.5	
Planning Inspectorate	392	
Regional Offices (Housing and Planning)	904	
Housing	254.5	
Rent Assessment Panels	160.5	
Construction Industries	77	
Rural Affairs, Sport and Recreation	71	
Local Government	54.5	
District Audit	558	
Finance	337.5	
Statistics	153.5	
Legal	57.5	
Information	71	
Research		
Science and Research Policy	20	
Building Research Establishment	937	
Hydraulics Research Station	249	
Countryside Commission	102	
Commons Commissioners and Transport Tribunals	15.5	
Local Government Boundary Commission	10	
Private Offices and Senior Staff Offices	85	
Others (TU Side, Long term courses etc)	38	
*TOTAL DOE CENTRAL**	10,016	(9,207)

NOTES

*Common Service Directorates in Organisation and Establishments serve DOE and DTp. The staff figures in brackets represent the proportion of staff assessed as working for DOE.

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OTHER ORGANISATIONS		
Ordnance Survey	3,339.5	
Agrément Board		62
National Building Agency		188
Housing Corporation		498
Nature Conservancy Council		665.8
New Towns Commission		362
New Towns Development Corporations		7,365
British Waterways		3,235
National Water Council		402
Regional Water Authorities		56,038
Sports Council		576
Development Commission and COSIRA	4	28
Merseyside Urban Development Corporation[1]	1	18
TOTAL OTHER ORGANISATIONS	3,344.5	69,437.8

[1]Docklands Urban Development Corporation was established after 1 July 1981.

ANNEX A

DEPARTMENT OF THE ENVIRONMENT MANAGEMENT INFORMATION SYSTEM FOR MINISTERS (MINIS)

1. In June 1980, in response to a request from the Treasury and Civil Service Select Committee, the Department of the Environment prepared a note setting out what the Secretary of State for the Environment and his Department were doing to review the Department's activities and manpower needs. The note (dated 18 June 1980) set out the origins of the Departmental Management Information System for Ministers (MINIS) and described the early stages of its first run.

2. This paper is intended to update the earlier information on MINIS and to describe current developments and plans for further refinements to the system.

MINIS 1

3. As described in the earlier note, MINIS was launched in the spring of 1980 following the recommendations of a Rayner Study of the Provision of Management Information to Ministers. It was designed to enable the Secretary of State and his Ministerial colleagues to review in detail the work of both DOE (Central) and the Property Service Agency (PSA) systematically, comprehensively and on a continuing basis.

4. The MINIS 1 exercise began with the collection of information on the activities, costs and performance of the Department for the period *October 1979–March 1980.* In detail the categories of information in the statements prepared by each DOE(C) directorate (PSA statements differed in detail) were:

(i) descriptions of activities and the objectives they served;

(ii) a note of the priority of each activity (assessed in the light of Ministers' priorities);

(iii) a note of the code of each function (indicating the type of activity);

(iv) a record of any specific departmental vote/public expenditure;

(v) the half-yearly basic staff costs of each activity (calculated from a ready reckoner of DOE average salary costs on the basis of staff effort in man weeks by grade);

(vi) an assessment of the directorate's performance on each activity;

(vii) an organisation chart of the directorate relating its activities to the division responsible for them;

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(viii) where applicable separate statements of activities carried by the directorate for another directorate or conversely which another directorate carries out on its behalf;

5. Information was also provided for a forward look consisting of:

For April–September 1980

(i) a statement of the performance planned for each activity (to serve as a basis for future performance assessment) including wherever possible estimates of output, timescales for action and notes on major events;

(ii) the major objectives of the directorate;

(iii) the forseen changes in tasks and workloads; and

(iv) the director's assessment of manpower needs consequent on iii) above.

For October 1980–March 1981

the same forward look as in ii) – iv) above, sometimes inevitably in less detail.

6. Each statement was prefaced by a summary showing the costs for each principal aim/subject area, for general administrative support, for residual and unspecified (de minimis) activities and for accommodation (notional costs only). Also included was a summary of staff effort by major staff category and information on certain items of centrally controlled administrative expenditure (eg computing), on quangos, statistical services and on extra mural research contracts. In addition, the directorate staff in post at 1 April 1980 was added to the statement.

7. The collection of information was followed by a series of meetings, chaired by the Secretary of State, between Ministers and relevant officials. Before each meeting all those involved received bound copies of the MINIS 1 statements and an "independent" brief prepared by the Central Policy and Resources Directorate on the directorates under consideration. The purpose of the briefs was to probe the use of resources and to examine points of detail as well as highlighting the main opportunities for change, for improving performance or achieving staff savings.

8. The focus of discussion varied from meeting to meeting, but they normally covered such areas as the nature of DOE's involvement in particular fields (objectives and priorities); value for money issues; effectiveness and efficiency (including the scope for doing more or less); the ethos of the activity (eg questioning whether there were excessive checks on local authority or private sector activity); the scope for setting performance indicators or targets; organisational questions (including the scope for rationalisation or bringing specialist staff into policy commands); and in many cases the potential for contracting out or hiving off activities.

9. These meetings did not result in final decisions, but directors (Under Secretaries in the main) were asked to prepare draft Action Statements reflecting the Secretary of State's conclusions on where the main thrust of their directorate's work should be, what activities should be changed and what manpower resources they expected to see committed to the work by 1 April 1981.

10. The draft Action Statements were prepared in consultation with the Central Policy and Resources Directorate and forwarded for comment to the Trade Union Side. They were then submitted to the Secretary of State with any observations from the Trade Union Side. The MINIS statement and the Action Statement as approved thus together represented Ministers' specific approval and policy direction for each directorate for the year ahead.

MINIS 2

11. In parallel and in conjunction with MINIS 1, the Department also began to introduce a system of manpower budgetting. The system arose from a joint management review of the DOE and DTp in 1979 which had pointed to the lack of a standard or systematic method of controlling manpower resources in both Departments and had recommended a system of fixing annual manpower budgets for directorates in relation to permissible and centrally determined manpower totals and department wide functional/policy priorities.

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12. The relationship between manpower budgetting and MINIS was recognised from the start; bringing them together would combine the advantages of an across the board examination of work priorities and permissible manpower numbers and those of the detailed MINIS review of directorate activities.

13. The system adopted for the second MINIS exercise which began in the autumn of 1980 was thus broadly similar to that used for MINIS 1, but as well as covering retrospectively the period April–September 1980 it looked forward to April 1982 for the purposes of manpower budgetting and incorporated significant changes on that account.

14. For MINIS 2 directors were thus asked to record on a separate form the extent to which they expected to meet their manpower targets for 1 April 1981 (and to comment on any problems in doing so). Directors also identified and commented on the further changes in functions and staffing required to meet the provisional 1 April 1982 manpower ceilings previously approved by the Secretary of State after discussions at Deputy Secretary level.

15. Other changes included the extension of the forward look to cover (in 2 parts) the 18 month period to April 1982 and the expansion of the organisational chart to show divisional staff numbers and responsibilities in greater detail as well as progress towards manpower targets.

16. Some information collected for MINIS 1 was dropped for the second round. In order to reduce the effort required to prepare directorate statements, the costing of individual functions was replaced by the calculation of total directorate staff costs with a subjective assessment of changes in staff effort on functions since the MINIS 1 (October 1979–March 1980) period. The costing of effort by principal subject areas was similarly replaced by an estimated percentage breakdown of the costed total staff effort.

17. In addition, the information previously included on statistical services was no longer required as DOE Ministers had reviewed all activities in this field. Details of extra mural research contracts were omitted also from the MINIS 2 round as arrangements had been instituted for the DOE Minister responsible to vet every proposal for this category of activity.

18. As in MINIS 1, the collection of information for MINIS 2 statements was followed by a series of meetings chaired by the Secretary of State, after which draft Action Statements were once again prepared for Ministerial approval as before.

MINIS 3

19. Following MINIS 2, the Secretary of State decided that future MINIS rounds should be held on an annual cycle. The DOE is therefore currently beginning preparations for MINIS 3 which will cover the same time span as MINIS 2 but rolled forward 12 months, ie a retrospective look at the previous 6 months (April–September 1981) and a forward look in 2 parts (October 1981–March 1982 and April 1982–March 1983).

20. As the collection of MINIS 3 information has only just begun, it is too early to detail the contents of the final statements which will result. In brief, however, the changes to the system will include an increased role for senior management, greater involvement of line management, and a greater emphasis on the identification of objectives and priorities and on performance assessment and planned performance.

21. To increase the involvement of senior management, the Permanent Secretary will be holding preliminary meetings with directors on the basis of their MINIS 3 statements. Following these meetings the Permanent Secretary will put a note to the Secretary of State reporting on the issues discussed and the proposals for action. The Secretary of State may at this stage decide that a full meeting with him is not necessary in all cases, but where he does wish to hold a meeting he will have the benefit of having the views of senior management beforehand.

22. In addition to the introduction of the Permanent Secretary's meeting directors are being encouraged to involve their line managers more closely in the preparation of MINIS 3 statements, to incorporate the MINIS process into their day-to-day management

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procedures and to take the opportunity offered by MINIS to undertake a thorough review of their functions and performance within their own directorate.

23. Hand in hand with these changes to the system to be used for MINIS 3 there will also be a change of emphasis. Although the identification of manpower savings will remain important, there will also be more scope in MINIS 3 for officials to put forward options for future resource deployment and directors will for the first time be asked to provide a statement of their proposed key objectives/functional priorities for the coming financial year. This should make it easier for the deployment of departmental resources to be decided in the light of what each directorate has to achieve. A new stress is also to be placed on the assessment of objectives at the margin to ensure that adequate consideration is given to possible alternatives.

24. Further more, although (as the original Rayner Scrutiny recognised) the quantification of output is as yet feasible for only some areas of the DOE's work, there will also be a greater emphasis on the assessment of performance in MINIS 3. The preparation of statements and the briefing on them will thus concentrate on the comparison of actual performance against planned performance, on detailed assessments of what each directorate has achieved and on the development wherever possible of improved methods of quantifying the work carried out. MINIS 3 will also return to the costing of staff effort on individual functions (as in MINIS 1) to provide an accurate measure of the resources consumed on the activities described.

25. In addition to these areas of development, the scope of MINIS is also being increased in the light of a recent Rayner Report on Non-Staff Running Costs in DOE. This Report, which was submitted to Secretary of State and Sir Derek Rayner in June 1981, examined various options for improving current methods of estimating, monitoring and controlling non-staff running costs in DOE(C).

26. Although final decisions on implementation have still to be taken, the Department is taking the opportunity of MINIS 3 to take some very basic steps towards the improvement of the available information on non-staff costs. MINIS 3 statements will therefore show separate entries for several new items of non-staff costs (eg telecommunications and training) and in the longer term the role of MINIS could be further expanded to allow considerable improvements in the efficiency of resource allocation in this area.

ANNEX B

STAFF INSPECTION: A NEW EMPHASIS

A service wide initiative to make more effective use of staff inspection resources was launched a year ago by CSD Ministers. At about the same time the role of staff inspection within DOE(C) and DTp was under fresh consideration because of the introduction of MINIS and manpower budgeting procedures.

In order to mesh the functions of manpower budgeting, staff inspection, and other management services within a more concise and effective framework, staff inspection will in future concentrate on:

- selective inspections (rather than the cyclical system followed previously);
- deciding what work is essential as well as recommending a staffing level for work which is desirable if resources are available;
- issuing reports more promptly to facilitate speedier implementation.

In practical terms this will mean that the Staff Inspection programme will largely flow from the MINIS manpower budgeting process: areas will be inspected where there are particular problems or uncertainties. Staff Inspection will provide an objective and independent assessment of manpower budget proposals and assist in their refinement. The opportunity to involve other management service resources in relevant studies will be taken where appropriate.

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The nature of the work under study will be considered as well as the appropriate level of staffing. Staff Inspection reports will in future comment much more widely than before on the need for functions and the priority attached to them as well as making recommendations about numbers and grades of staff to be deployed with a view to improving efficiency.

To ensure that the Staff Inspection findings are acted upon promptly so that as far as possible the results can be taken into account in the following manpower budgeting round reports will be issued simultaneously to line management and the Trade Union Side for consideration and comment (subject only to a preliminary check with line management for factual accuracy). Following this 3 months will normally be allowed for consultation and decision on implementation. If it is not possible to reach agreement within that period the report may be referred to senior management within the Department(s) for final decision.

This new emphasis for Staff Inspection has the endorsement of Ministers in both Departments and those at CSD.

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Memorandum submitted by the Property Services Agency

RESPONSE TO THE SUB-COMMITTEE'S QUESTIONNAIRE

Introductory Note

1. This introductory note accompanies PSA's replies to the Sub-Committee's questionnaire. It explains briefly the origin, role and organisation of PSA, the scope and scale of its activities, its methods of operation and management systems.

Origin

2. The PSA was set up in September 1972 with responsibility for "the provision to other Government Departments of property management services, building construction and maintenance, and the appropriate supplies" (Hansard 5 May 1972 col 217). Its scope and functions were broadly the same as the Ministry of Public Building and Works which was set up in 1963 and brought together the Ministry of Works and the separate Works organisations of the three Services from the Ministry of Defence. It subsequently took over the work of the Defence Land Agents from MOD. The setting up of the new Agency followed reports by two business advisers to the Government—Mr H J Cruikshank (former Managing Director of Bovis Ltd) who reported on the constructional activities, and Mr T A D Sainsbury who reported on the property management aspects.

Role

3. PSA's job is to serve the operational needs of Government Departments and the Armed Forces, including estates management, construction and maintenance. The Government is the largest property owner in the country, and has the largest building programme. The work is there and has to be done. It is primarily a management task in that the great bulk of the building and construction work is placed with private contractors, all property disposal work is put to private agents once the preparatory work has been done, and an increasing proportion of major new works is designed by consultants.

4. PSA's Clients—Civil Departments, the Armed Forces etc—are responsible for defining and justifying their need for accommodation services and PSA is responsible for providing them efficiently and economically. But PSA also has a "control" function in that it has to ensure that the office estate as a whole is properly managed and it has to operate within public expenditure constraints that raise problems of priority among the claims on limited funds. The interests of estate management and expenditure control have to be reconciled with the operational needs of the client Departments. For these reasons PSA is not engaged in a commercial undertaking: it is part of Government. Its task is not to maximise the return on assets but to meet the operational needs of Government and the Armed Forces efficiently and economically.

Staff

5. When the Agency was set up in 1972 it had about 47,000 staff (21,000 non-industrial; 26,000 industrial). By 1 July 1981, numbers had reduced to 33,942 (17,291 non-industrial and 16,651 industrial). The Agency's 1.4.84 manpower target is 28,225—a reduction of 40 per cent on 1972.

Organisation

6. An organisation chart is attached.[1] PSA's work is widely dispersed throughout the UK and overseas, and over 60 per cent of the non-industrial staff and almost all industrials are employed in the Regions. There are 14 PSA Regions, 10 in the UK (including Scotland and Wales)—with 34 Area Offices and 156 District Works Offices—and 4 overseas (Germany, Cyprus, Hong Kong and Gibralter). The Regions' tasks are predominantly management and maintenance of the estate, and control of minor new works services (£100,000 or less) and those major new works services (over £100,000) delegated by the headquarter Directorates. The HQ Directorates (in London and Croydon) are responsible for overall programming and financial control, most of the larger new works projects,

[1]See pp 134–5.

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specialised professional and technical services and overall control of staff resources. Supplies Division was formally re-constituted on 1 April 1976 as "PSA Supplies" on a full trading fund basis as an integral part of PSA.

PSA Executive and Advisory Boards

7. *The PSA Executive Board* consists of the Chief Executive, the two Deputy Chief Executives, the Director-General of Design Services, the Principal Finance Officer, the Principal Establishment Officer, and the Controller of Supplies. The Board is responsible for the overall management of the Agency, its organisation and use of resources.

8. *The PSA Advisory Board* is a group of experienced people from outside PSA chaired by Mr Nigel Mobbs, Chairman of Slough Estates Ltd and the Charterhouse Group. They were appointed by the Secretary of State in December 1980 to widen the range of advice available to him and the Agency. The Board has set up 4 working groups examining PSA's procurement role; contracting and tendering procedures; sources of finance and financial relationships with clients; and the involvement of the private sector in the design of PSA buildings.

Scope of Activities

9. Over half of PSA's work is in direct support of the Armed Forces at home and abroad, NATO and the United States Forces in the UK. PSA's 1981–82 expenditure is divided among clients as follows:

	£1m 1981–82
Defence	709
Civil Departments	548
Diplomatic	37
NATO/US	151
Post Office	97
Others	97

10. The main types of work are—

New Works—the design (in-house or with consultants) and project management of major new works: offices, prisons, courts, museums, galleries, laboratories, special hospitals, Defence installations, etc *£653 million in 1981–82.*

Maintenance—maintenance and operation of buildings, plant and machinery on the Civil and Defence estates and for other public sector clients and NATO/US Forces in the UK. *£630 million in 1981–82.*

Estate management—management of the Government estate, Crown-owned and leased, to meet the needs of Government Departments, including all types of land and property transaction and disposal of surplus assets. Rent bill *£206 million in 1981–82.*

Supplies—supply of furniture and equipment, fuel and transport services. *£210 million in 1981–82.*

11. PSA provides these services to Civil Departments throughout the UK (including Northern Ireland), to British Forces in the UK and overseas, and to the Diplomatic Service overseas.

Scale

12. The following figures give an indication of the scale of the Agency's current operations:

Major new works projects—700 in construction, 1,360 pre-construction.

Job orders (maintenance and minor works) about 1,800,000 a year.

Land transactions—about 17,000 transactions a year—acquisitions, leases, rent reviews, disposals etc.

Disposals—receipts from sale of surplus land and property 1980–81—£83 million.

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Holdings—Civil estate 9,000; diplomatic estate 1,380; Defence estate (UK) 3,700 establishments, plus 97,000 married quarters and 280,000 hectares (one "holding" can comprise a number of buildings and one building may be occupied by several Departments).

Methods of Operation

13. The following methods are used:

Major new works—all new construction projects are placed with contractors, usually on the basis of competitive tendering. PSA is responsible for project management.

Maintenance and minor works—about three quarters of the work (by value) is done by private contractors. The remainder is done by Directly Employed Labour but this element is reducing as the workforce contracts (see 16 below). All the work, whether by contractors or DEL, requires technical supervision, cost control etc by PSA.

Design work—about 37 per cent of design work is placed with consultants. The rest is done by the Agency's own staff but this proposition will reduce as more work is put to consultants (see 16 below).

14. At present most of PSA's work is done for client Departments on an "allied service" basis—ie the costs are borne on PSA's Votes and are not charged out to Departmental Votes. Work for the Armed Forces forms part of the Defence Budget, and specialised buildings (prisons, courts etc) are shown on Departmental Public Expenditure Programmes (PES). The rest—mainly office buildings which form the common-user estate—are on PSA's PES. Some clients are charged on a repayment basis—Post Office, NATO, United States Forces, etc. Arrangements are being made to introduce a simplified form of repayment service on the UK Civil Estate.

Management systems

15. PSA operates the "MINIS" system which provides management information for the Secretary of State, and which enables him to conduct regular reviews of the Agency's work and use of resources (NB the MINIS system is described in papers provided for the Sub-Committee by DOE Central). In addition, the Agency has developed the following internal management systems:

The PSA Programme and Directorate objectives
The Programme is prepared by the Executive Board. It represents a broad view of the Agency's task in the year ahead and a framework within which PSA Directors set more detailed objectives for their own operations.

Annual and half-yearly reports
The Deputy Chief Executives, Director General of Design Services and Headquarter Directors prepare annual and half-yearly reports assessing progress towards objectives. Annual reports are reviewed by the Executive Board.

Resource costing and performance indicators
The Agency's computer based resource costing system ensure that its activities are properly costed and fully overheaded. The systems enable PSA to set quantitative performance indicators for most of its activities, including major new works, maintenance, estates services and supplies.

Project and Programme management
PSA has well established systems for managing individual projects and client programmes, including computer based information systems for major new works.

Estate Management
In addition to its resource costing system for estates services (see above) PSA has a computerised estates record for the London headquarters office estate and has developed proposals for similar computerised estate records throughout the UK.

PSA Supplies
PSA Supplies operates under a Trading Fund and has its own management information systems; trading accounts, operating accounts, balance sheets etc are

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produced together with the requisite management data on sales, stocks, costs, prices and performance.

Future developments

16. Since the present Administration took office the main emphasis has been on changing the Agency's methods of working so as to put as much work as possible with the private sector—private contractors, consultants and suppliers—and to reduce the in-house workforce. The main areas where this can be done are:

Design—in 1978–79 24 per cent of design work was put to consultants; in 1980–81 the proportion was about 37 per cent. This will increase as the Agency's own design teams are reduced. A number of design competitions are being arranged.

Maintenance and minor works—at 1.4.79 the Agency's Directly Employed Labour totalled 18,200. By 1.7.81 it totalled 14,550. DEL will be retained only where private contractors are not equipped to do the work—eg because of security factors or the need for constant attendance on Defence establishments or at remote locations.

Contractual methods—the aim is to devise contractural methods which will place more responsibility for supervision etc on contractors and less on PSA—eg lump sum contracts for maintenance work.

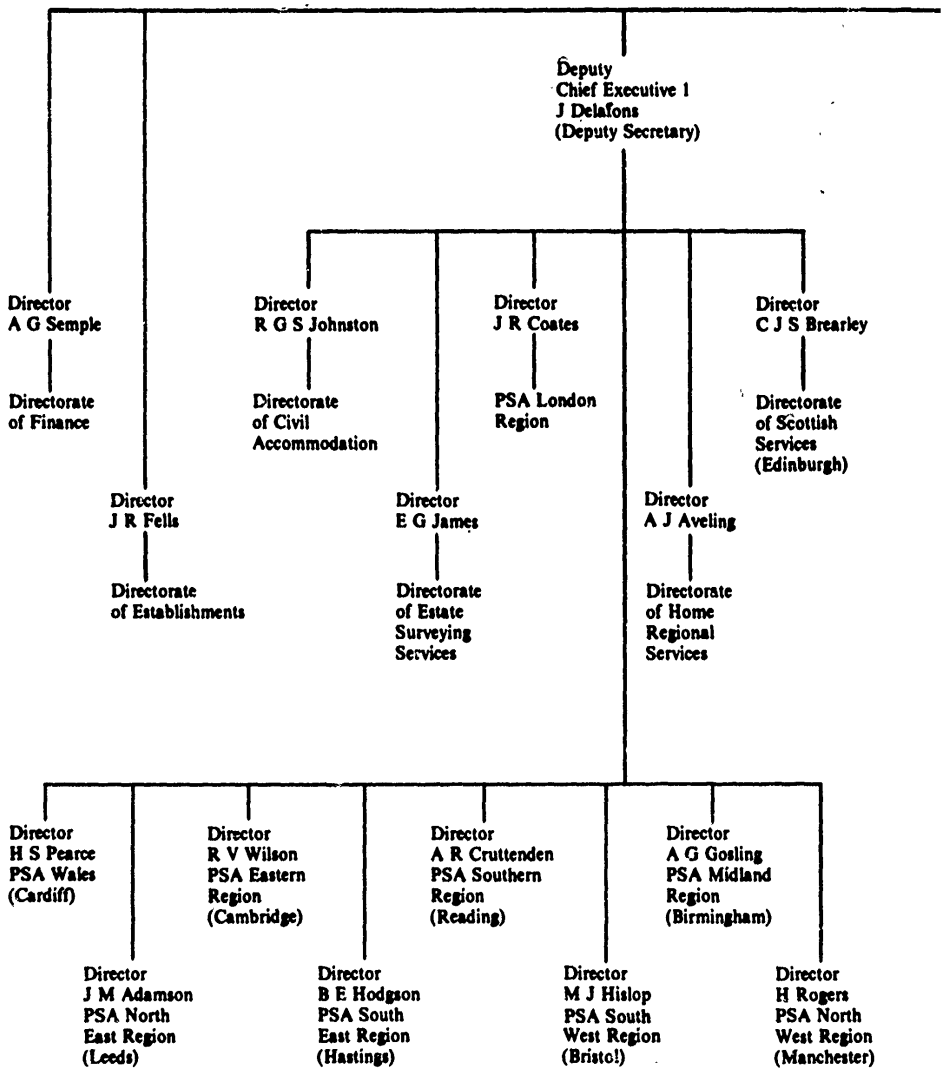
17. The proposal noted in paragraph 14 to introduce a repayment regime for PSA's services on the civil estate will involve a major change in the Agency's operations but the broad allocation of responsibility as between the Agency and its clients is not changed—the Departments are responsible for justifying the requirement and PSA is responsible for meeting it effectively and economically.

18. The following papers contain replies to the Sub-Committee's questionnaire.

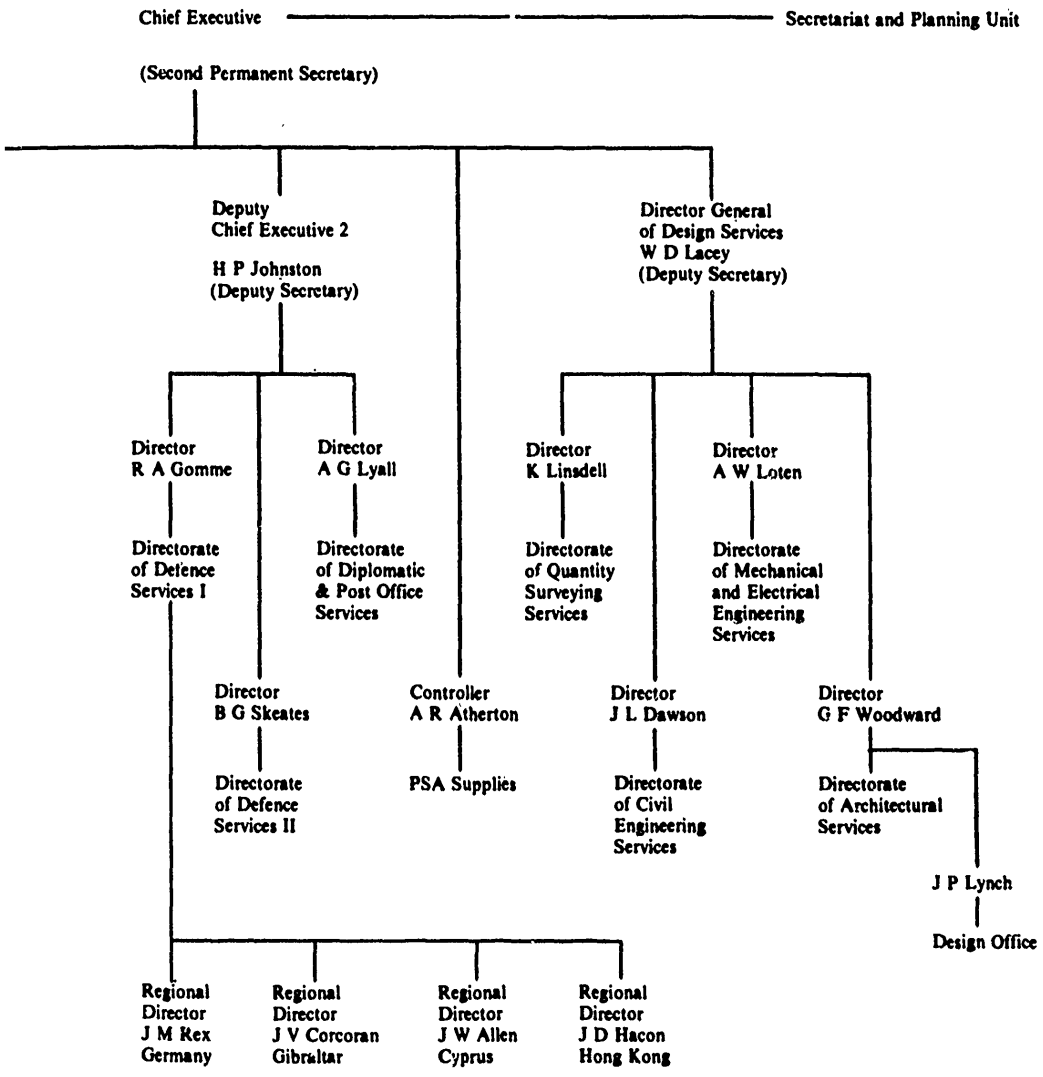
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PSA Organisation Chart (Sept 1981)

Executive Board
(meets weekly)
Chief Executive (Chairman)
Deputy Chief Executive 1
Deputy Chief Executive 2 (D/Chairman)
Director-General of Design Services
Principal Establishment Officer
Principal Finance Officer
Controller of Supplies



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PROPERTY SERVICES AGENCY (PSA)

Q.1. *The Sub-Committee would like to have a broad outline of how the Department spends the money for which it is responsible. Using the 1981–82 Estimates and distinguishing in each case the largest items of expenditure, please divide total expenditure between:*

(a) *Manpower*

(b) *administrative costs*

(c) *grants and loans to other bodies (separately)*

(d) *purchases of goods and services*

(e) *other expenditure, mentioning significant offsetting receipts.*

PSA's 1981–82 estimated expenditure divided in the manner requested by the Committee is as follows (in £ million):

	Manpower	*Administrative Costs*	*Grants*	*Purchase of Goods and Services*	*Receipts*
Vote I.4 (Defence)	51*	—	1	760	–147
Vote II.2 (Civil overseas)	—	—	0	37	–3
Vote XIV.1 (Civil UK)	28*	—	0	520	–87
Vote XIV.2 (PSA administration)	150	99	0	0	–58
Repayment and Agency Work	—	—	0	172	–166
	229	99	1	1,489	–461

*Includes wages of industrial staff.
Payments to non-industrial staff and administrative costs are all shown in the Administration Vote.

Q.2. *How many people are employed by the Department and its agencies and on what blocks of work? How many of these are civil servants?*

(i) The numbers of staff employed by PSA at 1 July 1981, all civil servants, were as follows:

	Headquarters Directorates	*Regional Organisation*	*Total*
Non-Industrials	6,011	11,280	17,291
Industrials	—	16,651	16,651
			33,942

The figures include 1,320 staff engaged full time on work for the US Forces who are excluded from the Civil Service manpower count and 597 serving overseas, mainly in Germany. The figures do not include 5,417 locally engaged employees overseas.

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(ii) The distribution of staff by main activities is as follows:

Non-industrials (excluding PSA Supplies):		
Senior staff (Under Secretaries and above and support staff)		27
Professional and Technology (P&T) grades mainly engaged on:		
Major new works		2,459
Minor works and maintenance		6,261
Estates services		605
Administrative, Executive and Clerical (AEC) staff:		
Support to P&T grades		2,390
Programme planning and control		408
Contracts		292
Accounts and finance		515
Establishments		731
Other grades (mainly secretarial and messengerial staff)		1,542
Students and trainees		478
		15,708
Industrials (excluding PSA Supplies)		
Directly employed labour mainly employed on works services	14,542	
Custody guards	780	
		15,322
		31,030
PSA Supplies		
Non-industrials	1,583	
Industrials	1,329	
		2,912
Total PSA		33,942

Q.3. *What significant changes have there been in the functions of the Department in the past 5 years?*

The following transfers of work and staff have taken place in the past 5 years:

(i) the transfer of responsibility for works services for Ancient Monuments from PSA to the Scottish Office (208 non-industrial staff) and the Welsh Office (65 non-industrial staff) on 1 April 1978;

(ii) the transfer of responsibility for works services for museums and art galleries from Central DOE to PSA (32 non-industrial staff) on 1 October 1979; and

(iii) the transfer of responsibility for works services for the Palace of Westminster from Central DOE to PSA (10 non-industrial staff and 31 industrial staff) on 1 April 1980.

Q.4. *Presumably the resources, financial and manpower, of the Department are devoted to the pursuit of objectives which are the result of political decisions. What arrangements have you got for monitoring the effect of programmes? For measuring and monitoring progress in achieving objectives? For considering alternative programmes for achieving objectives? For reviewing objectives in the light of progress made and alternative programmes considered?*

1. PSA's work is in support of the operations of Government Departments and the Armed Forces, chiefly the management and maintenance of the government estate and the

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management of its building programmes. These are not political objectives in themselves but much of the work, particularly in new building, is related to government policies. For example, PSA is responsible for the new prison programme and the Crown Courts programme, which are part of the Government's policies on law and order. The client Departments (in this case the Home Office and the Lord Chancellor's Department) have the policy responsibility; PSA's function is to meet those requirements effectively and economically. Similarly, a major new requirement of the Defence programme is the fixed facilities required to support the Trident weapon system. Responsibility for monitoring progress, considering alternatives etc (so far as the building programmes are concerned) rests jointly with PSA and the client Departments.

2. PSA's output is assessed from two main aspects:

(a) its success in meeting the client's requirements in terms of cost, time and fitness for purpose; and

(b) its own use of resources (in-house and out-house) in providing those services.

3. These two aspects are dealt with in the replies to Q's 5 and 6 respectively.

Q.5. *What problems are there in devising satisfactory measures of progress? Please give examples of progress reviews.*

1. PSA's forward works programmes are reviewed regularly in consultation with the Agency's clients to ensure that the programmes continue to reflect client priorities, and to amend them if necessary. This process continues throughout the year in the course of the normal working relationship with the client, but is brought sharply into focus in the context of the annual Public Expenditure Survey (PES) and Supply Estimates.

2. In building programmes of this kind progress is readily measured against planned timetables both before and after construction starts. The Agency has a computerised management information system for new works which provides monthly data on progress and use of resources against budgets.

3. In the field of maintenance, performance is measured partly against the utilisation of funds available (cash limits), partly in terms of resource costs and partly against unit costs. Regular reports are provided for line managers. In addition, the technical quality and cost-effectiveness of work done is assessed in the course of Maintenance Economy Reviews (which include estates aspects) and Maintenance Audit (which entails a closer technical appraisal).

4. Throughout the Agency's work, the client Departments make a major contribution to monitoring progress and assessing performance, since the Agency exists to meet their requirements. Equally the Agency looks to them to fulfil their client responsibilities—in determining priorities, specifying requirements and avoiding abortive work.

Q.6. *Are reviews restricted to programmes that consume, directly or indirectly, large quantities of resources and/or where the outputs can easily be expressed in quantitative terms? How do you evaluate the effectiveness of, say, regulatory activities or inspectorates?*

1. PSA's work is almost entirely in areas that require large quantities of resources and where the output in terms of work done is readily expressed in quantitative terms. It has no regulatory functions and its advisory or specialist work is in support of the Agency's production activities (and is charged as an overhead to that work). The Agency is therefore primarily concerned with resource management.

2. PSA has a comprehensive computer based resource costing system which ensures that all its activities are properly costed and fully overheaded. The system enables PSA to set quantitative performance indicators, including a comparison of PSA's resource costs with the fees that would be earned if PSA charged professional scale fees for its services. The system also enables managers to monitor the relationship between overheads/local on-costs and total operating costs; operational: non-operational time; and the composition of overhead costs including accommodation costs (at equivalent market rents).

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Q.7. *Which individuals, staffs or units in the Department are responsible for programme evaluation and effectiveness? To whom do they report?*

1. Central responsibility for the management and performance of PSA rests with the Executive Board under the Chief Executive. The Board provides the corporate leadership. Line Managers (those in charge of HQ Directorates and Regional Directors) report to the Board. Further down the line, all PSA managers control resources of manpower and money, and are responsible for the effectiveness of their operations.

2. In such a large and dispersed organisation it is essential to have effective means of setting objectives and monitoring performance. PSA has well established management systems for this purpose. Each year the Executive Board prepares a "PSA Programme", which is submitted to Ministers. The purpose of the Programme is to help the Agency carry out its functions in the coming year. It assesses the future workload and relates this to available resources; it reviews performance and capability, and defines themes and priorities. It represents a broad view of the Agency's task in the year ahead and a framework within which PSA Directors set more detailed objectives for their own operations. Progress towards these objectives is assessed in Directors' annual and half-yearly reports. Directors are invited to a Board meeting to discuss their annual reports in detail. In addition, the PSA's Chief Executive has separate meetings with HQ Directors and their senior staff for further discussion of the reports. This process of reporting and review covers both progress in meeting major client programmes and performance in relation to use of resources, (see answer to Q.6 para 2 above).

Q.8. *How do you monitor the effectiveness of new or experimental programmes?*

1. PSA does not engage in experimental programmes in the sense of testing out new policy initiatives or research and development projects. Innovations in design, energy conservation and other types of work are undertaken only as part of the Agency's normal operations in meeting client requirements and are assessed in the same way. In particular, the PSA Design Panel (which consists of members of the Executive Board and two private consultants) examines a selection of buildings in design, on completion and in use.

Q.9. *Which individuals, staffs or units in the Department are responsible for effeciency in the sense of maximising the outputs from programmes and minimising the inputs to them? To whom do they report?*

1. See replies to Q.7 above. In terms of PSA's functions, the effectiveness of its work is largely dependent on its efficient use of resources. PSA managers are responsible for both the effectiveness and efficiency of the Agency's operations (see also replies to Q.4–6 above).

Q.10 *Staff inspection*

(i) *To whom are staff inspectors responsible?*

(ii) *Does staff inspection cover the whole Department and its associated public bodies?*

(iii) *Do staff inspectors cover the whole Department every three years?*

(iv) *Arrangements for ensuring staff inspectors' recommendations are carried out.*

(v) *The extent staffing formulae are used for routine operations.*

(vi) *How do you measure whether staff inspections are successful?*

(i) A Superintending professional officer is in charge of staff inspection under the Assistant Secretary heading the Staff Resources Division. The latter is responsible to the Principal Establishment Officer for all aspects of manpower control in the Agency.

(ii) Staff inspectors cover the whole of the Agency's non-industrial staff. There are no associated public bodies.

(iii) It has not proved possible to cover the whole of the Agency every three years. Certain of the smaller formations, eg those overseas, are inspected less frequently. Most posts in the Agency are inspected at a frequency of a little over five years. Every effort is made to cover posts in the HQ Directorates and Regional Headquarters Offices at three-year intervals, but in an organisation which has to

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adapt to the changing needs of clients' programmes a selective approach is essential and priority is directed to those areas which have been subject to changes in workload or organisation.

(iv) The Principal Establishment Officer is responsible for ensuring that the recommendations are implemented, after consultation with Line Managers and the Trade Union side. It is not possible to measure the success of an inspection solely by the number of posts saved. Staff inspections often reveal staff imbalances (eg between professional disciplines) that need to be corrected and sometimes the need for increased resources. Staff inspection is also concerned with the grading of posts as well as with total staff numbers. Information obtained from inspections helps to keep up-to-date the Establishment Officer's knowledge of the Agency's changing requirements in relation to the current and future workload.

(v) Some 10,000 of the Agency's staff are located in the UK territorial organisation—Regional, Area and District Offices. Staff Inspectors have guidelines for the grading of work in these areas. In view of the relatively uniform character of the work, the Agency is examining the scope for introducing more detailed specifications for staffing which would reduce the need for repetitive staff inspections, although staff inspection would still be required to confirm the validity of the specifications.

Q.11. *Management Services*

(i) *To whom are management services responsible?*

(ii) *Do they work by invitation of managers or is there a systematic programme for reviewing the organisation and methods used by the Department?*

(iii) *What are the arrangements for ensuring that recommendations of management services studies are carried out?*

(iv) *How do you measure whether your management services are effective?*

1. PSA is served by the Management Services Directorate in DOE Central, whose functions are described in DOE Central's replies to this Question. Examples of this work include:

(1) The development of a computer model for the London Estate strategy.

(2) The development of a computer-based resource planning system for major new works.

(3) The selection and evaluation of oil tenders by PSA Supplies.

(4) Procedures for the disposal of surplus Defence property.

2. Arrangements for following up management services studies depend on the level at which the studies have been commissioned and their scope. Studies affecting PSA-wide procedures etc would be the concern of the Executive Board; studies initiated by a line Director and concerned with his Directorate would be the responsibility of the Director and his Deputy Chief Executive, who would also be aware of possible applications elsewhere in the Agency. The effectiveness of such studies is measured by (i) the potential savings in resources and time that they identify; (ii) the extent to which their recommendations are implemented and the savings obtained.

Q.12. *Machines*

(i) *What is the organisation within the Department for*

(a) *seeking economical uses for machines—including computers and other electrical and electronic devices—within the Department?*

(b) *introducing and operating them?*

(c) *assessing the cost-benefit of other investment opportunities affecting the running of the Department?*

(ii) *How is the contribution of machines to efficiency measured?*

(iii) *Are there any obstacles to their use within the Department wherever they would be economical?*

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28 *October* 1981] [*Continued*

1. PSA relies on the Management Services Directorate of DOE Central to assess the costs and benefits of introducing computers and other major items of office machinery for particular functions. (See replies to this Question by DOE Central).

2. An assignment may be initiated by a line manager or by the Management Services Directorate from their knowledge of technological developments and the Agency's operations. A working group chaired by a PSA Deputy Secretary oversees the Agency's use of computers and data processing and coordinates activities in this area.

3. The Agency operates computer-based accounting and resource costing systems to provide management information at all levels and also in support of its design activity. Recent developments include an enhanced resource-costing system; the enhancement of the personnel record system to enable various manual records to be dispensed with; and the introduction of the first computerised drawing facilities. Ten word processors are in use for building specifications and more such machines are likely to be introduced in the near future for a much wider range of work.

4. The efficiency of machines is measured by the savings they can provide in resources and time compared with their costs over their expected life. The effects of the introduction of new equipment is monitored by Management Services Directorate with a view to assessing the scope for its further application.

5. Until recently there was concern on the Trade Union Side about possible health risks associated with the use of video screens for word processors, but Departmental agreement has now been reached on this. Lack of finance—for equipment and associated accommodation alterations—has not so far impeded progress on introducing new machinery.

Q.13. *What are the arrangements for maximising the efficiency of programmes which are not manpower intensive but consume significant financial resources?*

PSA is not responsible for the types of programme that consume significant financial resources but are not manpower intensive. Its primary resource is manpower and its methods of controlling this resource are described in replies to Q.6 above.

Q.14. *Please give examples of significant improvements in efficiency achieved in the last five years, explaining the nature of the improvement and also how the improvement was instigated, ie distinguishing improvement flowing from staff inspection, the use of machines or other capital investment, the Rayner exercise and other sources.*

1. PSA has made a number of significant improvements in the efficiency of both management and services in the last five years. In the following examples the work was instigated by PSA, except in the case of 1(i) which followed from the 1973 Act, 2(i) which was initiated by Sir Derek Rayner, and 2(iv) which was in response to Government policy on disposal of surplus assets.

(i) *PSA Supplies Division* was reconstituted on 1 April 1976 as *"PSA Supplies"* operating on a trading fund basis. The financial duties placed on PSA Supplies by the Government Trading Funds Act 1973 are to cover all outgoings by selling the goods and services it provides and to meet such further financial objectives as may be determined by Ministers. For the first five year period from 1 April 1976 to 31 March 1981, the Government target was to earn an operating surplus, before charging interest on long term loans of 10 per cent of assets employed at current values. The target has been met throughout the five year period. Thus the effectiveness and efficiency of the operation is subjected to the commercial test of profitability. PSA Supplies operate a management accounting system which devolves responsibilities to managers throughout the organisation and brings together outputs and their full cost in a way that facilitates effective control.

(ii) *Quantitative performance indicators* derived from the Agency's resource costing system. These are of paramount importance for monitoring and improving the efficiency of the Agency's operations. Indicators have been in use for more than five years but it is in recent years that they have become fully understood and accepted. Principal performance indicators are:

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(a) For major works services (jobs over £100,000), the ratio of notional scale fees to Directorate/regional resource costs incurred on design work. This enables Directorates to compare their performance with consultants and acts as an incentive to reduce resource costs and improve "profitability".

(b) Ratio of non-operational to operational time. This enables Directorates to see whether the proportion of non-productive effort is increasing or decreasing.

(c) Ratio of overheads and oncosts to operational costs. This enables Directorates to keep a check on overheads and acts as an incentive to reduce them.

Directorates targets and outturns relating to these indicators are included in the PSA's MINIS statements.

(iii) *Energy Conservation:* measures to promote the more efficient use and management of *energy* on the government estate include:

(a) plant management improvements;

(b) capital investment to improve plant and buildings;

(c) energy monitoring and management;

(d) energy targets in new buildings;

(e) specialist support and advice to MOD and civil clients.

For the civil estate PSA sets energy saving targets. The first target was 30 per cent of 1972–73 consumption to be achieved in five years. The target was achieved in three years, ie by 1975–76. The current target calls for a 12 per cent reduction on 1978–79 consumption by 1981–82. It is expected that the target will be achieved. The civil estate targets are used as guidelines for the MOD estate (where MOD are responsible for energy purchase and consumption and PSA are responsible for plant operation and maintenance). Progress in conserving energy on the two estates follows a similar pattern. Had it not been for the energy conservation measures outlined above the 1980–81 energy bill on the civil and Defence estates would have been £85 million more. The PSA's energy conservation programme was the subject of a Rayner study in 1979 which fully endorsed PSA's policy and performance in this field.

(iv) *Court Design:* significant economies have been made in Court design in the last five years as a result of growing expertise and a policy of design economy. When the present courts programme got under way in 1975 it was judged necessary to provide about 1,340 sq metres per court at a cost of £695 per sq metre. The median figures for courts in the current programme are 1,100 sq metres at a cost of £670 per sq metre (both costs are at constant prices). Economies achieved are thus 20 per cent in real terms; a significant saving in a programme the value of which will average over £30 million per annum.

2. A number of other initiatives to improve efficiency were referred to in the recent White Paper "Efficiency in the Civil Service" (Cmnd 8293). Energy conservation and maintenance economy reviews have already been mentioned. Other initiatives outlined in the White Paper are:

(i) *Paying for accommodation services.* The Government intends that services now provided free to Departments should be charged out to them, as an incentive to efficiency and economy in their use. Arrangements are therefore being made to charge Departments for accommodation services provided by PSA on the UK civil estate.

(ii) *Transfer of maintenance work to contractors.* The Agency is arranging for much of the maintenance work on the estate, previously done by directly employed labour (DEL), to be undertaken by private contractors. Between April 1979 and April 1981 the PSA reduced its DEL Force by about 3,200 (19 per cent), with a further 3,500 (making nearly 40 per cent in all) to come by April 1984. The reduction will lessen PSA's DEL management task considerably.

(iii) *Reduction in the size of the London estate.* With fewer civil servants in London, Departments can be housed in fewer buildings closer together. This will both

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improve efficiency and reduce expenditure on maintenance, fuel, rent and rates. Savings of up to £50 million a year are expected as a result of this programme of estate rationalisation.

(iv) *Disposal of surplus property.* Ministers have given top priority to the disposal of surplus property on the Government estate. Sales in 1980–81 totalled £83 million compared to under £30 million in 1978–79.

Q.15. *Please describe how you measure your outputs and whether there are any unresolved difficulties in doing so?*

The quantity of accommodation provided and maintained by PSA can be measured and statistics are available, including office and storage accommodation, married quarters, Crown Courts, prison places, etc. The size of the estate is not, however, a very relevant measure of output. The Agency assesses its output chiefly by relating the cost of services provided to the resource costs incurred—eg on design of major new works, maintenance, and estate management. The Agency's resource costing system provides comprehensive and regular information on this basis—see answers to Q.4–9 and Q.14(2).

Q.16. *Have you any internal audit section? Is it headed by a professional accountant? Are internal audit arrangements concerned with effectiveness and efficiency?*

PSA Internal Audit consists of 66 staff, four of whom are professional accountants. The Head of Audit is a Chartered Accountant. There are also seven staff concerned in Internal Audit overseas, supported by the senior management at Audit Headquarters.

The terms of reference of Internal Audit require the Unit:

1. To provide an assurance to management that the Department operates systems of internal control to ensure that:

(i) Assets are adequately safeguarded.

(ii) The accounting records form a reliable basis for the production of annual and other accounts.

(iii) Departmental policies, directives and delegations are being adhered to.

(iv) Statutory obligations are met.

(v) Available funds have been allocated correctly and used economically.

(vi) Debts due to the Department are recovered.

(vii) Operational efficiency is maintained.

(viii) Value for money has been obtained.

2. To draw the attention of management to any failures, deficiencies or excesses in the systems of control.

In addition to regular audit inspections, a separate team, Topic Audit, carries out wider investigations into specific fields of PSA activity, involving issues of effectiveness of policies and value for money. Examples of current areas of study include rents payable; the level of advancing on measured term contracts; the use of suspense accounts; the extent to which overheads and stores are reducing commensurate to the reduction in Directly Employed Labour; and the services provided to the PSA by the Government Chemist.

Q.17 *How many staff, and what grades, are employed on*
- *staff inspection;*
- *management services;*
- *extending the use of labour saving machines;*
- *internal audit;*
- *other work of reviewing efficiency and effectiveness?*

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(i) The numbers of staff employed at 1 July 1981 were as follows:

Staff inspection
1 Assistant Secretary
1 Superintending professional officer
1 Principal
3 SEOs
5 PTO Is
9 HEOs
1 CO

21

Internal audit
1 Director Accountant
1 Assistant Director Accountant
1 Chief Accountant
1 Principal
1 Senior Accountant
5 SEOs
17 HEOs
37 EOs
2 COs

66

(ii) *Management Services and Machines*
As explained in reply to Q.11 and Q.12, PSA is served by the Management Services Directorate in DOE Central but the Agency also develops its own labour saving systems—eg computer-aided design techniques and computerised Bills of Quantities.

(iii) *Other work*
Staff engaged in operating and developing the staff costing and management information systems:

1 Senior Principal
2 Principals
3 SEOs
3 HEOs
7 EOs
5 COs
1 Personal Secretary

22

Q.18. *What members of professional institutes or other specialists with professional qualifications directly relevant to the Department's functions are employed in the Department? In what sort of jobs are they employed? How many of such professionally qualified people are employed in non-specialists jobs? How do they contribute to reviewing either efficiency or effectiveness?*

(i) All professional staff in the Agency are required to hold appropriate professional qualifications. On 1 July they comprised:

Architects	522
Building Surveyors	163
Civil Engineers	486
M&E Engineers	470
Quantity Surveyors	438
Land Surveyors	5
Estate Surveyors	318
Accountants	14
Total	2,416

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Technical and drawing office staff of whom there are some 7,000 are likewise required to have appropriate technical qualifications, training and experience, and some also have professional qualifications.

(ii) Proffessional staff are mainly employed in the design, adaptation and maintenance of buildings and in the management of the Government's estate at home and overseas. A small number of professional accountants are employed on management accounting duties, internal audit and managing the PSA Supplies trading fund.

(iii) Of the 85 posts at Assistant Secretary level and above 54 are held by staff holding professional qualifications. Most of the professional staff in PSA are directly responsible for managing blocks of work and as such are concerned with the efficiency and effectiveness of the organisation. Professional staff are also employed in the Establishment organisation in the control of staff resources and on the management of professional and technical staff. With their background and experience they make an important contribution to the efficient and economic management of what is a very large professional organisation.

Q.19. *What use does the Department make and in what circumstances of outside consultants or researchers in reviewing effectiveness or in related activities eg devising output measures? How useful have such outside contributions been?*

Management consultants are used where they can bring to bear relevant expertise or experience not otherwise available to the Agency. Their contributions have been valuable in a number of recent studies including:

(i) Local Government Operational Research Unit—to assist in a Rayner study of PSA works transport.

(ii) Price Waterhouse—to assist in the implementation of the UKTO management information system.

(iii) Price Waterhouse—to assist DOE/PSA in their computer strategy study.

(iv) Urwick Orr & Partners—to assist DOE/PSA in their review of the Department's library services.

(v) Planned Warehousing Ltd—to assist in a study of the organisation and location of PSA Supplies Division commodity issuing stores.

Q.20. *Who is responsible under the Permanent Secretary for producing management information including management accounts? Does the management information meet the present needs of managers? If not, what more could be done to fill the gaps?*

The Principal Finance Officer is responsible for producing management information other than that required by PSA Supplies which is produced separately by Supplies. The information produced by the PFO is made available to managers by means of three centrally controlled computer systems covering (1) resource costs including overheads, (2) the physical and financial progress of major new works projects, and (3) expenditure incurred on major/minor new works, maintenance and other services, as well as receipts. To ensure that management information needs continue to be met a number of improvements are being developed. These include:

(a) An improved resource costing system which is planned to come into operation in the next few months. It will be cheaper to run than the present system and will improve the flow and presentation of information.

(b) A distributed information system on estates and works expenditure designed primarily to meet the needs of the regional organisation which are not fully met by the present centralised batch-processing system. These proposals have recently been validated by consultants (Price Waterhouse).

(c) Systems to assist management in the more effective deployment of resources engaged on individual works projects and programmes of work.

Q.21. *What information is provided by the Department to Ministers on questions of effectiveness and efficiency?*

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As has been mentioned in reply to Q.7, the annual PSA Programme is submitted to DOE Ministers. In addition Ministers receive regular reports on PSA's progress towards meeting manpower targets. PSA also prepare "MINIS" statements for the Secretary of State covering HQ Directorates and Regions. These statements cover broadly similar ground to those submitted to the Secretary of State by Central DOE (aims, functions, staffing, expenditure, objectives and performance targets), adapted to meet PSA's work and organisation. Ministers also see a wide range of PSA's work on individual projects and estates transactions as a result of Ministerial correspondence, PQ's etc.

Q.22. *What role have the Treasury, CSD, E and A Department, the Rayner team and any other central agencies had in promoting effectiveness and efficiency within the Department? How would you assess their contribution in relation to your own?*

The Treasury's primary role relates to the control of expenditure, including scrutiny of PSA's annual bid for funds in PESC and Estimates, and a special interest in its control systems. The Treasury also see a range of projects that fall outside PSA's delegation or proposals that raise new policy issues. *CSD* is responsible for examining the staff and other resources that PSA requires to carry out its work, and they take part in staff inspections. CSD's wider work on new technology and management systems also contributes to the Agency's work and they can bring to bear knowledge and experience of developments in other parts of the public service. *E&AD's* role is to scrutinise the propriety and economy in the Agency's expenditure and use of resources, usually resulting from their examination of specific projects and programmes. PSA has carried out five *Rayner* studies covering estate management, maintenance economy, energy conservation, works transport and the custody guard service. The contributions of Treasury, CSD, E&AD and Sir Derek Rayner encourage or stimulate efficiency, but nearly all the work must be done and the impetus generated and maintained within PSA. In addition the Agency has carried out many internal reviews of its work and organisation with a view to securing economies and greater efficiency. For example, it has conducted an internal Rayner-style review of its regional organisation which has led to proposals for changes (including closure and amalgamation of offices). A review of the Agency's future need for apprentices and their training has recently been completed.

Q.23. *What incentives are there to encourage individual civil servants to improve effectiveness and efficiency?*

In an Agency where the majority of the staff are professionally or technically qualified and where the bulk of them are engaged on practical productive work, the main incentive is self-motivation—to do a good professional job in which they can take personal pride and satisfaction, to keep abreast of their profession and to be part of an organisation which they can feel is effective and efficient. The same kind of motivation extends to the non-professional staff. The Agency runs extensive training programmes to keep staff up to date with new developments and techniques. In such a large, diverse and dispersed organisation there are wide opportunities for different types of work and responsibility at home and abroad, and many professional staff move in the course of their careers from practical design and production work to senior management posts (for example, all Area and District Works Officers are professional/technical staff, as are eight of the ten Regional Directors). The emphasis in the Agency in recent years on the development of computerised management information and resource costing systems, as well as computerised design systems, has acted as an incentive to staff at all levels to think in terms of improving effectiveness and efficiency. There is a staff suggestions scheme with cash rewards, which attracts a good deal of interest and produces useful results. It must be said, however, that a great deal depends on the state of morale within the organisation as a whole and which may be affected by factors over which the Agency itself has little or no control—see reply to Q.25.

Q.24. *What influence do trade unions have on:*
(i) *manning levels;*
(ii) *the introduction of labour saving machinery and;*
(iii) *the ways of organising work?*

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The unions are kept closely in touch with all major developments affecting the Agency and its work. They are told of Directors' manpower allocations and any adjustments subsequently made to them. They are kept informed of any exercises which are mounted to improve efficiency, reduce manpower or change organisation. Discussion of major manpower issues takes place with the unions at the monthly meetings of the General Purposes Committee of the PSA Whitley Council and more detailed discussions are followed up in a Manpower Sub-Committee. The discussions are generally useful and help to ensure that the staff understand current policies and contribute ideas on implementation. The unions are involved in the staff inspection reports. They discuss the recommendations in these reports with Directors and their views are taken into account. In the same way they are consulted about the introduction of labour-saving machinery and new ways of organising work which may result from reports on staff inspections or any ad hoc reviews. Copies of such reports are made available as a basis for discussion.

Q.25. *How do you assess the state of morale in your Department? What are the principal contributory factors? What is the present state of morale?*

1. PSA is a large dispersed organisation and local managers and group leaders work closely with the staff and are very conscious of the state of morale. Their views are conveyed to senior management. Regular consultations with the Trade Unions also yield evidence, and so do the contacts that Personnel Branches have with individual members of staff. But all such assessments are subjective.

2. The conditions for good morale are that staff need to feel that they are doing useful work, that they are performing efficiently, that the value of their work is recognised, that they are part of an organisation with an assured future, and that they have an assured future within that organisation. In view of the markedly practical nature of PSA's work, in support of the operations of Government and the Armed Forces, coupled with the sustained efforts in recent years to install and operate effective management systems, most of the staff of the Agency should be able to feel confidence in their future, although there are bound to be cut-backs in some areas of work.

3. Morale can vary between and within various parts of a Department, sometimes quite widely. In any office or group of staff the reasons could include the extent to which the staff perceive themselves to be vital to the Department's tasks; the quality of leadership in that office; the amount of work; and the reasons why (if this is the case) the staffing of the office is being reduced.

4. The factors that affect morale include both those that are general to the Civil Service as a whole and those which are peculiar to the PSA. The most important of the former are job satisfaction; the leadership of Departmental Ministers and senior civil servants and their attitudes to their staff, whether in reality or as perceived by the staff; conditions of service (not only pay but the quality of accommodation, the availability of basic support services etc); and the attitude of the press and the public to the Civil Service in general.

Q.26. *Do you satisfy yourself that the grants and loans you make to other bodies are efficiently and effectively spent, and if so, how?*

PSA does not normally make loans. Grants are sometimes made to local authorities in the form of contributions to the cost of local authority works services which directly benefit Government accommodation, for example roads and sewers. Local authority expenditure on these services is controlled in the normal way.

Q.27. *Have you any arrangements for the systematic retrospective review of the management of programmes in relation to outcomes, so as to identify lessons learned which might be applied to analogous programmes in future?*

1. All forward works and estates programmes are reviewed regularly in consultation with PSA's clients to ensure that the distribution of resources continues to reflect client priorities. In addition, major new works are reviewed at each planning stage with the client to ensure that the design continues to meet the requirement. A special review (usually an audit study) is considered when particular items of work have given rise to problems and it is expected that similar problems may occur again. The replies to Q.5 and Q.8 mention

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the system of maintenance economy reviews and maintenance audits, the role of the PSA Design Panel and the responsibility of PSA's clients for retrospective review.

2. PSA has developed a number of systems to ensure that the lessons of experience are disseminated. These include a building defect reporting system to diagnose the causes of defects resulting in early, expensive maintenance; an inspection/advisory service to ensure proper remedial action is taken so that defects do not recur in the same building; a design/maintenance feedback system to secure the closer integration of maintenance interests in new designs and the reduction of preventable defects. A quarterly Feedback Digest is circulated to PSA staff.

Q.28. *Please specify expenditures on services bought in from the private sector which could have been bought from government trading services such as HMSO.*

PSA obtains the bulk of its supplies and stationery requirements from PSA Supplies and HMSO, but arrangements exist for alternative sources of supply when these are more economical. The goods provided by PSA Supplies are manufactured by the private sector. The Secretary of State has decided that PSA should untie itself from HMSO to the extent of one-third of its printing and stationery provision. (Expenditure this year on these two items is estimated at £3.7 million.)

Q.29. *How are complaints from the public fed through into improvements in efficiency and effectiveness?*

PSA's dealings are with other Government Departments, consultants, contractors, agents and suppliers. The Agency does not provide services to the public direct. Many of the Agency's activities, development projects, estate transactions etc are of interest to the local community or to individuals, and arrangements are made for public consultation on major projects. Complaints received usually relate to particular projects or transactions and have to do with the merits of the proposals or other property interests affected rather than to efficiency or effectiveness as such. Complaints of this kind may reach the Parliamentary Commissioner for Administration and his report may recommend changes in procedure or handling of cases—chiefly with a view to ensuring that the interests of the individual are properly considered and safeguarded.

Q.30. *A specific example.*

PSA Stores

1. This paper relates to PSA Supplies Stores. PSA has a network of small local stores holding building and engineering items in support of its direct labour force, but its major stores activity is within PSA Supplies.

PSA Supplies

2. The function of PSA Supplies, which for operational purposes forms part of the Property Services Agency (PSA), is to provide a wide range of goods and services to Government departments, the Armed Forces at home and overseas, the Diplomatic Service, the Post Office and other public sector bodies.

3. The principal task of PSA Supplies is to purchase and supply many thousands of different commodities notably furniture, furnishings, domestic items, engineering equipment and heating fuel. The services provided include a complete furnishing service embracing the design, installation, maintenance and removal of furniture and furnishings in a wide range of office and other buildings; the repair and maintenance of vehicles and of other mechanical and electrical equipment; storage; and a range of transport services.

4. All these activities, which are worth over £200 million a year are conducted on commercial lines. PSA Supplies is not supported directly by money voted by Parliament as is the case with most Government departments, instead it operates as an independent unit of accountable management under the Government Trading Fund Act 1973. It must pay its way by meeting all its capital and current costs through successfully selling the goods and services it provides. Its operating accounts and balance sheets, which are presented annually to Parliament, show the financial results of trading in this way.

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5. The financial summary for the period 1976–77 – 1979–80 is shown in the statutory accounts for 1979–80 which were laid before Parliament in February 1981—Annex A[1] The accounts for 1980–81 will be available shortly.

6. PSA Supplies is headed by the Controller of Supplies, supported by a Supplies Board comprising four Assistant Controllers and two part-time members co-opted from PSA. The Controller reports in his capacity as Accountable Manager to the Chief Executive of PSA who is the Accounting Officer for PSA Supplies. The Secretary of State for the Environment has overall Ministerial responsibility.

Stores Branch

7. Stores Branch is part of the Purchasing Division under the command of the Assistant Controller, Purchasing. The organisation of the Branch is shown in the attached chart (Annex B); of the 353 staff, 269 are industrial grades. The unit of management is a geographical Stores Zone of which there are five, each under the command of a Stores Officer Grade B. (see Annex C)

8. There are four basic stores activities:

- the supply of a range of some 3,000 commodities from *Main Issue* stores;
- the collection in *Clearing* stores of surplus items mainly furniture for re-issue (renovated when necessary) or for disposal (if obsolete or beyond economic renovation);
- the assembly in *Transit* centres of various items of furniture and furnishings required for particular projects in the UK and overseas.
- the provision of storage facilities and associated packing, issuing and distribution services on an *Agency* basis for other Government departments of items such as emergency stockpiles for DHSS, medical stores for various NHS Area Authorities, and tools and materials to meet the requirements of the Manpower Services Commissions' Skill Centres.

9. Wherever possible PSA Supplies have adopted the policy of supplying commodities to client departments through direct delivery from the contractor, thus eliminating expenditure on stocks and stores operational costs. For some items however distribution through PSA Supplies' stores is necessary either to meet service levels, or because it is more economical than direct delivery or for security reasons.

10. As a result of this direct delivery policy the value of goods issued through Main Issue Stores (£15.8 million in 1980–81) represents just over 10 per cent of PSA Supplies turnover of commodities sold to customers. These figures exclude the sale of fuel and vehicles which are supplied only by direct delivery. Even this volume of sales however involves 45,000 deliveries annually at an average weight of 200 kilos to some 8,000 addresses.

11. The following table (Table 1) shows the size, location and type of activity at the 18 PSA Supplies stores. These locations are also shown on the map at Annex C.

[1]Not reprinted. See PSA Supplies Trading Fund Accounts 1979–80 HC (1980–81) 153.

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TABLE 1

Stores: Staff Numbers and Areas at 14 July 1981

	Staff Numbers‡		*Accomodation (square feet)*					
	Non Ind	*Ind*	*Main Issue*	*Transit*	*Clearing*	*Agency*	*Other**	*Total*
NORTHERN ZONE								
Burtonwood	15	55	122,300	10,000	7,000	145,700	33,100	318,100
York	1	7	14,600	14,000	14,000	99,000	25,900	167,500
Sighthill	3	9	4,000	22,000	13,000	10,500	3,500	53,000
Belfast	1	3	2,000	18,100	—	—	—	20,100
Newcastle	—	2	—	8,500	—	—	—	8,500
MIDLAND ZONE								
Weedon	10	44	61,700	8,500†	—	30,300	6,000	106,500
Northampton	1	5	24,600	—	—	—	14,500	39,100
Royston	1	3	—	3,000	—	49,700	1,900	54,600
Smalley	—	2	—	10,000	—	—	—	10,000
Birmingham	—	2	—	8,400	—	—	—	8,400
SOUTH EASTERN ZONE								
Hayes	9	20	2,000	60,300†	—	—	2,300	64,600
Wembley	3	16	—	10,000	77,800	—	10,700	98,500
Hookwood	1	3	—	8,300	—	47,600	—	55,900
Colchester	—	2	—	5,500	—	—	1,100	6,600
MILTON ZONE								
Milton	17	49	164,100	14,500	—	186,500	52,300	417,400
SOUTH WESTERN ZONE								
Bristol	12	42	2,000	9,800	20,500	95,800	23,100	151,200
Plympton	—	2	—	4,900	—	—	—	4,900
Cardiff	—	—	—	—	—	1,400	—	1,400
TOTAL	74	266	397,300	215,800	132,300	666,500	174,400	1,586,300

*Includes despatch areas accommodation used for redistribution of non-PSA Supplies goods, eg HMSO.
†Assembly of items for transit overseas.
‡Staff numbers exclude the 10 non-industrial at Headquarters, and 3 industrial staff in Sample Rooms.

[Continued

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Current Pattern of Stock Holdings

12. The pattern of deliveries throughout the UK has dictated the location of PSA Supplies stock-holding. The current pattern of a two-point stock-holding at Burtonwood (Cheshire) and Milton (Oxfordshire) for most furniture commodities, with a single-point holding for certain items at Weedon (Northamptonshire), is the result of detailed Operational Research studies made prior to establishment of the Trading Fund. These studies considered the relative economics of 1, 2, 3, 4, 5 and 6 point holdings and established that taking account of all costs—administration, stock control, distribution etc—the most economic solution was a 2 or 3 point holding for the major commodities. It was estimated that 40 per cent of all issues of furniture (by far the most important commodity) needed to be delivered North of a line running East-West through the Wash, and for these issues Burtonwood, an existing Store, was confirmed as being in more or less the optimal location and also of adequate size to act as the Main Issue Store for the Northern Zone. In the South where there was no existing store, after an extensive search for suitable premises, Milton was selected as the best location.

13. It was decided to concentrate household articles in a single point holding at an existing store at Weedon because the pattern of Stores issues, typically in large numbers of small consignments to a very large number of addresses, was markedly different from that of furniture and furnishing items, and many deliveries could economically be effected by post or by parcel services. In addition safes were also concentrated in a single point holding at Weedon, since they required such special handling storage and delivery arrangements that a 2 point holding was uneconomic.

14. In April this year specialist consultants were commissioned to re-examine the assumptions governing the optimum number and location of Main Issue Stores buildings and the economic implications of continuing or changing the present pattern. Their report is expected in September.

15. In addition to the storage and distribution functions noted above, special storage and despatch facilities are needed in support of both PSA Supplies and PSA Works commitments overseas. The high costs of freight and packing for overseas deliveries dictate the provision of a central holding and despatch store where deliveries of furniture, equipment and other provisions can be received from a wide range of suppliers and held until they can be consolidated into an economic load for delivery.

16. Unlike the PSA Supplies main storage and distribution role, this overseas activity is relatively self-contained and is similar to the kind of service provided by a number of well-known private sector overseas freight operators. Following a cost comparison carried out earlier this year which showed that private contractors could do the work more cheaply than PSA Supplies, a decision was taken to close the Hayes store where this specialist work was carried out. The store will close on 30 September 1981 when a private freight operator will take over.

Stock Control

17. It is the responsibility of individual Purchasing Officers in PSA Supplies Head-quarters to ensure that stocks in store are maintained at a level that will allow requisitions to be met but without building up excessive stocks. In calculating the quantities to be ordered for delivery into Stores the Purchasing Officer needs to consider three basic elements. These are:

(a) Stock Replenishment Figure (SRF). The quantity below which stock should not be allowed to drop without action being taken to replenish supplies;

(b) Stock Replenishment Period (SRP). The time required to complete procurement action and for delivery of the goods to be started by the supplier. This period, especially the delivery time, is liable to fluctuate widely and Purchasing Officers need to be on the alert to changing conditions and trends;

(c) Stock Provisioning Period (SPP). The period for which the stock in stores is intended to cater. Whilst a short SPP leads to frequent re-ordering and increases the cost of Purchasing, a long SPP creates large stock-holdings on which interest

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must be paid and high storage costs incurred. The ideal SPP is that where the combined costs of purchasing and storage are minimised.

18. The provisioning calculation for each item, of which there are some 3,000 in the PSA Supplies range, is complex and based on a statement of liabilities and assets. Liabilities are a combination of estimated usage during the SRP and SPP plus outstanding stores demands ("dues-out"); assets are stock in stores plus outstanding orders on the contractor ("dues-in").

19. The large volume of stocks and orders warrants a computerised stock control system. This produces a flow of detailed and aggregated information on stocks in both physical and financial terms which not only provides the facts on which Purchasing Officers take action but gives PSA Supplies senior management the information they need to monitor the stock position. The main pieces of information provided are as follows:

(a) a provisioning review, produced weekly for those individual items of which stocks have fallen to a predetermined level and which provides all details of current assets and past usage. This document prompts the Purchasing Officer to take replenishment action (example at Annex D[1]);

(b) weekly and monthly stock balance reports (Annex as E1 and E2[1]) which report the quantity of each item held in each store;

(c) a monthly summary of dues-out (Annex F[1]) which gives the overall position for all items for which there are outstanding demands on stores;

(d) a monthly report of these items where outstanding stores demands ("dues-out") are older than two months (Annex G[1]);

(e) a monthly stock valuation by category of items (Annex H[1]);

(f) a quarterly excess stock report showing these items where the number held in store exceeds the past 12 months demand (Annex I[1]).

20. High stock levels can arise for various reasons, for example demand may be reduced by sudden cuts in the funds available to major customers or contractors may speed up deliveries. Once committed to purchases it may be costly to stop them. In the present period of reduction in public sector activity it has been particularly difficult to decide on the level of provisioning to be adopted for different groups of commodities. Major customers like Ministry of Defence, Post Office and the NHS have found it very difficult to produce accurate forecasts of likely demand for furniture and furnishings. The position has been complicated by reductions in the size of the Civil Service which has meant, and will mean, increasing amounts of second-hand re-usable furniture returned to stores for re-issue.

21. Therefore early in 1981 PSA Supplies introduced a system whereby in addition to the stock control information referred to above, Purchasing Officers proposing a major programme of future procurement present their proposals to a management group chaired by the Assistant Controller (Purchasing). This group consider, for a number of the more important commodities, all available information on future demand, stock levels and second-hand re-usable furniture within the broad context of Government policies before agreeing a realistic level of procurement for the next three years.

22. The level of stocks rose during 1980–81 to the present uneconomically high level of £10 million as a result of cuts in Government expenditure which took effect more quickly than extant contracts could be cancelled or reduced, except at punitive costs. Action taken during early 1981 to reduce stocks is just beginning to take effect. The total value of stocks fell in August but because demand is low it may be six months before a satisfactory position—where stocks are about £8 million—is reached. There is very little scope for finding new customers, and in most cases disposal would result in heavy losses which could not be justified.

[1]Not printed.

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Costs of Stores Operations

23. The costs of running PSA Supplies' Stores are summarised in Table 2 below:

TABLE 2

Stores 1980–81

	Actual £000
Costs	
Pay—industrial staff	1,557
—non industrial staff	592
Accommodation	3,234
Repair & Maintenance of Plant and Equipment	39
Services & Consumable Materials	197
Stock Losses	1
Depreciation	59
Insurance	6
Headquarters Stores Management	240
Central Overheads	299
Return on Capital	65
	6,289

24. The full costs of stores are passed on to customers.

(a) In the case of commodities provided through the Main Issuing Stores to client Departments, each item attracts appropriate additions to its basic purchase price to cover its share of Stores and Transport costs (stores accommodation charges, interest on stock and insurance provision, stores handling charge, transport handling charge). The costs are included in the selling prices for the commodities.

(b) The costs of Clearing Stores are apportioned, on the basis of tonnages handled, to items retained for renovation and re-issue (ultimately recovered in prices charged to clients for the re-issued items) and to items disposed of by sale or destruction (where the client requesting the disposal service is charged a fee per tonne after sales income has been deducted from running costs).

(c) The costs of Transit Stores are included in charges made for the services of the technical officers who arrange furnishing services for clients. The costs comprise accommodation charges, stores staff employed and transport charges.

(d) The costs for Agency services are assessed from the accommodation areas occupied, the stores staff employed and the tonnages delivered and then charged as a composite fee to users.

Efficiency and Performance

25. The basic functions of Stores are:

(a) to hold securely and in good condition all goods consigned to stores whether they be for regular use or for long term custody;

(b) to issue items to meet re-determined levels of service either as part of the normal supply arrangements or where normal non-stores supply arrangements fail.

The measures of performance and means of reviewing efficiency and effectiveness are based on the extent to which the carrying out of these functions is successful in relation to resources used in the process.

26. Targets for throughput and resources expressed in financial and non-financial terms are set in annual budgets as part of the management accounts for PSA Supplies as a whole. Detailed cost reports, comparing actual costs with budgets are produced quarterly for each store and each zone. This information enables zone managers and senior stores managers in headquarters to monitor resource costs, eg pay, employment costs, accommo-

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dation services, consumable materials, depreciation on plant, allocated overheads and take action where necessary.

27. In support of and in addition to the quarterly management accounts measuring outturn against budget, an activity report is produced monthly for each store showing a detailed breakdown of the tonnage handled, the number of demands met and outstanding, and the use of industrial and non-industrial manpower. (Example at Annex J[1]). Summaries of this data are used by senior stores managers to monitor changes in the pattern of work and to measure trends in efficiency (examples are at Annex K[1]).

28. Table 3 shows for all PSA Supplies Stores the changes in the ratio of throughput to man hours per tonne over recent years. At the fairly constant volumes of previous years there was a continuous gain in efficiency but last year there was a decline in this measure of efficiency due to the time needed to adjust staff resources in line with the reduction in turnover—see paragraph 20 above. This imbalance is now being corrected.

TABLE 3

Throughput and Man Hours per Tonne (MHPT) Ratios

Year	*Commodities —Tonnes Issued*	*MHPT Commodities*	*Other Activities— Tonnes Issued*	*MHPT (other activities)*	*All Activities— Tonnes Issued*	*MHPT Overall*	*Total Industrial Strength*
1977–78	10,071	14.6	12,267	25.0	22,338	20.3	293
1978–79	10,078	13.9	13,190	23.7	23,268	19.4	306
1979–80	10,206	13.0	13,998	22.3	24,204	18.4	277
1980–81	9,609	14.9	11,857	24.6	21,466	20.3	276

29. A further means of monitoring efficiency of industrial staff is provided by the Incentive Bonus Scheme which was introduced in 1974. Stores activities were subjected to work study measurements and performance bonus rates agreed. Data on actual performance is provided through the activity report (para 27) and performance rewarded on a zonal basis. In addition the value of the Scheme is monitored (with the aid of DOE Management Services), and so far the gain in productivity has outweighed the payments to staff. A summary of performance and bonus earned is produced monthly (Annex L).

30. Data on the utilisation of accommodation is provided to Headquarters each quarter, for each user in each store by the Zone Managers. The cost of accommodation is controlled from Headquarters where the Chief Stores Officer is accommodation Budget Centre Manager.

31. Security is an important aspect of the Stores operation. Commodities losses through damage in store or transit, theft or error are charged to the appropriate store and included in the Management Accounting reports. These losses have been running at less than 1 per cent of value of stock held, which is considered very low, although major losses have been incurred through fires at Burtonwood in 1974 and Weedon in 1980.

Personnel

32. In the Stores the management function is carried out by staff of the Stores Officer class and the entry to this class has been, almost without exception, from the industrial storekeeping grades. Lengthy experience of stores work is therefore common, especially in the higher grades (SOG "C" and SOG "B"), which in a large number of cases has been supplemented by the acquisition of formal qualifications of the Institute of Purchasing and Supply and National Examining Board for Business Studies. Two officers of this class are at Headquarters exercising responsibilities for planning, training, control of mechanical handling equipment and overall emergency stockpiles.

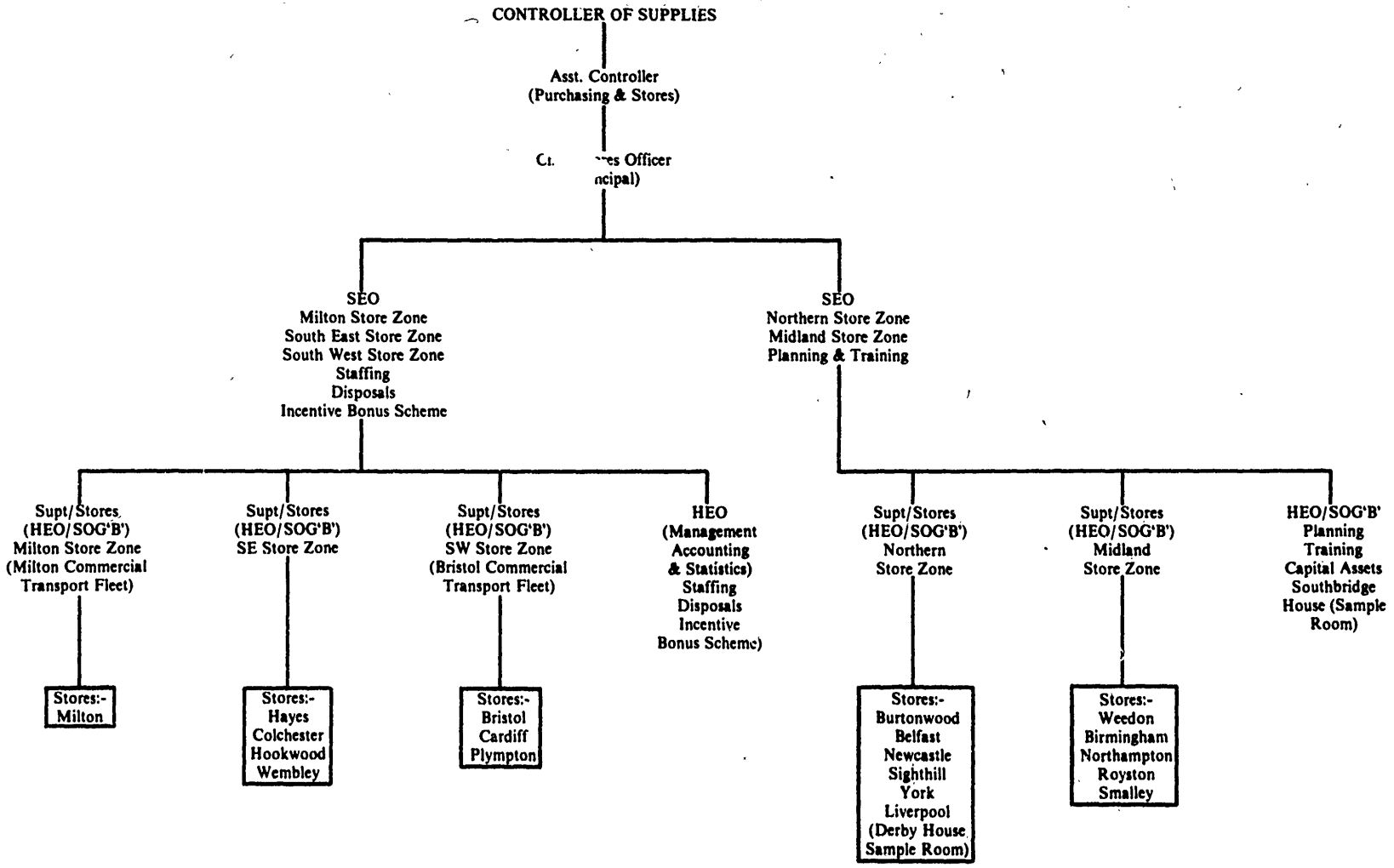
33. At Headquarters, the two SEOs with line management responsibility for the Zones (together with HQ responsibilities) are both holders of the Diploma in Management Studies, and both have extensive experience of Management Services work.

[1]Not printed.

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ORGANISATION OF PSA SUPPLIES STORES

ANNEX B



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ANNEX C

FUNCTIONS OF PSA SUPPLIES STORES

Northern Stores Zone

BURTONWOOD Main Issue Transit Clearing Medical (DHSS) Stockpile (DHSS) TSD	YORK Transit Clearing TSD Stockpile (DHSS)	SIGHTHILL Transit Clearing Medical (SHHD)
	NEWCASTLE Transit	BELFAST Transit

Midland Stores Zone

WEEDON Main Issue Medical (DHSS) Stockpile (DHSS)	NORTHAMPTON Issue of Furnishings and Floor Coverings	ROYSTON Transit Stockpile (DHSS)
	BIRMINGHAM Transit	SMALLEY Transit

South Western Stores Zone

BRISTOL Transit Clearing Medical (DHSS)	CARDIFF Stockpile (DHSS)	PLYMPTON Transit

Milton Zone

MILTON Main Issue Transit Stockpile (DHSS) TSD	There are no satellite Stores in this Zone

South Eastern Stores Zone

HAYES *Overseas Packing and Despatch* *(This Store is closing on 30 September 1981)*	WEMBLEY *Transit* *Clearing*	HOOKWOOD *Transit* *Stockpile (DHSS)*
	COLCHESTER *Transit*	

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Examination of Witnesses

Rt Hon MICHAEL HESELTINE (a Member of the House) Secretary of State for the Environment, examined. Mr K F J ENNALS, Director General of Establishments, Mr G H CHIPPERFIELD, Director of Central Policy and Resources Directorate and Mr J DELAFONS, Deputy Chief Executive, PSA, Department of the Environment, called in and examined.

Dr Bray

490. Mr Heseltine, may we thank you for coming to the Committee to discuss the activities of your Department and the question of effectiveness and efficiency in our current enquiry. As you know, we are concerned with these aspects of your activities in the Department rather than the policy aspects, but I am sure you will appreciate the reason why we are interested in your presence here, the inevitable interaction between policy and administration and also, of course the fact you have yourself personally taken a particular interest in questions of management within the Department. The MINIS system is obviously an innovation in Whitehall, would you like to say how it originated?

(Mr Heseltine) I think it started from my experience as Minister of Aerospace in the Government of 1970–74 where I was interested in trying to design a method of keeping a scrutiny on the totality of one's responsibility. That was a relatively small area of responsibility but we began to evolve techniques on a very rudimentary scale. When I came to the Department of the Environment I was very aware I was taking over responsibility for an enormous department with a vast range of responsibilities divided, as it had to be, into many directorates. In the nature of things, in the circumstances I took over, I knew it would be impossible for me to know what the Department was actually doing and I suspected from my previous experience if I could not immediately answer that question or see it answered in the main it meant not only I would not know but nobody knew and, of course, that is the position of many of the very large organisations that are now dominating the public sector. So from a very early stage in conjunction with my then Permanent Secretary and the senior officials we set out to create a management information system which would reveal and cost the totality of the activity of that government department. This I thought was an essential pre-condition for Ministers to be able to make decisions about the totality of their responsibilities, not just the ones that were presented to them as a result of manifesto commitments or of current controversy or of submissions submitted to them by the machine itself in the day to day conduct of its affairs. It meant that in front of Ministers would be the whole framework of their responsibility and it would be therefore possible for Ministers to question how that scale of organisation came into existence, where the authority for it lay and to make critical judgments as to whether they wanted that scale of organisation, whether they felt the priorities being accorded that scale of organisation were the correct ones, whether they wanted to change them. All of those questions would be possible on a totally, comprehensive basis and so we proceeded to invent the MINIS system.

491. Those are very general arguments and you say you developed the idea first of all in another department and you have implemented the idea more fully in your present department; would you wish to install some similar system in any department over which you held responsibility?

(Mr Heseltine) Yes.

492. Do you think it is a little haphazard for government generally to rely on the interests of one particular Minister in the development of a particular system which is claimed to be of general application?

(Mr Heseltine) That has been the way in which governments govern and there are major issues to be resolved which governments have not addressed themselves to on these matters. I express a personal opinion and it is a totally non-party view and a non-government view I am expressing, it is an opinion which any one Member of this House could form an informed judgment upon. I express my views in that context. I think there has been over a very long period of time and under all governments an inadequate supply of information to Parliament about the administration and implementation of the decisions that Parliament in general terms has taken.

Mr English: Hear, hear.

Dr Bray

493. That being so and you can appreciate, I am sure, our interest is in learning

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lessons from one department and seeing they are applied as appropriate elsewhere in government; do you think there could usefully be some encouragement from the centre to the application and development of a concept similar to MINIS in other departments?

(Mr Heseltine) I think there could be encouragement from Parliament if Parliament was interested in the availability of such a system; I take the view, and I believe this is forgotten, that the ultimate responsibility is Parliament's to insist upon the degree of accountability that Parliament thinks appropriate. If Ministers or governments have behaved in certain ways, if civil servants consequentially have behaved in certain ways, it is not adequate to blame the civil servants generally or just governments, one has to look behind that to the degree of accountability that Parliament has been prepared to accept.

494. We have been considering accountability to Parliament in the form of information given in the estimates and the supply procedure to the House, not only in this Committee but in the Procedure Committee. You are suggesting there needs to be a form of review which is not related to the estimates but rather to administrative procedures?

(Mr Heseltine) Not altogether. I am saying knowledge is power and I can see for Parliament to have the ability to understand fully what is done in its name it needs detail of knowledge upon which a proper scrutiny can take place. It was that concept that led me to the production and development of the MINIS system, to its publication and presentation to Parliament.

495. Speaking for myself it is certainly a very welcome development but the picture is a developing one in that the character of each MINIS round has been different from the preceding one.

(Mr Heseltine) It took double entry book-keeping thousands of years to reach its present sophisticated form, it is not surprising in the last 18 months we have had changes.

Mr English: It was invented in Florence and that was not thousands of years ago.

Dr Bray

496. One particular aspect in which it has developed: in the first round, as I understand it, you did yourself meet every section within the Department to review their MINIS report. In the third MINIS round it is proposed that the Permanent Secretary should hold the meetings and then only those particular reports which you wish to review yourself or any of your ministerial colleagues would be subject to a meeting with the Ministers?

(Mr Heseltine) That is perfectly true but I do not think you can interpret too much from that because it is up to us to decide, which we have not yet decided, the number of meetings we should want to have. I think in practical terms it will be a varying pattern depending on a whole range of things, not the least of which is the scale of pressure which the Ministers are under in that department at a given time. I have been discussing with my ministerial colleagues how we ensure that our commitment to the system does not dilute as time goes on. If I could give examples, we did at the early stage of MINIS spend quite a lot of time on the planning system. We have made very substantial changes and the publication of the statistics which follow from those changes indicate that we are securing progress in the direction we want. It might be now felt that there is not a case for a root and branch reappraisal in the way we did it but that is not to say—and this is the virtue of MINIS—as I go through the Department that next year I will not say "We will have to look in greater detail". This year we might have a look at directorates which we have not been into in as much detail as I would like. This documentation enables me to make the judgment rapidly as to whether I want to have ministerial scrutiny. I have it in mind, in the way my Ministers do, to have a very real role in the Department, to get involved with the sections of the Department so they can discuss with me what they have thought of their review. Then, of course, I will decide with the Permanent Secretary, following those discussions, whether we want to put a particular topic on detailed investigation this year. The fact is we will be forced by the system to look across the spectrum.

497. Can you give us any estimate of what proportion of your own time has been given to MINIS?

(Mr Heseltine) There were records kept, I think it was 56 hours—we can have that checked for you—I think it was 56 for the first time round, I would guess less the second time around and this coming time is as yet not known.

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498. Do you think this is a responsibility which in some departments might be delegated to a junior minister?

(Mr Heseltine) Yes and it certainly is in my Department and will be in my Department. You have got to use junior ministers, in a way that 15 to 20 years ago would have been unthinkable, if you are going to keep abreast of the pressures of a department.

499. Do you think it is essential for Ministers to be involved or should it be left to permanent officials?

(Mr Heseltine) No, because we are talking about the responsibilities of the Ministers and to leave it to civil servants, as your question puts it, is precisely to go back to the situation we have been trying to change, that very large parts of government have precisely been left to the bureaucracy and the means by which the ministerial scrutiny was applied was haphazard; it was the Parliamentary question, the letter, the manifesto, the submission which alerted them to what was happening, It does not mean if there was not such pressure, in other words things just going along, there could not be scrutiny but the areas which were just going along might hide the areas which should have been subjected to scrutiny.

Mr English

500. I am told by one of our advisers that it was 489 years ago when double entry book-keeping was first introduced and 1492 was a rather interesting date in world history. I would like to ask a simple question: how many accountants have you got in the Department and if neither you nor the other witnesses know the answer could you send us a note[1] about it? Could that note include how many of them are in each accountancy institute?

(Mr Heseltine) We have two in central DoE and 15 in PSA, we will check that but I believe that is right. It is very small and that is the point to make———

501. I am not getting at you personally———

(Mr Heseltine) I understand.

502. ———but surely by comparison with British industry, would you not agree, that is a rather small proportion, considering the enormous responsibilities that your Department has in the field of public expenditure?

(Mr Heseltine) I could not argue against you and say no, although I think it is too easy to draw the conclusion that great changes would come about if you had more accountants. In industry they have a very real task because practically everything industry does is numerate and is set to precise measurements, a very high proportion of what we do is not set to such disciplines and could never be. My own experience is that the work that Geoffrey Chipperfield and Ken Ennals have done through the MINIS system is a quantum leap which simply would not have been achieved by the recruiting of accountants; it was done by administrative civil servants who devised the use of a system which may be called a management accounts system and yet they do not have accountancy knowledge.

503. I am choosing a bi-partisan period here: since 1974–75 financial year central government expenditure has risen by 7 per cent and the actual expenditure of local government has fallen by 16 per cent; is that roughly right?

(Mr Heseltine) Forgive me for not actually confirming the precise figures but the nature of the question reveals the very thing that the MINIS system is designed to stop happening. If I may be very frank: someone has presented that question to be asked and actually what lies behind that question is a halving or more of the capital programme of central government because the government laid down that the capital programme would be halved. It was not local government but central government which laid down, by a budget control system, that capital expenditure would be halved. The other side of it is the current account and we took people out of the Local Authorities in 1973, 100,000 people were transferred from local to water authorities, and then Peter Shore imposed the IMF cuts in 1976 and the current account has considerably increased from 1955 to 1973–74 when the energy crisis slowed down the rate of increase but did not reduce it. The number of people employed and the level of current expenditure in real terms was at a record level. To ask a question about reductions in local authority expenditure netting capital and current, totally misses the point. The MINIS system would not enable you to miss the point but it is possible for those who want to make a point to produce figures which do not tell the story as it was.

[1]See Appendix 10.

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504. It would not surprise either the Secretary of State or you, Mr Chairman, that I actually have the supporting statistics and if you were—and I was not—netting capital and current, if this is true, central government has increased on average by nearly 2 per cent, 1.85 per cent, and local government capital and current together by 0.41 per cent over 1977–78 to 1981, as I am advised. If you take capital expenditure then the figures from 1977–78 and the subsequent three years are: central government did decline 1977–78–79 but increased in 1979–80 by 5.4 per cent and 1.6 per cent in 1980–81; local government also declined in the first two years but also increased in the second two years but they increased by 1.2 per cent whereas central government was 5.4 per cent. When central government increased by 1.6 per cent local government increased by 1.3 per cent. I will give you the current expenditure figures if you wish.

(Mr Heseltine) What conclusion do you draw from this?

505. The conclusion is that possibly local authorities are relatively more able to control their expenditure.

(Mr Heseltine) That actually flies in the face of the fact that the local authorities' capital programmes are controlled by central government and if there is a degree of control, for which credit is to be given, on the capital side it is for central government and not local government because we allocate their programmes, as you know. Let me say this: I do not believe in the general debate about public expenditure that there is an argument which says in general terms central government is better at controlling the totality of public expenditure than local government; in many authorities there are very good records and I pay tribute to them.

506. I would agree with that. Could I ask one final question? I criticised this in relation to the health service. You will recollect that the chairman of the regional health authorities said that it was unfortunate to say the least that people in the health service could never be promoted into the ranks of those who technically control them, namely the administrative ranks of the civil service. How many people in your Department were trained in the local government officer service?

(Mr Heseltine) Very few but we have a small representation, I think it is too small, I would accept that, and I would like to see more. I dare say if you asked the question the other way around of local government you would find broadly similar answers. We are compartmentalised in this country, too much so, and this has been referred to in many reports and it is true of public and private sectors. Going back to the MINIS system one of the things it threw up, which is not glamorous or headline capturing but it is germane to the point you are putting to me, in order to keep these disciplines apart when the Department of the Environment do recruit professionally qualified people rather than put them into the main line administrative jobs with administrative affairs and functions we put them in with professional advisers. You have two directorates, one administrative and the other advisory; one qualified in the technical and professional sense, the other administering in the civil service sense. We, in the Department, had too many directorates. One of the things we did was to concertina all those architects and put the professionally qualified people where they were in our view the right people for the administrative jobs. It started at the top with the chief scientist who ran an advisory professional group and has responsibility for pollution directorates amongst other things. That follows on from the question you were putting to me.

507. Before you and I were born, or anybody else in this room I should think, during the First World War it was said that every British Tommy Atkins had a Field Marshal's baton in his knapsack, which was very different from the German Army where you had to be elected to an officer corps. In this country it is not possible, unlike France or Germany, for anyone who works in local government readily to become a Permanent Secretary of your Department?

(Mr Heseltine) I think that is not the case theoretically. I dare say it has never happened—I am not sure, I do not know whether it has happened the other way around. As you know the Permanent Secretary of the Department of Education was a scientist so it is not true that administrative grades in the civil service have a total monopoly.

508. I think he was the only engineer amongst 46 permanent secretaries.

(Mr Heseltine) I agree there is a problem but I am making the point there has been this practice and yet in Central DOE one of the senior people is from a professional grade.

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Mr Beaumont-Dark

509. I think one of the problems, is it not, is that economies and worrying about administrative savings is not really a very sexy or glamorous business. They are not making what I call "press quotes" about it and is not the problem now that there are only two real efforts being made, one the Prime Minister with the Rayner enquiries and the other one, yourself? Here are two people who are interested in economies and are really working on it and economies are actually being made. The impression we get is that if you, as Secretary of State, had not been interested in making economies and really working on it precious little would have been done. It is therefore a very personal decision that economies are gone into in this field?

(Mr Heseltine) It is very flattering what you are saying but I cannot altogether accept it because central government is committed to a 15 per cent run-down in civil service employment, which is 100,000 people out of 730,000. So all my colleagues have to be totally immersed in this process; they all do it in their different ways. It is perfectly true I have made a personal contribution to this situation which may come from my own background experience but that is no different from what happens in other forms of policy-making where Ministers make an enormous contribution based on personal experience and a combination of any aspect of the work they do. I was keen to involve Sir Derek Rayner in devising systems and we are moving on to a very sophisticated version of this in the next stage of MINIS which we are working on and it is much more sophisticated again because it involves much more than the manpower use of the Department, we are moving into a better accounting system for the administrative overheads of the Department which again has not happened. I hope I have played a part in all this but it would be quite wrong to think I am the only one doing it; my colleagues are doing very remarkable jobs in different situations and I cannot comment on them because I am aware of the analysis I have within my own Department on the rate of rundown and these are very different in other forms of activities. Some parts of my Department are running up. MINIS, of course, is not a system designed solely to run down, it is a neutral system, it could equally be used to run up.

Mr Beaumont-Dark: It seems to be easier to run down. Can you comment upon the fact that many people seem to want to put the control of the civil service back into the Treasury? Do you not think that one of the problems of getting people to take an interest in the size of the bureaucracy of their departments is because the Minister in charge is usually a junior minister if he is in the Commons, in this case she is in the Lords, and it is palmed off on someone, frankly, who has not got a big interest in it and has a lot of other jobs to do———

Mr English: "She" is in the Commons. The Minister in charge of the Civil Service is the Prime Minister.

Mr Beaumont-Dark

510. I am so obliged for your usual inane interruptions. Janet Young at this moment has control of the civil service. Do you not think that the Minister ought to be of Cabinet rank and ought to have genuine control so that each department does bother about its size, because some seem to be like Topsy and just grow.

(Mr Heseltine) This is on ground where I have tried to give an indication of my views. I think it is characteristic, I suppose, of human nature to find an alibi for what has gone wrong, my own feeling is that the accountability of Parliament is the issue at stake, after all it is Parliament that votes the money and if Parliament does not insist upon the disciplines by which it can see how the money is spent it is understandable, human beings being what they are, that, like Topsy, they will grow. I look always to the top before I apportion responsibility. I think, as I say, that I very much wanted the present Parliament to have a means of scrutinising the Department in great detail and that is what I have done. The present thinking within the Government is to achieve results in terms of economies and manpower which have not been achieved before and to that extent are superior but they are very much in line with the methods which have been acceptable to Parliament for a very long period of time.

Mr Beaumont-Dark: Bearing in mind the huge size of the business of government and no one really knows it all—I sometimes wonder who does—would it not be more accountable, (because you seem to take a similar view to me, that Parliament in the end has to answer all the questions and administration is a difficult esoteric art on its own), if it is going to be taken seriously although the Prime Minister is nominal

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head, and we have nominal Ministers——
—

Mr English: No, actual head, not nominal.

Dr. Bray: Order.

Mr Beaumont-Dark

511. Is it not better (if we are going to take it really seriously and not depend on the interest of an individual Minister or individual Prime Minister) that we have a Minister of Cabinet rank, if not actually sitting in on the day to day Cabinets, who was answerable for each of the departments being pushed along, not just this year or next year but in ten years time?

(Mr Heseltine) I think those sort of questions could be asked of an existing government and of any other government. There would be within the government, whatever questions are asked, someone appropriate to answer those questions. What is at stake, and I understand your question, is whether Parliament actually wants to have this degree of information and if it does want it it will get it because the information is there. It can be devised, I have done it.

512. I think we all realise that if you are interested you can ask an informed question but would it not be better if there was a CSD Minister of Cabinet rank in the Commons, not the other place but in the Commons, whose 90 per cent task was to worry about how it was growing, whether new systems should be introduced, whether it was just running along?

(Mr Heseltine) I do not believe there is an argument which says if the present Minister responsible for the CSD was in the Commons things would be any different from what they have been over a long period of time. I do not think it makes any difference whether the Ministers are in the Commons or Lords because there is always a very adequate spokesman in the Commons. It is the position that politicians who recognise the scale of the present bureaucracy need a degree of political involvement in the management of the bureaucracy. It is a very challenging concept. There was a point that the bureaucracy grew from the fact that politicians took the decisions and the civil servants administered them. If you had a very small department that is perfectly acceptable, everyone knew about things, through your physical presence in the department you would know what was going on and it would be easy to get the feel of it. The fact of the matter is that today I have personal responsibilities for 45,000 people working for me all over the world in a massive range of offices doing a massive range of things and although I am responsible for every last one and everything that everyone says and I am responsible for any mistakes they might make, there is no escape from that, it would be unrealistic for anyone to seriously think that I can know what is happening. The only bridge between that situation and what I want to do has to be the publication and preparation of information to give us the best possible picture.

513. I do not accept one point you make. I believe as soon as a Minister who takes a real interest in the efficiency and the actual running of the department leaves, I have a horrid feeling there is a great sigh of relief and people get back to normal.

(Mr Heseltine) I have discussed that matter with my Permanent Secretary because it did occur to me. All the evidence that I have is that whilst I am not going to say what I did was totally non-controversial—any change is controversial—my view is that the civil servants who helped me with this scheme have seen much merit in it, some of them, not all of them, but on balance, yes. There may be refinements, there always are, but they now want the system to continue, indeed they are working with me to refine the system even more than it is currently operating, so I am optimistic that although one actually wonders if it would survive now I believe in some form it would in my Department.

Mr Wainwright

514. The nature and form of the financial data in the MINIS document inevitably is of quite a different type from the customary and traditional accounting statements which have to be retained as well in order to meet Parliamentary wishes and so on. I would like to ask one or two questions about the validity of the MINIS financial data. For instance, is there any means of reconciling the MINIS figures with the traditional figures?

(Mr Heseltine) This is the purpose of the system we are now working on which we call the Joubert exercise.[1] The totality of the wage costs in MINIS will add up to the totality of the wage figure given in the Departmental overheads figures which will be available to Parliament.

[1]See Appendix 12.

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515. That has not yet been attempted?
(Mr Heseltine) Such a situation is not available at the moment. It is our purpose and that is one of the things I have laid down as an objective. You must be able to take up the MINIS document, add up all the totals and they must add up to what was given by Parliament.

516. This system, and I derive great pleasure from this, is going to provide full management accounting when it is in full working order, very much akin to the way in which large business organisations run. This is at the moment inevitably working, I take it, not in substitution for the traditional civil servive mode of administration but as an addition to it?
(Mr Heseltine) That is correct.

517. Do you visualise over a relatively short period that the traditional system will wither somewhat and MINIS will to some extent take its place?
(Mr Heseltine) I think the Joubert system will take its place and MINIS will always be the back up.

518. Will this require some adjustment to the training of senior civil servants?
(Mr Heseltine) No, I think they are more than competent to administer any system. After all, they have designed it.

519. It does not always follow that the architects of a system are also able to operate it.
(Mr Heseltine) They are more than able to operate what we are now doing and I believe would be more than able to operate what we are working towards.

Mr Eggar

520. Could I come back to that last point: are you aware of the Civil Service Department's document on "Succession Planning"?
(Mr Heseltine) I think apparently I am not.

521. As I understand it one of the objectives of that document is to try and ensure that senior civil servants at the top or in the open structure are better equipped to deal with man management and financial management matters when they reach the top. That seems to indicate there is some failing; that they are not as well equipped as they might be at the moment. Is that a view you share in your Department?
(Mr Heseltine) I think that my view of the civil service is very much my view of any other human organisation which I have any experience of. We are extremely well served by the civil service in this country. I hope they will not be embarrassed but the quality of dedication and skill that is devoted to the pursuit of public policy is a joy to be part of. I cannot other than praise them. That is not to say that if you have 45,000 people working for you I could use quite such glowing words to describe everyone of them but that is the nature of human society.

522. It does seem you are introducing a very radical change, you are moving towards traditional management accounting which exists in major international firms; you are calling on your senior managers, because that is what your senior civil servants are, for a different kind of skill and in large firms those kinds of skills have taken a large number of years to build up. Are your civil servants going to be able to acquire those different skills?
(Mr Heseltine) I am not asking for a different type of skill, I am imposing disciplines and they have all the skill that is needed to operate within the new disciplines. The civil service by the nature of its constitutional position follows what is laid down by the departmental Minister and the government of the day. It has the intellectual capacity to adjust to that situation. If you do not do anything and allow a vacuum to exist it will operate to the best of its ability within that vacuum and being a human organisation it will tend to create work for the other humans, because human organisations always do, and that means more people and the pressure is upwards and upwards. They do that with total dedication and great skill———I do not mean that in the sense it might be taken. If you come along and say "Times are different and we are going to introduce a degree of priority and a degree of accountability and perform measure by performance and ask fundamental questions across the spectrum" they will take that political demand on board and they will carry it out in a way I find immensely praiseworthy. I cannot overstate the degree of intellectual resourcefulness and dedication that is available to Ministers in government departments that I have any experience of.

523. I do not think one would deny that. Are you saying that the CSD in the past ten years has been working in a vacuum?
(Mr Heseltine) I think I have covered that question.

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524. I am not sure that you have because I get the impression that all that you have done in your Department, for which one has tremendous praise, is to say that the CSD works on the instruction of the Minister or on the instruction of the head of the home civil service———

(Mr Heseltine)———or Parliament.

525.———or, possibly, Parliament.

(Mr Heseltine) The issue between us is where does the responsibility lie. My view is always look to the top, where is the font of power and in the case we are dealing with the power is in Parliament. If there is a vacuum which has been allowed to develop then the responsibility has to be with Parliament.

526. Has the CSD contributed in any way to the improvements in efficiency and effectiveness in your Department?

(Mr Heseltine) I think I would say no and then immediately qualify that "no" because we are, if you like, trying to pursue a fairly optimistic and state of art type of change. There would be no need for them to try and contribute because we were already going as fast as it was possible to go. That is not to say they would not have contributed if we had not been so doing and that is not to say they are not contributing massively to what the government as a whole is doing. I certainly would not want to mention this subject and not say that Lord Soames has played a major part in pursuing in government the scale of reduction in manpower that the government is committed to.

527. Although he is no longer with us. I notice in a reply to one of the earlier questions you said you would wish to install MINIS, or its equivalent, in any other department you headed. Why do you think this great idea of yours has not been taken up either by other Ministers or by the Civil Service Department and imposed from the centre on other Ministries if the Ministers concerned were not prepared to take up the matter themselves?

(Mr Heseltine) I think there are a whole range of answers and I think it is very difficult for me to answer for my colleagues who might themselves have their own view. There is no simple answer. One answer would be we can achieve results without doing it and some of my colleagues are achieving significant results.

528. I do not wish to interrupt you but I am not aware of any other Secretary of State introducing a similar system. Can you name one?

(Mr Heseltine) I have not pursued with my colleagues exactly what has been happening in other departments.

529. Yet you yourself say you would do it in other departments.

(Mr Heseltine) Yes but if, when I got there, there was a system which existed which was as good as MINIS I would not introduce MINIS because it is as good as MINIS.

530. Do you think it is likely?

(Mr Heseltine) I think it is not likely but I could of course be pleasantly surprised. There are many, many reasons why, there is a debate about the way we could do what I am doing. There is the whole constitutional debate about the way Ministers should do this and there are many others who would say it is the job of the civil service to implement and the job of Ministers to lay down the policy. There are many who say that this is not suitable for certain types of situations. In the PSA I have civil servants carrying out repairs to a very large number of buildings and that is very different from the type of work done by Central DOE. It is very difficult to analyse in the way MINIS does. However so long as their work is costed in the way the private sector is costed you do not need MINIS. There are a lot of government departments who take an argument of that sort. There are other colleagues who would say they are achieving very substantial manpower reductions without MINIS and there are other colleagues who are in smaller departments than mine and know what is happening. I have to take my experience from my particular departments and so far my view is that it works. I am also now extending it to other bodies for which I am responsible, the Countryside Commission, the water authorities, the organisations that I sponsor are now being MINISED, or whatever it is.

531. Finally, would it be unfair to say this: that you are not prepared to fight the battle for spreading MINIS to other departments because of the constitutional position in which you find yourself and the system of Cabinet government, but that by making available to Parliament all the MINIS documents, by being very keen to appear before committees such as this, you are hoping that Parliament will force your colleagues to take that action?

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(Mr Heseltine) That is a very cynical view. I believe what I have done is important constitutionally, I believe managerially from a public accounting basis it is without precedent in the world, as far as I am aware. I do believe profoundly in the need for management disciplines and accounting techniques in any organisation, particularly where they do not exist in the public sector. That is why I have done what I have done on a personal basis. I shall argue for the system wherever I am invited to do so. It is not an uncontroversial view and I do not pretend that I can give proof I am right but I believe I am right although I cannot prove it.

Mr Shepherd

532. Secretary of State, can we look a little more into the relationship of the Minister and the civil service and Parliament because you make a bit of play on the significance of Parliament. I want to know whom do you hold responsible for good practice or systems of good practice within the civil service?

(Mr Heseltine) I think it is very difficult to escape the view that Parliament is responsible because I think in the end Ministers are accountable to Parliament for whatever happens in their departments. It would not be regarded as an excuse by the House if a Minister were to say: "Well, they administer it, I am not responsible, I could not help it." That would not be regarded as an adequate constitutional excuse. The responsibility of the civil service is such that they would do the best they could. I think, therefore, I stand by the analysis I made, in the last resort the responsibility is for Parliament.

533. I appreciate the argument about last resort and one could pursue it in that way but it becomes the management of a bureaucracy or organisation and surely internally or within itself there are systems or guidelines of conduct which it originates? There is the history of our own civil service through the 1900s, through Armstrong in the 60s, surely they have originated since then certain management functions?

(Mr Heseltine) I would have to see whether they were formed by the bureaucracy, I would have to look at the history of it. I well understand that a body of civil servants would come up with ideas and seek to introduce them, whether they would do that without reference to a Minister is something I would have to check. I think the difficulty in trying to answer your question is that it is not the total situation; some people think Ministers do it all and are responsible for everything and the civil servants do nothing and wait for instructions but if you are employing a lot of talented and dedicated people they will constantly give their views and many of the things they do add up to the totality of what is a very fine public administration. I was trying to take your question literally as to where the responsibility in the last resort is and I think it has to remain with Parliament. Of course there are a great many mechanisms within Parliament for pursuing efficiency.

534. I was trying to look at the efficiency and effectiveness within the bureaucracy. We had a paper about MINIS which lays out some of the objectives of MINIS and one of them is: "to pinpoint the responsibility for functions, so senior officials know what their subordinates are doing." That was one of the objectives; was it done before?

(Mr Heseltine) It was not.[1]

535. It begs a very big question about the competence of these civil servants, surely? That you have a system where you administer an empire of 55,000 jobs———

(Mr Heseltine) 45,000.

536.———and they are not able to pinpoint the responsibility for functions or what their subordinates are doing?

(Mr Heseltine) I think the answer would have been that they would have been able to say "We are responsible for the planning machine" and that would have been the first answer. Within that they could have said that the planning machine does a number of things and they would get that absolutely right. What MINIS is trying to do is get beyond the general distribution of

[1]*Note by witness:* I am concerned that I left unchallenged the statement that a purpose of the MINIS system is "to pinpoint the responsibility for functions, so senior officials know what their subordinates are doing". This phrase is not what I would say to describe any of the purposes of MINIS. While I think that MINIS has been useful to senior officials in providing them with a succinct and systematic account of the activities for which they are responsible, it would be wrong to imply that previously they had no access to such information. The point is that the information was not readily available in a form which facilitated Ministerial scrutiny and purposeful discussion between Ministers and officials.

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responsibility into the practical detail of what it is all about because my feeling was that it was possible to continue responsibility in a general way which did not enable them to hide behind a general defence but did not call for proper and full accountability. That is what I was seeking. I have mentioned the parallel arrangements in professional and administrative grades and another thing which emerged from the analysis of MINIS and the great detail we went into was what I would refer to as "lateral promotion". I would like to take a while to explain this becaue I think it will get over what I am talking about. If you have a major department such as mine, the Permanent Secretary promotes people in consultation with his colleagues, I do not doubt, across a very wide spectrum and a chap can be running a regional office one day and back looking after the water authorities the next and then three years later he is off doing planning appeals. In that process he moves laterally upwards. In the private sector you tend to go up through disciplines such as production, sales, marketing, whatever it may be, and because you are going up through the same discipline you know as you go step by step up exactly what happens at all stages below you because the whole career you are pursuing is steeped in it; you have a feel for how the whole thing works. If you have a lateral process and you come to be in charge of, we will say, 150 people, who are the water division you are then the senior water man—we say senior but it is not as simple as that—but you have not got that background of knowledge and knowledge of the grades below. Someone asks what you do and you say "I am responsible for water and we are getting investment programmes going and we are responsible for pollution and this and that" but it is not enough because what you have to know is whether they are administering the same form-filling that local government does today, wholly unnecessarily but which was introduced some 20 years ago when they had some crisis. In the past the senior man has not had the time or inclination to get into the foothills of his task. That is lateral promotion.

537. It worries me that you are making a splendid defence, quite appropriately, of the officials who serve you but we are looking at the links in the chain of responsibility, and accountability to Parliament. You are responding to our questions as to how does one manage a department and the role there is for effectiveness and efficiency in the various elements in it. Clearly what you are saying, it seems to me, is because of the particular background that you have, as a responsible Minister you were able to inject an ingredient that was missing in that department. Am I right in that?

(Mr Heseltine) Yes.

538. You originated MINIS?

(Mr Heseltine) Yes.

539. Some of the objectives of MINIS are so fundamental to the management of an organisation———

(Mr Heseltine) Yes.

540. Does that not beg a question about the nature of the organisation?

(Mr Heseltine) Yes. It answers it really. It does not alter my view about who was responsible but how it got into that situation in the first place.

541. We can waltz around who was responsible for evermore but nevertheless Parliament has given over, if we accept your view as to how it was, to the responsible Minister. But to know exactly who is responsible for various organisations, the centre and the CSD, one looks to the service for their approach.

(Mr Heseltine) That is the fundamental issue, "Parliament has given over", I do not think it has, I think Parliament jealously guards its right to question every aspect and to deal with it and call to account.

542. You have a temporary commission in which you look after the interests of the Queen's Government and we have a final sanction on you because you administer it in a way which Parliament decides—if we go through a simplistic way of how the constitution works. However we are looking at the management of your department and I am trying to see what role in fact the civil service has in originating these ideas. Why don't they originate them? Why was it when you went in you found it necessary to bring about a system whereby senior officials know what their subordinates are doing?

(Mr Heseltine) I think that in part the answer to that is because no one had ever asked them to produce information on this scale and in this detail and in part because they believed———

543. This is not professional competence. It means that you must ask yourself: "We

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are men with a limited experience of the world and when we do our own jobs we have a sense of what we can contribute and we have some judgment whether we are doing it effectively." The heart of that was missing.

(Mr Heseltine) I follow the argument and I could put that argument myself. I am always reluctant to blame others where there is an element of responsibility in what I would call a higher authority. I think it would be misunderstood if I appeared to be putting too much responsibility on those who have carried out the administrative responsibility as opposed to those who have not sought to ensure that the administrative responsibilities were carried out in a proper way. I am not disagreeing, I am drawing a balance which could easily go the wrong way. There is another set of points I want to put. The point that the civil servants are making is that they are managing a very real range of management systems which have always been adequate in the context of this subject. They actually have a whole range of management systems within the civil service and O and M studies and accounting mechanisms and publish a lot of information and they say that has always appeared sufficient.

544. We have heard too about that to some extent and indeed the civil service or the bureaucracy or the centre have originated methods of trying to evaluate efficiency and effectiveness and I believe you were involved in this in the early years of this last decade?

(Mr Heseltine) I knew about it and I am not against it but it has the defect it is an *ad hoc* system and you can look at it carefully, put it down and go away. What MINIS does is a permanent scrutiny so that it is not a spotlight flooding across the stage, it is a permanent light.

545. If we look for responsibility for a system we have to ask everybody, it is not sufficient to say Parliament ultimately is the font of all power in this instance. Ministers are in a sense accountable to Parliament and each one plays a role in the system and has personal responsibility but responsibility for the administration of a service such as the civil service must to some extent lie at the door of those seeking their employment in that role. I am going back to responsibility for functions, knowing what their subordinates are doing and that seems so central for the people who are using a grade system and using the resources of that system. Presumably this question could be asked of your Department, how can it be there is no system for identifying what their subordinates were doing? I think it opens up to the imagination the view of people running around London doing nothing. It feeds public suspicion about what the civil servant does and we are here partly to ensure and confirm in our minds it is all the things you have related to us.

(Mr Heseltine) You can put that interpretation on it but I would regard that as an unfair interpretation. I do not think there are lots of civil servants running around doing nothing, there may be many of them doing things which I do not think are necessary but obviously some previous Minister felt they were necessary. There is not much between us, there is something between us, but not that much; it is just my whole experience in any management or organisation position I have been in, that it is more profitable to look to the top when things go wrong and not to the layers below, although of course those layers will have their responsibilities but they will have responded to the lead that is set. Even when a company goes bust and you can see what went wrong on the shop floor, I always ask what happened on the board of directors.

546. Some civil servants do accept that the centre and central department has a role in stimulating efficiency and effectiveness within the service?

(Mr Heseltine) Yes.

547. Clearly some of them would view that as one of the functions of the Permanent Secretary of the department?

(Mr Heseltine) He plans a major part but it is unrealistic where you have 20 major departments, whatever it is, to expect there to be a momentum of the sort we are discussing here unless it is a government-wide situation and unless it is a politically dictated situation.

548. What about other departments?

(Mr Heseltine) This is trespassing on ground of which I have no knowledge except my previous incarnation. It is immensely difficult for Ministers to express opinions about other departments.

549. You have experience of other departments?

(Mr Heseltine) One other department, well two because I was Minister for the Transport Department. Where I have had

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such experience all I am saying is that I stand by what I have said and I cannot be drawn into trying to analyse fields that I do not have experience of.

550. The difficulty I experience in responding to your view is that the role of Parliament, surely, is not that of a managerial review expertise body, it does not have the competence or the detailed information or the ability, perhaps, to actually delve into the nature of the efficiency and effectiveness of departments and within individual departments, et cetera. Therefore one is looking to the Ministers and the Civil Service Department, two elements I would say. Hence we are going through this dialogue now. You accept total responsibility to us but in my mind I think it is unrealistic, we have to look to a permanent organisation that administers the service, albeit over it a political control in the form of a Minister. What role do you ascribe to the civil service in initiating schemes of good business management?

(Mr Heseltine) I do stick by the points I have been making, if the systems and the accountability is not as I would like I would argue that in the end Parliament should do it differently.

Dr Bray

551. Could we pursue Mr Shepherd's point on this?

(Mr Heseltine) I want to go on to the second point which is very important, the role of the civil service in initiating good management practices. The truth is, of course, they do it on a very substantial scale and they have done it and when you think of the scale———

Mr Shepherd

552. Could you give us some instance of that?

(Mr Heseltine) My planning department, for example, the people who administer the planning appeals have spent a lot of time trying to improve the procedures that are at work there and we have brought a great deal of interest to bear on this, the result of which is that we have secured perhaps a 10 per cent improvement in the through-put of appeals. The fact is that is only a percentage improvement, a very substantial amount was taking place beforehand. The Permanent Secretary in my Department, or the three Permanent Secretaries, are in fact accounting officers of their own area of responsibility. That is a very real discipline upon them and a whole range of systems operate in order to inform them about the flow of money under their charge and the disciplines under which they administer that expenditure. There is, for example, very clearly, within the conventional voting system and accounting system the fact that the Minister is suggesting the expenditure and he has no authority to go above his ceilings and there is an immediate representation from the accounting officer which usually brings back the controls. There is a whole range of things which are managed consciously. What I am doing is not to say that for the first time I have introduced a management system in the public sector, because I have not done that, what I have done is to introduce a dimension of management systems which has added to what was there before.

553. The quality of the system that has been introduced in the Department of the Environment comes from you and your own outside experience, am I right in that?

(Mr Heseltine) No, that would be quite wrong.

554. Were you not the originator of MINIS?

(Mr Heseltine) Yes, but that is not the same thing. I said we would have this system and I asked Derek Rayner to help us with devising it and I put civil servants in charge to work it out and introduce it. To that extent it was a total partnership arrangement.

555. It was your outside experience which led you to believe this might be a helpful innovation?

(Mr Heseltine) No, my experience in the Ministry of Aerospace taught me there were ways of trying to run a department on a comprehensive basis.

556. You originated it, did you not?

(Mr Heseltine) Yes.

557. In Aerospace?

(Mr Heseltine) I was Minister.

558. Where was the input to you? Was it the experience of running Aerospace itself or outside experience?

(Mr Heseltine) I came from the private sector with a management idea which, when I was a Minister of State, I built on dramatically with the help of the civil servants and Derek Rayner.

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559. Would it not be of help to the service to have people with similar backgrounds to your own coming into the service at senior levels who could inject perhaps a little competitive worldliness into it?

(Mr Heseltine) I think we are back on this fundamental question, who is responsible for seeing these things happen and I do not think bringing people in at second, third or fourth levels changes the climate and the disciplines.

Dr Bray: I think we have explored that.

Mr English

560. I think I might have unintentionally misled you and perhaps anybody else who may be interested. Where I gave the figures of central government and local government expenditure rising you gave an answer related to the combination of capital and current expenditure and the figures, of course, were not absolute expenditure figures but the difference between outgoing budgets in both cases, central and local government. It still proves my point—local government seems to get nearer to its budgets than central government. That was the point I was trying to make.

(Mr Heseltine) I do not think I can address myself to that. First of all the capital programme of local government was laid down by central government and in the control of the biggest of the local authority programmes, housing, the method of control means my regional offices impose minute control over every budget and allocates money. There is a slightly different ballgame in the new freedoms I have given local government but up to then it was a centrally administered system. On the question of under-spend on the budget on the current account local government has had a good record of consistently keeping within its budgets because, broadly, once the budget is set treasurers administer local government to stick to budgets and that is the practice. I think there is a recent development—I do not want to confirm it—where this practice might be changing but it might not materialise. What is happening now is that local authorities are not sticking to the central government line, in aggregate, although probably we will still see the phenomenon of them staying within the budgets.

561. The second point relates to a point you made in your remarks about ministerial responsibility. I take it you would not agree with my colleague that the Prime Minister is only "nominal" head of the Civil Service Department?

(Mr Heseltine) The Prime Minister is head of the Government and in that capacity has sway wherever———

562. In addition to that, surely, she is actually the Minister in charge of the Civil Service Department?

(Mr Heseltine) Yes, but I think this is not a question for me. I think the reality is that the Civil Service Department must be primarily the Minister's responsibility.

563. If Mr Beaumont-Dark is right is it the case that when industry was given an 8 per cent rise and the Civil Service Department gave 26 per cent the real reason for that was because Lord Soames was in Rhodesia?

(Mr Heseltine) I am not going to be drawn into analyses of that sort.

564. You mentioned Derek Rayner but you have actually, I am told, rejected a Rayner recommendation. As a Minister in an elected government you are entitled to increase privatisation of the public sector but Derek Rayner suggested to you if you did that in relation to contracts you should not reduce the extent of supervision of private contractors. That was in a report entitled "Economies in major new building works in the Ministry of Defence". He said there should be no reduction in the staff costing budget in July 1980 and shortly afterwards the consultant liaison figure was reduced from 15 per cent to 10 per cent. You therefore rejected a very important Rayner recommendation, is that right?

(Mr Heseltine) No, I do not think I have consciously rejected a Rayner recommendation. I would have to look at the detail of this particular area. I might ask Mr Delafons to comment on it because he has responsibility———

565. Of course, he is a witness.

(Mr Delafons) This was a reduction in what we call the consultant liaison provision from 15 to 10 per cent. This does not have to do with the supervision of construction but with our role as the clients of the consultants and we reduced that provision from 15 to 10 per cent because we found 10 per cent would be adequate for the purpose. It is not supervision of construction.

566. That was not a rejection of the Derek Rayner proposal?

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(Mr Delafons) No.

Mr Bray

567. Secretary of State, we have concentrated mainly on MINIS but easily the biggest part of the expenditure of your Department is on the rate support grant to local authorities and that raises major issues because you are not responsible there for the detailed administration of the policy. Nevertheless would you not agree that it must be the responsibility of the Minister to be generally concerned with the efficiency with which public bodies are using the money that passes through their hands?

(Mr Heseltine) Yes.

568. Would you not agree where there are independent authorities, as in the case of local government, there is a very large element of leadership in terms of the kinds of practices which the Department encourages in the administration of local government, quite apart from policy questions?

(Mr Heseltine) I think one has to wait and see what question you are going to ask me after this one before I try to answer it! I do not know that I like words like "leadership" to describe it.

569. As you have followed public affairs for sometime there were major developments in the local authority field, for example in LAMSAC, in the training of local government officials and so on and those have undoubtedly had considerable impact on actual practices in local government. Would you feel that those activities are things in which the Department has any part to play or must they be left to local authorities entirely?

(Mr Heseltine) I have the dilemma that everyone in my job has in confronting that issue. If I play a role I am interfering and if I do not play a role I am supposed not to care what is going on and failing in securing my own objectives. I decide to go and see LAMSAC and I was very interested in what I found. From memory, without proving it, LAMSAC was set up to investigate efficiency and to make comparisons and it studied the various services of local government. They were only able to investigate one service of local government in the time of their existence—they had done lots of things like computer systems and introducing software but when it came to look at the efficiency of services they only had time for one service—and that was refuse collection. They probably are now the leading authority on economies in refuse collection, being the only service they were able to look at, and they had been consulted by only a handful of authorities about their finances. For the authorities they had been consulted by they found not less than 20 per cent economies in the recommendations put forward and in one case found economies of up to 60 per cent, but the fact is they had hardly been used and where they were used in one service they had hardly been consulted. It does put a Secretary of State in a very difficult situation when he is keen to encourage freedom for local authorities, but then there is also this question of efficiency of the whole expenditure of public money and it is very difficult to reconcile these two situations.

570. Are you saying they are irreconcilable so long as we have a misbalance between the actual expenditure of local authorities and their revenue raising abilities? Are you raising fundamental issues about taxation?

(Mr Heseltine) No, I am talking about the management of vast areas of public money. This is entirely a matter for you but with respect I would suggest we take the CIPFA analysis of the relative cost of one authority to another, public service by public service, authority by authority, a detailed analysis of what each authority is spending.

Mr English

571. Which central government never did.

(Mr Heseltine) No, this in its infancy. CIPFA provides an opportunity to see how one authority provides a statutory service perfectly adequately at one cost and another authority provides the same service at a different cost. For the first time these sort of things are in the public debate. Of course the more I ask those questions the more I am questioning and pressing on the frontiers of local government freedom but the questions have to be asked. What I have done is to encourage wherever I can the publication of statistics which relate to individual authorities hoping the local democracy will play the role which otherwise I am constantly pressed to play.

Dr Bray

572. You have increased the expenditure of your Department by MINIS because there was not any expenditure on this before.

(Mr Heseltine) Yes.

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573. Would you be in favour of authorising an increase in expenditure on similar methods in local authorities?

(Mr Heseltine) I do not have that degree of knowledge of what happens in individual authorities but I am an advocate of spending what is necessary to spend on proper management information.

574. You are prepared to take that into account in the rate support grant?

(Mr Heseltine) The benefits in lower levels of expenditure would dwarf the costs which would be incurred.

575. We have not asked about the PSA but we have had very full written evidence from them. The post of the head of the PSA has been vacant for sometime, has there been some difficulty in finding a suitable person?

(Mr Heseltine) It is a difficult job to fill and I am not prepared to take a decision for the sake of taking it. I obviously am pursuing it as I think proper in the light of the responsibility I have.

576. You have in your replies repeatedly referred to the role of Parliament in maintaining efficiency here. You have on your own initiative published the MINIS documents and those are available to the House. Do you see the role of Parliament as needing to go further than receiving documents of that kind from your own and possibly other departments?

(Mr Heseltine) I think that is entirely a matter for Parliament to decide in the light of the documents. Perhaps I gave a false impression, I do not think Parliament should be pre-occupying itself with trying to run departments, I think Parliament's responsibility should be considered to ensure that the proper systems are available and that Parliament is satisfied with them.

577. One particular issue with which we have been concerned is the MINIS-type information which is lacking in support of the estimates. Would you think it reasonable, as a Minister, if the estimates for your Department required MINIS-type information in its support?

(Mr Heseltine) I would have to look exactly at what was meant. There are problems with MINIS, I have to make that clear. In publishing such full information you do come across difficulties in which I think governments are entitled to ask Parliament for discretion. There would be uncertainties which would be created if more information was required about the full working and governments are entitled to look at options on their policy without publishing it because the blighting effect of showing the uncertainty could be quite devastating. That is one area where Parliament could allow ministerial discretion. There is bound to be classified material which must not come out in a premeditated way. There are all sorts of things to be taken into account. I am in favour of providing Parliament, wherever there are no over riding political and policy constraints, with as much information as possible. That is what I am trying to do.

578. I suppose it is precisely where there are political and policy constraints that Parliament has the greatest need for information anyway?

(Mr Heseltine) Yes, but one has to recognise if one is in government one is entitled to have one's own being and that does mean you are entitled to have private discussions and private options. That would be a view I would argue.

579. Have you in fact been in any difficulty because of the information published in MINIS?

(Mr Heseltine) I do not think significantly. We have not had a lot of interest in it to be frank. I have had Parliamentary questions arising from it and sometimes, perhaps, one wonders whether we have been fuller in the information we have provided than is necessary. Another thing which is of concern to us is that the nature of the MINIS system is that civil servants are giving their views and using their words about a whole range of policies which one could be called to account for, one could be asked to justify a word in a document as if it is one's own. I am absolutely sure if I had to write it I would write it differently in many areas and there may be areas of policy implication which I would not subscribe to but that is the nature and scale of the information I am publishing. There may be areas where misleading impressions may be given, there may have been impressions which are contrary to what I would like to see. Any of these things are possible. I do not think at the moment it has caused me any great embarrassment, but that is not to say it could not. I knew this when I went down this road. My worry is that they will bring the publication of the system to an end because one mistake is all it takes for the whole benefit and advance to be gone. I

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took a chance on that and I do not regret it so far.

Dr Bray: We shall in a later stage of the enquiry have to think about what procedures Parliament or other central agencies of government need to take in this kind of field. You have stressed the role of Parliament, if on reflection you have any more specific suggestions to make we shall be interested to hear any which you care to put to us in correspondence or another way.

Mr Eggar

580. Obviously your Department is under strict manpower directives?
(Mr Heseltine) Yes.

581. The reduction of manpower. Do you feel that you could or you would have been able to achieve those manpower savings and at the same time maintain efficiency and effectiveness without the use of MINIS?
(Mr Heseltine) Only in a much cruder way. I think probably not. I would like to ask Mr Ennals and Mr Chipperfield to say something here because Mr Ennals is carrying the brunt of this system. My own feeling is that there are two sorts of economies you can make, there is the economy of doing what you are doing on a tighter budget of manpower and there is the economy which comes from cutting out services. Well, there are three, I suppose, there is also the economy from transferring work to the private sector. Somehow or other we would have needed to look at those things and when it came to cutting out work the MINIS system was a considerable tool. In getting better value for money I do not think we would have found out about the tramlines which existed in grades. As for transferring work to the private sector I dare say we could have done that without the MINIS system. It has helped but as I said before it is not a system which only helps us to run down; MINIS could be up or down.

582. I would be interested in your officials' views.

(Mr Ennals) Faced with a manpower target and the need to reduce manpower over a four year period any organisation like a government department has to devise some sort of information and review system. Different departments do it differently, we have this very comprehensive system called MINIS and that enormously helps us in the problems of manpower budgeting because it turns the search light on every area of the Department and produces the options for savings in that way. Of course there are many sub-systems to help you find savings and to improve efficiency and the Secretary of State has referred to some of them like O and M and staff inspection, but faced, as we have been, with manpower targets and manpower constraints in a way we were not faced with them in the past a system like MINIS has enormously buttressed and underpinned all the efforts we were in any case having to make and has enabled us within the Department to make those adjustments that have been essential while at the same time we have been consciously recruiting fewer people, we have been relying on natural wastage and introducing early retirement. All those techniques have gone on but it has enabled us far better within the Department to make the adjustments that maintained the balanced structure.

583. How much time have you yourself and your colleagues spent discussing MINIS and the lessons from MINIS with the CSD?
(Mr Ennals) Quite a considerable amount of time. I myself have given talks to groups of establishment officers and those have been arranged by the CSD, they have encouraged departments to learn from one another in this way. I have also seen individual officers from other departments about the MINIS system and our system of manpower budgeting.

584. Roughly how many hours?
(Mr Ennals) Fifteen.

Dr Bray: May we thank you for your assistance this afternoon.

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WEDNESDAY 4 NOVEMBER 1981

Members present:
Dr Jeremy Bray, in the Chair

Mr Anthony Beaumont-Dark
Mr Timothy Eggar
Mr Michael English
Mr Richard Wainwright

Memorandum submitted by Sir Ian Bancroft, GCB, Head of the Home Civil Service and Permanent Secretary to the Civil Service Department

Introduction

When I gave oral evidence to the Sub-Committee on 8 July 1981, I was invited to put in a paper setting out my further thoughts on any possible developments of the overall structure of reviews of efficiency and effectiveness within the Civil Service. The paper is mainly about the role and work of the central departments—the Treasury and Civil Service Department (CSD)—since the Sub-Committee will be aware of the arrangements made by the major spending departments from their replies to the Sub-Committee's questionnaire. This paper should be read in conjunction with those replies.

Responsibilities

2. The arrangements for reviewing efficiency and effectiveness in the Civil Service must take account of the respective responsibilities of the central and spending departments and of the allocation of responsibilities within the spending departments themselves. The Sub-Committee has seen copies of the four memoranda which the Government has published recently on these matters:

(i) Control of Expenditure: Departmental Responsibilities;

(ii) Responsibilities of the Principal Finance Officer (PFO);

(iii) Responsibilities of the Principal Establishment Officer (PEO);

(iv) Responsibilities of an Accounting Officer.

Further work is in hand to define the managerial role of Ministers and Permanent Secretaries and the responsibility and accountability of officials to Ministers through the Permanent Secretary.

3. The present position is summarised at Annex A. I draw three general conclusions from it.

4. First, the effective carrying-out of the respective responsibilities of the central and spending departments depends upon constructive cooperation between them. The memoranda I have referred to stress the importance of this cooperation, particularly in keeping within the Government's planned allocations of money and manpower and in the good management of all the resources allocated to individual Ministers.

5. Secondly, the responsibilities of the central departments should be complementary to, and not a substitute for, those of the spending departments. The job of the centre is to stimulate, strengthen and monitor the spending departments' own efforts to improve efficiency and effectiveness in the use of resources without detracting from their primary responsibility for these matters. I am therefore opposed to the suggestion which is occasionally put forward that certain key officials in spending departments should report to the central departments or have a dual loyalty; that would blur accountability and militate against the clear allocation of responsibility which is necessary for efficient management. More generally, I very much agree with Sir Derek Rayner's observation to the Sub-Committee on 15 July 1981 when he said:

"I have no time for a centre which second-guesses the experts down the line on decisions they should take on their own responsibility; but I appreciate a centre, in individual departments as well as in the Whitehall public expenditure system, which exercises a

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controlling role through making the intelligent effort to define delegated authority and to ensure that departments are operating systems which are adequate for financial management."[1]

6. Thirdly, the central departments' responsibilities must involve a mixture of control and advice. It would not be consistent with the framework of responsibilities I have outlined for the centre to give spending departments detailed instructions on how to manage every aspect of their work. To attempt that would both detract from their accountability and arrogate to the central departments responsibilities they are not in a position to discharge. An effective relationship between the central and spending departments involves striking the right balance between the prescriptive role of the centre and its advisory, supportive role. Where to strike this balance is a matter of judgment which may properly change from time to time. At present, given the high political priority attached to increasing the efficiency and effectiveness of central government and to the need to obtain maximum value from diminishing resources, the balance is shifting towards a more prescriptive role for the central departments, which I comment on further below. But this represents a change of emphasis within the existing framework of responsibilities rather than a change in the framework itself.

Action by the central departments

7. In the following paragraphs, I describe briefly the pattern of central activity in recent years in promoting and reviewing efficiency and effectiveness.

(a) THE SQUEEZE ON THE TOTAL RESOURCES AVAILABLE TO SPENDING DEPARTMENTS

8. The central departments have initiated, monitored and coordinated the continuing squeeze over the last five years or so on the overall totals of money and manpower allocated to spending departments. For example, Civil Service numbers reached a peak of 747,600 in 1976. By April 1979 they had fallen to 732,200—saving £107 million per annum in direct salary costs alone at present prices. Since then there has been a further reduction of nearly 48,000 to 684,400 at 1 July 1981, the lowest figures since 1967, with a further annual saving of £335 million. There is more to come. The Government is committed to a further reduction of about 55,000 (£385 million) to a total of some 630,000 by April 1984, the lowest since the last war.

9. The squeeze on manpower is relevant to the Sub-Committee's inquiry in two ways. First, in order to assess the size of the total manpower reduction that would be feasible, all departments were asked to review their functions to see which could be dropped, contracted out or streamlined and made more efficient. This led to comprehensive reviews by all departments and finally to the allocation of manpower targets to each. Secondly, the squeeze has provided an incentive to greater efficiency and effectiveness as line managers at all levels encounter an even greater need to obtain maximum value for money from the reduced resources allocated to them.

(b) SPECIFIC EXERCISES TO IMPROVE VALUE FOR MONEY AND REDUCE COSTS

10. The replies to the Sub-Committee's questionnaire illustrate the many reviews of the effectiveness and efficiency of particular operations which departments have undertaken in recent years. These have been completed by action taken or coordinated by the centre in various ways.

(i) The programme of Rayner scrutinies. As the Sub-Committee knows, this resulted from a major initiative by the present Administration and reflects the priority it attaches to improving efficiency and effectiveness in central government. The CSD has been closely involved in the programme from the outset and has worked in close support of Sir Derek Rayner and his office in maintaining its momentum and monitoring the implementation of its results. In particular, the CSD proposed and, under the leadership of Sir Derek Rayner, coordinated the service-wide review of statistical services, and is doing the same in the reviews of support-services in R&D establishments and of the use and control of administrative forms. The general

[1]Evidence, p 92.

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achievements of the scrutiny programme, and the results of specific studies, are set out in the White Paper, "Efficiency in the Civil Service" (Cmnd 8293).

(ii) The programme of reviews of common activities initiated by CSD and carried out by CSD and departments. These are described in paragraph 36 of the White Paper, and include messengerial and typing services, telecommunications, stores etc. They are producing substantial savings. Similarly, the size of the Government Car Service in the regions has been systematically reduced from 176 in 1976 to 39.

(iii) Reviews of staffing formulae set up in a similar way. These formulae use techniques for measuring work and are used as the basis for complementing repetitive office work processes, for example in several networks of local offices. These processes employ about 175,000 staff. The review in the Unemployment Benefit Offices by the Department of Employment with CSD help improved the arrangements for complementing with a saving of 1,400 posts—6.5 per cent of the staff needed for the workload at the time. Other reviews have been completed or are in progress in the County Courts, the Valuation Offices and Tax Offices of the Inland Revenue and in the local offices of DHSS.

11. I should like to draw attention to three aspects of these reviews of particular operations, over and above the immediate savings they produce:

(i) Many Rayner scrutinies examine not only the efficiency but also the effectiveness of the operations under review. One example is the abolition of compulsory registration at Jobcentres before the unemployed can draw benefit, which was found not to be effective in ensuring that the right people got paid. This arose directly out of the Rayner scrutiny of the payment of benefits to unemployed people; with related procedural improvements it will save about 1,650 posts. Another example comes from the service-wide review of statistical services. Several of its recommendations resulted from questioning not only the existing way of doing things but whether, given their cost, they were worth doing at all. Similar questions have been raised during scrutinies of the effort going into overseas trade fairs, the promotion of health care exports and the administration of capital grants to farmers; and are being raised on other current reviews, including that of the use and control of administrative forms.

(ii) It is intended that the reviews of common activities should lead to the promulgation of service-wide standards for the activities in question. For example, a review of passenger transport resulted in the decision that the capacity of the basic official passenger car should not exceed 1000 cc.

(iii) More generally, it is an important objective of all reviews of this kind to draw general lessons which can be applied more widely across the Service as a whole. For example, a Rayner scrutiny of controls over local authorities in the Welsh Office led to a review of such controls across departments, coordinated by CSD Ministers which, together with work already in hand in Departments, is expected to save over 1,600 posts.

(c) IMPROVEMENTS IN DEPARTMENTAL SYSTEMS

12. The programme of management reviews, launched by the CSD as long ago as 1972, has covered most of the major departments, including the Treasury and CSD. Their primary purpose has been to help the top management of each department to improve the effectiveness and efficiency of its organisation and management, including the planning and control of its resources. Thus, most reviews have examined such matters as departmental arrangements for policy planning and resource allocation; the system for financial and manpower planning and control; and, where appropriate, the relationship between the policy and executive arms of departments, with particular reference to the clear definition and allocation of responsibility and accountability.

13. At the same time Departments have done much in recent years, both independently and with the help of CSD, to set up and improve management information systems and to introduce performance indicators to measure how well they carry out their tasks, often laid down by statute.

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14. At a more detailed level, the CSD has been concerned to strengthen and improve the work and performance of staff inspection in departments. This has involved setting standards; providing training; monitoring performance; taking part in selected inspections; and acting as a source of expert advice. The Sub-Committee will be aware of the initiatives taken recently to improve matters; the savings of over 3,000 posts (over £21 million) resulting from staff inspection in 1980 represent a large improvement over recent years.

15. The Management Services Divisions of the CSD have also initiated and taken part in a wide range of specific studies in departments designed to improve the economy, efficiency and effectiveness of particular operations and management systems. The Accountancy, Finance and Audit Division (now with the Treasury) has provided a consultancy service to departments on financial and accounting systems and techniques. Experts in O and M and Operational Research have been similarly deployed over a very wide field. Examples of their results include annual savings of over £5 million from reviews of messengers, telecommunications, typing and transport, and savings of £7 million from a scheme for monitoring the use of paper. The results of assignments have been circulated as guidance to departments in the periodical "Management Services in Government" and in handbooks on special topics such as typing services, forms control and transport management.

16. A major initiative has been taken recently to improve the standards of internal audit. The AFA Division took the initiative in calling attention to the need for this, and the Permanent Secretary of the Treasury and I have launched a programme of work across the Service. The work of internal audit should complement that of the Exchequer and Audit Department which is also extending its work in the fields of efficiency and effectiveness in a way which I greatly welcome.

(d) COMPUTERS

17. Central government is the biggest single user of computers in the United Kingdom. More than 650 large and medium sized computers are in use in departments for a wide range of administrative and scientific purposes. In addition, the use of small electronic office machines is growing. About 500 microcomputers and 350 word processors have been installed in departments already, and the numbers are increasing steadily. The benefits of the latter are individually small but cumulatively great; they will increase further as the numbers increase and communication between machines develops into the systems of the future.

18. Computer-based systems represent a heavy investment in hardware, software and specialist manpower; to take the biggest example, the total cost of computerising PAYE is expected to be in the region of £200 million. To secure the most efficient use of this investment, departments need expert guidance on project design and implementation and associated technical support. This is provided by the CSD's Central Computer and Telecommunications Agency (CCTA), set up in 1972, which undertakes the evaluation and appraisal of all types of system, including the latest technological developments, and procures equipment on behalf of departments.

19. A major function of the CCTA is to promote the efficient and effective use of computers and computer-related technology. Each project is rigorously examined to ensure that the expenditure is justified; our existing detailed guidance on the investment appraisal of projects is being reviewed in the light of departmental experience. Apart from individual projects, the CCTA promotes economy generally in the use of computers. It encourages the development of standard applications, eg payroll and financial information systems; has arranged to extend the use of some computers beyond the original contracted maintenance period of ten years (saving some £40 million); reallocates between departments equipment that becomes surplus; and is extending systematic reviews of computer installations.

20. In the last 2 years, there has been an intensified search for cost-saving applications of information technology, particularly small systems that can produce quick returns. The CCTA is mounting a programme of trials and experiments in the use of new office technology. Special attention is being paid to the training needs and working conditions of

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staff operating new equipment, many of whom have had no previous experience of computers.

21. Procedural changes have been made to improve the way resources are used. First, there has been the move to repayment financing of administrative computers. This change imposes a greater discipline on departments to decide their own priorities in their investment in computer systems. Secondly, following the move to repayment, financial authority to undertake small-to-medium straightforward projects has been delegated to those departments with sufficient expertise of their own. As a condition of delegation, departments have to establish top-level ADP Committees to determine future computing strategy and oversee the implementation of projects. Delegation has permitted the CCTA to devote extra resources to the control of large and technically innovative projects and also, through representation of ADP Committees, to examining departments' computing organisations and future plans. Thirdly, CCTA has conducted a review of its own procedures for the development of computer systems, and departments are also being encouraged to improve their procedures for project control and the development and implementation of systems.

(e) PERSONNEL MANAGEMENT

22. Following the Fulton Report, the CSD took the lead in promoting major improvements in personnel management. Recent work has concentrated on arrangements designed to encourage good work and develop the talents of the staff. Regular appraisal interviews, for example, introduced over the last few years, encourage the individual to improve performance in the job. Staff-reporting forms have been revised to lay more emphasis on results achieved and the management of resources. We are introducing more refined succession-planning arrangements for filling posts in the Open Structure and certain key posts below that level; the details are contained in the paper recently submitted to the Sub-Committee. One of our main aims is to ensure that those who are put into posts with major responsibilities for handling resources have the right training and experience for the job.

23. Another important motivator is job satisfaction. Here the CSD and departments have carried out a series of major, pioneering experiments to find better ways of managing staff and jobs. Their object is to encourage a new management style in which communications between management and staff can be improved and the staff can be more closely involved with the way their jobs are designed and managed. The results have shown that this can release new energy and enthusiasm in the pursuit of better and more efficient ways of doing business.

(f) TRAINING

24. Departments and the Civil Service College together provided training to the tune of 1½ million trainee days in 1979–80. Of these, some 70 per cent can be described as vocational, that is, aimed at improving knowledge, skills and performance in an individual's existing job or area of work. A further 20 per cent was management and background training which, more broadly, helps staff to understand their role and put their work in context. This helps to improve efficiency by aiding staff to work to a purpose, ensure their work is not wasted, and make more effective use of the human and other resources under their control. The methods and content of training are reviewed regularly to ensure that it remains relevant and effective. Where direct comparison can be made, the standard is shown to be high. Civil servants taking the professional qualification for ICMA at Worthy Down, run by the MOD, achieve a pass rate of 85–90 per cent, compared with the national average of 35 per cent.

The developing role of the centre

25. I now turn to three main areas in which I see the role of the central departments developing over the next two or three years.

(a) GREATER EMPHASIS ON PRESCRIPTION

26. The memorandum on "Control of Expenditure: Departmental Responsibilities" signals a change of emphasis. In future the central departments will play a more positive

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part in defining the essential features of good systems, procedures and other arrangements for sound and effective management and in checking that these have been adopted. This does not mean the assumption by the centre of new powers or a significant extension of the areas under its direct control. I believe that the central departments already have adequate powers to fulfil their responsibility for ensuring that the resources allocated to the spending departments are used economically, efficiently and effectively and that the present move can and should take place within the existing framework of responsibilities.

27. Both central departments are currently working up a programme for developing and extending their role and identifying the implications of this for their work and staffing. We are doing this against certain criteria:

(a) the maintenance of the balance of responsibilities between the central and spending departments which I have described;

(b) realism, to ensure that what we prescribe is sensible and workable, and can be checked without excessive effort. We must draw on the experience of departments and take account of their differing circumstances;

(c) not laying too heavy a load on the staff in departments;

(d) the need to ensure that the programme is coherent and coordinated at the centre, and constitutes a manageable task for it—see paragraph 53 below;

(e) ensuring that we have adequate staff, with the appropriate experience and training for the job.

28. Some priorities have been identified on which action is in hand. The Treasury's main concern will clearly be with systems of financial planning and control as an aid to improving financial management in departments—see Section (c) below.

29. For the CSD, prescription is nothing new. For example, we have promulgated the essential elements of departmental systems for planning and control in manpower and in ADP; laid down criteria governing the organisation, coverage, training and implementation of staff inspection; and recently introduced the succession-planning arrangements. In these and other cases we monitor departmental practices and take the necessary action to ensure an adequate standard.

30. In the immediate future, priorities in the CSD's field are likely to include:

(a) the further strengthening of staff inspection;

(b) the issue by about the end of the year of more precise grading standards;

In addition, we hope to be able in consultation with departments:

(c) to set out criteria which effective Management Services (MS) units in departments should meet, and monitor the performance of MS accordingly;

(d) to lay down service-wide standards governing the provision of activities common to most departments, such as typing, messengers, telecommunications and transport (based mainly on the results of the detailed reviews referred to in paragraph 10(ii) and paragraph 15);

(e) to define further the resource-control responsibilities of managers in particular areas and the essential elements of the systems they should use, including where appropriate performance measures and information and accounting systems (this work is also based on service-wide and individual scrutinies and other efficiency studies: one example so far is the management and control of statistical operations following the Statistics Review);

(f) to extend our existing prescriptions in the field of computers, for example on methods of project management and control, and of systems design and programming.

31. I would add two general points. First, there is a link between defining standards and delegation. The further we can move towards laying down general standards and procedures for effective and efficient management, the more we can reduce the detailed vetting of departmental activity to that which is needed for monitoring the systems they

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use. A Rayner scrutiny is currently looking at some of the CSD's delegations. Secondly, the pattern of our activity will change and develop. As we get new insights into departmental practices and develop our own expertise, we may well want to prescribe in a different area or in a different way.

(b) MEASURING EFFECTIVENESS

32. The Sub-Committee will be aware, from the replies to its questionnaire, of what some of the major spending departments are doing to measure and assess the effectiveness of their programmes—whether they are meeting their objectives and whether there are better alternative ways of doing so. This is a notoriously difficult task in Government, particularly in measuring the quality, as opposed to the quantity, of provision in such areas as health and education. Nevertheless the job is being tackled and we mean to make progress. It is often necessary to measure intermediate, not final, outputs. There is no universal system of measurement: each has to be tailormade, and devising reliable output measures is usually a time-consuming and highly technical business, requiring skills that are in short supply. Assessing the effectiveness of policies and programmes often has to be a matter of broad judgment rather than quantified measurement, though departments accept the importance of backing such judgment with objective measurement wherever that is possible.

33. Both central departments are concerned. The Treasury takes the lead in considering the effectiveness of spending programmes, promoting the use of measures and indicators in that field and linking them to financial and management information systems for PES and Estimates purposes. Over the past 18 months or so a small Treasury team has undertaken a coordinating role in reviews by departments of the output measures available to them and acted as a clearing house for ideas and techniques of wider relevance. The survey has so far covered areas within the agricultural, transport, education, health and personal social services and common services programmes, and is being extended to parts of the social security, employment, defence and housing programmes. The objectives are to identify the types of measures used by departments for priority setting and assessing performance and to encourage their further development and their extension to areas where they are not yet used. It is also part of the purpose of this work to try to identify general principles and problems of output measurement and the ways it can be used as an aid to management.

34. The Treasury has said that, wherever possible, attempts should be made to produce output measures when new programmes are proposed. In the case of existing programmes, departments have been encouraged in recent years to include in the annual Public Expenditure White Paper more information on outputs. As this continues, the information made public will steadily increase.

35. The CSD's concern with effectiveness mainly arises over policies involving large expenditures on staff or other administrative costs. It is not profitable in this field to try to draw any sharp distinction between efficiency and effectiveness. When we examine the value for money achieved by an operation requiring large numbers of staff, the question whether the task as given is performed in the most economical manner (efficiency) often leads directly to the question whether its objectives can be better achieved in another way or whether it is worth undertaking at all (effectiveness). I gave two specific examples of this from work in this field in paragraph 11 above, but the point applies much more widely to efficiency studies generally. Recent experience has underlined the absurdity of looking at how administration can be made more efficient in isolation from the purposes it serves; and equally of any examination of the effectiveness of policies which does not take account of the costs and efficiency of administering them.

36. Thus we have for example concluded that staff inspectors should in future not only pay attention to the correct manning of a given task, but should sharpen their examination of the need for the task itself. This change of emphasis has been promulgated to departments, and the training of staff inspectors is being expanded accordingly. Whether by means of Rayner scrutinies, staff inspection or other studies, there is great advantage in maintaining an approach (among others) which raises policy issues against a background of established facts about the effects and costs of operating the policy.

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(c) THE STRENGTHENING OF FINANCIAL MANAGEMENT

37. Paragraph 4 of Annex A sets out the responsibilities of line managers. A start has been made on the task of creating the conditions in which they can discharge them effectively. But there is much still to do. In my view, present weaknesses, not universal but common, include uncertainty about the extent of the individual manager's authority and accountabilty and therefore about the basis on which his performance will be assessed and lack of the necessary information especially about the costs which the manager is in a position to affect.

38. Progress has been made in tackling these problems. The Sub-Committee is already aware of the work which many departments have done in the past, often with the aid of AFA division and consultants, in constructing management accounting systems for this purpose. So far, however, the work has been rather piece-meal. It is now one of the Government's major aims to strengthen financial management across the Service as a whole. Our aim is to see that the great range of efficiency studies being undertaken in departments lead not only to savings but also to improvements in the arrangements for continuing management and control and that the development of management information and performance indicators I referred to in paragraph 13 is given greater thrust and emphasis.

39. At the same time we need to ensure that the overall financial framework, both between and within departments, is conducive to better financial management. The Treasury is in the lead here. Most of the work is being directed and coordinated by its Financial Management Coordinating Group (FMCG), on which Sir Derek Rayner's office, the Head of the Government Accountancy Service and CSD are represented. The Group's main concerns at present are the more effective planning and control of the cash cost of public expenditure programmes; the better matching of financial information needed for PES and Estimates with that needed for management; the further development of financial responsibility and accountability in line management; and the strengthening of internal audit.

40. The FMCG is also considering how work on departmental running costs, the results of which for 1980 were reported in the White Paper on Efficiency, should be integrated with other work on management information systems, particularly in order to improve the breakdown of departmental costs and associate it with measures of output in a properly developed accounting system. The aim is to assist the comparison of costs and outputs between different parts of departments undertaking the same task, or for the whole of an organisation from one year to the next. The move to repayment for certain common services previously supplied to departments as an allied service will help; it will also provide a stimulus to positive management within the discipline of a cash limit. As a result, we aim wherever possible to extend and develop budgets for local managers for particular running costs, thus making them more aware of their costs and more responsible for controlling them. At the inter-departmental level, the FMCG is considering whether the running costs exercise can be further developed to enable us to pick out key ratios and performance indicators for drawing comparisons between, as well as within, departments. This is a more difficult question, given the quite different tasks of departments which necessarily involve different patterns of expenditure. But we think it important to establish how far, and in what way, Service-wide comparisons can make a real and cost-effective contribution to control.

41. The improvement of management accounting in departments is primarily a task for the departments themselves, and the Sub-Committee will be aware from the replies to its questionnaire of some of the work they have undertaken for this purpose and for the improvement of financial management more generally. The role of the central departments, here as elsewhere, is to stimulate action and provide guidelines for its development. In addition to the work of the FMCG as described above, a programme of studies is being planned for 1982 aimed at improving the way in which departments estimate, monitor and control the costs of their administration. Apart from specific improvements in the departments under review, the objective will be to draw lessons of general application.

42. It is also necessary to increase the expertise available in departments. This includes the supply of professionally qualified accountants. As the Sub-Committee knows, we are in

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the middle of an operation to bring them together as a functional specialism within the Administration Group. The target date for completing this is June 1982. This will enlarge their career outlets and should help to improve recruitment. As part of that operation, we have asked departments to identify those posts where good performance already requires, or would be improved by, accountancy expertise. We shall then be able to make a better assessment of the numbers of qualified staff we shall need in future. Coupled with this is our intention to boost the training of our own people to full professional qualifications—currently about 80 a year—in order to provide the skills to fill these posts.

43. But we must also equip line managers to play their full part. They need guidance on how to reduce and control different types of operation with their different patterns of expenditure, and the maximum practicable delegation of authority to do so. One of the main aims of the programme of reviews I have described is to develop this guidance and to provide the opportunity for greater delegation.

44. Training is an essential element. In 1980–81, departments gave training in financial management to over 3,500 students, the Civil Service College to over 950. These figures are some 40 per cent higher than two years before. In addition, over 650 attended external courses, an increase of 55 per cent. But we have to go further, and we plan to mount eight or nine new courses at the Civil Service College over the next two years. Our first priorities are training in financial management for senior staff, including PFOs—which will be linked with our succession planning arrangements for key financial posts—and providing more places on computer audit courses.

Systematisation

45. I now turn to a question which the Sub-Committee has raised: whether the task of reviewing effectiveness and efficiency in the Civil Service should be made more systematic. Should it all be drawn together into a single system with principles and procedures laid down and monitored by the centre and applied universally by the spending departments? More specifically, should the Government resurrect the system of Programme Analysis and Review (PAR), introduced by the last Conservative Administration, or devise a successor to it? Should the central departments insist on the universal application of particular model systems, for example the Management Information System—MINIS—successfully adopted by the Secretary of State for the Environment in his department?

46. I believe that there is scope for greater systematisation in that the principles outlined in the memorandum on the control of expenditure and departmental responsibilities should be applied across the whole field, and that it is the responsibility of the central departments to see that this is done. But I would make three main points about method. First, the move should be pragmatic and rooted firmly in the needs of the job and those who manage it on the ground. The lesson of past experience, both in the United States and in this country, is that universal systems imposed centrally and from above fail in this respect and founder for that reason. In the particular case of PAR, the automatic annual round of policy studies became bureaucratic and rigid through its attempt to impose a tidy framework on the untidy way in which problems arise and have to be tackled. Its top-down and all-embracing approach made it remote; policies were examined without adequate reference to the priorities of the day and the availability of resources. As a result, PAR increasingly failed to capture the close attention of Ministers or top departmental management. It therefore lost effectiveness, as major policy reviews came to be conducted more effectively outside the PAR programme. Finally, Ministers decided to abolish it, and I believe that there would be a high risk that the same would happen to a successor system on similar lines.

47. Secondly, experience also shows that those systems and procedures work best which have the full support of the staff required to use them because they meet their own needs as well as those of top management and the central departments. I am therefore wary of imposing detailed systems from the centre on departmental management and requiring them to work within them. Systems must have many common elements but should be based on the needs of the job, modified as necessary to meet the needs of the centre as well. Thus MINIS is clearly an excellent system for the Department of the Environment with its particular organisation and a Secretary of State who wishes to operate in the way

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he does. But that does not mean that it can be exported in its entirety to other departments, whose Ministers may wish to use different methods of achieving the same objective. It is the people using the system, not the system itself, that get results.

48. Third, it is necessary to have regard to the enormous range and diversity of Government business. I do not believe that management systems which seek to be all-embracing can possibly do justice to this range and diversity. Such a top-down approach will result either in vague generalisations of little practical use, or in an artificial attempt to mould heterogeneous functions into one neat framework. As Sir Derek Rayner said in his opening statement to the Sub-Committee on 15 July 1981:

"The scrutinies and the reviews confirm to me that you cannot deal with efficiency at large, because of the diversity of Government."

49. This approach is linked with my earlier emphasis on the examination of particular activities on the ground. That is the essence of the programme of scrutinies and other studies, including staff inspection, internal audit and management services. It involves concentrating resources on the most promising areas and mounting sharp and specific studies. This generates more enthusiasm and commitment to action than studies which set out to be wide-ranging and all-embracing. It is also more likely to engage the attention of Ministers and top departmental management if we conduct, ad hoc, those reviews for which the department or the centre sees a specific need.

50. These considerations suggest that greater systematisation should take broadly the following form:

(a) The general adoption by departments of management and information systems which are based primarily on the needs of the particular tasks they have to perform. They should be constructed to provide managers at all levels with the information they need (including very importantly the costs of their own operations) and encourage the maximum delegation to them, and secondarily to provide such information as is essential for top management in the department, the central departments and Parliament.

(b) Systematic arrangements within departments to select priorities for the review of policies and the effectiveness and efficiency of operations in a coherent programme.

(c) Concerted action by the central departments to

(i) carry out the responsibilities for definition and monitoring described in the memorandum on control of expenditure and departmental responsibilities. The accent should be on defining the essential criteria which a good system should satisfy rather than upon the universal adoption of a specific model;

(ii) satisfy themselves that the departments' programmes of review are adequate, and initiate and coordinate inter-departmental reviews where these are called for;

(iii) monitor the quality and effectiveness of review work;

(iv) disseminate useful lessons from experience and ensure that they are generally applied.

Staffing

51. In carrying forward this work, the central departments will need to ensure they have the resources to do the job. The work calls for highly competent people with the right experience and training. Improvements in training are being planned. We depend upon the goodwill of departments to lend us some of their best people with experience in particular fields, and shall also need help from the private sector from time to time. But the central departments have already laid a good foundation in such areas as management accounting and information systems, computers, staff inspection and management services. The Treasury has its OR unit and AFA Division. The Management Group within CSD contains 40 staff with specialist training and expertise in staff inspection; 35 in O&M and work measurement; 15 in OR; and 445 in computers. Many others have long experience of Civil Service management.

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52. The Treasury are now examining in depth how the staff in their expenditure divisions should be equipped for their role in promoting effective systems of financial management. This involves questions of personnel management, training and organisation in the Treasury. The review is being carried out on the lines of a Rayner scrutiny and Sir Derek Rayner is being kept in touch with it.

53. Resources are however limited. The central departments, no less than the spending departments, have to operate within strict manpower ceilings. We are required to make our contribution towards the reduction in the total size of the Civil Service to 630,000 by April 1984. The spending departments are similarly constrained. It must be borne in mind that the effective and timely implementation of past reviews requires resources as well as the carrying out of new ones.

54. The central departments must therefore be selective in their programme of work and order their priorities carefully. I have attempted to indicate what these are likely to be. We must also keep everything as simple as we can. The systems, procedures and techniques we promote should be cost-effective and sufficient, but no more than sufficient, for their purpose.

Conclusion

55. I have attempted in this memorandum to set out the framework of responsibilities within which the task of reviewing effectiveness and efficiency should develop; to outline what has been done so far; to indicate the main areas on which we are concentrating at present; and to suggest the broad direction of future advance. That there is a great deal still to be done is not in question; I hope that the Sub-Committee will consider, among other things, whether it can endorse the general direction of the present very considerable effort.

56. New initiatives are at various stages of consideration, planning and consultation between departments and Ministers. They include

(a) the next steps in the improvement of management accounting and of the budgeting and control of administrative costs;

(b) reductions in the use of management levels in the Open Structure (Under Secretary and above);

(c) training for senior staff in financial management;

(d) a strategy for reviews and scrutinies across the Service in 1982;

(e) action by the central departments to define the essentials of good management systems and practices in various fields (both large and small) and to monitor their adoption.

This is thus a moving picture, and the Sub-Committee will be kept informed of developments.

14 *October* 1981

ANNEX A

The Minister in charge of a department is responsible, subject to collective Ministerial agreement and with a few specified exceptions, for the totality of its activities. He is thus responsible, and accountable to Parliament, for the effectiveness of his department's policies and the efficient and economical use of the resources allocated to it. It is part of that responsibility to ensure that his department has the systems, procedures, organisation and staffing necessary to promote efficient management.

2. The Minister normally delegates to his Permanent Secretary much of the job of seeing to its economical, efficient and effective management. The Permanent Secretary thus has a key role as the day-to-day manager of the department and as the Minister's senior adviser on the allocation of resources, including questions of priorities, and the appropriate arrangements for their control. He allocates tasks to other officials and

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delegates authority to them, but retains his overall responsibility. Linked to this are his responsibilities as Accounting Officer, which include signing the Appropriation Accounts and appearing before the Public Accounts Committee to answer questions arising from the accounts about financial propriety and regularity, and the prudent, economical and efficient administration of the department.

3. Under the Minister and his Permanent Secretary, responsibility for the day-to-day control of resources, and for meeting objectives with the maximum efficiency and effectiveness, rests with line management, whether in policy or operational areas. Thus, those in charge of policy divisions are primarily responsible for providing their Minister and top management with advice on policy; for defining and reviewing the objectives of policies; for considering alternative ways of meeting them and for monitoring their effects. They will have the lead responsibility, in association with those concerned with the implementation of policy, for devising measures of effectiveness where these are practicable, although they will usually need specialist help from, for example, economists, accountants and operational research staff.

4. Similarly, those in charge of the operational areas of departments, where the services are actually delivered and where large resources of money and manpower are deployed, are responsible for the efficient and economical use and control of those resources. It is their task to ensure they have effective control systems, review functions and procedures and take appropriate corrective action where necessary. This includes the design and use of information and accounting systems and, where appropriate, of performance measures, where again, they will often need the assistance of specialist staff.

5. Line management has to operate within the framework of rules and procedures governing the use and control of money and manpower laid down by the Head of the Department. The Permanent Secretary delegates responsibility for promulgating these rules and procedures and for ensuring compliance with them to the PFO and PEO, who are also responsible to him for monitoring the general quality and efficiency of management and administration across the department. They also act as the chief advisers to the Minister and Permanent Secretary on the availability of resources and their allocation to line management in pursuit of the department's priorities and objectives, and are responsible for ensuring that the planned financial and manpower limits are not exceeded. They thus act in a "staff" role. In monitoring the use of resources by line managers, they make use of the department's internal audit, staff inspection and management services units which report directly to them. In the case of effectiveness measures and performance indicators, they may advise the Head of Department and line managers on how best to construct measures and will monitor the latter's performance accordingly. This "staff" role is thus of great importance in both stimulating and monitoring efficiency and effectiveness. But the responsibility for results rests with the line managers.

6. The responsibilities of the central departments should be considered against this background. They are set out in the memorandum entitled "Control of Expenditure: Departmental Responsibilities".

7. They include advising Ministers collectively on the total of financial and manpower expenditure and its possible allocation in support of the Government's policies and commitments. The central departments also exercise various direct controls over departments, for example expenditure and Vote control and manpower control. They are responsible for defining the essential elements of an adequate system to monitor and control the use of resources allocated to departments and for satisfying themselves that such systems are in operation. This includes checking when necessary that the systems are working reliably and that prompt and effective improvements are made where weaknesses have been found. They are also responsible for checking that each department is applying effective arrangements, both generally and in individual cases, to fulfil its responsibility for efficiency. In addition, the central departments act as a source of expert advice and assistance on financial manpower and personnel management, organisation and general efficiency matters, including the distillation and dissemination of best practice.

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Examination of Witnesses

Sir ANTHONY RAWLINSON, KCB, Second Permanent Secretary, Public Services Sector, and Mr F R BARRATT, CB, Deputy Secretary, HM Treasury, called in and examined.

Chairman

585. May we thank you for agreeing to come along so early in the new session of Parliament. May we take it as a sign of your readiness that you are, indeed, willing to make an initial statement?

(Sir Anthony Rawlinson) Yes, by all means. Perhaps I should first introduce my colleague, Mr Russell Barratt, who is a Deputy Secretary in the Treasury in charge of the number of Treasury groups dealing with specific areas of public expenditure. I would like to say a few words to put in context, as it were, how we look at the subject of promoting efficiency in public spending, which I think is the field of this Sub-Committee. I should begin by saying very clearly that this is a strong theme in the policy of present Treasury Ministers, as of the Government as a whole, and one in which Treasury Ministers take a very close personal interest. I think that we would say that fundamentally efficiency is a matter of attitudes. Good management is not just a matter of rules but of people, and of clear objectives which they understand, and motivation. The point about motivation is important, because in the public services there are pressures, often laudable pressures, to think more of providing a good standard of service than of what the service costs, and it is a task for the central departments, the Treasury and CSD, to provide, stimulate and encourage counter-pressures to shift attention also to costs. I would also like to reiterate a principle which I think has been emphasised by previous witnesses, and very rightly, that the operational departments and, within departments, the line management are responsible for their own efficiency. I think in dealing with the role of the Treasury and of the Civil Service Department it is important not to put so much emphasis on those central activities that people come to think of efficiency as something which is done by the central department, something which can be left to them or to outside advisers or auditors or somebody else. I would also emphasise the point that it is not a function of the Treasury—I quote Sir Derek Rayner—to "second-guess" experts down the line on decisions which they should take on their own responsibility. But we do have in the Treasury the promotion of efficiency as one of the three main strands in the task of public expenditure management, the other strands being, firstly, policy work concerned with the totality of public expenditure programmes and with content—work which is mainly in the form of advice to Ministers or work closely linked with that advice and which occupies a great deal of our effort, and particularly in very recent years. The second strand I see as monitoring spending, actual and proposed, against the programme. The third strand is promoting efficiency and that we see as very much intertwined with the policy work. It comes into the assessment and discussion of individual policy measures and systematically into the annual survey and Estimates operations. That leads me to what I see as the most important instrument used by the Treasury to promote efficiency, and that is tight financial provision. The stimulus to efficiency has been an important benefit of the development of cash limits, now being extended in the cash planning system, and particularly of the so-called cash limits squeezes of recent years. The same, of course, is true of the manpower cuts which were dealt with in Sir Ian Bancroft's paper and his evidence, although that subject is primarily for the CSD. But it is, as you well know, the Government's policy to keep staff numbers to a minimum and that is one important area, though not primarily one for the Treasury. In addition to keeping the funds tight, there are certain tasks which we see as proper to the central departments, and I refer to what is said in the papers on departmental responsibilities which I think you have had (copies are certainly available to you) and on the duties of principal finance officers and principal establishment officers and also of accounting officers. Those papers were all produced recently, the accounting officers one being a major revision of the previous document; they were not primarily innovatory and for the most part restated established doctrine, but they did signal—and were meant to signal—a renewed emphasis on the concern of the central departments with systems. The issue of the papers was one small manifestation of that concern. Now, much of this is for the Civil Service Department with whom you began your inquiry, but the Treasury has a role obviously in relation to

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financial management. We need to be selective, not to try to duplicate the work of the spending departments but to intervene with prescription or, more often, advice where we have a contribution to make. One present task is to try to improve the competence of people working in the Treasury to do that and, as mentioned in Sir Ian Bancroft's paper, we are reviewing this question just now, and Mr Barratt is himself conducting that review and could say something about it.

Mr English: Could we possibly leave that until we see Sir Ian Bancroft?

Chairman

586. Could you carry on?

(Sir Anthony Rawlinson) I would like to mention three examples of initiatives by the Treasury of the kind which I have mentioned and which are at present in hand. One is a renewed drive to improve internal audit, which has been the subject of hearings with the Public Accounts Committee. The second is a drive on improving investment appraisal and, thirdly, there is a matter which has been mentioned in Sir Ian Bancroft's paper, the work centred on the Financial Management Coordination Group, as we are calling it, which is aiming to make a new effort on developing management information systems and management accounting. Now, I could say more on those points if you wish but I think perhaps I will stop there.

587. Thank you, Sir Anthony. Sir Ian Bancroft in his memorandum to us, while referring to the statements which you have referred to, also said that further work was in hand to define the managerial role of ministers and permanent secretaries and the responsibility and accountability of officials to ministers through the permanent secretaries. Has any progress been made on those documents?

(Sir Anthony Rawlinson) I am not aware of further progress since this was put in. The Civil Service Department has been in the lead with that; I am not aware of further progress on that. The three documents on departmental responsibilities, the duties of the PSO and PEO, to which I referred, were issued in the spring.

588. We had fairly forthright statements from Sir Derek Rayner and from Mr Heseltine when he gave evidence to us last week that ministers were necessarily responsible for the management of their departments. Would you agree?

(Sir Anthony Rawlinson) Responsible, yes. Ministers are by our constitution in charge of their departments and are responsible for them. How far individual ministers wish to involve themselves in the day to day management I think is a matter which varies. Mr Heseltine, I think, wishes to involve himself more than most.

589. But if there is a change in this practice in this matter, is it not something which ought to be noticed at the centre and properly provided for in the basic instructions to ministers and permanent secretaries?

(Sir Anthony Rawlinson) I do not think there is a great change: In so far as it is a matter of instructions to ministers that is a matter for the Prime Minister.

Mr Eggar

590. Should ministers involve themselves in the management of their departments? Is it desirable?

(Sir Anthony Rawlinson) I think it depends on the quality of the ministers.

591. And the quality presumably of the top civil servants?

(Sir Anthony Rawlinson) Well, both, yes, certainly.

592. Do you think that ministers as a generalisation, assuming they are reasonably competent, have things to offer to the top civil servants?

(Sir Anthony Rawlinson) In many cases they have. One thing that they often have difficulty in offering is time. Ministers are extremely busy and most ministers whom I know of have not wished to give the time to play a very large part in the detailed management of their departments, but that need not mean—it certainly does not mean—they are not responsible for it and it does not mean that they are not, or need not be, well informed about it.

593. Do senior civil servants have the time?

(Sir Anthony Rawlinson) It is their business to have the time.

594. Have they in the past in your view had the time and given it enough priority?

(Sir Anthony Rawlinson) I would say, yes, but it is quite fashionable to think that

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more attention should be paid to management matters as well as to policy matters.

595. Really your thesis is at the moment before this Government came into power the Civil Service was being well and efficiently managed, fully effective, giving good value for money, all due to the top civil servants?

(Sir Anthony Rawlinson) No, I did not say that. What I said was I thought civil servants in general had given enough time to it. I did not say they had done it all that well or uniformly well.

596. Sorry, I do not quite understand what you are saying. Maybe I am being very slow.

(Sir Anthony Rawlinson) I am not claiming—and if I did I certainly do not believe this—that all Civil Service management or, for that matter, all ministerial management, is perfect. Of course it is not. Of course we should try to improve it. Of course a great effort goes into that and has for many years. But I am not so worried as some people are about the amount of time given to it by senior civil servants. That is all that I say.

Mr Eggar: How important in your view was the succession planning document?

Chairman

597. Could we pursue ministerial management? Would it not be the case that, if ministers gave more attention to management, in fact senior civil servants would do so?

(Sir Anthony Rawlinson) Yes, it probably would. But I think that the permanent secretaries in particular do give and have to give a great deal of attention to management matters and that would be so whatever the extent of ministers' involvement.

598. If a particular minister is not able to undertake, or is not suited for, primary management responsibility in his department, would it not be possible for the Prime Minister to give that responsibility to another minister in the same department?

(Sir Anthony Rawlinson) I think it would be possible but difficult, particularly as the tradition is that the secretary of state, or the senior minister in charge of the department, is in charge of the department including charge of his junior ministers. I think it is rather difficult to devolve management responsibility to a junior minister but it can be done.

599. But as management overall is such a large part of the responsibility of government, would you regard it as a practicable arrangement to have another cabinet minister with responsibility for overseeing management generally in government?

(Sir Anthony Rawlinson) In the whole of the government, no.

600. Because a cabinet minister just would not get his powder wet?

(Sir Anthony Rawlinson) I think the department has to be managed by the civil servants and the minister in that department.

601. Right. If there is a failure in the department to develop proper information systems, control systems and so on, whether on the part of the minister or on the part of the officials, is there any external probe that should be given to make sure that the department changes its practices?

(Sir Anthony Rawlinson) Yes, I think the central departments do have a responsibility, which is stated in the documents which I mentioned which were issued in the spring, to probe as you put it.

602. Should that responsibility have some further external sanction like the power of the Civil Service Department to report on these matters to Parliament?

(Sir Anthony Rawlinson) To Parliament? I think that immediately the sanctions, if you put it like that, are the sanctions within the government flowing outwardly from the Prime Minister.

603. But you have already said it is not practicable to have any one minister, and therefore presumably not the Prime Minister, either, simply responsible for management over the government as a whole.

(Sir Anthony Rawlinson) The Prime Minister has overall responsibility. I was thinking of another cabinet minister.

Mr English

604. Who may be in Rhodesia. Lord Soames was in Rhodesia for two or three months.

(Sir Anthony Rawlinson) Yes, but I think responsibility for managing departments has to be in departments. But, of course, the Prime Minister has a general responsibility over it. I think that the pressure which the central departments can exercise to seek to improve practices must stem, like every other influence of the central departments,

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from the political status of their ministers, aided and supported by the Prime Minister when necessary; and I think that that gives the central departments such leverage as they need or can have.

Chairman

605. Have you looked at the MINIS documents?
(Sir Anthony Rawlinson) I have looked at some documents. I am not sure about the particular one to which you are referring. I have seen a description of MINIS, yes.

606. Have you looked at the actual MINIS documents?
(Sir Anthony Rawlinson) I do not think I have.

607. So you are not in a position to say whether or not you regard that as a system perfectly tailored for a management system which should be a matter of routine?
(Sir Anthony Rawlinson) I think I am in a position to say that a number of departments have considered the use of the MINIS system but their ministers have not thought that they wished to introduce it in those departments.

608. You have not yourself looked at the actual documents?
(Sir Anthony Rawlinson) I have not myself looked at the actual documents, no. I would say the actual documents are much more a matter for the Civil Service Department.

Mr English

609. You said line departments were responsible for their own efficiency?
(Sir Anthony Rawlinson) Yes.

610. Well, after some argument you recollect that Michael Wilding of the CSD said the CSD was not responsible ultimately for efficiency in Civil Service, and ultimately in evidence to this and its predecessor Committees John Herbecq said it was. Now you are saying something different again. We are back to square one, that nobody is responsible centrally for the efficiency in departments of state. Is that what you are saying?
(Sir Anthony Rawlinson) I think that the efficiency of each department, as I said, has to be the responsibility of those managing that department.

611. This is true in all organisations. Every individual is responsible for his own efficiency and the efficiency of his subordinates. The question is, who is responsible ultimately for the efficiency of government as a whole, the Civil Service as a whole?
(Sir Anthony Rawlinson) I would not deny the responsibility of the Treasury.

612. If somebody falls down on the job, who is responsible for saying he has done so?
(Sir Anthony Rawlinson) He has done ...? I am sorry, I have not got that.

613. If somebody in any department falls down on the job, if the permanent secretary falls down on the job, whose responsibility is it in government for saying so?
(Sir Anthony Rawlinson) I think the minister, in the case of the permanent secretary.

614. So you are quite certain, you are absolutely saying—because do not forget we have other evidence on this subject—there are twenty odd departments of state and there is no central responsibility for efficiency in the whole of government?
(Sir Anthony Rawlinson) I would acknowledge for the Treasury responsibility for keeping an eye on what is happening in the financial field, which is ours. I do not speak for the CSD, that is a separate department.

615. You did not say that, you said efficiency.
(Sir Anthony Rawlinson) For financial efficiency, yes.

616. Not necessarily. The Civil Service Department claim that they are responsible now. Originally they did not. We have evidence.
(Sir Anthony Rawlinson) Obviously I accept what evidence you have had. I think the matter does not present itself in the way you do in practice.

617. I am sorry. In a multi-national company somebody is responsible for the general efficiency of the organisation. Who is responsible in government for the efficiency of the organisation, and I mean other than the Prime Minister? Who in the permanent hierarchy of the administrative structure is responsible?

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(Sir Anthony Rawlinson) I do not think there is a single person who is responsible in the way that you mean.

618. Thank you. You mentioned various things earlier which you thought were desirable. You never mentioned training. Why do you not think the training of higher civil servants is important, because you never mentioned it?

(Sir Anthony Rawlinson) I did not mention it. I think it is highly desirable. Yes, I would acknowledge that it was an omission.

619. I am grateful. Would you think something like the Ecole Nationale d'Administration would assist in the United Kingdom?

(Sir Anthony Rawlinson) If you can imagine it operating fully in the way that that organisation does operate, I think it might well be so. An attempt was made to start something like that in the Civil Service College. It has done good work but falls far short of the ENA.

620. I think we are on the same wavelength. I understand that in France both ministers and what we call permanent secretaries are able to devote a portion of their time to training people who will succeed permanent secretaries, and in some cases the ministers. I think time has to be devoted to training. Is that what you meant?

(Sir Anthony Rawlinson) Well, I meant that I was not sure that I would advocate an enormous effort now at this minute to set up a new form of organisation such as ENA, but I think, if you can imagine the thing in place and working as well as it seems to do in France, it would be a good thing.

621. You did say earlier that one of the things you were responsible for was tight financial provision—I think that was the phrase. Why are government financial estimates less accurate than those of local authorities? We have just had Michael Heseltine before us. Why is it that local authorities get these matter more accurately?

(Sir Anthony Rawlinson) Well, they operate on a smaller scale.

622. One third of public expenditure instead of two-thirds, you mean?

(Sir Anthony Rawlinson) Well, they do have a smaller scale but I think we ought to get it better.

623. Is it possibly because they have more accountants?

(Sir Anthony Rawlinson) It is possible, but I doubt it. It may be so. It is a thesis I have heard but I am personally sceptical whether it is so.

624. To use another bit of our evidence, we had a minister come before us—not Michael Heseltine—and he said you cannot possibly change the definition of public expenditure. You are probably aware that your predecessor Sir Leo Pliatzky changed the definition of public expenditure and sought the approval of various Committees of this House, which was given. So he changed it. Why is a minister so ill-briefed when he comes to a Committee that has already agreed to a change in it?

(Sir Anthony Rawlinson) I am sorry?

625. Let me start again. A minister came to this Committee and said "You can't change the definition of public expenditure"—to this Committee which with the Public Accounts Committee has in former times agreed to a change in the definition of public expenditure. Why should a minister be so ill-briefed?

(Sir Anthony Rawlinson) He was not briefed by me. I would not have briefed him to say that.

Mr Wainwright

626. Sir Anthony, it emerged during our examination a week ago of Michael Heseltine that as far as he is concerned—and, of course, only in his vast department—he had not simply energised and galvanised the existing system of administration but had, in fact, effected, first of all in parallel to the traditional system, a whole new system in which senior people become virtually line managers, each with a budget, really transforming the system. When we pressed him as to how long these two parallel systems, the old and the new, were to continue, he said that he visualised the traditional system in his department withering away. Since this is not simply a change of tone and temper in the department, but the installation of a different—in some ways radically different—approach and system, what is your view of that, having regard to the transience of ministers, when they actually erect a new system rather than just improving the old?

(Sir Anthony Rawlinson) I think that there is, I hope, going to be a major movement not only in the Department of

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the Environment towards management accounting, and I referred to that in my opening statement as work which the Treasury has set in hand. Mr Heseltine's MINIS system is primarily designed to enable him, as the senior Minister who wants to involve himself creatively in this, to look closely, to be informed about, the detailed activity of each section of his department in a very large department, many of whose activities would not in the normal course come before him. The management accounting element in it is a sort of sub-element. It is an important element, and that has been the subject of a specific study under Mr Joubert (I do not know if he talked to you about that) and that has been picked up by the Treasury. As I said, I have some reservations about the MINIS system as a general system. I think that the management accounting element of it is of more general application. That we have circulated to departments through the public expenditure machinery, and the intention is to push forward with developments on these lines in the year ahead and there is a reference to that in Bancroft's memorandum. One of the points which we have had very much in mind in starting this work in the Financial Management Coordination Group is that it is awkward to superimpose a management accounting system on top of the traditional estimate system and survey systems, and one of our aims will be to try to bring these things together and that does not exclude the possibility of changes in the traditional systems to come more towards this. This will take quite a while and it could involve organisational changes as well. That is another reason why I think it will take a long while, but it is something which we are starting.

627. Mr Heseltine took us—certainly me and I think my colleagues—quite by surprise with his reference to the Joubert system. I wonder if you would care to enlarge just a little on it, because he attached great importance to it, but we did not actually take him up on that particular point.

(Sir Anthony Rawlinson) I have to confess I am not personally expert on the detail of it. This is the management accounting element in this and, if you like, we could put in a note[1] on that.

628. It would be very helpful, yes. Assuming that certainly that great Department, and perhaps from what you have just said in reply to me some other departments, moves very much towards a management accounting system, do you visualise this involving fairly substantial changes or additions to the training of senior civil servants?

(Sir Anthony Rawlinson) I think it is bound in time to involve changes. How far the training would be developed through familiarity with actually doing it, which is the traditional method in Whitehall, and how far by training labelled as such—going to courses and that kind of thing—I am not sure; but I think there would probably have to be more of the latter than has been normal.

629. Do you think if this system does take root and spread somewhat, it is likely to have the result, or one result, of more qualified accountants entering the open structure at the top of the Civil Service?

(Sir Anthony Rawlinson) It could have. I think that is looking a long way ahead, but that could be so.

630. Why a long way ahead?

(Sir Anthony Rawlinson) Because there are not many qualified accountants with the kind of experience as yet to make them strong candidates for posts in the open structure. There are a few.

Mr English

631. Is that because accountants are paid so little in the Civil Service relative to what they earn outside?

(Sir Anthony Rawlinson) They have in the past played a little part. We talk of the past but I think the part played by accountants is growing.

632. But the head of the Exchequer and Audit Department is probably paid about one-fifth of what is earned by the head of a senior firm of accountants.

(Sir Anthony Rawlinson) I do not know about one-fifth, but very much less.

Mr Wainwright

633. When you say there are not very many qualified accountants in the Civil Service who have the additional experience beyond their qualifications appropriate to the open structure, I was positing a state of affairs where the duties of people in the open structure—of some people anyway—had themselves been fairly radically altered by running the Joubert system rather than the traditional one. If that happened, would

[1]See Appendix 11.

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it not alter requirements for the open structure?

(Sir Anthony Rawlinson) It could change the qualifications that one looks for. It could.

634. Not at the end of the century but during our lifetime?

(Sir Anthony Rawlinson) No, but some way ahead, I think, yes.

635. Could I switch for just one question to a different point, Chairman? If this management accounting concept does spread fairly rapidly to many parts of the Civil Service, is it not going to mean that departments like your own, for instance, will be expected in the cause of good management and general understanding to be rather more revelatory in respect of their decisions? I heard Sir Derek Ezra at a conference on public accountability only this week complaining very specifically that when he eventually gets the answer to his bid through, of course, the Department of Energy, for funds for the Coal Board, he has not got any clear idea of the reasons behind the reply; he is simply told he has five out of ten or whatever it is, and that is that.

(Sir Anthony Rawlinson) I think Sir Derek Ezra would do well to ask. He might even be told. I do not think it is a very difficult question either to ask or to answer.

Mr Beaumont-Dark

636. Just going on with that, replies from the Department indicate that a great deal of government money is spent by bodies other than government departments.

(Sir Anthony Rawlinson) That is so.

637. Ranging from local authorities, which have a better record of controlling their expenditure than any central government over the last ten years, through the National Health Service, grant-aided bodies, nationalised industries. Is the Treasury relatively satisfied with the way that is controlled, because they are huge sums of money?

(Sir Anthony Rawlinson) Subject to the constitutional problems, I think the answer has to be that we are satisfied that we are doing what we can, but I am not at all satisfied with the general state of that area and the large amount of overspending which occurs, particularly in local authorities, beyond the Government's plan.

Mr English: It is less than the Government.

Mr Beaumont-Dark

638. I do not think it is just a matter of chartered accountants, in whom some people have a rather pathetic faith; it is a matter of business experience which often is not by any means the same thing. Would it be better if one did not just have Sir Derek Rayner (because every government seems to adopt some kind of mascot and Derek Rayner is this one's), but would it be a good thing if the Civil Service had a group of people—not one person—they could call on to look at the plans of these various outside bodies in depth, or do they do that already, or do they depend on themselves and the ouija board? Because the outcome makes it look as if we depend upon a ouija board.

(Sir Anthony Rawlinson) I think the problems of the outside bodies, to a very considerable extent problems of control, arise from the fact that they are outside bodies.

639. I was talking about having an outside body in-house to look at the plans that are put forward, like the National Coal Board or like BL, because, let us face it, they think of a figure and pop it in and everybody says "Oh, splendid".

(Sir Anthony Rawlinson) There was a period when the National Enterprise Board was intended to do roughly that. That had some advantages and some disadvantages and it has now been discontinued in that area. It is a solution which has been advocated from time to time. Personally I am rather sceptical about it but this is not to say that I think all is perfect as it is. I do not think the results are.

640. I was not thinking so much of a kind of NEB that becomes a kind of quasi public animal itself. I was thinking of it being done in the usual secret way that government departments have more than of it being done outside, as the NEB was because, let us face it, the kind of sums involved are so huge that if governments get thrown off course like this one has you get figures put forward in some glorious document but anybody with any common sense says "It is just not possible." Well, how is it that figures that any person with common sense can tell you are £5,000 million wrong get into a document?

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(Sir Anthony Rawlinson) I think you are perhaps a little sweeping on your "any person with common sense".

Mr Beaumont-Dark: All right then, three thousand. When I say any, when it came before this Committee one looked at the figures and could say to oneself "Where do they get this nonsense from?" Do you just take the figures and tell the nationalised industries, or do the nationalised industries tell you? That is what worries us when we look at Treasury figures. Where do they come from?

Chairman: Perhaps Sir Anthony could be allowed to answer the question.

Mr Beaumont-Dark

641. I have not finished. Where do they come from?

(Sir Anthony Rawlinson) What are you talking about? The nationalised industries' figures, for example, in the White Paper?

642. Yes.

(Sir Anthony Rawlinson) Right. They rest on proposals put forward initially by the nationalised industries, discussed by the sponsor department and by the Treasury, and then the decision is taken by ministers as to what they will provide by way of external finance.

Mr English

643. When we said they were wrong and they disagreed and we turned out to be right, this was because the ministers were wrong and the civil servants had got it right in the first place, is that right?

(Sir Anthony Rawlinson) Not at all. The figures are provided in the White Paper and like all other figures in the White Paper represent the decisions of ministers.

644. Sorry, decisions would have been carried out by an efficient organisation; since this did not happen, they represented the opinions of ministers, not the decisions.

(Sir Anthony Rawlinson) The figures which are put in the White Paper for the nationalised industries are the decisions taken by ministers as to the amount of external finance which they propose to provide for each nationalised industry. Those figures are the outcome of discussions between the Treasury and the sponsor department who would in turn have discussed them with the relevant industry, and they come originally from proposals put forward by the industries. When you say they are wrong———

645. When did they say they were wrong, in advance of the event?

(Sir Anthony Rawlinson) There are often matters of judgment and opinion here and the nationalised industries have frequently produced results which were different from what was expected.

Mr Beaumont-Dark

646. What I was trying to get at was not that the figures were hopelessly wrong, which to me———

(Sir Anthony Rawlinson) I think the word "wrong" needs to be watched. Wrong in what sense? I mean, they were not wrong in the sense that they did represent the decisions taken.

647. Yes, that is what I am trying to get at. They were wrong in the sense that they were so unrealistic we did not think they were likely to come within a thousand miles of it, and they did not come within 1200 miles of it. What we are trying to find out is really from the efficiency angle are those figures that are put up by the Treasury and just rubber-stamped by the minister, or were different figures put up? In other words, was it just that the advice was so bad and you should not pay people in peanuts? If it was that bad———

(Sir Anthony Rawlinson) I do not think I can discuss advice given to Ministers about decisions concerning nationalised industries, or, indeed, any other matter.

Chairman: That is the understood position.

Mr Beaumont-Dark: That is an efficient answer.

Mr English: This is understood.

Mr Beaumont-Dark

648. Let us finish that because we shall get nowhere with that. We have a CSD Department in the Treasury. Would you like to see the Civil Service come back under the control of the Treasury or do you think it is a good system at the present time?

(Sir Anthony Rawlinson) I think there are advantages and disadvantages. This is a matter for the Prime Minister. So far as expenditure control itself is concerned I think there would be some advantages in

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bringing some aspects of it more closely together than today.

649. Which are the things that you would think would be most advantageous?

(Sir Anthony Rawlinson) I think that there is obviously a close relationship between manpower control and expenditure control. We deal with this at the moment by keeping very close touch between the two Departments, but there are, as I say, advantages and disadvantages and the decision announced last year was for it to be separated at this moment.

Chairman

650. In your opening statement you said, "We are concerned with efficiency." In fact we are concerned with effectiveness as well. In paragraph 33 of Sir Ian Bancroft's memorandum he makes the important point that this does require measures of output and refers to a small Treasury team which is undertaking a coordinating role in reviews by the Department of its measures. Could you tell us anything about the work of this Treasury team?

(Sir Anthony Rawlinson) Yes indeed. This is of course a subject which has been around for quite a while, but we did launch an initiative, at the beginning of 1980 I think it was, almost two years ago, to try to encourage Departments to identify output measures and to use them in assessing their programmes and also to make more use of them in publications. Reviews have been done in several Departments, in the DHSS, which I think is in some ways the most advanced in this field, in the Ministry of Agriculture, in the Department of Education and Science, in the Department of Transport, and in some parts of the Property Services Agency. We are hoping to develop this further and by next year to have recovered about half of public expenditure in this way. It has to be said that it has proved extremely difficult. Some progress has been made. I think the DHSS is one of the more successful at this and we have encouraged Departments—and with some success—to get more output measurement into the White Paper. It has to be said I think that for controlling public expenditure the use that has been made of this so far is not all that great, but I live in hopes that we can develop it further.

651. Do you think you could let us have a note[1] on the progress that has so far been made?

[1]See Appendix 9.

(Sir Anthony Rawlinson) Yes, we could, certainly.

652. Also you referred to the very ambitious target of recovering half of public expenditure by next year. Could you in that note say which half?

(Sir Anthony Rawlinson) Yes, we could.

Mr English

653. Could I ask about one subject we have not so far mentioned? In most OECD countries it is felt that civil servants should be paid more if they are more efficient. Methods vary. In France, for example, you yourself would probably be given a large packet of money to distribute around your subordinates. In the United States this would not be so but you and your subordinates would be permitted to accelerate or retard their subordinates within their scales of pay. What is your view on this?

(Sir Anthony Rawlinson) I think it is quite an interesting idea. I have not myself been in jobs where I have had to think very deeply about this. I think it has some attractions but I have to tell you that those who have thought about it more deeply than I have have usually been worried about its applicability in our system and our ethos. We do of course pay some attention to these things in the promotion system which does carry additions to pay.

654. How do you reward a man who is not worthy of promotion but efficient in his own job?

(Sir Anthony Rawlinson) In this way you do not reward him financially in our present system save so far as the incremental system does it.

655. You are not really advocating the Peter principle: every man should be promoted above his own level?

(Sir Anthony Rawlinson) No. I think they should be promoted to the level they can manage, not one higher.

656. Should we not pay them if they are good at it?

(Sir Anthony Rawlinson) To be quite crude, if you thought that that would make them even better at it, I would be in favour of it. If it would mean that we would simply go on as we are, I am not sure that I see enormous merit in it.

657. I think the answer to that one is you might have different people.

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(Sir Anthony Rawlinson) Quite.

658. You mentioned the Head of the Civil Service several times. In previous evidence one of our colleagues said that the Minister in charge of the Civil Service was only nominally in charge, ie the Prime Minister, because she is Prime Minister. No reflections made on the Prime Minister. The Secretary of State, Mr Heseltine, in giving evidence last week agreed with that. Do you not think there is something funny in the system whereby the Minister responsible for the Civil Service is not separately responsible for that alone, that so important a subject is just lumped in with the job of being Chairman of the Cabinet, Prime Minister of the United Kingdom?

(Sir Anthony Rawlinson) I really think it is difficult for me to comment on the Prime Minister's appointment.

659. I am sure it is, but since the Secretary of State has commented I am sure you might think you can perhaps. This is the point: politics is changing, the world is changing. Permanent Secretaries will be the ones, if Secretaries of State disagree with Prime Ministers, to decide whose side they will take.

(Sir Anthony Rawlinson) I sometimes disagree with Secretaries of State but not always in public.

Mr Eggar

660. Could I get back to the Joubert system? May I ask why it took the initiative of the Minister in his Department to develop this system; why it was not done within the Treasury?

(Sir Anthony Rawlinson) I think I can give two answers to this. First that it is a criticism which one often encounters if one ever thinks of something new or if something new is thought of; one is always asked why one has not thought of it before. I think we can sometimes learn something new from new initiatives and I pay tribute to Mr Heseltine for the initiative he took. I do not think the subject of management accounting either has been or would have been wholly neglected by the Treasury had it not been for the very helpful stimulus given by Mr Heseltine or, for that matter, Sir Derek Rayner and others. I would also say that in the last four or five years, certainly while I have been engaged in these things, the Treasury—and I speak only for the Treasury—has devoted an enormous effort to the management of public expenditure itself, the programmes, and to the development of the monitoring system which I do not want to exaggerate as an enterprise but which has absorbed a very large amount of time and effort.I think that has led to less emphasis on the efficiency element, of which this is part, than ideally there would have been. This is something which I would like to make more progress with in the period ahead, but one cannot do everything.

(Mr Barratt) I wonder if I could add just a small point of clarification. The recommendations by Mr Joubert cover a different field from those of the system which has been introduced by the Secretary of State for the Environment. He is concerned with setting up a system under which he can know what is going on within his own organisation. The system which is described in the report produced by Mr Joubert is concerned more with setting up cost centres within the organisation.

Mr English

661. This was suggested about ten years ago, was it not?

(Mr Barratt) There have been suggestions of this kind as far back as I can remember, yes, and that goes back 15, 20 years, and there has been progress of some kind.

662. Not very much.

(Mr Barratt) But this is going to be a further step forward.

663. Very slow progress you would say?

(Sir Anthony Rawlinson) The expression "accountable units" has not been used this afternoon, but it has occurred in previous discussions and I would acknowledge some relationship.

Mr Eggar

664. I just cannot get away from the feeling that it must be wrong if the idea has been around for 20 years yet it needs a new Secretary of State and a Department that is not really responsible for developing this sort of thing (except in so far as looking for its own internal departmental criteria) to provide the impetus. Is there not something wrong?

(Sir Anthony Rawlinson) There are always a great many things wrong. The whole of one's life is devoted to trying to improve things. Certainly mine is and I hope yours. Of course there is something

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wrong. What do you think we are doing here? Why are we paid £30,000 a year? To try to put things right, and we put a lot of things right. Of course that is what we are trying to do all the time. All my predecessors have been trying to do that and all my successors will be trying to do that, and not only mine but everybody else's. There is always something wrong. If anything has been unchanged for a long time it should be changed.

665. This is a new Rawlinson law, is it?
(Sir Anthony Rawlinson) Of course there are plenty of things to put right. Why are we sitting round here if there are not certain things worth changing?

666. Could we just look at some evidence that Sir Ian Bancroft gave us? It appeared to us that whereas you had traditionally been looking really at the cost of the programmes of other Departments and, if you like, the efficiency of those Departments, you are now moving towards judging the effectiveness of what those Departments are doing. Would that be a fair summary?
(Sir Anthony Rawlinson) I am not sure that I see it as a sharp change in quite the way you put it. We have always, I think, looked at effectiveness to some extent and I hope we shall continue to do so, and cost as well. I am not sure I see it as such a sharp change as I think is implied in your question.

667. So you feel you have always been looking at effectiveness and always had the internal skills to do just that, do you?
(Sir Anthony Rawlinson) I do not think that we always had the skills which would be desirable because none of us is as perfect or well equipped as ideally we would be. I think it may be possible, will I hope be possible, to develop rather different skills in the future than were thought to be necessary 25 years ago, but that is a gradual process. I do not think I see a sharp and dramatic change in that area.

668. Within that context how important do you see the CSD document "Succession Planning"?
(Sir Anthony Rawlinson) I like to tell the Committee what I think and I do not think it is all that important.

669. Why not?
(Sir Anthony Rawlinson) Because I think it systematises something which is there and would be there already. So I do not myself regard this as a terribly dramatic advance. I think there are certain conveniences in systematising it. What I think is of some significance and not necessarily a part of the document is that in the period ahead there will be—I think there is already and will be more—more weight given to management abilities than sometimes in the past. That of course is not novel but here I am looking 20–25 years ago. Also I think that the idea that for example the Principal Finance Officer should have a certain amount of expertise in financial matters and that this is an expertise which it is not absolutely straightforward to acquire, though not novel will I think have rather more emphasis in the future. Certainly I hope it will.

Mr English

670. I do not mean this in any way adversely but I think it should be asked. You introduced us to your colleague Mr Barratt. He is a Deputy Secretary; presumably basically your deputy?
(Sir Anthony Rawlinson) He is one of two.

671. What are his qualifications for the job please?
(Sir Anthony Rawlinson) I think I would ask him. He has worked in the Treasury. In fact you could ask mine.

672. I think we already know.
(Mr Barratt) It depends what you mean by qualifications. If you mean do I have a formal accountancy qualification, the answer is no. If by that you mean do I have a lot of experience, have I been in the Treasury for over 30 years and have I spent a lot of time working within the public expenditure field, have I had a certain amount of training in that field, the answer is yes.

673. You have never been outside the Treasury?
(Mr Barratt) I have served overseas in what was then the Commonwealth Relations Office.

674. You have never been outside the Civil Service?
(Mr Barratt) Never.

675. Unlike France?
(Mr Barratt) That is true.

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676. I think you will realise you have answered the question yourself.
(Mr Barratt) I answered what you asked me.

Mr English: It was not a leading question. You gave me the answers.

Chairman

677. You said that efficiency was primarily a matter of attitudes, not of rules but of people. It must be of concern to you that there is the extent of criticism of the Civil Service that there is today, and it is of course equally of concern to us. This being so and the wish I think of everyone in the Civil Service as well as Parliament of course would be for the Civil Service to be seen to be doing an effective and an efficient job. Do you think there is room for a greater degree of both publicness and formalism in the display of that and the monitoring of it?
(Sir Anthony Rawlinson) I think I am more concerned that they should do the efficient job than that they should necessarily be seen to do it. I think that is a second point. I would rather concentrate on actually doing it but I am not at all unsympathetic, in the kind of very general way that you have put it, to such degree of openness as Ministers are willing to countenance.

678. Do you think it reasonable for Parliament to require a greater degree of openness?
(Sir Anthony Rawlinson) I think Parliament in our situation can require anything. I do not myself believe that what are essentially ministerial discussions are best conducted in public. I do not go along with those who think that all the papers for the Cabinet should be published before they are circulated.

Mr English

679. But before or after the decision? It is one thing to say that while discussion is taking place the discussion should be public. It is another thing to say that after the decision is made by the Minister it should never be criticised.
(Sir Anthony Rawlinson) I am all for criticism. That is rather a different thing.

680. But adequate criticism can only be based on knowledge of the advice given to the Minister.
(Sir Anthony Rawlinson) I do not think I am in favour of the idea of publishing advice to Ministers because I think it would destroy the relationship between civil servants and Ministers which I think is valuable. That is a very classical answer but I believe it.

Chairman

681. Of course the great mass of the work of the Department is not concerned with the advice to Ministers, and equally it is true that it is very difficult to track down in most Departments what the great mass of that work in fact is. Is there any reason why it should not be visible and made visible in the way in which the Minister of Documents made it visible?
(Sir Anthony Rawlinson) I think one has to take examples. In a general way there is a trend towards openness as you know and I think that is quite a good thing, but I would not put myself in the van of those who think that this is the secret.

Mr Eggar

682. Could you give me examples of the trend towards openness?
(Sir Anthony Rawlinson) I am thinking of the famous Allen letter of about five years ago.

Mr English: Douglas Allen; he was replaced of course.

Mr Eggar

683. He may have been replaced, but what has happened since the famous Allen letter?
(Sir Anthony Rawlinson) Quite a number of publications have been made by Departments. There have been lists of these given. I cannot give them off the cuff out of my head.

Chairman

684. If there was a much greater degree of disclosure to the extent shown in MINIS do you think the effect would be to improve or to damage the morale in the Civil Service?
(Sir Anthony Rawlinson) I think it is very difficult to answer that in a general way. I do not believe that within my experience———I think I must first of all say that my personal experience is in the main of central Departments and in the main of positions relatively close to Ministers. I cannot speak from personal experience of the great numerical mass of civil servants

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outside London. I do not mean to say I have had no touch with them but I have not myself been employed outside London and in an outstation. I think civil servants of the type I am closely in contact with are in principle not at all averse to standing up for the opinions that they hold but I think that we do, most of us, attach some importance to our prime function in this area of advice to Ministers which I think does depend on a degree of mutual trust and confidentiality which would not be helped by a great deal of publication.

Mr English

685. I think we can confuse this, you know, whether we are protecting Ministers or whether we are protecting the civil servants who give them advice. In Ireland, which follows basically the same rules as here, the advice given to Ministers in a previous government is open to a subsequent government. Here it is not. This is rather odd.

(Sir Anthony Rawlinson) It is very well established in our system and I do not find it odd.

Mr English: You say it is very well established. It is fairly recent. As I say, the Irish tradition is different. The different traditions only arose after 1922. They are fairly recent really.

Chairman

686. I think this has opened up a new and fascinating area of inquiry.

(Sir Anthony Rawlinson) I wonder whether I could make one point which arises out of the reference you made to what I said about people and motivation and organisation. It is a very obvious point but I would like to put it on the record. I said that we hope to get movement towards greater use of management accounting. One purpose, one merit, of that would be—and this goes back to Mr English's accountable units———

Mr English

687. They are not mine.

(Sir Anthony Rawlinson) ———that it should make it easier for line managers first to know what the costs of their operations are, and then to be responsible for them. I think it goes on from that they must also, to achieve this, be in a position actually to control it and that raises problems about the organisation of Departments. Because usually quite a lot of most Civil Service managers' costs are not within their control and there are problems there and it is not an easy solution, not least on the pay front which is a very difficult one. But that is an area where I think we could make some progress in time and where, if progress is made, that would make it somewhat easier to move towards a more open system of the kind you mentioned, because I think people do not like being held publicly responsible for things that they cannot do anything about. But if they can do something about them, then it is not so difficult, and not unpopular either.

Chairman: I think we shall be pursuing that very important point with particular Departments and we are very grateful to you for reminding us of it. May we thank you and Mr Barratt for the help you have given us.

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WEDNESDAY 11 NOVEMBER 1981

Members present:
Dr Jeremy Bray in the Chair

Mr Timothy Eggar
Mr Michael English
Mr Richard Shepherd

Memorandum submitted by the Board of Inland Revenue

Q.1. *The Sub-Committee would like to have a broad outline of how the Department spends the money for which it is responsible. Using the 1981–82 Estimates and distinguishing in each case the largest items of expenditure, please divide total expenditure between:*

a. manpower
b. administrative costs
c. grants and loans to other bodies (separately)
d. purchases of goods and services
e. other expenditure, mentioning significant offsetting receipts.

1.1. The Department's vote for administration in the 1981–82 Estimates was £587,969,000. This divides between the five categories as follows:

Vote subhead			£
	a. *Manpower*		
A1	1. salaries and National Insurance contributions		513,394,000
	b. *Administrative costs*		
A2(1)	2. travelling and removals	18,569,000	
A2(2)	3. postal services	22,065,000	
	4. printing, stationery etc	24,200,000	
A7	5. telecommunications	14,085,000	
A2(4)	6. carriage, external training costs, professional assistance etc	4,713,000	
			83,632,000
	c. *Grants and loans to other bodies*		nil
	d. *Purchases of goods and services*		
A2(3)	7. contract cleaning	6,029,000	
A5	8. legal expenses	4,599,000	
A6(1)	9. capital expenditure on telecommunications etc	359,000	
A6(2)	10. capital expenditure on computers	7,670,000	
A8	11. Computers (current)	2,288,000	
			20,945,000
	e. *Other expenditure*		
A3	12. payments of poundage to agents etc who collect tax on foreign dividends etc	365,000	
A4	13. remuneration and expenses of Clerks to General Commissioners of Income Tax	2,158,000	
			2,523,000
			620,494,000
	Receipts		
AZ(1)	14. receipts for valuation services	703,000	
AZ(2)	15. legal costs recovered	3,124,000	
AZ(3)	16. other receipts from sale of publications, certain services to other Departments, etc	500,000	
AZ(4)	17. recovery of cost of collection of National Insurance surcharge	5,850,000	
AZ(5)	18. recovery of cost of administration of National Insurance	22,348,000	
			32,525,000
		NET TOTAL	587,969,000

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1.2. The Department is also accountable for the public expenditure element of payments for tax relief in respect of life assurance premiums. In the 1981–82 Supply Estimate the Vote for these was £11 million.

1.3. The Department also accounts for the transitional relief for Corporation Tax under the Finance Acts 1965 and 1972 for companies with an overseas source of trading income. The 1981–82 Vote was £1 million.

Q.2. *How many people are employed by the Department and its agencies and on what main blocks of work? How many of these are Civil Servants?*

2.1. At 1 September, there were 73,660 permanent staff in post in the Department. All of them are classed as Civil Servants.

2.2 The main blocks of staff and work are as follows:

		SIP
a. *Head Office* (policy, central, statistics, finance, management and technical divisions)		4,685½
b. *Taxes and Collection*		
—regional offices	850½	
—tax offices	48,388½	
—collection offices	8,878	
		58,117
c. *Valuation*		
—Offices of the Chief Valuers	227	
—regional offices	190	
—local offices	6,431	
		6,848
d. *Other offices*		
—accounts offices	973	
—Capital Taxes Offices	833	
—Stamp Offices	407½	
—Development Land Tax Office	110	
—Offices of Solicitors	193½	
—others	1,492½	
		4,009½
		73,660

Q.3. *What significant changes have there been in the functions of the Department in the past five years?*

3.1. The Department's main functions have not changed: they were and remain to collect taxes due under various statutes; to collect National Insurance Contributions and Surcharge; to carry out property valuations for rating and other purposes. But there have been many changes to these taxes as well as the introduction of some new ones (eg DLT in 1976). Changes with major impact on the Department's resources have been:

(i) the withdrawal of child tax allowances;

(ii) the introduction, and then the withdrawal, of the lower rate band of tax;

(iii) the removal of tax relief for life assurance from the tax system, by making it deductible from the insurance premium;

(iv) the cancellation of the rating revaluation planned for 1982 with, in addition, the abolition of continuous referencing of dwellings to maintain records in preparation for a revaluation.

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3.2. In addition, changes to the thresholds of the various taxes can, and do, have a major impact on the number of taxpayers affected, and thus to the size of the Department's task.

Q.4. *Presumably the resources, financial and manpower, of the department are devoted to the pursuit of objectives which are the result of political decisions. What arrangements have you got for monitoring the effect of the programmes? For measuring and monitoring progress in achieving objectives? For considering alternative programmes for achieving objectives? For reviewing objectives in the light of progress made and alternative programmes considered?*

4.1. The Department's main tasks are the care and management of the direct taxes, the collection of National Insurance Contributions and Surcharge and property valuations for rating and other purposes. To a large degree primary legislation sets out the administrative requirements as well as the substance of the various taxes and duties. Further, the underlying structure of the tax system is, in the short term at least, essentially unchanged by even major political decisions on such matters as rates and reliefs. For example a Budget change in the basic rate of income tax while forming part of the Government's overall economic strategy clearly does not give rise to separate new tasks for the Department. The Inland Revenue does not have programmes as the term is commonly understood in relation to large spending departments.

4.2. There are however two areas where the question of effectiveness is clearly applicable, albeit in two rather different senses.

4.3. First, there is the control and management of the Department's operations in collecting tax from those liable under the law. Mechanisms to monitor these operations are built into the management structure of the Department. Managers at all levels review throughout the year the receipts of tax, progress on business accounts, the issuing of PAYE codes and so on. These lead in turn to reviews by senior management of the degree to which the Department is achieving the objectives of collecting tax due and doing so efficiently. Against this background consideration of alternative programmes will include reassessing the relative priorities of tasks, and examining new procedures and methods. The spectrum covered ranges from on the one hand marginal reallocation of resources to, on the other, major new procedures or methods such as the computerisation of PAYE (which is itself subject to project control to measure progress and to monitor the effectiveness of the computer-based systems).

4.4 Secondly there are some areas where policy objectives are translated into identifiable tax provisions. Examples are the reliefs and allowances to encourage industrial investment. The overall impact of these can seldom be readily separated from the effects of wider, fiscal and economic changes, particularly in the absence of a control group. Indications of effectiveness must therefore be sought from the Department's normal contacts with businesses, from contacts with representatives and other official bodies, and from published academic and other comments. Arrangements are also made to monitor the rate of take-up and the resulting quantum of relief.

Q.5. *What problems are there in devising satisfactory measures of progress? Please give examples of progress reviews.*

5.1. Measuring the progress of the Department's tasks is achieved by a combination of quantitative and qualitative reports. Quantitative measures include the flow of tax receipts and volumes of work from the major programmes which are undertaken each year. Qualitative reports supplement these with assessments of the standards of speed, accuracy etc. These measures are changing continuously to meet new circumstances, including new legislation or changes in the priorities of different activities. There are also specific projects and major investments in computers or machinery where special monitoring arrangements may be required.

5.2. Progress in the widest sense in the pursuit of the objectives of particular tax measures involves other considerations. The evaluation of the effectiveness of particular tax measures, even within a narrow field, needs to take into account other influences. For

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example the behaviour of taxpayers may be determined by changes in economic activity and their perception of future prospects. Further, there are objectives which extend beyond the direct tax system to general social and economic policy. The effectiveness of direct tax measures in pursuit of those objectives falls to be considered along with indirect taxation economic activity and the behaviour of taxpayers as part of the Government's overall strategy.

5.3. Examples of areas where Departmental evaluation is appropriate are:

a. INSPECTORS CASEWORK

5.4. The Tax Inspectorate is responsible for several of the Department's major programmes of work. These are principally the examination of accounts to make Schedule D assessments and dealing subsequently with queries and appeals; equivalent work on corporation tax; and investigations where accounts (Schedule D or company) need technical adjustments or indicate that there may be evasion. These programmes are measured and monitored individually but considered together in order to make the best use of resources available.

5.5 One result of this wider approach to the review of progress has been the more flexible and discriminating approach to the examination of business accounts which the Board introduced in 1977. Results of this have been monitored carefully and show steady improvements in the way cases are selected for examination, the speed with which they are settled, and the tax yield resulting from the work.

5.6. These measures of the success of the system of accounts examination have been built into a system of management information which makes the review of progress part of management. The main elements of this are comprehensive records of the numbers and types of accounts considered by Inspectors; how many are selected for examination; and particulars of adjustments made to profits as a result; and what this means in terms of tax yield. By building this information up from local offices it focuses the attention of Inspectors on the most worthwhile work. And by bringing results together with reports on the quality of work, management in Regions and in Head Office is able regularly to review progress as between different offices, regions, and tasks.

b. STANDARDS OF ACCURACY IN PAYE

5.7. Reviews of the quality of work are inherently more difficult to standardise. It is to a degree subjective and can therefore less satisfactorily be left to a self inspection process. In addition to the normal process of flexible work examination under which supervising officers at all levels make occasional samples of the work of their support staff this is part of the purpose of eg inspection visits by Regional line managers to local offices to sample inter alia the quality of the work. Additionally a more formalised national review of quality in selected main areas of District work was set up in 1980. This uses 60 Inspectors (allocated to Regions) whose sole function is to visit Districts selected centrally under rigorous sampling rules and "mark" pre-determined numbers of specimens of particular work areas eg Schedule E returns examination; out of this can be built up regional and national pictures of the accuracy of the work performed.

c. CONSTRUCTION INDUSTRY TAX DEDUCTION SCHEME

5.8. This is an example of a rather different kind of progress review, where changes in legislation are in point.

5.9. Legislation was introduced in 1971 to deal with the problems arising in certain parts of the construction industry from the "lump". This provided for deductions on account of tax to be made from payments to sub-contractors who did not hold an Inland Revenue certificate. The deductions were then credited against the sub-contractor's tax liability at the end of the year. This was effective in some instances. However reports from Tax Offices as part of the regular flow of management information revealed that the legislation was not wholly effective and that tax losses continued. Further legislation was then introduced in 1975 to tighten up the deduction scheme by bringing companies within its scope and making the qualifying conditions for an exemption certificate, and the certificate itself, more secure. As a result of these changes and with the use of a central

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computer to manage the system efficiently the tax collected from sub-contractors increased very markedly and the scheme is currently bringing in significant revenue which might otherwise have escaped the tax net.

5.10. It was also recognised that some of the new rules were very tightly drawn and in particular imposed stringent conditions on individuals to qualify for certificates. The progress of the scheme was therefore put under review to see whether it might be possible to relax some of the requirements, and so ease the burden on the industry, without putting at risk the security of the system. A consultative document was issued in January 1980 and, after consideration of the representations received, relaxations of the rules were introduced in the Finance Act 1980 which allow more individuals to qualify for certificates and reduce the administrative burden of the deduction scheme.

d. HOUSING ACT "RIGHT TO BUY" PROVISIONS

5.11. An example from the two Valuation Offices relates to work for the Department of the Environment under the "right to buy" provisions of the Housing Act 1980. That Act converted the long standing discretion of housing authorities whether to sell or not to an entitlement for the tenant to buy. Impact on the Valuation Office was unpredictable: increased activity could be expected in the case of authorities which were already selling, a surge of work could be expected elsewhere, and authorities were free to choose between their own staff, the private sector or the Valuation Office for valuation advice. In addition the tenant was given by Section 11 a right to ask for an independent review by the District Valuer of the valuation and there was no knowing how extensively this would be exercised.

5.12. A good deal of pre-Act preparatory work of market analysis and coordination of approach was necessary in view of the expressed wishes of Ministers that rapid progress should be made once the legislation had been enacted. This was followed by detailed procedural instructions supplemented by information sheets. A large programme of work has ensued, unevenly spread over the country. Progress of initial valuations and of Section 11 appeals is monitored by computer, monthly, office by office; oversight by the Regional and Chief Valuers' offices enables any slippage to be spotted and countered. A manual system of monthly returns of the results of appeal cases, with follow-up as necessary, augments local quality control. Liaison is maintained with the Department of the Environment in London and in Regions.

Q.6. *Are reviews restricted to programmes that consume, directly or indirectly, large quantities of resources and/or where the outputs can easily be expressed in quantitative terms? How do you evaluate the effectiveness of, say, regulatory activities or inspectorates?*

6.1. Reviews from the centre and by line managers extend to every part of the Department according to the nature of the work.

6.2. The answers to Questions 4 and 5 have mentioned the monitoring and reviewing processes for the major programmes of work in network offices. By building these into the role of line managers there is self-monitoring at the local, regional and head office stage. At each level the measures of output are the starting point for considering whether resources are being applied effectively.

Reviews of the effectiveness of policies also build so far as possible on regular reports from local offices, although these need more frequently to be supplemented with sampling exercises or other work in support of particular policy reviews.

6.3. There are also questions which statistical measures of progress cannot answer—eg about the quality and complexity of work. Qualitative assessments need to be brought to bear on these problems. This is done primarily by inspections undertaken by regional managers. Each Tax, Collection and Valuation Office is subject to annual review by these staff. Their reports supplement the statistical information available at regional level for evaluating performance. The reports are also channelled to Head Office. There they provide a cross-check on the statistical material; and give early warning of incipient problems which may be about to emerge more generally.

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6.4. In addition to the continuous monitoring of programmes there is available a selection of techniques to meet particular needs or to look more deeply into an area of work. These include reviews of procedures by Head Office Operations divisions; policy reviews (which increasingly involve discussion with interested parties and the issue of consultative documents); and the Department's staff inspection, management services and internal audit staff.

REGULATORY ACTIVITIES AND INSPECTORATES

6.5. The Department's main regulatory function is PAYE Audit with some 430 staff used on inspections of employer's and contractor's pay records to check that PAYE and National Insurance Contributions are being properly deducted and accounted for.

6.6 In practice the effectiveness of PAYE Audit is measured by the settlements arising from their work (currently some £16 million a year). But there are important educative and deterrent effects which cannot be measured in this way.

Q.7. *Which individuals, staffs or units in the Department are responsible for programme evaluation and effectiveness? To whom do they report?*

7.1. Effectiveness is monitored centrally but relies substantially on reports from and the actions of line managers. The organisation of the Department (shown in the chart below) defines lines for reporting.

i. OPERATIONAL MANAGERS

7.2. Officers in charge of local tax and collection offices have an important role in providing basic management information. Their reports make observations about the actual effect of programmes which may be unimportant individually, but when analysed and interpreted by Regional Managers are an essential input to Head Office.

7.3. At Head Office the staff in the Operations Division (M4) evaluate the statistical and qualitative reports in relation to the planned programmes of work and the objectives of legislation. Separate specialist sections within the division (each in the charge of an Assistant Director of Assistant Secretary level) concentrate on the main areas of work—Collection, PAYE, business taxation and so on. Each section is responsible for the effectiveness of field operations in its respective area and they act, singly or jointly, to initiate and carry out reviews and changes in procedures.

7.4. The Assistant Directors in charge of sections report to the Director of Operations (Under Secretary) who reports in turn to the Director General (Management) (Deputy Secretary).

7.5. Reporting and responsibilities in the Valuation Office follow the same pattern. Individual programme evaluation is by quantitative reports from local offices to regional Superintending Valuers (Assistant Secretary level). They in turn report to the Chief Valuer's Office where six Technical Divisions in the charge of Assistant Chief Valuers similarly monitor and evaluate progress in particular areas: rating, "Right to buy" valuations and so on. Qualitative assessments of progress are similarly made by Superintending Valuers in Regions as input to the technical Assistant Chief Valuers.

7.6. The Assistant Chief Valuers report to the Deputy Chief Valuers (Under Secretaries) and they in turn to the Chief Valuer (Deputy Secretary).

ii. TECHNICAL DIVISIONS

7.7 The two head office Technical Divisions coordinate and give guidance on work on more complex areas of taxation and have particular responsibilities for the subjects of avoidance and evasion. They report via their respective directors (Under Secretaries) to the Director General (Technical) (Deputy Secretary).

iii. POLICY AND CENTRAL DIVISIONS

7.8. Seven small head office divisions headed by Under Secretaries each specialise in a major area of work. for which they handle questions of policy and have the primary

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responsibility for most Finance Bill and other Parliamentary business. They report to the Deputy Chairmen (Deputy Secretaries).

7.9. Policy Divisions are best placed to consider effectiveness in the light of policy objectives. They will usually take the lead on major policy reviews (eg of capital transfer tax and of corporation tax) in addition to considering each year possible legislation for the annual Finance Bill. Except for the major networks of tax, collection and valuation offices the Policy Divisions also have management responsibilities for the offices which operate legislation in their field (for example the Development Land Tax Office).

7.10. The work of Policy Divisions is complemented by the Central Division (in the charge of an Under Secretary reporting to the Chairman) which deals with general economic, fiscal and administrative issues, and acts where necessary as a coordinator eg on the Budget and Finance Bill. It works closely with other divisions within the Department, and with the Treasury and Customs and Excise.

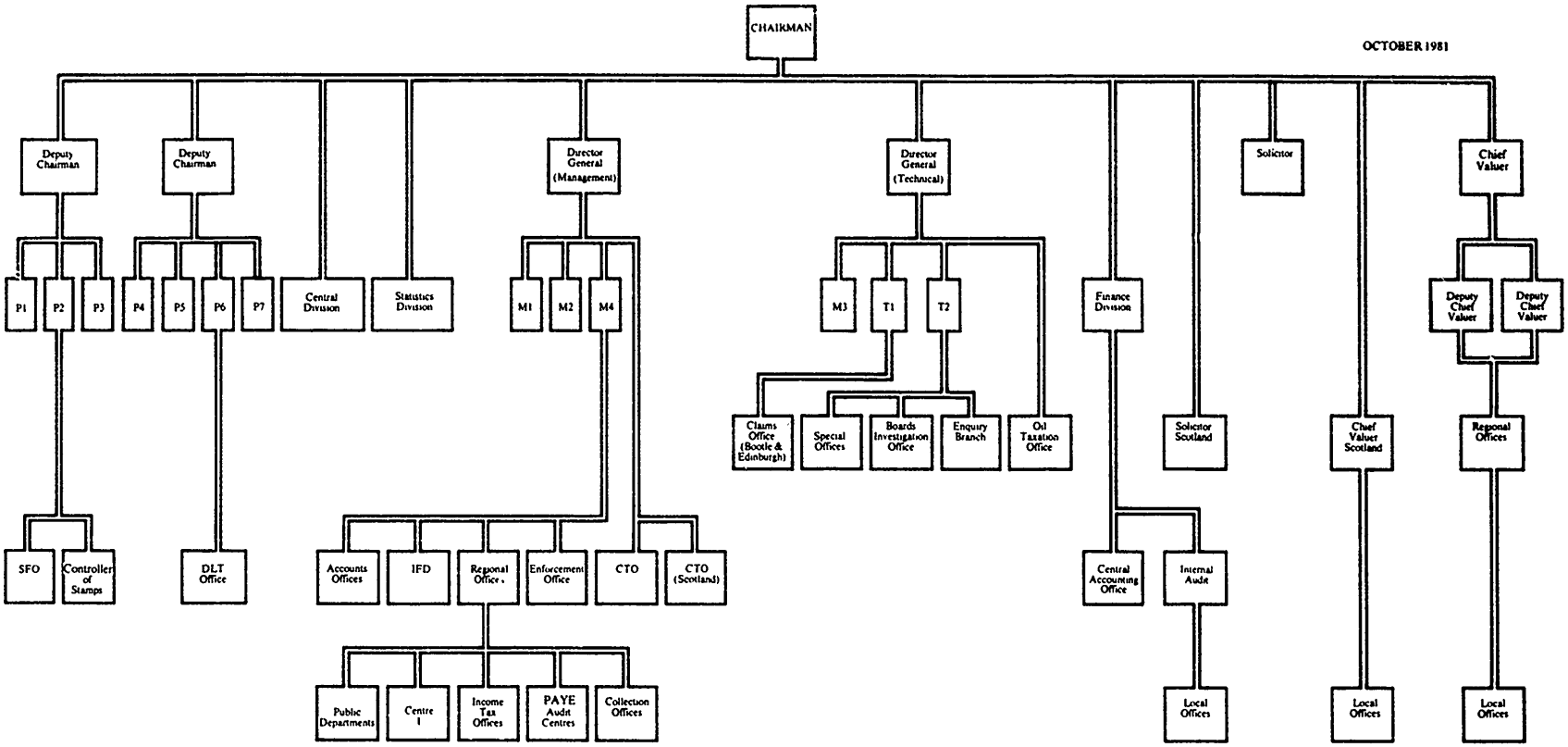
iv. INDEPENDENT REVIEW

7.11. Reviews independent of the Operational Divisions are undertaken by the staffing inspectors, management services staff and operational research unit who report to the Director of the Manpower Division who (as PFO) also receives reports from internal audit.

7.12. Particular independent reviews may be set up outside this framework as, for example, with the Rayner scrutiny programme and similar, departmental studies.

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INLAND REVENUE—ORGANISATION CHART



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Q.8. *How do you monitor the effectiveness of new or experimental programmes?*

i. NEW PROGRAMMES

8.1. Many of the changes which take place from year to year as a result of successive Finance Acts etc can be accommodated within the framework of existing measurements of progress and fall immediately within the regular review of managers. Even the introduction of a new tax has in practice usually involved concepts and operational arrangements which have close analogues in existing work. Others cannot be monitored for effectiveness in the wider sense, eg because changes in tax rates and allowances are decided in pursuit of objectives which do not lie within the field of direct tax yields and identifiable effects.

8.2. For substantial changes in operational arrangements the aim is to devise a monitoring system which, like the existing reviews of progress, is built in at the operational level. The relevant section of Operations Division usually works closely with staff in the field to carry out trials of the monitoring system, to make sure that it meets the requirements of monitoring the programme and provides accurate information to the various levels of management. Examples are the reports used to monitor the selective system of accounts examination, the investigations by tax districts and other offices, and the Housing Act's "right to buy" provisions.

8.3. With legislative changes which have a direct impact on taxpayers the factors discussed in paragraph 5.2 apply. There may however be direct or indirect measures of effectiveness, eg the number of taxpayers claiming a relief. And this would be used in addition to indirect evidence, eg from representative bodies and taxpayers' agents.

ii. EXPERIMENTAL PROGRAMMES

8.4. Given the general application of the tax system the concept of experimentation is not readily applicable.

8.5. There is an area where experiments can more clearly be undertaken: the Department's organisation and methods. Experiments in this field include pilot exercises for computer projects such as the trial undertaken for PAYE; new operating procedures (within the constraints of legislation); and changes in the resources and priorities allocated to elements of work. These experiments are monitored by comparing the outputs with outputs from earlier years, and from other control areas.

Q.9. *Which individuals, staffs or units in the Department are responsible for efficiency in the sense of maximising the outputs from programmes and minimising the inputs to them? To whom do they report?*

9.1. Staff at all levels are expected to pursue actively improvements in efficiency. It is part of the general principle that managers at every level should be accountable. There is however a need for independent initiative and effort to promote efficiency and economy. This is provided principally by staffing inspection, management services' studies, and internal audit.

9.2. In greater detail, the primary responsibility for efficiency of tax assessment and collection starts at local office level. District Inspectors and Collectors in Charge are responsible for maximising the effective output and maintaining acceptable standards of quality in their offices; and, so far as possible within the constraints of non-discretionary work, minimising the inputs. They report to the 15 regional offices.

9.3. Regional staff have responsibility for maintaining the quality and quantity of output in their area. For example, for the Tax Office network, Group Controllers (Assistant Secretary level) inspect Tax Offices annually to assess work standards, staff performance, and the effectiveness of organisation, management and supervision. Regional staff have flexibility within overall constraints to reorganise work and re-allocate resources in the light of their first-hand knowledge of local needs. But they also report to the Head Office Operations Division.

9.4. The Head Office sections use the analyses from regional level, statistics from the monitoring system, reviews of procedure and so on, to make changes to improve the

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efficiency of the field operations as a whole and to disseminate best practices. They report to the Director of Operations and he in turn to the PEO.

9.5. Similar responsibilities rest with District Valuers in the Valuation Offices who report to regional Superintending Valuers, who in turn report to the divisions of the Chief Valuers' Offices.

9.6. The staffing inspectors, management services and internal audit staffs are independent of the line management chains. They are described more fully in the answers to Questions 10, 11 and 16 respectively. But briefly the staffing inspectors and management services units in particular cover the entire Department and report to the PEO via the Director of Manpower. Internal audit reports to the PFO (who is the Director of Manpower).

Q.10. *Staff Inspection*

(*i*) *To whom are staff inspectors responsible?*

(*ii*) *Does staff inspection cover the whole Department and all of the associated public bodies for which it is responsible (excluding those whose income is not primarily from the taxpayer)?*

(*iii*) *Do staff inspectors cover the whole Department every three years?*

(*iv*) *What are the arrangements for ensuring that staff inspectors' recommendations are carried out?*

(*v*) *To what extent are staffing formulae used for routine operations?*

(*vi*) *How do you measure whether staff inspections are successful?*

10.1.

(i) The 31 Staff Inspectors report to a Chief Staffing Inspector (at Senior Principal level) who in turn is responsible via the Assistant Secretary in the Manpower Division to the Director of Manpower (Under Secretary) and through him to the Director General (Management) (PEO).

(ii) Staff inspection covers the whole of the Department.

(iii) The current practice with CSD approval is to select for inspection areas where manning levels are felt to be in need of adjustment and where reorganisation of work or staff is most likely to be beneficial. In the past all offices were inspected in rotation, with intervals of between five and seven years on average. But with the networks of tax, collection and valuation offices in particular it has been and will be possible in some instances to read across the results from one inspection to other offices.

(iv) One month is allowed for Trade Unions and managers to comment on the staff inspectors' recommendations. If implementation has not then been agreed within a further month the monthly report of the progress of the inspection programme draws attention to the delay for the Assistant Secretary in charge of manpower or the Director of Manpower to consider forcing action. The majority of recommendations are then settled within three months of the inspector's report. But where exceptionally implementation has not been agreed within that period the delay is reported to the PEO.

(v) National and Regional work factors are established for the main PAYE and Schedule D tasks by using the results of recent staff inspections. Such factors are then used to adjust annually the complement of other offices of the same type which may not be staff inspected for some years. Such factors are periodically monitored by a national work measurement exercise in which CSD participates.

(vi) Staff inspection is used to ensure that essential work is done, with the minimum staff resources, at the correct grades, and in the most efficient way. Recommendations may therefore range from reductions in staff through regrading of tasks and reallocation of effort to additional posts to cope with increasing amounts of essential work. Further, staff inspection may lead to structural or procedural changes which are different from, but stimulated by, the recommendations. There is thus no single measure of the success of staff inspection but three main indicators are:

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(a) the percentage of proposals implemented eg 95 per cent in 1980;

(b) reductions in staff: some 293 posts were saved as a result of the 1980 programme;

(c) changes stimulated by staff inspection.

Q.11. *Management Services*

(i) To whom are management services responsible?

(ii) Do they work by invitation of managers or is there a systematic programme for reviewing the organisation and methods used in the Department?

(iii) What are the arrangements for ensuring that the recommendations of management services studies are carried out?

(iv) How do you measure whether your management services are effective?

11.1. Management Services Section is headed by an Assistant Director responsible directly to the Director of Manpower.

11.2. Although some work is undertaken at the specific request of managers, most of the Section's work programme is planned by the Director and Assistant Director, in consultation with senior line management, to provide a continuous review of the Department's major organisations and procedures. Some 25 reviews have been concluded in the past year. 31 are currently being undertaken or planned. In addition, Management Services have the responsibility both for initiating studies for, and the purchase and installation of, office machinery and equipment other than DP equipment.

For these purposes the section is organised into three teams of assignment officers (at SEO/HEO level), each headed by a Principal level officer, two of the teams doing mainly general O&M work, whilst the third specialises in office technology and studies (eg word processors), and manages the purchase and installation of machines.

11.3. When assignments are undertaken, terms of reference are agreed on the understanding that recommendations which will improve cost-effectiveness will be implemented. Reports on assignments which recommend adjustments to staffing levels or non-staff expenditure are copied to Manpower Complementing section and/or the relevant Budgetary Control Officer so that the appropriate adjustments are made to manpower levels or provisions for cash expenditure.

11.4. The effectiveness of Management Services work is usually measured by improvements in cost effectiveness—ie by reductions of cost and/or increases in Revenue yield. In some areas (eg Measurement of Quality or Job Satisfaction) cost effectiveness is not so readily quantified, but even here some measure can be made either of expected reduction in costs of staff inputs or increased yield from outputs.

Internally, the Section's performance is monitored (through line management) by assignment progress records, monthly management meetings etc. Assignment officers are set dates for each phase of a job (fact finding, draft and final reports) and keep a running record of costs (of their own salary time and travel etc expenses) which is included in the report.

Q.12. *Machines*

(i) What is the organisation within the Department for

(a) seeking economical uses for machines—including computers and other electrical and electronic devices—within the Department?

(b) introducing and operating them?

(c) assessing the cost-benefit of other investment opportunities affecting the running of the Department?

(ii) How is the contribution of machines to efficiency measured?

(iii) Are there any obstacles to their use within the Department wherever they would be economical?

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12.1. The Department uses machines which range from, at one extreme, large main frame computers through mini-computers and micro-computers to stand-alone word processors and, at the other, typewriters and calculators. The latter end of the spectrum relates more closely to the needs of offices for forms, stationery etc (which are similarly supplied by HMSO) and is therefore dealt with in the office equipment section separate from the Data Processing Division. However the two work closely together where their respective interests approach one another. What follows is therefore written in terms of the Data Processing Division but unless otherwise indicated applies equally to the office machinery section.

a. SEEKING ECONOMICAL USE OF MACHINES

12.2. The DP Division is responsible for reviewing existing uses of machines and seeking new cost-effective applications within the Department. It also initiates action where there appears to be scope for beneficial application of a machine. However line managers are encouraged to come forward with suggestions for uses of new or existing machines and have done so.

b. INTRODUCING AND OPERATING COMPUTERS ETC

12.3. The majority of computers, computer systems and machines are introduced by the specialist DP Division but operated by the users.

c. ASSESSING THE COST-BENEFIT

12.4. Manpower costs, plus the associated costs of accommodation, account for some 90 per cent of running costs. The assessment by Finance Division of the cost-effectiveness of investments in computers and other machinery is therefore mainly a matter of balancing machinery and staffing costs.

ii. CONTRIBUTION TO EFFICIENCY

12.5. The contribution of machines to efficiency is measured by comparing the costs of investment in machinery with any other ways of doing the work. In general the only other way is manually, so that the measure of efficiency is the saving on wages and salaries etc.

12.6. There is another class of computer project where this kind of comparison is not possible. An example is the work of Statistic Division with tax models to cost policy options for Ministers and to provide forecasts for the Treasury's macro-economic model. This work simply cannot be done manually. It is therefore ultimately a matter of judgment as to whether the costs are justified by the value of the results.

iii. OBSTACLES TO THE USE OF MACHINES WITHIN THE DEPARTMENT

12.7. It has so far been possible to introduce machines wherever there was a clear case for doing so (but see the reply to Question 24 below).

Q13. *What are the arrangements for maximising the efficiency of programmes which are not manpower intensive but consume significant financial resources?*

13.1. The Department has no such programmes. As has been mentioned above, staff costs account for far and away the greater part of its expenditure; and while the proportion varies somewhat from one programme to another (eg with the introduction of computers) there are none which consume significant financial resources without substantial numbers of staff.

Q14. *Please give examples of significant improvements in efficiency achieved in the last five years, explaining the nature of the improvement and also how the improvement was instigated, ie distinguishing improvements flowing from staff inspection, the use of machines or other capital investment, the Rayner exercise and other sources.*

14.1. The following examples illustrate the different scale, nature and origin of improvements in efficiency

a. COMPUTERISATION

14.2. The Department has introduced computers at two Accounts Offices to deal with routine collection and accounting processes for PAYE deductions and NI contributions. They also handle Corporation tax assessing and collection; and will be taking on the

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collection and accounting processes for Schedule D and other directly assessed taxes. This will lead to a net saving of around 1,750 staff.

b. MANAGEMENT SERVICES AND OFFICE MACHINERY

14.3. Three examples are:

(i) following a management service review the special PAYE deduction system for seamen was withdrawn, saving some 65 staff units;

(ii) a review of local office methods for requisitioning forms and stationery has led to tighter control of stock levels with a saving of some £450,000;

(iii) microfilming of records in local valuation offices has reduced accommodation needs with savings (including equivalent market rents) estimated at £1½ million a year at current prices.

c. STAFFING INSPECTION

14.4 A particular example of the results of staffing inspection is given in section 2 of the reply to Question 30.

d. OPERATIONAL AND LINE MANAGEMENT

14.5. There is no sharp dividing line between the improvements initiated by operational managers and the department's other efforts to improve efficiency and effectiveness. However instances where operational changes were very much at their instigation were:

(i) *Simplified methods of calculating under and overpayments*

In the early 1970s the Department devised procedures for calculating overpayments of tax in the simpler PAYE cases without first making a formal assessment. Instead the calculation was limited to the relief underallowed and the tax overpaid on that underallowed relief. In 1976 it was decided that the informal procedures should be extended to underpayments also. In 1978–79 approximately 1.25 million underpayments and overpayments were calculated by reference to the simplified procedures and in 1979–80 1.75 million.

A simplified calculation can be done in approximately half the time it takes to prepare a formal assessment.

(ii) *"F" Codes*

Prior to 1976 where a taxpayer, who was in employment or in receipt of occupational pension, was also in receipt of taxable National Insurance Benefits which exceeded the allowances to which he was entitled, a direct assessment as to National Insurance Benefits was required. There was no machinery to deduct tax at source. In 1976 the Department devised a new type of PAYE code whereby tax was deducted at a rate above basic rate of tax from the employment or occupational pension. This obviated the need for a direct assessment. In the current year approximately ½ million such codes have been issued.

(iii) *Additional personal allowance*

Budget increases in personal allowances are implemented by employers by reference to indicators which form part of the PAYE code. Up to 1977–78 the indicator for a single parent was that for a single person and a separate recoding action was necessary to give effect to the increase in the additional personal allowance. As the aggregate of the single personal allowance and the additional personal allowance was the same as the married man's allowance it was decided in 1978–79 to give single parents the indicator proper to married men. The employer was then able to increase without the involvement of the Tax Office, both to single persons and the additional personal allowance.

This change saved 60 staff units. It also enabled the Budget uplift to be made as quickly as possible for a needy section of the community.

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e. RAYNER

14.6. The Rayner scrutiny programme has been used to examine major areas of the Department's operations where it was felt that savings were most likely to be possible. It started in 1979 with a review which simplified the procedures followed by the employee who changed jobs. Subsequent reviews in 1980 streamlined the arrangements for telling employers at the beginning of the year what PAYE codes to use for their employees and introduced a new, more simple, system of records kept by Inspectors of Taxes dealing with business accounts. These reviews have led to a total staff saving of 1,240. So far this year two further scrutinies have been undertaken—of Schedule D procedures and of the way repayments of tax are made. Those two are likely to yield substantial staff savings.

f. POLICY AND LEGISLATIVE

14.7 Efficiency of administration is only one factor in decisions on the tax system, with Ministers policy objectives manifestly more significant. But it is an important factor which the Department explores fully and puts before Ministers; and which has been taken into account with substantial effect. Major examples are:

(i) life assurance premium relief by deduction which reduced the Department's staff need by some 1,100; and

(ii) the withdrawal of the lower rate band of income tax with staff savings of 1,300.

Q.15. *Please describe how you measure your outputs and whether there are any unresolved difficulties in doing so?*

15.1 The amounts of revenues collected are a primary measure of the Department's outputs, with the ratio of costs to yields often seen as an indicator of efficiency. However neither the absolute level of the cost/yield ratio nor its movements from year to year provides a clear measure of performance. This is because changes in the tax system may affect the yield without any comparable impact on the Department's work—for example a change in the basic rate of income tax. Demographic changes (eg the increasing numbers of pensioners) and economic factors (eg changes in prices and incomes) from year to year also affect differently the costs and yields. There are further definitional problems: in particular whether to include in the yield the National Insurance moneys which are not Inland Revenue taxes but are collected by the Department.

15.2. In view of these difficulties alternative measures of overall output and performance have been considered. These included the number of taxpayers, which might be compared with the costs and staff of the Department. However this like other measures was found to suffer at least as many limitations as the cost/yield ratio. It was therefore concluded that no satisfactory single measure of output existed for the Department as a whole. But costs and yields are published each year in the Board's Annual Report because, despite the problems of interpreting the results, the cost/yield ratios express input and output simply in money terms (and in that sense are a measure not available to most other departments); and are a starting point for consideration in greater detail of the Department's various activities.

15.3 With particular activities and parts of the Department the measurement of output presents less difficulty, because appropriate indicators can be selected. These indicators fall into three main categories;

tax yield:	for work where the output is measurable more or less directly as a tax yield
volume of work:	intermediate measures of output (eg the number of items dealt with) which are used where there is no direct revenue yield
quality:	to measure output and performance it is necessary to take account of qualitative considerations as well as quantity.

TAX OFFICES

15.4. An example from the work of tax offices is the system which monitors the major area covering business accounts. This includes measures of yield (eg from adjustments to

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profits and losses), volumes (eg the number of accounts examined) and quality (eg from the type and size of firm).

COLLECTION OFFICES

15.5. For collection offices the key figures used to measure output are the monthly reports of the amounts of tax collected and outstanding and of the number of charges collected and outstanding. Both the tax and the volume of items are monitored because the work involved is not necessarily proportional to the tax at stake.

VALUATION OFFICES

15.6 Although in the case of rating valuations it is possible to compare the valuation made with rate yields, this is not considered to be a proper measurement of output, since statutorily the Valuation Officer is charged with the duty of maintaining a *correct* Valuation List. Furthermore, the yield is a function of the rate poundage. Accordingly, following a large activity sampling and work measurement exercise, a system has been introduced of converting all types of professional valuation work (revenue, compensation, rating) into a number of "work units" related to average times. The clerical side of the work has been the subject of specific timing exercise.

Q.16. *Have you any internal audit section? Is it headed by a professional accountant? Are internal audit arrangements concerned with effectiveness and efficiency?*

i. HAVE YOU ANY INTERNAL AUDIT SECTION?

16.1. Yes. A Chief Internal Auditor (recently upgraded to Senior Principal level) heads an HQ Office in London plus a network of small units based in major towns throughout the UK. The section's total strength exceeds 100 and includes 20 staff at HEO level and above and 45 at EO level. Numbers and grade levels of Internal Audit staff are shortly to be adjusted to match the extension of role referred to at iii. below and the network of small units is to be regrouped during the next few months to provide a more cohesive management structure.

ii. IS IT HEADED BY A PROFESSIONAL ACCOUNTANT?

16.2. No. The general practice has been to appoint as Chief Internal Auditor a suitable person who has direct experience of the operations of the department, particularly of those areas in which the main audit effort is applied. However the recently upgraded Chief Internal Auditor post is currently being trawled on a service-wide basis. The job specification suggests that the qualities required are likely to be found in those possessing qualifications in accountancy but applications are also invited from people with relevant experience but no formal accountancy qualifications.

iii. ARE INTERNAL AUDIT ARRANGEMENTS CONCERNED WITH EFFECTIVENESS AND EFFICIENCY?

16.3. For many years, the main part of the department's Internal Audit effort was directed to anti-fraud monitoring; and given the nature of the work of the department this aspect must continue to be adequately covered. But in recent years an increasing proportion of the effort has been devoted to the testing and evaluation of the effectiveness of management control systems in specific areas of tax collection and repayment work and of administrative expenditures.

16.4. Earlier this year the Board endorsed plans for accelerating the development and extension of this latter effort, with the intent that as soon as possible our systems audits should cover all the appropriate areas of operational and service activity in the department. As mentioned above, this will necessitate quite substantial changes in the level and disposition of the Internal Audit's staff resources, and the training of the new staff in the appropriate techniques. The extension cannot therefore be achieved overnight, but the aim is that the fuller coverage should be substantially completed within two years.

Q.17. *How many staff, and what grades, are employed on*

— staff inspection

— management services

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— extending the use of labour saving machines
— internal audit
— other work of reviewing efficiency and effectiveness?

17.1. In answering this question staff in departmental grades have been given in terms of the equivalent Administration Group grades. The answer is also confined to those most directly employed on reviewing efficiency and effectiveness.

i. STAFF INSPECTION

Currently employed on staff inspection are:

Sen Prin	*Prin*	*SEO*	*HEO*	*TOTAL*
1	8	18	4	31

ii. MANAGEMENT SERVICES

The central management services team comprises the following staff:

AS	*Sen Prin*	*Prin*	*SEO*	*HEO*	*EO*	*CO*	*CA*	*TOTAL*
½	1	3	9	11	6	5	5	40½

iii. EXTENDING THE USE OF LABOUR SAVING MACHINES

Staff operating existing computer services have duties which include extending systems and developing new ones. A measure of the extent of this effort is the total number of staff in the area:

US	*AS*	*Sen Prin*	*Prin*	*SEO*	*HEO*	*EO*	*Other staff*	*TOTAL*
1	4	6½	48	56	133	176½	396	821

There is however special responsibility for new projects resting with a Senior Principal in the Central DP Services Section supported by a Principal (part time) and five other staff engaged full-time on potential DP applications.

iv. INTERNAL AUDIT

The internal audit section currently comprises 114½ staff:

Prin	*SEO*	*HEO*	*EO*	*CO*	*CA*	*Typists*	*TOTAL*
1	3	16	45	41	1	7½	114½

v. OTHER WORK OF REVIEWING EFFICIENCY AND EFFECTIVENESS

a. REGIONAL MANAGERS

Managers in the Regional Offices for the taxes, collection and valuation local office networks have responsibility for maintaining the quality and quantity of output within their allocations. Local office visits are used to assess work standards, staff performance and the effectiveness of organisation, management and supervision.

The numbers so involved (though by no means full-time on these duties) are:

AS	*Prin*	*SEO*	*TOTAL*
74	17	140	231

b. QUALITY CONTROL

From October 1980 60 Inspectors (HEO equivalents) have been deployed to check PAYE work standards. This will enable the accuracy of District's work to be assessed more precisely, with measures of error rates and a clearer idea of how errors might be tackled within the resource constraints.

c. SCRUTINIES ETC

Rayner scrutinies and similar internal studies are undertaken by staff (usually at Principal level) from various areas.

Q.18. *What members of professional institutes or other specialists with professional qualifications directly relevant to the Department's functions are employed in the*

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Department? In what sort of jobs are they employed? How many of such professionaly qualified people are employed in non-specialist jobs? How do they contribute to reviewing either efficiency or effectiveness?

INTRODUCTION

18.1. The bulk of the Department's work is in specialised areas: the assessment of taxes on profits, income and capital gains, the collection of those taxes, and the valuation of land for a variety of purposes. Its staff are qualified for these particular tasks by appropriate training and experience. For example, the training of fully trained Inspectors of Taxes, and the exams which they take, are of comparable status to a professional training. As noted below the great majority of the staff responsible for the calculation of Capital Transfer Tax liabilities have a legal qualification. Many staff in the Valuation Offices are members of professional bodies.

PROFESSIONAL AND SPECIALIST STAFF

18.2. *Accountants*

The Department employs 42 Accountants who are members of the Professional Accountant Class, (the senior post is at Assistant Secretary level). Of these 38 are employed in the Enquiry Branch engaged primarily on investigation of tax evasion involving companies, two are engaged in specialist tax work in one of the Head Office Technical Divisions and the remaining two are in the Solicitors Office advising senior lawyers on accountancy matters, attending conferences with Revenue Counsel and acting as expert witnesses in civil and criminal cases. None of them is engaged in reviewing either efficiency or effectiveness in the Department.

18.3. In addition 43 staff in other groups have an accountancy qualification. One of these (at SEO grade) is at present employed in the Finance Division as the Department's Economy Officer: he is also engaged on the analyses of running costs and from time to time on cost benefit analyses for large data processing schemes. The remainder occupy a variety of posts across the Department, principally in Tax Offices involving the Department's main task with no particular influence on efficiency or effectiveness except as supervisors and managers.

18.4. As mentioned in 16.2, Accountants (service-wide) are being invited to apply for the post of Chief Internal Auditor.

LAWYERS

18.5. The Department's Legal Class staff are deployed in two Solicitors Offices, one for England and Wales and Northern Ireland situated in London, the other in Edinburgh for Scotland. the London staff comprises 53 barristers and solicitors ranging from Legal Assistant to Deputy Secretary; in Scotland five staff headed by an Assistant Solicitor (Assistant Secretary level). Except for supervision and general management of their offices all Legal Class staff are engaged solely on work within the specialism. None of them is engaged specifically on reviewing efficiency and effectiveness.

18.6. Apart from Legal Class staff, the great majority (approaching 400) of the staff in the Capital Taxes Offices in London and Edinburgh hold some kind of legal qualification—usually a diploma or degree. The grades range from EO level to Under Secretary. Seventeen are currently engaged on wider aspects of the Department's work (for example tax policy) in other Divisions. Those who are in senior managerial posts in the Capital Taxes Offices are concerned in the ordinary course with keeping efficiency and effectiveness under review. In addition 13 of the staff are engaged full-time on personnel and operational management covering the full range of managerial tasks in the two offices, including a small organisation and methods team which reviews work organisation, forms and procedures.

VALUERS

18.7. All of the Valuation Offices' professional staff are Valuation surveyors and virtually all are members of either the Royal Institution of Chartered Surveyors or of the Rating and Valutation Association. The posts range up to Deputy Secretary level.

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18.8. The great majority are engaged in valuations for taxation, acquisitions for public purposes, disposals of surplus public land, sales of council houses, rating (England and Wales only), and some deal with the management of land. Many of them however have management functions, up to very senior levels, and this role involves, in the ordinary course, reviews of efficiency and effectiveness of local offices.

STATISTICIANS

18.9. The Department's Statistics Division includes 22 members of the Government Statistician Class. These posts range from Assistant Statistician to Director of Statistics (Under Secretary level). The Division's task is analysis and advice over the whole range of the income and capital taxes. Apart from general management and supervision, Statisticians are engaged entirely on work within their own specialism—though some of that work will contribute to reviews of the effectiveness of some parts of the system.

ECONOMISTS

18.10. Advice on economic and fiscal matters is provided by a Senior Economic Adviser (Assistant Secretary level) assisted by an Economic Adviser (Principal level). And another Economic Adviser specialises in matters affecting the oil industry and oil taxation. None of them is engaged directly in reviewing either effectiveness or efficiency.

For taxation policy the Department also draws on the advice of Treasury Economists.

FULLY TRAINED TAX INSPECTORS

18.11. There are some 2,250 fully trained Inspectors of Taxes, who have taken a comprehensive three year internal study course covering taxation law and accountancy, and passed the Departmental exams. Although not a "professional" qualification in the sense of an award by an external institution, this is widely regarded as comparable to such qualifications.

18.12. The great majority of fully trained Inspectors are in local Tax Offices as District Inspectors or as Inspectors Assisting. A large number however, many at senior levels, (up to Deputy Secretary) are engaged in a wide range of directing and managerial posts, in providing specialist advice, and in a wide variety of management tasks including organisation and methods and data processing work. In the two latter roles they are concerned specifically with reviewing efficiency and effectiveness. In other roles, particularly as Regional Controllers and as Group Controllers (responsible for the annual inspections of the work of Tax Offices) they also have a major responsibility for such reviews.

OPERATIONAL RESEARCH SCIENTISTS

18.13. The Department employs seven Operational Research Scientists who are engaged principally on developing systems for resource allocation and for monitoring efficiency and effectiveness; and on planning work for new systems—in particular the full computerisation of PAYE. None is engaged in non specialist jobs but all are involved in work that is directly linked to efficiency and effectiveness.

COMPUTER STAFF

18.14. Of the staff working on DP projects some 25 have degrees in computing science or formal British Computer Society qualifications.

Q.19. *What use does the Department make and in what circumstances of outside consultants or researchers in reviewing effectiveness or in related activities eg devising output measures? How useful have such outside contributions been?*

19.1. The Department makes extensive use of consultants and researchers.

19.2. Particular use is made of consultants in the data processing field. Consultants have been, and are currently, involved from the preliminary assessment of possible applications through feasibility studies to the control, design, development and implementation stages of projects.

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19.3. Management consultants are used to review areas of the Department's operations, especially where a new task is to be introduced or it is felt a fresh look is required. Examples are:

— a general review of PAYE procedures (prior to computerisation), with follow-up studies by the consultants of areas which merited closer attention;

— a review of the system to be introduced for taxing unemployment benefits.

19.4. The Inland Revenue also makes use of outside research and consultants in areas of work other than management and organisation. For example, a partner in a leading firm of accountants recently acted in an advisory capacity in connection with the new stock relief scheme. We are currently cooperating closely with Professor Sandford of Bath University in an enquiry he is carrying out on compliance costs and with Professor C V Brown of Stirling University on the effects of taxation on the labour supply. In our own research into systems of assessment and collection, we enlisted the aid of the Applied Psychology Unit of the Medical Research Council to organise and advise on the results of a field test on an experimental self-coding form. Outside work like this is used to supplement the research carried out within the Revenue by those responsible for policy advice and by the Revenue's own statisticians and economists.

19.5. Other examples of the use of consultants etc are:

— to augment the Department's operational research resources

— to improve the design of leaflets and communications with the public.

19.6. The use of consultants and researchers in these various areas has provided a useful addition to the Department's specialist resources and to the other options available for more general studies—eg review by management services, ad hoc study (perhaps with CSD involvement) or Rayner scrutiny.

Q.20. *Who is responsible under the Permanent Secretary for producing management information including management accounts? Does the management information meet the present needs of managers? If not, what more could be done to fill the gaps?*

20.1. The production of management information concerning the assessment and collection of tax and the Department's staff is controlled by the Principal Establishment Officer.

20.2. Production of management information from the operational areas is a matter of successive analysis and interpretation by local offices, Regional managers and the head office Operations Division to provide monthly reports on the progress of programmes of work. Similar progress reports are generated from the Valuation Offices, and from the specialist offices. Quarterly reports are made on the progress of reviews, management studies etc.

20.3. The Director of Manpower is responsible under the PEO for regular reports of the Department's manning levels, and of rates of wastage and recruitment. These too are built up from local office level with successive interpretation, augmented by the results of staff inspection and management services studies.

20.4. As regards costs and yields the Principal Finance Officer reports (weekly) the flow of tax receipts and (monthly) the Department's expenditure.

20.5. In addition to these frequent reports there are annual exercises which examine how the Departments resources are deployed in relation to its functions and workloads. Apart from the Supply Estimates and Public Expenditure Survey there are:

— analyses of the costs of administering the various taxes and duties;

— analyses of resources allocated to work processes and activities, and by sections of the Department;

— the annual running costs exercise (with accounts of the costs incurred by each of the main operational units).

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20.6. Each of these information systems is continually evolving in response to the changing needs of managers and to changes in the Department's work. But in any information system the cost in relation to the benefits provided is an important consideration.

Q.21. *What information is provided by the Department to Ministers on questions of effectiveness and efficiency?*

21.1 Treasury Ministers receive regular reports of the Department's progress towards targets of various kinds and of measures taken to improve efficiency. These include monthly information about manpower, wastage and recruitment; and annual reports about the use of resources by different parts of the Department and on different activities; and of the results of staff inspection. Ministers are provided with further, systematic information on the Department's functions and costs when the Estimates provision for the year ahead are drawn up, and for the Public Expenditure Survey. The annual running costs exercise instituted in 1980 adds to these a detailed analysis of costs broken down between different units in the Department.

21.2. Information is provided about fiscal policy options in the normal course of business when objectives and priorities are decided, with periodic summaries in a single document of current issues and of decisions taken. The Department also keeps under review and reports to Ministers as necessary its evaluation of the working of existing statutory provisions and the need for legislation within the fields for which it is responsible.

21.3. Frequent ad hoc reports supplement the regular flows of information. Some are made as a result of developments to which the Department wishes to draw attention or seek Ministerial decision. Others are in response to questions Ministers raise about areas of work or costs following their examination of management information. Yet others are made to report the outcome of special reviews (including the scrutiny programme) which are used by Ministers to look more deeply into selected areas.

21.4. Meetings with Ministers also play an important part in the flow of information. They provide an opportunity for Ministers to receive first hand reports from those staff directly responsible for management matters, to discuss current issues in depth, and to give an early steer.

Q.22. *What role have the Treasury, CSD, E and A Department, the Rayner team and any other central agencies had in promoting effectiveness and efficiency within the Department? How would you assess their contribution in relation to your own?*

22.1. Agencies outside the Department have a manifest role in questioning whether the work is being undertaken as efficiently and effectively as possible, and in suggesting ways of doing better. Each has in its respective fields made useful contributions. The balance of those contributions is not precisely quantifiable because it is very much an interactive process. In some cases the Department takes the initiative by inviting advice; and in most cases it is (rightly) the Department which undertakes the task of finding a solution to any problem. However the following paragraphs include examples which it is hoped will illustrate the role of each:

a. TREASURY AND CIVIL SERVICE DEPARTMENT

22.2. The central departments have suggested improvements in the systems adopted by the Department to promote efficiency and effectiveness. Of particular note is the general service-wide change in the programme of staff inspection. More particular suggestions have been based on their disseminating experience in relation to particular groups or activities (eg messengers) where lessons from one department can be read across to another.

22.3. The CSD further provide advice and expertise in carrying out reviews: eg staff inspection, work measurement and manpower planning. The CCTA coordinate and provide help with computer procurement and the appraisal of DP applications.

b. E AND A DEPARTMENT

22.4. The Exchequer and Audit Department's scrutiny of the Department's functions usefully focuses attention on particular areas. These can be major areas of activity: the

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Department's own reviewing processes (as with internal audit); and details of financial accountancy and control. Reading across from other departments' experience is again an important element in the value of this process as, for example, when the E and AD were able to advise on a system of accounting for HMSO repayments.

c. THE RAYNER TEAM

22.5. Sir Derek Rayner's initiatives with the scrutiny programme and the annual running costs exercise have brought valuable extensions to the Department's efforts in promoting efficiency and effectiveness. The frameworks established by Sir Derek Rayner provided a basis for developing the scrutiny technique within the Department; and systems which are uniform across departments are therefore more useful to Ministers and the central departments.

Q.23. *What incentives are there to encourage civil servants to improve effectiveness and efficiency?*

INTRODUCTION

23.1. In replying to this question we have excluded the wide variety of measures—training, for example—which are designed to help individual staff members to improve their efficiency and effectiveness, but which do not offer the individual a specific incentive, in the sense of a personal benefit which he can obtain for himself by improved efficiency and effectiveness (or lose by failure to improve). We have also excluded such factors as professional pride and conscientiousness which lead an individual to respond willingly to advice or encouragement even without a specific incentive.

PROMOTION

23.2. Promotion is the major incentive available for individuals. The financial rewards of promotion form the main part of the incentive, and if these are eroded—by compression of differentials—the incentive tends to lose its effectiveness. But coupled with the financial element there is also, for most people, a striving for the recognition of successful achievement, which to the individual concerned is clearly marked by promotion. (From the management point of view there is the wider consideration of whether the individual also has the ability to take on a job of greater responsibility or difficulty.)

STAFF SUGGESTIONS

23.3. The Department has a system of awards and "merit notes" (notes of appreciation on officers files) which encourages members of staff to make suggestions aimed at improving the efficiency or the effectiveness of work in the Department. In the year to September 1980 3,460 suggestions were received 956 of which were given merit notes. Cash awards were given for 540. We believe that this scheme encourages individual staff members to make constructive and innovatory suggestions.

PROFICIENCY ALLOWANCES.

23.4. Within a limited field—Typists and Data Processors—proficiency allowances are paid to staff who achieve a certain standard.

"PENALTY" INCENTIVES

23.5. There is a range of sanctions for unsatisfactory performance including dismissal, downgrading and premature retirement.

Q.24. *What influence do trade unions have on i. manning levels, ii. the introduction of labour-saving machinery and iii. new ways of organising work?*

24.1. Manning levels, the use of machines and the organisation of work are essentially matters for Departmental decision within the constraints imposed by Government policy. It is however the practice to discuss fully with trade unions changes which will affect their members, and the Department is influenced in relation to these topics by such consultations. Negotiations take place with the Trade Unions at a number of levels. As well as national level, discussions at departmental level are also important, as too are the consultations within the department at regional and local level.

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Q.25. *How do you assess the state of morale in your Department? What are the principal contributing factors? What is the present state of morale?*

INTRODUCTION

25.1. In a Department as large and diverse as the Inland Revenue there will seldom be a homogeneous departmental state of morale. The "principal contributing factors" are likely to vary, at any one time, for different groups of offices in the Department. Whenever, exceptionally, there is a single issue big enough to have a major effect on morale throughout the Department, it is likely to be a service-wide issue—for example Civil Service pay and numbers.

ASSESSING STATE OF MORALE

25.2. The main way of assessing morale is through line management. Local office managers will know the state of morale in their own offices; and by visits to local offices, and through meetings and discussions, Regional managers will be made aware of this, and will in turn pass on their assessment to Head Office at regular management conferences. In addition, senior officials from Head Office visit local offices frequently; and in informal contacts between staff in central management and staff from a variety of offices, in the normal course of work, the former will get a further indication of local morale.

25.3. There is a network of Whitley Committees, providing a forum for regular discussions between staff and management throughout the Department. Regular contacts with union officials, in the normal course of business, may also indicate any special factors affecting morale.

25.4. The rates and causes of staff resignations may be a pointer to morale in the offices concerned. It is not a clear yardstick since it will be affected by other factors, such as relative pay in the Department and in comparable jobs outside the Civil Service (though this in turn may affect morale). Reports of resignations are made regularly by local offices and monitored centrally.

PRINCIPAL CONTRIBUTING FACTORS

25.5. The main factors are no doubt the same for a Revenue official as for Civil Servants and employees generally, namely that he feels that his term of service are fair; that he has the opportunity for advancement if he deserves it; that his work is worthwhile and valued. Most of the elements comprising his terms of service—pay, leave, working hours, superannuation—will be common to the Civil Service as a whole and outside the Department's control. Accommodation, if bad, can seriously affect morale; the Department's influence on this is limited under present arrangements, but we have been trying to eliminate black spots and to get it up generally to an acceptable standard.

25.6. The Civil Service is preponderantly a career service and career prospects affect morale. Recent developments have, for the time being at least, substantially reduced promotion opportunities for some groups in the Revenue.

25.7. The public view of the Civil Service is an important factor. Morale is adversely affected by unfair criticism in the media and elsewhere.

25.8. Good management and organisation is a major factor here. This includes, for example, ensuring that people are properly trained, properly and fairly supervised, organising the work so as to avoid unnecessary problems and burdens for those who are doing it, a system of promotion and career development which is seen to be fair, open lines of communication between management and staff, and regular consultation with staff, through the unions, and through local Whitley Committees. These factors apply to management at all levels, from the local office up to the Board.

PRESENT STATE OF MORALE

25.9. The recent pay dispute depressed morale throughout the Department. The settlement of the dispute has led to a recovery in morale and staff in the areas affected have worked readily to clear the backlog. But there is still room for improvement and there are difficulties in particular areas.

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Q.26. *Do you satisfy yourself that the grants and loans you make to other bodies are efficiently and effectively spent, and if so, how?*

26.1. The Department makes no grants or loans to outside bodies.

Q.27. *Have you any arrangements for the systematic retrospective review of the management of programmes in relation to outcomes, so as to identify lessons learned which might be applied to analogous programmes in future?*

27.1. Although there have been many changes in legislation, and in procedures and methods, the Department's essential functions have altered little in recent years. The fact that a large part of the Department's work takes the form of annual cycles ensures that lessons from one year are carried forward into the next without the need for a special exercise for this purpose.

27.2. Specific retrospective reviews are also undertaken in particular areas: for example those described in the reply to Question 5. (A further example is offered by the Valuation Office. It has carried out three revaluations—in 1956, 1963 and 1973. The lessons of the 1963 revaluation led to an improved and revised set of technical instructions relating to the valuation of commercial classes; whilst the lessons of 1973 resulted in a revised, management structure and set of organisation instructions.) The reviews are chosen selectively in order to get the best return on the investment of resources. But the choice is made against a background of systematic analyses of what resources have been devoted to which activities, so as to ensure that no area escapes consideration.

Q.28. *Please specify expenditures on services bought in from the private sector which could have been bought from government trading services such as HMSO.*

28.1. The overwhelming majority of the Department's goods and services which could be are bought through HMSO etc (and in general on a repayment basis). Exceptions are where there are net benefits from buying direct. The amounts involved are however very small, being principally:

(a) some purchases of books etc where direct negotiation with publishers has produced better discounts,

(b) local purchases of small items (eg batteries) or services (eg repairs to machinery) which HMSO agree could not be provided as cheaply.

Q.29. *How are complaints from the public fed through into improvements in efficiency and effectiveness?*

29.1. The Department takes all complaints very seriously, whether from the public, or from the Parliamentary Commissioner for Administration (PCA), Members of Parliament and representative bodies. However many of the complaints are directed against the tax system itself rather than the Department's procedures and operations. Many of these arise from taxpayer's misapprehending the provisions of legislation or questioning its equity. For example of 211 complaints against the Inland Revenue which the PCA considered in 1980, 41 were rejected or discontinued because the complaint was not about administrative action, 21 were rejected at the PCA's discretion, three for other reasons, and a further 45 because there was provision within the tax system for appeal to an independent tribunal (eg the General Commissioners). (Of the remaining 101 complaints 55 investigations were concluded during the year: 28 were upheld, with the Department criticised in nine others.)

29.2. A further factor is that complaints about the tax system in general advocate complexities which would make the Department's operations less efficient, rather than simplifications making for efficiency.

29.3. As regards complaints about the Department's administration of the tax system, there are arrangements to ensure that lessons are learned and action taken. These start with the accountability and responsibility of all staff for effectiveness and efficiency. Most complaints addressed to local offices are therefore dealt with locally. This includes in many instances complaints raised by Members of Parliament who find it helpful to deal direct with the offices for their constituency.

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29.4. Complaints may reflect failure to carry out instructions; or may suggest that the instructions themselves require amendment. Such instances are reported to head office via the regions, with regional staff paying particular attention to recurrent problems or points of weakness when they inspect local offices.

29.5. At Head Office staff in the Operations Division then see the reports from local and Regional managers together with complaints referred upwards for advice or addressed to the Chairman and Board direct. They are therefore able to make changes to rectify general weaknesses.

29.6. The Head Office Policy Divisions also have an important role in relation to learning from complaints which involve the application of tax statutes. From correspondence from the public, agents, representative bodies, and so on they are very much alive to problems emerging from the application of new legislation or from new circumstances. These are then considered in terms of changes in practice or legislation. On technical matters discussions are frequently arranged with representative bodies.

Q.30. *The Sub-Committee hopes that the answers given to the foregoing questions will provide it with a general picture of the procedures and machinery used in the Department to promote efficiency and effectiveness. However, the Sub-Committee believes it would be helpful also if the Department could illustrate its general approach by reference to one specific example. In the case of Inland Revenue the Sub-Committee asks that this should be local enquiry offices. The Department is invited to submit examples of measures of performance and actual documents and procedures used in reviewing efficiency and effectiveness in this area of activity, down to the lowest level. The Department is asked to indicate the relevant management units in which the relevant management information needed is brought together.*

INLAND REVENUE LOCAL ENQUIRY OFFICES

1. BACKGROUND AND ORGANISATION

1.1. The Department's local enquiry office network was originally established in order to provide local enquiry and interview facilities for taxpayers whose tax records had been transferred far away under the PAYE dispersal and original automation programmes. There are three distinct types of office viz:

Principal Local Enquiry Offices	(PLEOs)
District Local Enquiry Offices	(DLEOs)
Single Enquiry Points	(SEPs)

1.2. PLEOs are, as their title suggests, the Department's main enquiry offices. There are three in London, one in Manchester and five in Scotland, each with its separate complement of staff engaged full-time in dealing with enquiries by the public. The London Offices come under the direct control of the Regional Controller, East London Region; elsewhere the offices are controlled by the Regional Controllers for Greater Manchester and for Scotland respectively.

1.3. DLEOs are in general smaller versions of the PLEOs; there are 43 in England/Wales and 26 in Scotland. Each is attached to a specific Tax District, comes under the control of the District Inspector reporting to the Regional Controller, and has its separate complement within the complement of the District concerned.

1.4. The function of SEPs of which there are currently 15, is rather different from that of the other enquiry offices, in that they do not owe their existence to the dispersal of PAYE records. In cities and larger towns there were, and are, a considerable number of sites on which a number of Tax Districts share the same building. Originally each District had its own separate public counter manned by most junior members of the staff in turn as required by the incidence of callers. We came to the conclusion some years go that there were clear advantages in establishing a single enquiry area within the building to deal with all public callers for the various Districts concerned. The accommodation space needed is significantly less than the sum of the individual counter areas, security is improved by the channelling of the public to the one (normally ground floor) area and the engagement of

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designated staff specialising in enquiry work improves the standard of service to the public. Each SEP is controlled, staffed and complemented as part of a nominated Tax District within the building, normally the nearest in location to the enquiry office. As such it comes under the appropriate District Inspector, who reports to the Regional Controller concerned.

1.5. In addition to the various types of enquiry offices every Tax District not covered by the SEP system has its own public counter manned flexibly by staff of the district. These are controlled entirely by the District concerned and are not treated as part of the Department's enquiry office network.

1.6. As indicated, line management responsibility for the various enquiry offices is fragmented to a considerable number of separate operational managements within the Department's regional organisation. Overall supervision, liaison and policy aspects of the activity are vested in a small Head Office Unit reporting to an Assistant Director of the Personnel and Accommodation Division.

2. COMPLEMENT OF ENQUIRY OFFICES

2.1. Probably the greatest single factor in the provision of an efficient and cost-effective enquiry service to the public is the employment of proper complementing criteria. Over-staffing, in addition to incurring excessive accommodation and salary costs, leads swiftly to the loss of job satisfaction for underemployed staff and criticism by the public. Under-staffing, on the other hand, imposes excessive pressures on staff and even more vociferous criticisms by members of the public obliged to wait for considerable periods before their enquiries can be dealt with. But arriving at and monitoring proper complementing criteria is particularly difficult given the peaking and troughing in caller traffic which inevitably occurs in this type of activity. There are predictable peaks in the annual cycle eg following the bulk issue of returns and coding notices, and troughs such as the main summer holiday period. There are similar fluctuations within the daily and weekly cycles. Enquiries, both by telephone and personal call, can vary greatly in complexity and duration.

2.2 A virtually continuous sampling and recording process, covered in more detail in section 3 provides the base information from which time-cost figures have been derived and monitored. In 1980 the Head Office Unit (see paragraph 1.6.) carried out a detailed review of the complement of all PLEOs in relation to each other and to current caller traffic rates in each office. This "on paper" investigation was prompted in the normal course of the traffic monitoring process (see para 3.3.) by observation that the caller rate per head of staff in the four London PLEOs then operating had reduced quite markedly by comparison with the PLEOs in Manchester and Scotland. The Staffing Survey Unit in Inland Revenue Management Division M2 was asked to undertake a detailed inspection of PLEOs throughout the country and in particular to review the complementing criteria in force and applied throughout enquiry offices generally. (Whilst there is no reason to make any distinction between the various types of enquiry office so far as general nature of the workload is concerned, the need for tight complementing of PLEOs is greater than in the cases of DLEOs and SEPs. It is more difficult to utilise any spare capacity in PLEOs, since staff cannot conveniently be switched to or from other Revenue work at short notice. The small "peaking" factor (see 2.3.ii) inevitably implies some spare capacity during troughs, but these are normally of brief duration, partly taken up by the post-interview action required in many instances and by telephone callers. The latter tend to be more evenly spread over the working day. DLEOs and SEPs are all attached to and complemented from specific tax districts, which allows considerable flexibility in "instant" redeployment of staff between enquiry and normal district work, virtually on a day-to-day basis).

2.3. The Staff Inspection field work commenced on 7 October 1980 and the final report with recommendations was published in February 1981. On the all important question of complementing criteria the findings and recommendations were:

(i) That in assessing the nature and weight of caller traffic the existing yardstick of two telephone callers equalling one personal caller was a valid one.

(ii) That a "peaking" factor of eight per cent should be added to caller traffic figures to make partial allowance for exceptionally busy periods.

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(iii) That in England/Wales the optimum annual workload capacity of each member of the staff should be taken as 7,000 caller units (taking personal callers as 1 and telephone callers at ½).

(iv) That in Scotland the equivalent figure should be taken as 10,000 (there is a higher incidence there of enquiries which are quickly disposed of and the centralisation of PAYE records on the East Kilbride computer reduces tracing problems to a minimum).

(v) That the normal run of the enquiry office work was appropriate to the Tax Officer (CO plus "lead") grade, under supervision of one TO (HG) (EO plus "lead") per office in all but the very largest office (Manchester) which should have two.

Applying these criteria the report recommended the following changes in the overall complement of the PLEOs:

(i) London 41 staff to be reduced to 29
Scotland 37 staff to be reduced to 36
Manchester 20 staff ..... no change

The main recommendations were accepted in their entirety and the London staff reductions effected, one of the London PLEOs being closed down and caller traffic directed elsewhere. The main complementing criteria are now in general use by Manpower and Training Division across the Enquiry Office service as a whole.

3. PROCEDURES FOR MONITORING TRAFFIC AND COMPLEMENTS

3.1. The Head Office Unit is the focal point of the monitoring process.

3.2. Throughout the first six months all staff in any newly established enquiry office record in detail on form EF1 (specimen attached as Annex A*) time spent on each public enquiry—both the duration of the interview/telephone call and separately of any follow-up action required. These records are collated within the enquiry office and a weekly analysis on form EF2 (specimen attached as Annex B*) sent to the Head Office Unit. There the analyses are monitored to assess any market discrepancy between performance in the particular office and the norm, making some allowance for the inevitable shaking-down process. Form EF3 (specimen attached as Annex C*) is used for this purpose. If early results do indicate any marked discrepancy a member of the Head Office Unit visits the office to observe its performance at first hand and to discuss trends with the officer in charge. With very few exceptions the office is operating around the norm by the end of the six month review period.

3.3. The enquiry office will thenceforth change to the recording procedures in force for established enquiry offices. Each member of staff maintains a simple numerical record of counter and telephone calls dealt with, on form EF1A (specimen attached as Annex D*). Again these are collated within the Enquiry Office Unit on form EF2A (attached as Annex E*). The results are transposed as an individual form EF3 for each office and a monthly traffic report (specimen attached as Annex F*) prepared, listing results for all offices. Copies of this monthly traffic report are sent to Regional line management and to Manpower/Training Division M2. The latter maintain an ongoing check of complements in relation to changing circumstances such as new legislation or unemployment levels and their effect on traffic figures.

4. OTHER ACTIVITIES OF THE HEAD OFFICE MANAGEMENT UNIT

4.1. In general terms the Unit has been the central repository of specialised experience in enquiry office work. Policy matters such as the "freefone" facilities (finally withdrawn on grounds of excessive cost in late 1979), the location of telex facilities, adoption of the "turnomatic" system in waiting areas, the training of new enquiry office staff (see Section 8), and the publicising of enquiry facilities have all come within the Unit's ambit.

4.2. Its other major responsibility has been in identifying suitable locations for, and helping to set up new enquiry offices. In recent times that particular responsibility in connection with new Single Enquiry Points (see para 1.4) has occupied the Unit to a considerable extent, but current pressures on PSA budgets has brought the process to a

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virtual halt. Although the establishment of an SEP has the advantages set out in paragraph 1.4 of this note there is inevitably a capital cost in adapting and equipping accommodation. The space savings are often not instantly realisable and shorter term cost benefit considerations are held to be paramount, but the programme can be resumed if circumstances alter. The Unit has drawn up a list of suitable locations for the future, using the following procedures:

4.3. Where a particular multi-district building is thought to be potentially suitable for the creation of a Single Enquiry Point, all the District Offices concerned are asked to maintain and submit detailed weekly records of callers, for a period of two months. These records are kept on the specimen form attached as Annex G* and enable the Head Office Unit to assess the nature and weight of the aggregate enquiry traffic for the relevant Districts on an annual basis by extrapolation. If an SEP is then set up, the monitoring procedure set out in paragraph 3.2 and 3.3 are subsequently applied.

5. STAFFING OF THE HEAD OFFICE MANAGEMENT UNIT

5.1. This note has so far concentrated on the role of the Head Office management unit and its involvement in the sphere of Enquiry Offices. Prior to regionalisation of the department in early 1976 the Unit had line management responsibilities for all PLEOs and its involvement in central policy issues was a very necessary one. As the new Regional management has acquired additional experience of the enquiry office function the specialism of the Head Office Unit in its advisory and supervisory roles has become less vital. The volume and variety of matters requiring central policy determination has much reduced and the programme of establishing new SEPs become much more attenuated.

5.2. Following an organisational review earlier this year the complement of the Unit was reduced from:

1 Inspector	(S)	(Approx SEO equivalent)
1 Inspector	(Grade III)	(Approx HEO equivalent)
1 Tax Officer	(Higher Grade)	(Approx EO equivalent)
2 CA		

to—

1 Inspector	(Grade III)
2 CA	

It is judged that the reduced complement will be sufficient to meet adequately the Unit's commitments, with Regional management and the Board's central Accommodation staff assuming greater involvement in any future establishment of new SEPs. The Inspector will continue to act as Liaison Officer for all enquiry services in the South of England, and South Wales.

6. LINE MANAGEMENT OF PLEOs

6.1. In London the three remaining PLEOs come under the control of the East London Regional Office. The officer in charge of PLEO 1 is an Inspector (Grade III) who also exercises general supervision of the other two London PLEOs and conducts "Inspector level" interviews covering all three. He reports to a nominated Inspector (Higher Grade) in the Regional Office. Staff annual reporting and job appraisal review procedures are the standard ones in force throughout the Department. There are agreed job descriptions for all grades of staff. The day-to-day management duties of the officers immediately in charge at each office are augmented by regular informal visits by the Inspector (Grade III) to PLEOs 2 and 4 (3 is the one which has been closed) and by the Inspector (HG) to all three offices. Each office is subjected to an annual General Inspection Visit by the Inspector (HG) following the pattern for tax offices generally, but using a modified form of check list (specimen attached as Annex H).

6.2. The Manchester PLEO is in the immediate charge of an Inspector (Grade III) who carries out appropriate level interviews for the office and acts as Liaison Officer for all Enquiry Offices from the Midlands to the Scottish border. He reports to a nominated

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Inspector (HG) in the Regional Office. Management procedures generally are similar to those employed for the London PLEOs.

6.3. In Scotland an Inspector Grade III is in immediate charge of the Glasgow PLEO, exercises general supervision of the four other Scottish PLEOs and conducts "Inspector level" interviews as required. He acts as Liaison Officer for enquiry services in Scotland and reports to an Inspector (Principal) in the main Scottish Office. All principal management procedures follow the pattern described for London *mutatis mutandis*.

7. LINE MANAGEMENT OF DLEOs AND SEPs

Since these offices have direct attachment to specific districts the management line is a little different from that of the PLEOs but the involvement of the Head Office Unit, the various Liaison Officers and Regional Offices ensures uniformity of approach in all significant areas.

8. SELECTION AND TRAINING OF ENQUIRY OFFICE STAFF

The general principle governing the selection of staff for full-time enquiry office work is that willing recruits or volunteers should be sought. The qualities looked for are experience, particularly in PAYE work, good appearance and pleasant personality. A judgment has to be made on the officer's potential ability to give lucid explanations and to deal calmly and patiently with aggressive or confused enquirers. Until relatively recently new entrants to the enquiry service attended periodic training courses run centrally in London. The value of these courses in relation to escalating travel and subsistence costs has been reviewed and the practice changed. New entrants are now attached for one week to the nearest enquiry office before subsequently starting their new duties. During that period they are supernumerary to the normal complement and can be introduced to the duties without the same degree of pressure which will inevitably exist when they take up their places within the offices' complements. Given the requisite technical background which all should have, there is judged to be simply no substitute for experience in the "live" interview situation.

9. THE SCALE OF THE OPERATION

In aggregate the local enquiry offices deal with around 1.2 million telephone callers and 1.75 million personal callers each year, with a current complement of just over 300 staff. (See para 2.2 on the flexible deployment of staff in DLEOs and SEPs.)

Detailed traffic and staff figures for two recent years are attached as Annex I. In making comparisons it is desirable to omit the SEP figures because of the increase in the number of SEPs over the period concerned. The aggregate figures for PLEOs and DLEOs in summary are:

	1977	*1980*
Telephone callers	929,293	914,626
Counter callers	1,406,606	1,279,537
Total	2,335,899	2,194,163
Average staff complements	268	257
Total "Traffic Units" (+8%)	2,020,954	1,875,799
Total traffic units per member of staff	7,541	7,299

These figures illustrate the reduction in enquiry office traffic which resulted from the withdrawal of certain allowances from PAYE codings in 1979. These were for life assurance relief (replaced by deduction from premiums) and the phasing in of the child benefit scheme by the withdrawal of child tax allowances.

10. GENERAL

10.1. The establishment and maintenance of an effective public enquiry service has a value beyond that of good public relations. In giving guidance to employers on the administration of PAYE, and in providing local access to personal callers generally the enquiry offices deal annually with vast numbers of enquiries which might otherwise have generated correspondence with Tax Districts. It is very costly to substitute correspondence for personal enquiry, in terms of staff time, stationery and postage.

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10.2. The activity is somewhat discrete from the mainstream of the Department's work and cannot in itself offer an independent career structure. A basic difficulty in staffing the enquiry offices is the need to select staff of average ability or better but to safeguard individual career prospects by ensuring that those with further potential are not allowed to remain too long on the restricted range of duties. This difficulty is exacerbated by the fact that enquiry service work tends to generate in the most suitable staff a high level of job satisfaction, leading often to individuals wishing to remain on it in spite of possible damage to career prospects. In general the position of individual officers in this respect is adequately safeguarded within the normal reporting and JAR procedures.

10.3. The measures of performance covered in this note have been essentially quantitative rather than qualitative. The quality of the service provided, both at office and individual levels, can fairly readily be assessed by physical observation and by the close monitoring of complaints by the public, at successive line management level. Complaint statistics are not maintained centrally; the general standard of the service may be inferred from the fact that complaints to the Department's Head Office of unsympathetic or inefficient service are virtually non-existent.

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ANNEX H

PLEOs ... GENERAL INSPECTION VIST ... CHECK LIST

(A) REQUIRED IN ADVANCE OF VISIT

(i) Annual confidential reports on all staff
(ii) Forms 371 and 372 (Working Reports on Staff)
(iii) Narrative Reports by Inspector and TO(HG)
(iv) Full list of all staff
(v) Samples of written work ... Inspector and TO(HG)—Three specimen notes of interviews and any subsequent follow-up
(vi) Sick leave reports

(B) CHECK LIST FOR VISIT

(i) Review index of establishments files
(ii) Audit AG 125 Book (record of any payments received)
(iii) Check filed notes of interviews (1 Box for last 3 months)
(iv) Scrutinise record of file movements to and from districts
(v) Check office equipment file
(vi) Scrutinise management records
(vii) Scrutinise office precedents file
(viii) Check flexible working hours records
(ix) Check health and safety at work file
(x) Final discussion session with Inspector and TO(HG).

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ANNEX I

Enquiry Office Traffic 1977 & 1980

	Telephone callers		*Counter callers*		*Traffic units (counter + ½ telephone)*		*Traffic units increased by 8% for peaking*		*Average staff complements*		*Traffic units per member of staff*	
	1977	*1980*	*1977*	*1980*	*1977*	*1980*	*1977*	*1980*	*1977*	*1980*	*1977*	*1980*
PLEO's (England)	256,366	233,317	232,188	193,603	360,371	310,262	389,201	335,083	72	61	5,406	5.493
PLEO's (Scotland)	187,703	174,168	278,730	246,565	372,582	333,649	402,389	360,341	39	36	10,318	10,009
Total (England & Scotland)	444,669	407,485	510,918	440,168	732,953	643,911	791,590	695,424	111	97		
DLEO's	485,224	507,141	895,688	839,369	1,138,300	1,092,940	1,229,364	1,180,375	157.3	160.3	7,815	7,364
SEP's	54,599	143,060	253,929	493,721	281,229	565,251	303,727	610,471	52.1	67.9	5,830	8,991
Grand Totals	983,892	1,057,686	1,660,535	1,773,258	2,152,482	2,302,102	2,324,681	2,486,270	320.4	325.2	7,256	7,645

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Examination of Witnesses

Sir LAWRENCE AIREY, KCB, Chairman, Mr J H GRACEY, Director General (Management)—(Deputy Secretary), Mr B T HOUGHTON, Principal Finance Officer and Director of Manpower and Training (Under Secretary), Mr T E KEMP, i/c Local Enquiry Service (Inspector Grade III) and Mr J F SCOTT, i/c Aberdeen Enquiry Office (Tax Officer (Higher Grade)) called in and examined.

Chairman

688. Sir Lawrence, may we thank you and your colleagues for coming along to give evidence in our inquiry into effectiveness and efficiency. I understand that you would like to make a brief statement at the start?

(Sir Lawrence Airey) I think it will be helpful if I say a few words about the rather special characteristics of the Inland Revenue as a Department and how it affects the application of concepts of effectiveness and efficiency. So far as tax is concerned, which is of course our main function, the Inland Revenue is almost unique in having a detailed, published, remit for all its complex tasks, updated at least every year. I am referring to the Finance Acts which prescribe our powers and duties in such detail as to leave virtually no discretion about the job to be done. In this respect we are at the opposite pole from Departments like the Treasury whose activities are almost all discretionary. Typical spending Departments, like the DES or DoE are at an intermediate position along the spectrum. This bears very directly on the question of measuring efficiency and effectiveness. Taking the latter first, the aim is to measure and monitor how far policy objectives are being achieved. This however raises considerable difficulties. Take for example income tax, which is our biggest revenue raiser. It is not difficult to specify several major policy objectives of the tax of which raising an estimated sum of revenue towards Government expenditure in the following year is perhaps the most important. There are also various social and economic objectives, and in principle all of these should be measured to assess effectiveness. In practice, however, there is no straightforward way of applying these concepts for reasons which I will be pleased to expand on. Effectiveness therefore presents great problems for us. If we turn to efficiency, the picture is very different. It is much easier to measure and is very much a policy objective in itself. In many respects—at any rate for 90-odd per cent of its tax staff—the Inland Revenue is a large clerical factory with inputs and outputs which are not at all difficult to measure. And, of course, we have and have had systems for measuring and monitoring these inputs and outputs for many years. Every tax change or new tax in every Budget has to be carefully calculated in terms of its staff and other requirements in relation to its estimated yield before it is introduced and departmental costings are based on a continuous monitored flow of work measurement information. This enables us to calculate, and indeed to publish, annual cost/revenue figures for each tax ranging currently from 0.02 pence in the pound for PRT, petroleum revenue tax, to over 14 pence in the pound for development land tax. However, these are not efficiency measures in any commercial sense. Although the one tax costs several hundred times as much to collect as the other, it does not follow (though perhaps it would if I were in Marks and Spencer) that I can achieve improved efficiency by switching staff from the less to the more profitable tax, or still better, close down the less profitable altogether. So our "efficiency" calculations, though they may show dramatic comparisons of this sort, do not necessarily enable us to make management changes to correspond. We are, as I said at the beginning, operating within the rigid framework of the tax statutes. Our costings are, of course, one input of tax policy decisions and an important one, but administrative and operational features are not necessarily decisive in tax policy which runs a lot wider than the cost of collection. In brief, we have virtually no discretion about the job we are doing; the discretion applies to the way we are doing it.

Mr English

689. The point is not the comparison between the administrative costs but of different taxes which have been different for the last thousand years. The comparison made in the past by this Committee and its predecessors was between the administrative costs of the same tax in different years. You will recollect, I am sure, that, for example, the administrative cost of collecting income tax more or less doubled as a percentage and has since declined. Is that not a measure of efficiency?

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(Sir Lawrence Airey) No, it is not really, because to take a very simple example, PRT is collected by, at the moment, 32 people. The yield will change dramatically from year to year with developments in the North Sea. One year it will be £4 billion; next year it will be £6 billion.

690. I did say income tax.

(Sir Lawrence Airey) Income tax is subject to the same sort of thing. Income tax is subject to changes in legislation and demography from year to year, changes in level of earnings and employment. The changes are so big in relation to the very marginal changes one can make by efficiency that they totally swamp the value of the indicator as an indicator of efficiency.

691. So it is purely accidental that it improved after we pointed out that it had changed?

(Sir Lawrence Airey) No, I do not think it is accidental. You would almost certainly find four or five factors going in one direction or another and the net effect would be very little to do with changes in the net efficiency of the Inland Revenue.

Chairman

692. Could we come back to one of the major themes which you did mention and that is that the terms of reference which you have are set out in the Finance Acts and these are, in turn, given from the Finance Bills which are proposals from the Treasury and you have yourself been in the Treasury as well as in the Inland Revenue. The role of Ministers in the Treasury is direct; in the Inland Revenue it is indirect. How far do you see Ministers as carrying any effective responsibility for effectiveness or efficiency within the Inland Revenue?

(Sir Lawrence Airey) Very considerably. I am not sure about the distinctions between direct and indirect. The only distinction I see is that Somerset House is a bit further away from the seat of Treasury Ministers. I visit the Treasury frequently for management meetings with the Treasury Ministers and at least three of the five Treasury Ministers have direct Inland Revenue responsibilities including management responsibilities. So I do not think the distinction is quite as clear as you suggest.

693. But are there or are there not administrative restraints in that, for example, Ministers do not see individual tax returns?

(Sir Lawrence Airey) That is perfectly true. There are two areas where Ministers do not take any direct role: one, in relation to individuals' tax affairs and two, in their prosecutions in legal cases. But in relation to taxes and tax administration, management and staffing and methodology, Treasury Ministers have exactly the same role in relation to the Revenue as they do with the Treasury itself.

694. When you say "individuals' tax affairs" by "individuals" you include companies?

(Sir Lawrence Airey) Yes.

695. If the role of the Ministers is as direct it is a very different kind of organisation which they are dealing with because, as you say, it is a massive information-handling operation, whereas the Treasury in a primarily policy orientated body. Do you see difficulties in Ministers exercising management responsibility directly?

(Sir Lawrence Airey) There is a difficulty for the Chancellor in person in the sense that he has an immense ministerial load, not only in relation to economic policy generally but also the fact that he has responsibility for no less than eight departments which cumulatively add up to about three times the size of the DoE and PSA put together. Clearly he cannot carry on a very direct management role in relation to that whole management responsibility, but he has four junior ministers and he can, to some extent, allocate a particular part of the responsibility to them as well as keeping a general view of the range of responsibilities himself. I meet the Chancellor once a month for a management discussion, purely on management and not on tax policy issues, and he does that too with the corresponding people like the head of the Customs and Excise.

696. How do the other Treasury Ministers, in practice, exercise any degree of management responsibility for effectiveness and efficiency?

(Sir Lawrence Airey) Lord Cockfield receives regular reports from us on manpower issues. He acts as the coordinator of the manpower policies of the Government as they affect the Chancellor's departments and he puts to the Chancellor recommendations and reports on different views. We supply directly to the Chancellor monthly figures but Lord Cockfield acts as the focus for manpower and that type of issue.

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Mr Eggar

697. Have you ever yourself met with the Department officials, officials from the Department of the Environment or read any of the MINIS documents?

(Sir Lawrence Airey) Yes.

698. Over what period of time did you meet them?

(Sir Lawrence Airey) I have not discussed them with DoE officials but I read the original MINIS, the MINIS I specifications, about a year ago when they came out. MINIS II I have seen more recently; I do not think MINIS III has yet emerged from the Department.

699. Could your colleagues tell us something about the consultations they have had with the Department of the Environment on this?

(Mr Gracey) I have not, I am afraid, had any direct consultations because I have only been in my present job about three months. But there are regular meetings of the establishment officers of the major departments where issues of general interest are discussed. I know when my predecessor was in my present post there was some discussion of the application of MINIS to other departments and the view was taken, as I understand it, that MINIS was in its exact form something that had been constructed for a particular minister and a particular department and that while certain elements of it could be applied elsewhere, and indeed I think they are, MINIS as it then stood would be difficult for us, among other departments, to put into effect.

700. This view was taken at PEO level?

(Sir Lawrence Airey) No, the Chancellor discussed this personally with the people concerned including the permanent secretaries and Lord Cockfield; this was about a year ago. The arrangement I was just discussing was what the Chancellor thought was right in his experience given the range of his responsibilities and size of his department.

701. So MINIS has provided a spur to your Department?

(Sir Lawrence Airey) Yes.

702. Could the same be said for the Rayner enquiries?

(Sir Lawrence Airey) Yes. The Rayner enquiries, of course, are much narrower in the sense that they are directed to a particular bit of organisation but yes, the Rayner enquiries are conducted within the Department, they are seen by me and by the Director General, in fact by both of my colleagues, and they go to Lord Cockfield and they are discussed with him, reported to the Chancellor and indeed reported to the CSD. All of this takes place at ministerial level. Some of them are very substantial. The total yield, so to speak, in staff savings from Rayner's exercises runs into a few thousand, which is a substantial number even by Revenue standards.

703. Why was this not all happening before?

(Sir Lawrence Airey) Some of it was happening before and some of the Rayner exercises have simply been take overs of existing departmental enquiries which were set up by the Revenue before the Rayner concept had been arrived at. In other words, some of it is a systematisation of what had been happening and with an additional political push behind it it has helped to get more of it happening faster than it otherwise would.

704. What role do you think the CSD plays in improving the efficiency of your Department?

(Sir Lawrence Airey) In various areas it can be very helpful—I am thinking of specialist areas like CCTA, which is part of the CSD, in relation to computerisation, because we have a very big computer programme in prospect. Also areas like staff inspection, helping to improve the quality and so on. It gives good advice on the organisation of management audit and that sort of thing.

705. Would it be fair to say you feel they have any clout? Do you listen to what they say in the same way you listen to what Rayner says?

(Sir Lawrence Airey) They have not found it necessary to clout us because we are moving slightly ahead of what they are doing. If we were lagging behind we would have been clouted.

706. Is that a failure on their part? Should they not always be ahead of you, it is their job? Or, are you so superb——

(Sir Lawrence Airey) No. They have a different job to do with different departments and no doubt they can tell us things that other departments know already. I can only say in the two years I have been here

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we have never been clouted in any meaningful sense by the Civil Service Department and I hope that is wholly because we have been doing what they are expecting us to do.

(Mr Gracey) In my short experience we do have very close contacts with the CSD, we are working closely with them, we find them helpful. I would not say we feel all the time they are on our tails, so to speak, because as Sir Lawrence has said we reckon to be doing quite a reasonable job ourselves.

707. So you would not miss them if they disappeared tomorrow?

(Sir Lawrence Airey) It is a difficult question to answer, there might be areas where they have something to tell us which we would fall down on. There are areas where they have pressed us to move faster and we are trying to do that, for instance, with succession planning which is a more systematic approach than the idea of identifying successors has been so far. How it will pay off remains to be seen because this is only the first year.

Mr English

708. This is a question I am not asking only of yourselves but of other witnesses. Just using the witnesses as a cross-section we have a piece of paper which gives honours and names and positions. What are your actual qualifications, all five of you, for your respective posts?

(Sir Lawrence Airey) I have the same qualifications as all other permanent secretaries and that is a long experience in the civil service but without any professional qualifications in management, statistics, accountancy or all the other jobs.

709. Most of them have a degree at an Oxbridge university.

(Sir Lawrence Airey) I can claim that too.

710. Apart from the former head of the civil service who got it at London.

(Sir Lawrence Airey) I can claim one of each, if it is of interest to the Committee.

711. What about the rest?

(Mr Gracey) I say the same as Sir Lawrence, my background is much the same as his.

(Mr Houghton) Mine is a Cambridge degree with periods of service in the Treasury.

712. None of you have said what your degrees are in.

(Sir Lawrence Airey) History.

713. Both of them?

(Sir Lawrence Airey) I think the second one should be counted as in history because it was a process of incorporation which does not require any further effort on the part of the recipient.

(Mr Gracey) Classics. I have had a spell in the Treasury as well as in the Revenue.

(Mr Houghton) Modern languages.

(Mr Scott) I do not have a degree but have five A levels in a Scottish National Commercial Certificate in Business Studies.

Chairman

714. And training as a tax officer?

(Mr Scott) Yes.

Mr English

715. I count that too.

(Mr Kemp) After my service career I have spent the last 30 years in the Inland Revenue with a grammar school education and most of those years spent in tax offices and in tax work.

716. In America there has been quite a lot of work done on the redefinition of income—I am making the assumption that somebody in your vast organisation is familiar with it—why does nothing ever happen on the subject in this country? What I am saying is I am perfectly well aware you cannot persuade Labour or Conservative ministers to change the system overnight but in America there seems to be large numbers of papers and books which result from seminars which say you can redefine income more or less in the economists' sense—so long as you have that picture on the wall it does not count but if you suddenly sell it for £¼ million it does count because your income in the economists' sense has increased and it is not really a capital gain because it was your great-great-great grandaddy who bought it in the reign of Charles I. Do you ever try and do this? The Treasury does have close contacts in the academic field. Do you ever try and publish papers on what could be done in the field of taxation to reform it?

(Sir Lawrence Airey) On the whole our research is directed towards increasing the practicalities of the present system rather than thinking of new taxes———

717. I did not suggest new taxes.

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(Sir Lawrence Airey) The reason why I said new taxes was a few years ago, before my time, the Inland Revenue was engaged in an enquiry into wealth tax which would raise the sort of issues you have been mentioning.

718. No, what I am really saying is, do you not think it would be of advantage to the country as a whole—you are a sort of independent corporation, you are a statutory corporation really—do you not think it would be of advantage to the country if you occasionally published research papers and allowed whoever wished to to comment on them? No commitment by the Government of the day, no commitment by yourself as a corporation but setting out the pros and cons of a possible change or improvement, or perhaps, "disimprovement" in the tax system.

(Sir Lawrence Airey) There are two or three points to make on that. First of all, we do occasionally publish research papers. They are not on the sort of areas that you have just indicated. Although you say we are an independent corporation, that is only true to a rather limited extent. We do have the care and management of the Taxes Acts which is a function of the Board rather than the Minister and the responsibility of the Board, but I think it would be too wide to assume that that gave us some sort of independent apolitical status under cover of which we could publish documents going as wide as you indicated because that would, in our terminology, be highly political and I do not think current Ministers, Ministers in charge of the Department, of either party, would want to see the Revenue exploring the outer fringe, so to speak, of tax areas in that way.

719. What you are really saying is that although you were set up in the 19th century as a way of taking your job out of immediate party politics, you are less independent than the average nationalised board at the present day which was set up in the 20th century?

(Sir Lawrence Airey) Yes, we are much less independent than any nationalised board in the sense that we are all civil servants and we take instructions from our Minister of the day which is rather different from the position of nationalised industries.

720. Do not press me on the definition of civil servants or we will go on for the rest of the afternoon. The unfairness of tax is something that is never commented upon frequently in this country. A fairly obvious example of what I mean is the question of tax relief but before I get on to that, you are responsible for the valuations upon which rates are based. Of one local authority it is pointed out to me that in a substantial area of the local authority, valuations are based on more than twice, per square foot, the basis of the whole of the rest of the authority. There has been no revaluation, so every person who lives in that 10 per cent of the authority pays, in effect, more than twice the rate. It is grossly unfair. What is ever done about it?

(Sir Lawrence Airey) To some extent, this is a question of time and staff. The rating system, whether we are talking about domestic or non-domestic rates, has to be updated from time to time if it is to avoid the extreme situation you have just described but the Government decided, 18 months ago now, to postpone indefinitely the domestic revaluation which was arranged for next year and for that reason we have run down a considerable number of staff because we do not now see the requirement.

721. But this particular thing dates from the last revaluation and was known from that time and nothing has been done about it since. Obviously it is the professional association concerned that has brought it to my notice.

(Sir Lawrence Airey) I am surprised they have not brought it to the notice of the Chief Valuer. If you would write to me with details of the case, I would gladly follow it up.

(Mr Gracey) All rating valuations are subject to an appeal process.

722. I am perfectly well aware of that. In this case, I think it is possible that the average independent ratepayer could go to the Court and get an order of *mandamus* but how many individuals can afford that? You are saying if any individual ratepayer is rich and can afford a few thousand pounds, he will go to Lord Denning and go often.

(Mr Gracey) Appeals do go to a local court which is a local body rather like a bench of magistrates.

723. Let us not go into detail on this. I would point out that the valuation over the country as a whole is not perfect. For

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example, we might give the case of farmers who do not pay rates anyway.

(Sir Lawrence Airey) I think it is accepted on both sides of the House that the present rating system has its defects and I understand there will be, in due course, a Green Paper on the subject.

724. We once had evidence from one of your predecessors saying that you left changes in taxation to the Treasury. We also, at the same time and during the same inquiry on it but on a different day, had evidence from the Treasury saying they left changes in taxation to the Inland Revenue. This, to say the least, did not give us a great deal of optimism about prospective changes in taxation. What I am trying to find out is whoever says that, for example, it is a gross unfairness to an industrialist in Slough that he should be forced to pay rates because Eton College does not pay any? It is a gross unfairness that some people are exempted from taxation while others have to pay more as a result. Do you ever say this to your Ministers?

(Sir Lawrence Airey) This is said to Ministers, not by me, but it is said by so many people that I do not think it is necessary to repeat it. I would be surprised—if it was the case that the Treasury left tax changes to us and we left it to the Treasury—if any changes took place at all. Both the Inland Revenue and Customs have views on what changes are desirable and these are conveyed to Ministers throughout the year.

725. We are not distinguishing between major and minor. I am perfectly well aware that before the war the income tax laws were a small book about an inch thick and now they are about six volumes. I am not talking about minor changes. Take mortgage interest relief. Was this not created in Edwardian times when hardly anyone was an owner occupier?

(Sir Lawrence Airey) Views on that would be put in both by the Inland Revenue and the Treasury because they both have an interest in the subject and it is not the same interest. The Treasury would see it as part of government housing policy as a whole; we would see it as taxation policy. Each Department's views would be put in to the Chancellor.

726. The reason it has not been changed for 70 years is because successive Ministers of the three different parties have been fed these views?

(Sir Lawrence Airey) I have not been in post for the last 70 years but certainly within the last few years and during the last five or six years when I was in the Treasury that issue came up time and time again. There are good political reasons for not making changes until you are sure of the nature of the change.

Chairman

727. That is an example of an issue which has been well worked over and which has, as you say, clear implications from both the Treasury and the tax side and it also has management aspects in terms of the impact on cost and collection. There are other kinds of changes where the case for them is fundamentally affected by possible changes within the way the Inland Revenue itself works and some of these are brought about, for example, by computerisation. To give one example, the possibilities of a local dimension in income tax are presumably transformed by possibilities of computerisation. In studying a question like that we have had, an external examination of the issue is no doubt ventilated from time to time by the Treasury and the Department of the Environment but it seems to me elsewhere the systems problem requires very detailed analysis, mainly based in the Inland Revenue, but with very strong policy implications. Would you care to comment on how questions like that can be properly considered from the effectiveness point of view?

(Sir Lawrence Airey) If you mean properly considered outside the Revenue, I think only on the basis of Green Papers and consultative papers. For example, 18 months ago we published an information document on the options for computerisation of PAYE and what changes it would permit in the longer term, including the one you have just mentioned. This is also one of the options which will have to be covered in any Green Paper which the Government may issue on alternatives to rates. If such a document comes out, we would have to contribute a section on that issue. Is that dealing with the question?

728. Are you saying that there is a Green Paper on its way?

(Sir Lawrence Airey) I am not sure I am entitled to say because it would not be from my department.

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729. We will not press you on that but a great deal of the planning for computerisation of the Inland Revenue is already complete?

(Sir Lawrence Airey) Yes.

730. And a great deal of the system study has been done. Does that provide for the possibility of local income tax?

(Sir Lawrence Airey) Yes, it would. It would be one of the preconditions necessary either for a self-assessment system or for local income tax, to have the PAYE system computerised and care has been taken to make sure that those options are kept open.

731. And the windows at which these possibilities can begin to be considered?

(Sir Lawrence Airey) It would be towards the end of the decade because plans already made show it would take us even at best up to about 1987 to have a computerised PAYE system operating in every office in the country so it would not be until after that that you could open up different policy options for new forms of taxation.

732. The original proposals for the computerisation of PAYE as drafted in the 1960s were scheduled in those days for completion in the mid-1980s. The proposals now relate to completion at about the same date. Would you like to comment?

(Sir Lawrence Airey) I am surprised if it is the case that the first round of computer proposals had such a long time scale because it was my impression they were aimed to be completed by the end of the 1970s, but this is a long time ago. The first system was set up in Scotland and this is at the time we had planned to extend that system over the whole of England and Wales but with the change of Government in 1970, which had a different set of tax priorities, that came to the end for the time being. When it was resumed in the mid-1970s, after yet another change of Government, we were looking at a completely different system technologically and experiments in that system which have gone on in the Bootle area led to the planning of the present proposals which have been taking shape over the last two years. We are now at the point of examining the machinery, the mainframe computers, which will become available over the next few months and the process of testing, design and installation will occupy us until 1987. I would be surprised if it was the case that the first round, which is now represented by Centre 1 at East Kilbride, had an implementation schedule as long as the 1980s, but I was not in the Department at the time.

(Mr Gracey) I cannot recall the date but we had aimed to have nine centres working rather earlier than you suggested.*

733. I think if you check the minutes of the Cabinet Committee meetings at the time you will find I am correct. The problem here is that one does have successive generations of technology coming in and an enormous inertia in the clerical system. At the same time there is a developing climate of policy debate. Would you say that with your experience of all aspects of this now that we have a satisfactory arrangement in which the best interests of both the taxpayer and the citizen generally are being served by the balance of responsibilities and the way they are discharged as between the Treasury and the Inland Revenue in bringing about the possibilities, taking advantage of them, competently responding to public feelings, needs and so on?

(Sir Lawrence Airey) Balance between the Treasury and the Inland Revenue—yes, I am not aware of any change that I would want to make in order to secure a different view at ministerial level on these issues. It does go wider than the Treasury and the Inland Revenue because other departments are involved, the Department of Industry from the point of view of the supply of the equipment and also the Department of Trade, the PSA and the Post Office; there is a whole range of departments involved. True, the Treasury and the Inland Revenue are at the centre but I cannot for the moment think of any change I would want to make in the division of responsibilities between those departments with a view to improving it. Nearly all of the responsibility in practice is lying with the Inland Revenue.

Chairman: I wonder if we could return to this after exploring some of the public's points of view evidenced at local enquiry office level? Could we move on to that area now? We will come back to the general policy area.

Mr English

734. How many accountants or people in general from the private sector do you have

**Note by witness:* At the time the programme was suspended by Ministers in 1971 it had been envisaged that computerisation of PAYE would be operating fully, nationally, by 1980.

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on first your board and generally in the organisation?

(Sir Lawrence Airey) In relation to the board it is about nine people, none in the department as a whole, about 40 professional accountants and there are a number of inspectors who are qualified in accountancy.

735. There are a lot of tax inspectors who go into the private sector?

(Sir Lawrence Airey) Yes, unfortunately.

736. I am glad you said that. Would you like to elaborate on that?

(Sir Lawrence Airey) It is unfortunate from our point of view in the sense they would be some of the best people and as it costs tens of thousands of pounds in training we do not like losing people. On the other hand they make a valuable contribution to the economy, judging by the levels to which they rise in the organisations they join.

737. In the United States, of course, they would be prohibited—there are various levels of prohibition—they would be banned for life in respect of representations on matters in which they participated personally. I know you cannot do this off the cuff but how many of your people who go into the private sector have gone into organisations with which they actually personally dealt?

(Sir Lawrence Airey) We do not keep figures of those. Of course the numbers I am talking about are very small, the reason I regret them leaving is they are often some of our better people.

738. Would you accept there are some?

(Sir Lawrence Airey) Some who join organisations with which they have dealt? I would not know. I have no way of telling. The process of recruiting these people is pretty public in the sense advertisements appear in the staff journals.

739. Do you not think it is unusual you do not know and that in the United States it would be a criminal offence?

(Sir Lawrence Airey) I would know in this country if the law of this country provided it was a criminal offence. As it does not it might be rather difficult to get the information.

740. There are lower levels of prohibition in the United States. You do not ban somebody for a general responsibility but there are prohibitions which do not exist in this country. Do you think it might be a good idea if they did?

(Sir Lawrence Airey) One has to look at the tax systems as a whole in relation to the social attitudes and values of the country concerned. That sounds a bit pretentious but it means you have to structure your tax system and your requirements on your own staff in relation to the society in which they work. The Americans have a lot of other powers like the power of random checking on taxpayers which we do not possess. We might have to look at those if we were moving towards a self-assessment system. Possibly the American provisions were introduced to meet some specific problem which we in this country may not have encountered; possibly they were losing large numbers of staff.

741. They have been revised recently but they originally came in in the 1860s. You would not agree with the opinion of the CSD which is that one can point to "a decline in the traditional ethics of public service"? It means in this country.

(Sir Lawrence Airey) I would not like to subscribe to that without careful thought. There may be areas where it is true but as a generalisation it is wide.

742. Do you really think as many tax inspectors leave to the private sector as, say, a century ago?

(Sir Lawrence Airey) One would have to look at the figures rather than arriving at a conclusion *a priori* on the subject.

743. Would it not worry you if you did not have the figures?

(Sir Lawrence Airey) Comparisons with a century ago are not relevant.

744. Ten years ago?

(Sir Lawrence Airey) Ten years ago, yes, and if our losses in that period had changed significantly we would be concerned but whether we would worry about it ———

745. You do not know the figures?

(Sir Lawrence Airey) We do know the figures.

746. Could you send us a note on that, over a reasonable period?

(Sir Lawrence Airey) Yes.[1]

[1]See Annex 1, p. 249.

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(Mr Houghton) Could I refer also to the evidence given by Sir William Pile at the Expenditure Committee on 26 March 1979.[1]

Mr English: I was there.

Mr Shepherd

747. We are all inheritors of the system we come into and it is often very difficult to imprint our own personality. One of the ways we seek change is comparisons with what is happening abroad and I notice the Inland Revenue has a foreign intelligence unit. Looking around do you feel we have the best administered tax system? Is that your feeling after reviewing the systems available?

(Sir Lawrence Airey) I have not been personally in my seat long enough or done enough foreign visits to have a firm view on that. I visited the United States and I have been very impressed with their tax system. It is very different from ours partly because of self-assessment and I think that has many virtues, not least in relation to the taxpayer—I think the United States taxpayer understands the system better than the UK taxpayer because he has to do more work on it. It has those benefits. Whether we are the best administered system is a matter of what criteria you are applying. In some respects, in integrity and competence and thoroughness and equity we are very high up in the international league and it could be that for those reasons we suffer in other respects such as the speed, cost and so on. In other words you do not get anything for nothing and if you push one of these objectives up you may find it is at the expense of something else. For instance, we could probably move faster if we were prepared to lower standards of accuracy or conversely if we pushed up standards of accuracy to minimise errors we might find we took longer or cost more.

748. Can you quantify the costs in change?

(Sir Lawrence Airey) At the margin you probably could. The examples I have chosen are not very well designed for that. It is very difficult to quantify the cost of reducing an error rate from X to Y because it depends on a lot of things which may not be easy to disentangle but in principle it should be possible to cost some of the marginal changes.

[1]HC (1978–79) 312–i.

749. Are the resources available for costing?

(Sir Lawrence Airey) Yes, because this is what we have to do whenever we consider a change in the law, which is pretty frequent considering the amount of new legislation in this field every year.

750. Who would be responsible? You said you had been to the United Stated and you had been impressed by certain of the features of their system which would have great implications for our own system. Who would be responsible for initiating changes of that order?

(Sir Lawrence Airey) In a sense that takes place at all sorts of levels. For instance, Members of Parliament who themselves see the system may put their views directly to the Treasury Ministers. Treasury Ministers, either from their own previous experience or in the course of their work, come to their own conclusions. Officials may put things to them. Frequently it happens that all these things are taking place at the same time. I cannot think of an example which has ever come from one single source. Self-assessment is something that everybody discusses who is interested in tax policy.

751. I am a little concerned that ever since I have been paying tax over some 20 years people have pointed to the merits of the United States experience and yet we have not changed the basic way in which we pay tax ourselves which would imply that we are either satisfied with it or that the difficulties of change are too great to overcome.

(Sir Lawrence Airey) There is another reason: mechanically we are not yet in a position to operate such a system. To operate such a system on the present manual basis would be very costly in terms of staff. We have to computerise the present system before these options open up. The American system produces much lower costs in terms of staff in the tax office but it puts higher compliance costs on the individuals. Half the American population has to employ advisers to fill in tax forms. It also involves statutory powers and controls to operate the system. The Americans have various statutory powers which we do not have. There is more to self-assessment than merely saying, "It would be nice to change over".

752. Presumably looking forward to the present system being computerised, you have made estimates as to the staff savings?

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(Sir Lawrence Airey) Indeed. That is the whole economic justification of computerisation. The CSD require us to achieve a certain level of return in real terms on investment in computers and the main component of that is the staff savings over the period.

753. What staff savings do they point to?
(Sir Lawrence Airey) In this particular case of the Schedule E it would be something like 6,800 over a period of five years.

754. Out of a total employed in administering Schedule E?
(Sir Lawrence Airey) The present total in the Revenue as a whole, which includes valuation and other departments besides tax, is about 73,500.

755. It seems a very small saving.
(Sir Lawrence Airey) It is a big saving in the number of people engaged on Schedule E which is about 35,000. It is a big enough saving in terms of cost to show of the order of 15 per cent return on the investment in hardware.

756. You said in your evidence that general comparisons are not possible; what about on a specific or local level? Are comparisons possible?
(Sir Lawrence Airey) With other countries?

757. Yes.
(Sir Lawrence Airey) Operationally I should say yes but this is not something I have looked at directly myself.
(Mr Gracey) I have seen the American system and one or two others and I think comparison is enormously difficult because the systems are structured in such a very different way. If you go to Sweden, for example, you have what was originally a local tax and still has very strong local elements and the national income tax is built up on top of that. We have done things exactly the other way round. We have a national income tax with taxpayers grouped, as far as employees are concerned, by their employers, with no local link at all. Although these are both income taxes they are so very different that I think it is almost impossible to make a very useful comparison.
(Mr Houghton) You can also find the situation where, although there may be resemblances in relation to a particular tax, the administration is different in itself. In the German system, for instance, if you get down to a tax office you find the tax inspector sitting there, not only with corporation tax but with turnover tax and capital tax and he has three files in one room.
(Mr Gracey) The public attitude to taxation is very important. In some foreign countries you will find the person in charge says he wants to see somebody and sends him a letter saying, "Please come to my office at 9 o'clock next Monday morning", and he will be there. We do not do that and I would not want to see that sort of thing happening. The relationship between the individual citizen and the bureaucracy is very different in many other countries.

Mr Shepherd

758. What about the comparison of inquiry offices?
(Mr Gracey) You mean the local inquiry offices we have spoken of?
(Sir Lawrence Airey) I think only between Scotland and England!

Chairman

759. I think we will come back to these general points.
(Mr Gracey) They very much reflect the set-up we have of pay as you earn offices in one place and individual taxpayers in other places.
(Sir Lawrence Airey) They have only been necessary since we moved the PAYE offices. Taxpayers ring in where they cannot go to their local office.

760. It is entirely appropriate that you should have brought somebody from Aberdeen to answer questions about local enquiry offices but could you or perhaps Mr Gracey explain what Scotland has done to deserve five local enquiry offices whereas the rest of Great Britain only has four and there are 26 district local enquiry offices but only 53 in the rest of England and Wales?
(Mr Gracey) The reason is that we have computerised pay as you earn in Scotland and we have not yet done so in the rest of the country. Pay as you earn in Scotland is centralised at East Kilbride and there is no local pay as you earn.

Mr English

761. You mean computerisation produces more in terms of offices as a percentage of the population?
(Mr Gracey) I mean in Scotland the tax office is in one place. It is concentrated for all pay as you earn taxpayers in one place

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in East Kilbride and there are no local pay as you earn offices. The local taxpayer cannot be expected to go to East Kilbride and we have to set up a local office for him to go to.

Chairman

762. But a consequence of this is, because of the computerisation in general organisations, that you are able to deal with ten inquiries from Scotsmen in the time it takes you to deal with seven inquiries from Englishmen.

(Sir Lawrence Airey) Yes, there is also that. You will not get this in the English system because we are moving towards a system where the existing office staff have computer terminals, VDUs, on their desks so it will not produce that effect.

763. Could I ask Mr Scott because of his direct experience of dealing with the public: in the returns that you make about the interviews that you have you report the way you dealt with the enquiry, whether it was dealt with by handing over a form or referring to a tax inspector or anything like this? In our experience as Members of Parliament we get a wide variety of tax cases raised by constituents and I think all of us detect patterns in this, certainly one pattern I notice is there seems to be a large number of enquiries by widows shortly after they have lost their husbands because of the system of different sources of income and so on. Do you break down in the public enquiries sources of difficulty from the public's point of view?

(Mr Scott) The position in the enquiry office locally is that now the widows often come to us whereas before, before the enquiry office network was set up with Centre 1 being started in 1968, they could go to local districts. Now what happens is that widows are able to come to us and explain their problems. Although their tax records are not held by the enquiry office the staff in these offices are able to be sympathetic in their attitude to the widows, explain the tax position the widows would be placed in immediately after, and take steps to pass on the necessary information to the widow's tax districts. In Scotland about 95 per cent of the cases are Centre 1 cases so that district can take steps to adjust the code numbers.

764. Do you report up the line there has been a big increase in, let us say, tax problems raised by a particular type of person?

(Mr Scott) When a situation like this happens the local manager would include information on this basis by means of a narrative report to his superior.

765. Can you tell us what happens to these narrative reports, Mr Kemp?

(Mr Kemp) Actually the narrative reports Mr Scott referred to are made to the regional controllers in each particular area. A copy is sent to us for our records so we can identify any problems. Basically because of regionalisation they go to the regional controller who would vet them and take any necessary action.

766. Where do they go from the regional controller? How long does it take for some problem appearing from the public to manifest itself to the board?

(Mr Kemp) If somebody came in with a particular problem which we could deal with at our level the enquiry office would deal with it immediately, if it were of great urgency in their view they could telex a message to the necessary office holding the papers and ask for action and a reply in 30 minutes.

767. I am not talking about individual cases which are clearly dealt with in the way you describe but more general problems from a large class of taxpayer which requires action from the board in the form of an extra statutory concession, something like that?

(Mr Kemp) We would and do make a report to a liaison committee which looks at problem areas at enquiry offices and therefore the problems in that field are directed to them.

(Sir Lawrence Airey) The only problem that has come up from local enquiry offices to board level in the time I have been there is the question whether they were all needed in terms of the usage. This problem related to London and about a year ago I took a decision on the basis of the figures of usage of the London offices to close one of them down, which was done. This is the only occasion I can give when local enquiry office matters have been considered at board level.

768. You do have now a system where Members of Parliament can raise questions directly with local tax offices but you seem to me at board level not to have any sampling system within the Inland Revenue

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showing where from the public's point of view the problems are arising.

(Sir Lawrence Airey) We do not do an analysis of complaints, they are dealt with in a lot of different ways, partly from local tax offices, partly in consultation with Treasury ministers, partly in writing direct to me, there is a whole range of different approaches. We do not add them all together and analyse them and break them down and say "This year there are more widows complaining whereas last year it was divers in the North Sea." We do not do that and on the face of it I am not sure what useful management information we could draw from that. We do know where the shoe pinches in terms of operating the system. In other words if some bit of the system is badly designed and producing a lot of friction from the public it is picked up quickly either through individuals or through associations representing particular interests. We do not, as far as I know, analyse complaints as such—complaints that reach us in the form of telephone calls or letters.

769. Do you do it in the sense of putting out positive questions which can be responded to from the local enquiry office level?

(Sir Lawrence Airey) We do, if I have understood you correctly, do some forms of research to find out if our forms are comprehensible. We try them out on a panel of taxpayers.

770. I am thinking in particular of extra statutory concessions relating to electricians employed by contractors, which was a problem raised by the ETU with you recently. That would be something which would come up to a large number of local enquiry offices responded to differently by different tax inspectors with the board, possibly, not being aware that it was a problem until it was raised by the ETU some two years after it had become a problem with a lot of taxpayers.

(Sir Lawrence Airey) I think that issue would frequently be raised with us by representative bodies. I can think of a current instance where that situation has developed. There was a change of view towards travelling expenses of lorry drivers which has created quite a considerable amount of discussion and argument in individual cases. That certainly falls within the description that you have given. I am not sure we send questionnaires down the line to ask what pattern of complaints or problems are arising but all these issues do come up at our regional controllers' conferences. The regional controller was mentioned a few moments ago and these officers, who are at near under secretary level, have conferences every few months with head office officials, including Mr Kemp and Mr Gracey, and these issues come up.

(Mr Gracey) I can only say that if we get this kind of general issue we find it comes to the top pretty quickly without our needing to go and ask for it. There are different mechanisms; it may come up through the region or a report to head office or through Parliamentary questions or correspondence.

Mr Eggar

771. If I can ask you a few questions about your office, Mr Scott. How many people do you have working for you?

(Mr Scott) Five tax officers, that is equivalent to clerical officer grade, and one typist.

772. Is that the appropriate number?

(Mr Scott) The appropriate number, based on the traffic flow at the current time. The staff complement is controlled centrally through the head office unit, Mr Kemp, and as a result of our staffing investigation last year our complement was reduced from six to five. It is part of my function as a local manager in submitting my narrative reports which go to head office twice per annum to make a comment on the effects on my staff numbers.

773. Previous to the review taking place, had you recommended that you should shed one person?

(Mr Scott) No, I had not, because at that time we were working one short anyway and we had been for two and a half years, due to replacement of staff because Aberdeen is a difficult area for recruitment. If I can elaborate, the point was touched on earlier: PAYE experienced staff are centralised in East Kilbride. There are also some in the London provincial districts, in Glasgow and Edinburgh but the number of PAYE experienced staff is diminishing as time goes by so therefore it was unable to recruit anybody from Aberdeen and one had to look for staff elsewhere and we were unable to get anybody.

774. But you never said, "It does not matter that we cannot recruit anybody because we do not need anybody"?

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(Mr Scott) No, I did not say that. I felt that we would have operated quite well with six officers. What you have to bear in mind is that we do not have a constant flow of traffic at all times. We have a situation where you have peaks and troughs and occasionally during the times of peaks of traffic, five officers is not enough. You could adequately cope with six or seven.

775. And when you have the troughs one or two might do?
(Mr Scott) No, that would be insufficient.

776. You have gone up to seven; what do you go down to?
(Mr Scott) Our complement is currently five tax officers. If that were to be reduced to one or two it would obviously be impossible to cope with the traffic flow even in quiet periods because you have telephone calls which are spread evenly throughout the day from 8.30 to five. The office is open to the public from nine to four to allow personal calls so there are other areas of work which the staff can deal with during the quieter periods when the office may not be busy with personal calls.

777. What is the cost per square foot of your office?
(Mr Scott) I am afraid I cannot answer that question.

778. Is that because you have never been given the information?
(Mr Scott) The information has never been given to me.

779. So you are not aware of the total running cost of your inquiry office which you head. Do you have any spare space in the inquiry office?
(Mr Scott) I would say that———

780. You hesitate.
(Mr Scott) No, I am thinking carefully before I answer. We have provision for about 16 chairs to allow the public to be seated. We have one private interview room, the general office, the staff general office, my office and the common room.

781. How do you decide whether one member of your group is actually performing well? What criteria do you use to evaluate how well they are doing?
(Mr Scott) There are a number of ways. One can look physically at their notes of interview, the written correspondence that that officer may pass on to a district, by monitoring telephone calls and by listening to the actual interview that takes place.

782. You then make an assessment, do you?
(Mr Scott) Yes. As part of the normal work report on that officer, all these factors will be taken into account including the attitude of the officer to the taxpayer, the sympathy and understanding shown, the technical ability of the officer and so on.

783. How do you decide how a particularly able officer should be promoted? Do you ensure that you write a good report? Do you advise that he should be paid more? How do you motivate him?
(Mr Scott) There is a standard staff report for tax officers in the Revenue that would equally apply in tax districts as it does in the inquiry office. Work in the inquiry office is more confined than it would be in a traditional tax district but the various merits or otherwise of the officer are reflected in this report and there is also a part of the report which asks that the reporting officer make a recommendation on whether the particular officer is suitable for promotion and would he give his reasons for recommending that.

784. Do you, as a manager, wish that you were able to give merit payments?
(Mr Scott) No, I have no desire to do that at all.

Chairman

785. Would you like to get merit payments?
(Mr Scott) No.

Mr Eggar

786. Why not?
(Mr Scott) What would be the criteria for determining merit payments? It is a difficult area if you have ten officers whom one could consider fit for promotion. At what degree do you decide if you are going to pay a different amount of merit payment to each of these ten officers?

787. On the down side could you tell me how many people have been sacked from the Inland Revenue that you know of personally since you have been working for them?
(Mr Scott) I am not aware of any personally.

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788. Has anyone been demoted that you know of?

(Mr Scott) When I say that, can I qualify that by saying the weekly departmental notes issued by the Department show names of people who are sacked but I know personally of none and it has not been my experience in any office that I have been aware of that anybody has been dismissed.

789. How long have you been in the service?

(Mr Scott) I have been in the Inland Revenue since 4 June 1962.

790. So in 20 years you have never known personally anybody who has been demoted or sacked?

(Mr Scott) Not in the offices I have worked in.

791. Do these notes that come round say, "Mr J Bloggs, fired", or do they say that he has been resigned?

(Mr Scott) "Dismissed" I think is the term.

792. Rather to my surprise you mentioned that your officers had to deal with 'phone inquiries. I thought the officers primarily were there for personal calls at the office.

(Mr Scott) No.

793. I was obviously wrong but would it not be possible to ensure that all 'phone inquiries went through to a central place in Scotland—ie, East Kilbride—and that you were only there for personal inquiries? What would be wrong with that?

(Mr Scott) Do you mean by that that we would reinstate the Freefone system so that the person making the call to East Kilbride from Aberdeen would not have to incur the expense of the trunk call or are you saying that these calls should be generated and the person has to pay for his call?

794. I am not talking about the cost. I am surprised one of the things that has not happened is that we have a toll-free calling system as in the States. Why should you be receiving telephone calls? Why can it not go through straight to the centre at East Kilbride?

(Mr Kemp) We get many telephone inquiries, more than 50 per cent. We find that besides giving the service to the public, the other part of the job of inquiry offices is to relieve the districts of constant interruptions. They have their work to do and in a busy office the 'phones never stop ringing and people spend an awful lot of time on the telephone. It is the same as if they go to the counter; there is that interruption factor in the work. Out of the 2.2 million, over 1.2 are telephone calls we deal with. Obviously they are not all to Scotland but they would all be re-routed to the centre which is like the London provincial districts who took the work from London. It would be an expensive business for taxpayers to telephone and it would interrupt the work of the district considerably.

795. But you have presumably done a very careful cost-effective analysis of whether it is better to have extra staffing in the local inquiry office to deal with telephone calls rather than have them all centrally where the central records are kept?

(Mr Kemp) It is very difficult to cost this because we are never sure how many of our inquiries would develop into written correspondence. Would these people write if they are not helped? We think the vast majority would.

796. Why should somebody at the central telephone area—ie, East Kilbride—be less efficient and clear on the telephone than somebody in the Aberdeen office?

(Mr Kemp) I am sorry, I do not think I said that. What I said was if the call goes through to them there are so many of them, one, it would swamp the switch board and, two, it would have to be answered by experienced officers with the records and this would take a lot more time. 75 per cent of the calls that go to the enquiry office are cleared without them going to the tax office concerned.

(Sir Lawrence Airey) Some of these decisions are taken at a higher level. Up to about a year or two ago there was a Freephone system whereby people could make these calls; we thought that was necessary because if there was no such system it was difficult to see how a taxpayer could get a direct verbal reply without incurring a telephone charge. However the system was so expensive that we stood the system down.

(Mr Gracey) If you have a local enquiry office and you tell them they have only to deal with personal calls and not telephone calls the peaking problem is worse because the telephone calls come in fairly regularly.

(Sir Lawrence Airey) If I could answer on this question of dismissals. It is true

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there are not many dismissals and the dismissals are for misbehaviour rather than for what you had in mind—general failure and incompetence. That type are generally weeded out by failure to get through probation and many hundreds do not get through on that, but they are not counted as dismissals but known in terms of non-engagements. Likewise retirements for inefficiency and deterioration: again they are not dismissals but premature retirements.

797. Perhaps you could give us a brief paper on this?[1]

(Sir Lawrence Airey) Yes.

(Mr Gracey) Could I comment that it is not a simple matter of somebody not being confirmed at the end of his probation. It does sometimes happen if people are not doing very well they are told they are not doing very well and they realise they will not be confirmed and they resign and go somewhere else.

Mr Eggar: Yes, there are lies, damn lies and statistics.

Mr English

798. Perhaps your statistics would indicate how many of these resignations are of that nature?

(Mr Gracey) No, they do not, a resignation is a resignation.

799. When Mr Eggar was asking about merit pay you brought in the question of promotion. Merit pay is an alternative to promotion or an addition to promotion. The question you really should be asked is, would you like to be able to give a person you did not think suitable for promotion but who is very good in his current job more money?

(Mr Scott) My personal answer is yes.

800. I would like this question answered in order of juniority because in my view it is of some importance to the country as a whole. Part, not by any means the whole, but a very large part of the DHSS is responsible for considering and assessing people's incomes in order, in their case, to pay out money. We have never succeeded—rightly and understandably—in creating a system whereby we tax incomes and pay out money because the problems or administrative expertise are in two different places. Do you think it would be of any advantage if, leaving out the question of policy and decision making, the administrative work of dealing with individual people, not corporations, and their incomes and deciding whether they should be paid money or taxed was dealt with in one organisation? It would have to be a quasi-corporation like the Inland Revenue, of course.

(Mr Scott) Working hand in hand?

801. The policy would come down from the Government but given that you are supposed to know what you are doing, would it be a good idea to do it all in one place?

(Mr Scott) I have never given this matter much thought actually———

802. I understand that.

(Mr Scott) I do not think I can really give you an answer to that, not knowing about DHSS matters.

(Mr Kemp) It is rather difficult for me to answer. I feel the Revenue and the DHSS in their basic training and work programme would be so different we might have to extend the training of staff to cover a wider sense of performance. This problem is going to be partly determined if they tax unemployment benefit. At the moment I do not really know what the effect would be on the Inland Revenue offices, whether it would create more or less work, but basically we might find a difficulty in covering the two sources of legislation.

803. They might, of course, become one if this happened, that is the point I am trying to make. Your mention of training has handed it on to Mr Houghton.

(Mr Houghton) Yes. I think the area of overlap is growing rather than decreasing, a good deal of work has been done under successive governments on the possibility of a tax credit system but there are serious problems which would have to be overcome, particularly in the management area. It may be that if one were to come back to this question at a time when the degree of computerisation is more advanced the questions which have given rise to such difficulties over time would appear easier but it is very much crystal gazing.

(Mr Gracey) It is a very interesting question and it is difficult to answer briefly. On the whole I would say not for this reason: what the DHSS are doing, in essence, is looking at an individual's position on a weekly basis and saying "How well off is he this week and the following week and does

[1]See Annex 2, p 250.

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he need topping up now?" We, in the Revenue, are not as up-to-date in people's affairs in that way.

804. What about PAYE?

(Mr Gracey) That is administered by the employer. Until the end of the year we do not know what the taxpayer has earned or what tax he has paid. We get a form from the employee, we allocate a code number and the employer sends us a cheque but we do not get any current information about pay and tax in the normal straightforward case until after the end of the year and that is when we review his income, retrospectively. At the moment the two systems are very different indeed and I think the differences are such that if you tried to merge them you would probably not get any significant economies. As Mr Houghton says in the future things may be different but at the moment I would be against it.

805. What I was wondering, with some experience in industry, if we merged the organisations before we merged the legislation, it might just be that we might create a more efficient system in the end because the organisations would say "This is how you should change the legislation".

(Sir Lawrence Airey) I agree with Mr Gracey: he has put his finger on the essential difficulty of the case. As I understand it it is not whether it would be difficult but whether it is desirable and if the question is whether it would be desirable I would agree, yes it would be. The reason no government has been able to do this, although it is desirable, is that it would create a lot of problems. I think that Mr Gracey is also right that so far no government—and each government for many years has looked at this problem in different ways, in other words whether in the form of a negative income tax or whatever—has yet been able to tackle the practicality problem. Yes, it would be desirable but so far nobody has been able to find it practicable.

Mr English: That is why I asked.

Chairman

806. I think that concludes the question we wish to ask about local enquiry offices. May I ask one question on staff inspection. You have a senior principal who is in charge do you? Does this mean that in fact staff inspection only deals with staff below that level?

(Sir Lawrence Airey) No, but perhaps Mr Houghton might add something.

(Mr Houghton) No. The level at which the inspectors are graded does not have an impact upon the area which they can operate in. For example, two or three years ago, the under-secretaries in the Inland Revenue were staff inspected themselves. That inspection was carried out under the surveillance of an assistant secretary from the CSD helped by a member from the Inland Revenue.

807. Would you think that if, in fact, the lessons of the Rayner Inquiry are that it sometimes is useful to have a more senior person doing more or less staff inspection-type work, might this not suggest that this should be treated at a more senior level.

(Mr Houghton) I think it depends whether you are looking at a one-off operation or a continued operation of a staff inspection type. I think there is perhaps something to be said for deploying the technique that has been adopted in the business world of using senior staff to take a look at a particular area and this is something that might be advantageously developed.

808. Do you think that the Inland Revenue is a sufficiently large organisation for that occasional special look to amount to a regular assignment for a small number of more senior people than are at present employed for staff inspection?

(Mr Houghton) There is a danger, if it became a continuing assignment, that it would lose the momentum and freshness of approach that one gets when it is done on a one-off basis.

Mr English

809. When the organisation last came before us, I asked how many of your 78,000 people were actually engaged full-time on research into the impact of taxation and the answer was none. Is that still true?

(Sir Lawrence Airey) We have a large number engaged part-time but we have no full-time researchers because the full-time research is carried on outside the Department.

810. Is it a good idea to always do it out of house instead of in-house?

(Sir Lawrence Airey) We try to do it where it can most effectively be done. We reckon the best people to do it are the people who are directly involved in the area

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in which they are researching. Out-house it is done principally by academics who are full-time on that project.

811. But any industry as large as yours would have a research department of its own as well as commissioning others.
(Sir Lawrence Airey) Our industry is a rather special one in relation to its product.

Mr English: No; banking has money as well.

Mr Shepherd

812. Do you see the incidence of dishonesty increasing in recent years? When you review the information coming up through the system, do you see trends like that?
(Sir Lawrence Airey) Anecdotally one gets the impression that tax evasion is on the increase. More is said and written about it; it is very difficult to turn that into measurements. We have been devoting a lot of effort to it and people in other parts of the world have found the same difficulty as we have in assessing the depth of tax evasion. It is very difficult to measure so we cannot say there is any statistical evidence that this phenomenon is on the increase. It is too difficult to measure in one year, to compare one year with another.

813. Presumably you look across a sample range?
(Sir Lawrence Airey) Not quite, because we do not have powers, unlike the Americans, to take samples of taxpayers. We have to examine such information as comes to us through the tax system and add it to such information as appears to be available outside and arrive at a representative figure. The CSO do it by comparing national measurements of expenditure and income and looking at differences. This leads them to somewhat different results but they do not disagree totally; they point to a figure in our view of between six and eight per cent GDP which, by international standards, is pretty good.

814. What is six to eight per cent of GDP?
(Sir Lawrence Airey) In money terms?

815. £10 billion?
(Sir Lawrence Airey) I cannot do the sum in my head but the tax on that amount would be roughly £4 billion, that is the figure we gave to the PAC earlier this year when they asked the same question. It is very comparable with the American figure although that is now four or five years old.

816. On the powers you are short of—it surprises me as a taxpayer because I thought you had total power!
(Sir Lawrence Airey) That is a common impression.

817. What sort of additional powers would you need?
(Sir Lawrence Airey) The Americans have powers to make random checks. They can pick a number off a computer and investigate the person. We can only investigate when there is a *prima facie* case that the returns are deficient or wrong. We have no power to do a random sample and we therefore cannot do sampling.

818. Much of the incidence of dishonesty on tax returns must centre on the black economy. One hears from time to time of how to get to grips with the black economy, such as payments for a service for people not registered for VAT should be deductible against one's standard rate of income tax. Would that be an impossible task to quantify?
(Sir Lawrence Airey) The figures I was quoting are essentially attempts to measure the size of the black economy, ie what proportion of the economic activity does not come within the purview of the Inland Revenue. We have given a figure of 7½ per cent but the half is not realistic, it is somewhere between six to eight per cent. Whether you can get at it depends very much on what you think it consists of and clearly a great deal consists of a large number of relatively small sums which are earned on the margins of people's activities. One can in principle get at that but they are very non-cost effective—it might cost more to get them than they are worth.

819. That is the equation I was trying to reach for. Clearly in a time of very high unemployment such as now there is a debate as to who is unemployed and clearly if one were bringing into the tax system by deducting from PAYE, your own PAYE, in the form of allowances to people who may not presently, through dishonesty, fall within the tax system that would narrow the amount of benefit you are distributing through the DHSS and welfare payments. I wonder is there some form of unit which

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can try and quantify the pluses and minuses of an equation like that?

(Sir Lawrence Airey) We do a lot of work in this area, calculating an effective way of allocating resources. The problem is very much one of cost effectiveness and economical ways of retrieving this tax.

820. The converse of my equation, that some of those people who are presently in the black economy are presumably claiming benefits, would not form part of the collective analysis you would be doing?

(Sir Lawrence Airey) They would in principle but it is difficult to see how they would fit in. We are estimating the incomes which are not directly under our scrutiny and some part of those would be benefits.

821. Would the work involved in allowing this, as a hypothesis, put a great additional burden on the Revenue?

(Sir Lawrence Airey) I would say at first sight, without having analysed it, yes.

822. Might it be the primary objective to review it?

(Sir Lawrence Airey) Yes, most of the difficulties we have in dealing with this area are difficulties of using our staff resources economically and effectively.

823. It seems to me that so much of the impetus of change comes from businessmen in all our constituencies and they put forward proposals and they feel they are speaking on the wind, that they are not analysed nor seriously considered because the resources are not there and we are bound to the traditions of a system which is largely self-generating.

(Sir Lawrence Airey) No, I do not think that is true at all. If we can devise methods of getting at some of the tax which ought to be collected we would do so. We have set up various pieces of machinery like Special Offices, of which there are now seven in the country as a whole, dealing with particular types of trade where tax evasion is common. We do work and are working constantly in this area. Whether the phenomenon is continuing we do not know but there are resources to control it.

824. On a slightly different matter, the role of staff in helping the Board achieve its objectives in terms of efficiency and effectiveness, are they an impediment?

(Sir Lawrence Airey) No, I think it would be true to say that all of our staff associations, but in particular the IRSF (representing the great majority of our numbers) have been very understanding and reasonable about the sort of developments that we foresee, including new technology and computerisation. I cannot think of any case where they have obstructed any development we wanted to make.

825. Have they slowed down the introduction of micro-technology?

(Sir Lawrence Airey) Micro-technology is partly a general service issue because the Civil Service Department are negotiating some sort of agreement with the unions but our own Department have not had difficulties with our own unions in that respect.

826. And the introduction of the computer system that you were talking about?

(Sir Lawrence Airey) Again, we have joint discussion and consultation machinery and we have not encountered any obstruction or resistance from the Federation on that issue.

827. And it could not have been introduced any faster or sooner?

(Sir Lawrence Airey) No, the delay introducing it is purely on technological and developmental issues, not obstruction by members of staff.

828. And the figure you gave earlier that it would involve in saving on PAYE of about 6,500 on an overall staff commitment of something like 35,000—that is deemed to be a satisfactory saving by the Board?

(Sir Lawrence Airey) It is the maximum saving that we can achieve with this type of computerisation. It will be achieved over a period so clearly it will be achieved by natural processes of wastage rather than redundancy so it presents less difficulty for the unions.

829. That is an outside view as well? Computer manufacturers would say, "This is the order of staff saving that one would reasonably expect to achieve"?

(Sir Lawrence Airey) We have had this programme crawled over by researchers, advisers and consultants and researchers' advisers and advisers to consultants.

Mr Shepherd: One is always frightened that you may install a computer without having made any economy of staff.

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Chairman

830. Can you tell us what the Inland Revenue get in terms of additional tax revenue that would otherwise not be secured for each officer employed on fraud work?

(Sir Lawrence Airey) It depends in what area he is employed. By fraud, do you mean evasion generally?

Mr English

831. The total, averaged for the Inland Revenue.

(Sir Lawrence Airey) That is totally different. That total averaged———

Chairman

832. No, specifically on fraud work.

(Sir Lawrence Airey) The figures I gave to the PAC are still valid: between four and 18 times his total costs.

Mr English

833. What does that involve?

(Sir Lawrence Airey) Four to 18 times £10,000 a year. That is the direct yield but there could also be indirect yield because the presence of the Revenue in a particular area may improve total levels of compliance.

Chairman: May I say, in conclusion, that we did have some discussion as to whether it was fair or effective to ask you to bring a full set of line managers. May I say that I think that both from our point of view and from your point of view the experiment was amply vindicated. Thank you for coming.

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ANNEX 1

Note by the Board of Inland Revenue

TAX INSPECTORS TAKING UP OUTSIDE APPOINTMENTS

1. We were asked to supply a note[1] about the number of Tax Inspectors taking up outside appointments in recent years after leaving the Civil Service under the standard rules governing the acceptance of outside business appointments by Crown Servants.

2. Tax Inspectors range from HEO level to Senior Principal Inspector (between Under-Secretary and Assistant Secretary); above Senior Principal Inspector they enter the Open Structure and cease to be Inspectors. In a total Inspectorate of 6,500 or so, the large majority—about 4,400—are in grades equivalent to SEO or HEO; most Inspectors in these two grades have had only limited technical training. Generally speaking, Inspectors at all levels are not in direct contact with the businesses whose tax liabilities they are examining except in the smaller cases; their contacts will normally be with the professional accountancy advisers of those businesses. An Inspector is likely to deal with the liabilities of many businesses in any one year; at one extreme, the number may run into several hundreds, though the number will be smaller where the businesses are large or complex.

3. The question for consideration when an Inspector proposes to take up a business appointment is whether there has been contact with the prospective employer, as described in the rules mentioned in 1 above. We interpret those words as applying where the prospective employer is a business with whose tax affairs the Inspector had been dealing. There are a few such cases. The reason for this is no doubt that a large business which sets out to recruit a Tax Inspector will see little advantage (quite apart from its own views on propriety) in going for the individual who has been dealing with its own tax affairs. What the concern will want, on a long-term basis, is a high level of specialised training and experience (possibly in a particular field) and proven ability in interpreting a complete tax system which is subject to substantial changes in successive years. Recruitment is often through the medium of advertisements in staff journals—see the examples attached.[2]

4. Comprehensive records are not kept for Inspectors at the two junior levels (SEO and HEO). Inspectors in these grades who take tax jobs on retirement or resignation are likely to do so with such bodies as accountancy firms or tax departments of banks, etc, where they deal with the personal tax affairs of individuals. In grades above SEO level, the number of Inspectors who have resigned to join businesses or professional firms over recent year is as follows:

1973	9 including	8 open entrants
1974	5 including	3 open entrants
1975	2 including	— open entrants
1976	Nil including	— open entrants
1977	12 including	7 open entrants
1978	11 including	9 open entrants
1979	15 including	14 open entrants
1980	7 including	6 open entrants

During the last four of these years, the CSD were consulted under the rules mentioned in 1 above in two cases, because of previous involvement with the tax affairs of the prospective employer. Approval was made conditional on a cooling-off period during which there was no such involvement.

5. Although the numbers in 4 above are not large absolutely, the number of open entrants represents a significant loss of resources when seen as a proportion of open entrants recruited each year. Recruits in recent years have been:

1977	79
1978	95
1979	51
1980	42

8 *December* 1981

[1]Q.746.
[2]Not printed.

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ANNEX 2

Note by the Board of Inland Revenue

TERMINATIONS OF APPOINTMENTS FOR REASONS OF INEFFICIENCY

1. We were asked to supply a note[1] on "terminations" of staff for reasons of inefficiency. The figures are as follows:

	Year ended 30 June					
	1977	*1978*	*1979*	*1980*	*1981*	*Total*
(i) Appointments terminated during probation/trial—inefficiency	104	88	62	58	76	388
(ii) Premature retirements—inefficiency	5	2	2	4	3	16

Item (i) shows the number of officers who failed to achieve a satisfactory level of work performance or attendance during the period of probation. Item (ii) gives the number of officers whose performance deteriorated to such a level that they were prematurely retired on inefficiency grounds following a retirement board.

2. As an alternative to premature retirement, inefficient officers may be downgraded. In the two years 1979 and 1980, five officers were downgraded compulsorily and four requested downgrading on being notified that they would have to attend a retirement board.

3. A number of officers resign during probation/trial because they are aware that they cannot expect to be confirmed, but such resignations are not separately recorded.

8 *December* 1981

[1]Q.797.

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WEDNESDAY 18 NOVEMBER 1981

Members present:
Dr Jeremy Bray, in the Chair:

Mr Anthony Beaumont-Dark
Mr Timothy Eggar
Mr Michael English
Mr Richard Wainwright

Memorandum submitted by the Department of Health and Social Security

Questionnaire to Departments: DHSS Response

Introduction

1. The "Handbook of Key Facts"[1] supplied with this response gives background information on the five different businesses with which this Department of 97,000 staff is concerned: social security, hospital and community health services, family practitioner services, centrally-financed services and personal social services. The figures in it, which are drawn from several sources, provide a broad indication only of the level and breakdown of spending. They cannot be compared directly with the tables supplied in response to Question 1 which, as the Sub-Committee requested, are based on the 1981–82 Estimates.

2. There are especial differences between the social security operation, which concerns the vast bulk of the Department's staff and which is directly administered by DHSS, and the provision of health services, which is largely devolved to health authorities within a framework of national policies and guidelines.

Scope of answers

3. As appropriate, some of the answers relate only to the work and management of the Department itself, and *not* to the work of its agencies such as Health Authorities. Each answer will make its scope clear.

Q.1. *The Sub-Committee would like to have broad outline of how the Department spends the money for which it is responsible. Using the 1981–82 Estimates and distinguishing in each case the largest items of expenditure, please divide total expenditure between:*

a. manpower

b. administrative costs

c. grants and loans to other bodies (separately)

d. purchases of goods and services

e. other expenditure, mentioning significant offsetting receipts.

REPLY

Estimated Expenditure 1981–82

A. SOCIAL SECURITY BENEFITS

a. *Contributory benefits paid from National Insurance Fund*

	£M GB
Retirement pensions	11,980
Widow's benefits and guardian's allowance	709
Unemployment benefit	2,004
Invalidity benefits	1,290
Sickness benefit	663
Maternity benefits	176
Death grant	17

[1]Not printed.

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Industrial injuries benefits:		
Injury benefit		49
Disablement benefits		329
Death benefit		47
Other benefits		5
Lump sum payment to pensioners		98
	TOTAL	17,367

b. *Non-contributory Benefits paid from Voted Money*

	£M GB
Non-contributory retirement pension	38
Attendance allowance	280
Non-contributory invalidity pension	122
Invalid care allowance	7
Mobility allowance	161
War pensions	476
Lump sum payment to pensioners	5
Supplementary pensions	1,308
Supplementary allowances	3,045
Child benefit	3,385
Family income supplement	59
TOTAL	8,886

B. ADMINISTRATION

	£M
i. a. Salaries etc	631
b. General Administrative Expenses	116
c. Telecommunications Services	17
d. Computers—Purchase and Maintenance etc	29
e. Commissioners, Referees, Tribunals, Medical Boards etc	22
f. Post Office Agency Charges	240
g. Miscellaneous	3
LESS offsetting receipts mainly from National Insurance Fund	506
TOTAL	552

C. HEALTH AND PERSONAL SOCIAL SERVICES (ENGLAND ONLY)

1. HOSPITALS AND COMMUNITY HEALTH SERVICES	£M
1.1 Regional, Area and District Headquarters	416
1.2 Regional Services (Ambulance, Blood Transfusions etc)	361
1.3 Patient Care Services	
1.3.1 Direct Treatment—Staff	3,078
1.3.2 Direct Treatment—Supplies etc	601
1.3.3 Support Services (eg Pathology, Radiology)	617
1.4 Administrative Support Services in hospitals etc	440
1.5 Catering, domestic, portering, transport etc	1,246
1.6 Estate Management	765
1.7 Other Services	189
1.8 Capital Expenditure	
1.8.1 New and reconstructed hospitals	196
1.8.2 Other hospitals	300
1.8.3 Other capital expenditure	153
	8,362
LESS direct credits in respect of items 1.4 to 1.7 above	65
TOTAL	8,297

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2. FAMILY PRACTITIONER SERVICES		£M
2.1	General Medical Services	679
2.2	Pharmaceutical Services	1,035
2.3	General Dental Services	348
2.4	General Ophthalmic Services	90
	TOTAL	2,152

3. CENTRALLY FINANCED SERVICES		£M
3.1	Special Hospitals	30
3.2	Training (includes £53 million for General Nursing Council)	68
3.3	Laboratories etc (includes: £35M Public Health Laboratory Service Board, £5M Central Blood Laboratories, £4M National Radiological Protection Board, £5M National Biological Standards Board)	54
3.4	National Administrative Services (includes: £11M Prescription Pricing Authority, £11M Dental Estimates Board, £6M Health Education Council)	32
3.5	Other health Services	48
3.6	Personal Social Services (includes £8 million for social work training)	13
3.7	Research (includes £12 million for social services research and development)	23
3.8	Services for the Disabled (includes: £50M Artificial Limbs and Appliances, £35M Invalid Vehicles and Cars)	87
3.9	Other Services (includes £12 million for grants to voluntary organisations)	21
3.10	EEC medical costs	10
3.11	Welfare Food	35
	TOTAL	421

Q.2. *How many people are employed by the Department and its agencies and on what main blocks of work? How many of these are civil servants?*

REPLY

1. On 1 April 1981 the Department of Health and Social Security employed 97,412 civil servants, distributed as follows:

Headquarters, comprising		6,007	
Health and Personal Social Services	2,665		
Social Security	790		
Specialist Staff (Personnel, legal, statistics, computers etc)	1,304		
Services (secretarial, ancillary inc messengers, security, registry etc)	1,104		
HQ Staff deployed in Regions (mainly social security doctors, and their immediate staff)	144		
Social Security Regional Organisation (including local offices)		70,800	(GB figure)
Newcastle Central Office		12,733	
North Fylde Central Office		3,911	
SS	3,079		
Health	832		
Health Units:			
i. Special Hospitals		2,653	
ii. Artificial Limb and Appliance Centres		1,055	
iii. Youth Treatment Centres		214	
iv. Artificial Eye Unit		24	
v. Medical Practices Committee (see 2 below)		15	

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2. The Department is responsible for the oversight of some 20 "executive-type" Non-Departmental Public Bodies (as defined in Cmnd 7797), which together employed some 3,547 people (including 2,232 in the Public Health Laboratory Service), who are not civil servants, on 1 April 1980 (the latest available information). This excludes the staff of the Medical Practices Committee who are civil servants and are included in the Departmental total at paragraph 1 above.

3. National Health Service employees are not civil servants. On 30 September 1980, the latest date for which information is available, nearly 800,000 whole-time equivalent staff were directly employed by the NHS in England. (The actual numbers of staff are higher because many work part-time):

NHS STAFF – ENGLAND* 1980†	
Medical and Dental	38,200
Nursing and Midwifery	367,000
Prof and Technical	65,500
Works and Maintenance	26,300
Administration and Clerical	105,700
Ambulance	17,900
Ancillary	172,500
TOTAL	793,100**

Notes:
* Figures cover England only as Scottish Home and Health Department, Welsh Office, etc are responsible for health services in the other home countries.
† All figures other than for medical and dental staff are provisional.
** Includes locum and agency staff.

4. In addition, some 42,500 general medical, general dental and general optical practitioners were employed under contract.

Q.3. *What significant changes have there been in the functions of the Department in the past five years?*

REPLY

Social Security

1. In April 1975 the Reconstructed National Insurance (RNI) scheme replaced, for employed persons, the flat-rate National Insurance Contribution paid mainly by stamped cards and the earnings-related graduated contribution collected with PAYE by a single earnings-related contribution collected with PAYE. An earnings-related element was introduced into retirement pensions, from April 1978—the "New Pensions Scheme". However employers providing guaranteed minimum pensions under approved occupational pension schemes were allowed to "contract out" of the arrangements and to pay lower rates of contribution.

2. Five of the 33 benefits currently being paid have been introduced over the last six years. They are:

i. *Non-Contributory Invalidity Pension* (NCIP). Introduced in November 1975 for men and single women who had been continuously incapable of work for 28 weeks but did not have enough contributions to receive contributory benefits. NCIP was extended in November 1977 to married women who satisfied the conditions for NCIP and were also unable to carry out their normal household duties. Some 125,000 people receive NCIP, and a further 45,000 Housewives' NCIP.

ii. *Mobility Allowance.* Introduced in January 1976 and phased-in (by age-groups) up to November 1979. It is payable to those disabled people unable or virtually unable to walk because of physical disablement. About 150,000 people currently get Mobility Allowance.

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iii. *Child Benefit*, introduced in April 1977, replaced family allowances which were only payable for second and subsequent children. Over seven million families receive this benefit.

iv. *One Parent Benefit*. Paid with Child Benefit and originally known as Child Benefit Increase. This premium over ordinary Child Benefit, for one parent families, is paid to over 380,000 people.

v. *Invalid Care Allowance*. Introduced in July 1976 and extended to non-relatives from 1 June 1981, it is currently claimed by some 6,500 people.

3. A change which will reduce the benefits handled by the Department has been enacted and will come into operation on 3 January 1982. Under current legislation an *earnings-related supplement* is payable for six months as an addition to flat-rate sickness and unemployment benefit (and with maternity and industrial injury benefit). From 3 January 1982 new beneficiaries will receive flat-rate benefit only and the final cut-off date for existing beneficiaries will be 30 June 1982.

4. The Supplementary Benefits Scheme was reformed in November 1980 (as a result of the Social Security Act 1980) following a wide-ranging review. Chief among the changes was the abolition of the Supplementary Benefits Commission which had hitherto had considerable discretionary powers to frame the detail of the scheme and on whose behalf DHSS officers had determined claims to benefit. Now the rules of the scheme are set out in regulations, and DHSS officers, designated Supplementary Benefit Officers by the Secretary of State, act as the independent adjudicating authority on individual claims, in accordance with the published rules. It is important to point out that the number of local office supplementary benefit staff has risen by approximately 21 per cent to 34,000 over the period 1976–1981 whereas the number of unemployed almost doubled over the same period.

Health and Personal Social Services (HPSS)

DEVOLUTION OF RESPONSIBILITY

5. In recent years the Department has consciously sought to adapt its role in order to increase the discretion of health and social services authorities with consequent savings in DHSS staff. Specific increases in powers delegated to health authorities concerned such matters as capital limits on building projects and arrangements for grading of posts. Statutory provisions giving the Department veto powers over Directors of Social Services and the use of social services committees for non-social services business have been repealed. The number of guidance circulars to both types of authority have been halved since 1979.

6. The application of cash limits to health authority spending has, however, involved the Department in a greater degree of financial control over the overall expenditure of health authorities than previously.

7. The establishment of the Supply Council (a special health authority) in 1980 involved hiving off certain of the Department's functions. In particular NHS supplies policy making (eg improving procurement practices) has passed to the Council, and over the next two years Departmental functions in placing national contracts will be transferred to Regional Health Authorities.

NHS REORGANISATION

8. Under the Health Services Act 1980 the Secretary of State is empowered to reorganise the NHS by replacing Area Health Authorities with District Health Authorities. The Department has been closely involved in the preparations for this reorganisation, which is due to take effect in 1982.

Q.4. *Presumably the resources, financial and manpower, of the Department are devoted to the pursuit of objectives which are the result of political decisions. What arrangements have you got for monitoring the effect of programmes? For measuring and monitoring progress in achieving objectives? For considering alternative programmes for achieving*

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objectives? For reviewing objectives in the light of progress made and alternative programmes considered?

REPLY

1. The Department's responsibilities and objectives are in the main determined by statute, although especially in the HPSS field there may be considerable discretion as to means of achievement, and as to the precise definition of objectives.

SOCIAL SECURITY

2. The wide range of social security programmes reflects the wide range of objectives in the social security field. However, most programmes share a common core of objectives, the prime one usually being benefit adequacy: does the benefit meet adequately the needs of, or provide an adequate level of income maintenance for, (or where appropriate adequately compensate), those at whom it is aimed? Other objectives that are often important include distributional equity, work incentives, simplification, and administrative efficiency. Other criteria used to appraise benefit programmes can be constraints rather than objectives; for example, interactions with other departmental programmes and financial and economic effects. But factors that are "constraints" in one programme or in one year can quite easily be "objectives" for another programme or in another year: simplification, administrative eificiency and work incentives all regularly fulfil this dual role.

3. Programmes are not only considered individually. The social security structure as a whole is also considered in the light of the objectives set out above. For example, the Government's financial and manpower policies may operate both as "objectives" and "constraints" when examining social security programmes, individually and collectively.

4. Improved quantification of objectives through the development of measures of need and of output is a continuing process. In general, Britain has a good basic system of information on the main social security client groups, including their levels and types of income, from which it is possible to monitor the effect of programmes. This system is based on the routine collection of administrative statistics and regular household surveys such as the Family Expenditure Survey. In addition special enquiries are undertaken as necessary.

5. An example of the last is the arrangements for monitoring the major changes in the supplementary benefit scheme introduced in November 1980. The programme involves external research and surveys by the Supplementary Benefits Policy Inspectorate, as well as data collection within the Department and statistical analysis of annual enquiry data. These will be aimed at assessing the effect of the changes on the beneficiaries as well as on the Department's local offices and staff.

6. The day to day responsibility for strategic policy analysis of particular benefit programmes, including consideration of whether they are fulfilling their intended roles, rests with the policy Divisions that look after particular groups of benefits. But their work is coordinated by a Social Security Strategic committee, chaired by the second Permanent Secretary, which oversees the social security system as a whole.

HPSS

7. Government provides most of the financial resources for the NHS and, through the Rate Support Grant, a significant proportion of those for personal social services. The Department lays down broad objectives and priorities for the provision of services; a recent example being "Care in Action" published last February. Health and local authorities determine how these objectives should be applied locally, and draw up plans accordingly. For health authorities the plans are within the framework of a national NHS planning system, which is currently being revised and simplified. These broad national objectives are subject to review. It should however be emphasised that it is the caring professions, not the Department, who control health outputs. A complex range of inputs combines in infinitely varied ways to meet the needs of individual patients, leading to outcomes which are extremely difficult and costly to measure (see Questions 5–8).

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8. Regular financial, manpower and activity returns are made to the Department on the provision of health and social services. From these the Department, inter alia, produces analyses related to programes which help to assess progress nationally towards the broad objectives referred to above. There is an HPSS Strategy Committee, chaired by the Permanent Secretary, which oversees the HPSS programme as a whole. A fuller description of the analytical methodology and its use in monitoring change was given in evidence to the Social Services Committee (Third Report, Session 1980–81, Volume II in particular pp 101–116). The answer to Question 20 below outlines current work to improve the management information system.

9. The effectiveness of particular services is also monitored by the Health Advisory Service which, in conjunction with the Department's Social Work Service, looks at services for the elderly, the mentally ill and long-stay children's hospitals. The Development Team for the Mentally Handicapped provides the Department with information about the current state of health and personal social services for this client group. As for the Special Hospitals, which are directly managed by DHSS, in addition to regular visits and reports from the Health Advisory Service, an informal office Committee for the Special Hospitals, chaired by the Under Secretary in Mental Health Division, is responsible for monitoring the progress of the Special Hospitals and for giving central oversight to their management. At Rampton Hospital, following the report by Sir John Boynton, a locally-based Review Board has been set up for a three year period to undertake a number of management functions previously exercised by the Department. The Social Work Service exercises certain statutory powers of inspection in relation to the personal social services. Through this and other work of professional evaluation of field service it informs and advises the Department about local implementation of national policies.

10. Regulatory activity in respect of the licensing of medicinal products is monitored in terms of the number of applications for Product Licences received from industry (input) and the number of such Licences issued together with the time taken to issue them (output). Figures show that more is being done with fewer staff. Alternative strategies are introduced where the time taken to achieve objectives seems over-long. As a result, modified procedures have been introduced to speed up the review of medicines already on the market and the procedures for issuing Licences are also currently under scrutiny. Regulatory activities are also considered in the light of comments received from industry and the professions and the need to conform to international agreements. The Medicines Inspectorate visits manufacturing premises at home and abroad to ensure that appropriate standards are maintained.

Q.5. *What problems are there in devising satisfactory measures of progress? Please give examples of progress reviews.*

Q.6. *Are reviews restricted to programmes that consume, directly or indirectly, large quantities of resources and/or where the outputs can easily be expressed in quantitative terms? How do you evaluate the effectiveness of, say, regulatory activities or inspectorates?*

Q.7. *Which individuals, staff or units in the Department are responsible for programme evaluation and effectiveness? To whom do they report?*

Q.8. *How do you monitor the effectiveness of new or experimental programmes?*

REPLY

1. It is convenient to answer these four questions together. There are a number of senior policy and management committees which take an overview of the Department's activities as a whole. There is a weekly meeting of Permanent Secretaries with the senior staff, and the Departmental Management Board, (described more fully in the answer to Question 20) meets once a month. The Principal Establishments Officer also holds a formal monthly meeting with the Establishment Officers, the Heads of the Operational Commands and of Management Services and Computers Division; a representative of the Principal Finance Officer and the Deputy Secretaries of the Social Security Policy Groups also attend. These meetings supplement the work of the strategy committees (see Question 4) and the Computer Committee (Question 12).

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2. For the *HPSS* there are problems (common to all countries) in measuring health outputs (eg relief of pain) and in relating measurable health outputs to expenditure. As the evidence to the Select Committee on the Social Services shows, the present financial information system permits some analyses linking expenditure to client groups and "intermediate outputs" such as the number of patients treated. It is expected that the review of information (Question 20) will provide a better data base.

3. Most review activity is carried out by field authorities. Primary responsibility for review at national level rests with the Department's Service Development Group, acting through a Departmental Planning System, taking into account information from Finance Division and through specific reviews of particular client groups or types of services. Examples of major reviews carried out by the Department recently are the White Paper on the Elderly, "Growing Older"; the review of progress in mental handicap services in England since 1971 "Mental Handicap, Progress, Problems and Priorities" and three recently published studies examining respectively community care, the acute hospital sector and hospital services for the elderly.

4. Linked to the Departmental planning system is the NHS planning system, under which health authorities prepare strategic plans for the development of their services taking account of national priorities and local circumstances. In the Department Regional Liaison Division coordinate the assessment of plans to ensure both their overall feasibility and consistency with Ministers' strategic objectives for the health service. Plans are discussed with Regions and the thrust of the strategies presented to Ministers, including any major divergences of view between the Department and Region. Regular meetings between Regional Liaison Division and Regions enable the Department to review progress on the implementation of plans.

5. In a limited number of instances, the Department uses earmarking of funds or pump-priming in support of specific new or experimental programmes in statutory authorities and voluntary bodies. In these cases more detailed information would be collected on progress and, as appropriate, there would be discussions with field authorities.

6. Much the same sort of constraints apply to monitoring the success of *social security* policies (see Question 4). The range of benefits is wide and conditions of entitlement often complex. Further, the interaction of the various benefits with both each other and the similarly wide range of other types of income support provided through local government makes straightforward appraisal impossible. It is, in some instances, possible to apply a fairly crude indicator as to the success of a benefit in terms of its "take-up", ie that proportion of the target population which actually claims the benefit, but this is not necessarily a meaningful pointer to its effectiveness. It says nothing about the benefit's effect on recipients of it nor about whether or not the objectives of the benefit have been attained.

7. Policies relating to the delivery of individual benefits are reviewed (eg the "whole benefit" reviews mentioned later). Performance indicators cover most of the outputs from the major work tasks of local offices and measure accuracy of payment (see Question 15). All the departmental professional groups make contributions as does the supplementary benefit policy inspectorate.

8. The Department's benefit programmes, which consume very large quantities of resources, are subject to a number of monitoring and checking bodies other than those already mentioned. For example, fraud officers in local offices, and Special Investigators based on Regional Offices, guard against social security fraud. Their work has for many years been evaluated in terms of prosecutions and convictions secured, and since autumn 1979 has also been monitored by the amount of wrongful benefit saved. "Benefit saved" returns will also be kept separately for a new fraud control technique to be introduced later this year. It is not possible to monitor the effectiveness of such staff with perfect precision in so far as successes in such fields as prevention, deterrence etc, cannot be satisfactorily measured.

9. As well as programmes consuming resources, the Department has a revenue-collecting function in respect of National Insurance Contributions (in conjunction with Inland

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Revenue). The majority of NI contribution Inspectors' duties is demand-led, dealing with and resolving queries. Hence performance is mainly measured in terms of output in response to such queries. Practical evaluation of the effectiveness of routine inspection visits to employers cannot encompass the quality of such visits, and has therefore relied more on quantity. The old five-year cycle for such visits was discontinued this year, and is now replaced by a greater emphasis on flexibility in the light of local judgment on cost-effectiveness. Management statistics are available for the above activities.

Q.9. *Which individuals, staffs or units in the Department are responsible for efficiency in the sense of maximising the outputs from programmes and minimising the inputs to them? To whom do they report?*

REPLY

1. It is for the Permanent Secretaries to ensure that the Department has adequate arrangements for securing the effective and economical use of all its resources and that these arrangements are properly and consistently applied. All line managers, including the heads of policy divisions, are responsible for obtaining value for money from the resources allocated to them. In the case of the National Health Service, line management responsibility rests with the health authorities (see below). The Principal Finance Officer and the Principal Establishment Officer have Department-wide responsibility for supporting the Permanent Secretaries.

2. The PEO is responsible for the use of manpower and other resources consumed directly by the Department. Under him, the heads of the four Departmental units (Headquarters, Newcastle Central Office, North Fylde Central Office, Regional Organisation) are accountable to him on both manpower control and operations. These unit heads (known as Manpower Sub-Accountants) are also subject to the oversight of Establishments Division I, on the PEO's behalf, on the adequacy of the manpower control systems, including the staff inspection operations at the Central Offices. Staff inspectors (see Question 10) are responsible for ensuring that the correct numbers and grades of staff are employed for the work which needs to be done and Management Services staff (see Question 11) are responsible for reviewing systems.

3. The Finance divisions of the Department reporting to the Principal Finance Officer are responsible for providing financial information, analysis and advice, for ensuring that expenditure is kept within cash limits and for internal audit, which reviews the effectiveness and efficiency of management systems (see Question 16). The PFO is responsible in particular for promulgating procedures for ensuring that the costs of policies and policy proposals are properly calculated on a consistent basis, for promulgating systems for appraisal, eg of capital projects, in accordance with any central guidelines and ensuring that these systems are properly used to weigh alternatives, for ensuring that policy guidelines for specified types of spending are clear and in accordance with Ministerial priorities and for ensuring that effective management accounting systems operate in the Department.

4. As far as the *Health and Personal Social Services* are concerned, the respective responsibilities of the Department and of health and local authorities were summarised in the Government's Reply to the Third Report from the Social Services Committee, Session 1979–80. The Department's role is essentially strategic, including guidance relating to national policies and priorities and broadly indicating ways in which services are to be developed and where economy should be sought. It is also responsible for ensuring that there are proper arrangements for monitoring progress in achieving strategic objectives and increasing efficiency. Subject to this, the responsibility for the efficiency of the Service rests on the health authorities and their staff.

5. Financial constraints, notably cash limits, provide a powerful incentive to greater efficiency. The Statutory Audit, described more fully in answer to Question 16, has a major role in relation to health service efficiency. Health Authority expenditure is also subject to examination by the Exchequer and Audit Department. There is a separate independent statutory audit for local authorities.

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6. In addition to the review of management costs in the NHS (see answer to Question 14) the Department operates certain selective manpower controls, for example on the growth of senior medical posts. Health Authorities' spending is also of course constrained by cash limits. However the main responsibility for the mix of staff and effective use of staff rests locally, as Sir Patrick Nairne made clear in his recent evidence to the Public Accounts Committee (17th Report, Session 1980–81, House of Commons Paper 255, Paragraphs 6–30). Efforts at improving control and effective deployment of NHS manpower have therefore concentrated on the development of techniques and the provision of information which authorities need to monitor their own performance. This work is continuing through a joint NHS/DHSS Manpower Planning and Information Working Group.

7. The Department also provides a number of services to health authorities. Specifically it:

a. encourages the wider and economical use of computers where these may improve efficiency or effectiveness in the NHS, through the management of a Departmentally-supported computer R&D programme, joint development with the NHS of measures of performance criteria for use by NHS managers considering new systems, and pursuit of a policy for standardisation of Regional computers and programmes. In future it will also assist the NHS in arranging provision of appraisals of computer systems available from commerce and elsewhere within the NHS to aid in particular the new District Health Authorities in choosing computer solutions to their problems;

b. through the Central Management Services Branch stimulates the exchange of information between the management services disciplines and statistical services in the Department and the NHS, through the joint Management Services Committee. The Branch participates in meetings of Regional O&M/Work Study Officers responsible for distributing national programmes of O&M assignments in the NHS; in the compilation of a Compendium of Efficiency Studies and in the central provision of professional training for O&M staff;

c. services NHS advisory bodies concerned with policies and procedures relating to the recruitment, training and development of NHS staff;

d. through the Works Group it provides guidance on buildings and engineering design and construction, and in association with the NHS sponsors health building and engineering research and development; technical advice is also provided to the NHS in several fields where specialist expertise is not readily available in the private sector and where it would be uneconomic for the health authorities to provide it themselves.

Q.10.

i. To whom are staff inspectors responsible?

REPLY

There are three groups of staff inspectors and they report to the Principal Establishments Officer as follows:

Unit	*Report through*
Headquarters and Regional Organisation (EP2F/G)	Director of Establishments (Departmental)
NFCO, Staff Inspection and Survey Unit (N2)	Controller, NFCO
Newcastle, Staff Inspection and Survey Unit (Group EOB)	Controller, Newcastle

Until 1 July 1981 the Regional Organisation operated its own inspectorate which reported to the PEO through the Director of the Regional Organisation. This force of staff inspectors was then merged with the Headquarters Inspectorate to enable the total force to operate on a broader front thus making more effective use of resources.

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ii. Does staff inspection cover the whole Department and all of the associated public bodies for which it is responsible (excluding those whose income is not primarily from the taxpayer)?

REPLY

Yes; but the fringe bodies have been inspected on an ad hoc basis in response to requests rather than on a cyclical basis: consideration is being given to including the major bodies and the clinical professions in the Special Hospitals in the programme.

So far as the social security local office network is concerned, conventional staff inspection of all posts is not undertaken. Instead, on a three-yearly basis the complement of a statistically-based representative sample of local offices is re-assessed fundamentally by a team of staff inspectors. The results are extrapolated nationally and, together with projections as to future claim trends, used as the basis for deciding the total local office manpower requirement. This system is known as "complement review".

iii. Do staff inspectors cover the whole Department every three years?

REPLY

Yes, for local offices; No, for other units.

In practice the cycle period at HQ was five to six years; North Fylde Central Office six years and Newcastle Central Office four and a half to five years.

Present policy, encouraged by the Civil Service Department, is to move away from a cyclical programme towards a system of "targetting" those areas likely to produce economies. At the moment, about 20 per cent of inspections at HQ are of a non-cyclical nature; this is likely to increase, but it will still be necessary to cover the whole Department over approximately a five-year period to make sure that potential economies are not overlooked.

iv. What are the arrangements for ensuring that staff inspectors' recommendations are carried out?

REPLY

Implementation is monitored by the individual sub-accountants and the HQ staff inspection policy branch. In the event of a failure to implement a recommendation of substance within three months of a report being made, the issue is referred to the PEO.

v. To what extent are staffing formulae used for routine operations?

REPLY

Staff formulae are used at both management and clerical levels in local security offices to distribute the national complement. The key elements of this system, which was introduced in its present form in 1979–80, are:

(a) activity sampling;

(b) workload forecasts;

(c) workload monitoring;

(d) "complement review" (see (ii) above).

Similarly, in some areas of clerical work at the Newcastle and North Fylde Central Offices the results of detailed work measurement processes undertaken by staff survey teams are used to determine staffing levels of sections. The methodology used at Newcastle has recently been reviewed by a joint CSD/Departmental team assisted by a consultant and as a result some changes will be made. A similar review is to be carried out at the North Fylde Central Office.

vi. How do you measure whether staff inspections are successful?

REPLY

One available indicator to the success of staff inspections (and to the competence and sound judgment of staff inspectors) is the extent to which the resultant recommendations

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are accepted and implemented. By this standard DHSS has a high success rate. In Headquarters and the two Central Offices implementation of recommendations over the period 1978–1980 has run at between 73 and 90 per cent. Implementation figures for regional and local social security officer have been approximately similar, but because the system is different they cannot be directly compared with those for other centres.

Q.11. *Management Services*

In the light of Question 11(ii) it is assumed that, overall, Question 11 relates to the Department's Organisation and Methods units and its Operational Research Unit but excludes other units such as the Economic Advisers' Office which, in some contexts, are embraced by the term "Management Services".

(*i*) *To whom are management services responsible?*

REPLY

There are four management services units and they report as follows:

Unit	*Report to*
Central Management Services	Under Secretary, Management Support and Computer Division (MSC)
N2, North Fylde Central Office	Controller, NFCO
Management Services I, Newcastle Central Office	Controller, Newcastle
Operational Research Services	Director of Establishments (HQ)

The Director of Establishments (HQ), the Under Secretary, MSC Division and the two Controllers report to the Deputy Secretary (Administration) (who is the Principal Establishment Officer).

In addition, Branch MSC1 have responsibilities for overall monitoring of Departmental activities concerned with the elimination of waste and the promotion of efficiency, and for the timetabling and monitoring of progress of major changes in the Department's functions.

(*ii*) *Do they work by invitation of managers or is there a systematic programme for reviewing the organisation and methods used in the Department?*

REPLY

The majority of assignments are undertaken at the invitation of management in the area concerned, but some take place on the direction of the PEO or other Top Management. There is also a systematic programme of "whole benefit reviews" in which the complete system of a particular benefit (such as Maternity Benefits) is reviewed, the administrative costs established and areas for improvements identified. The Newcastle Unit also carries out planned reviews of Branches at the Central Office and all units are participating in the Functional Reviews of common service areas initiated by the Civil Service Department.

(*iii*) *What are the arrangements for ensuring that the recommendations of management services studies are carried out*

REPLY

The reports prepared by Central Management Services are automatically passed to MSC1 who follow-up after three months and at regular intervals thereafter, reporting to the PEO on the state of implementation. The management services in the Central Offices are located in the establishment units who review the progress of reports.

(*iv*) *How do you measure whether your management services are effective?*

REPLY

A report is submitted annually to Ministers setting out the work carried out, the cost, what has been achieved etc. The costs and savings of the units have been calculated and overall they are cost effective. This is, however, a primitive measure and some assignments (eg the procedures for the control of medicines) are not really suitable for measurement in

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financial terms. The evaluation of the effectiveness of management services must therefore be largely subjective.

(*v*) *Operational Research Unit*

REPLY

This unit works mainly at the invitation of managers and spends under 10 per cent of its time developing its own initiatives, and its programme is agreed by Deputy Secretaries annually.

Q.12. *Machines*

(*i*) *What is the organisation within the Department for:*

(*a*) *seeking economical uses for machines—including computers and other electrical and electronic devices—within the Department?*

(*b*) *introducing and operating them?*

(*c*) *assessing the cost-benefit of other investment opportunities affecting the running of the Department?*

(*ii*) *How is the contribution of machines to efficiency measured?*

(*iii*) *Are there any obstacles to their use within the Department wherever they would be economical?*

REPLY

1. The use of computers and office machines in the Department forms part of the overall responsibility of the Deputy Secretary (Administration), immediate responsibility resting with the Under Secretary, MSC Division.

COMPUTING

2. There are five major computer installations within the Department at Newcastle, Washington, North Fylde, Reading and Livingston. Those at Newcastle and Washington are administered directly by the Controller, Newcastle Central Office; at North Fylde by the Controller, North Fylde Central Office; and at Reading and Livingston (which pay unemployment Benefit) by MSC Division.

3. Coordination and oversight of computing in DHSS is achieved by a Computer Committee which oversees the work of a number of committees, some of which are not solely concerned with computing matters. These committees deal with planning, operations and the direction of computer projects, and with Trade Union side negotiations. Long-term planning of Social Security operations is the responsibility of MSC, and a branch was formed about two years ago, charged with developing a departmental operational strategy, based on the widespread use of computing facilities.

4. The shorter-term planning and coordination of computer activities is also carried out by MSC, which in cooperation with the installations, is responsible for the procurement of computing equipment. The Branch also prepares the PES Forecast on computer equipment and services and related expenditure.

5. In conjunction with the Central Computer and Telecommunications Agency (CCTA) MSC examines critically all proposals for computing equipment; in the case of small projects, MSC has a devolved responsibility for the authorisation of expenditure.

6. The systems proposed and the associated operational requirements form part of full studies which often lead to competitive tendering from suppliers. Costings are prepared using Discounted Cash Flow accounting techniques. Financial savings are normally a pre-requisite, and these are usually a consequence of the introduction of new systems which either reduce staff or introduce more efficient operating procedures to cope with a greater workload without increasing staff numbers.

7. Standard procurement procedures prescribe that equipment proposals are costed against an alternative solution, often an existing manual system. Whilst these costings and comparisons have been part of the procedure for some time, new emphasis is being placed upon the introduction of investment appraisal, cost benefit analysis and risk analysis techniques. Current attention is being given to the need for more specific monitoring

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procedures, following the implementation of new systems, to ensure adherence to estimates and cash limits.

8. Typical problems which tend to retard the rate of development include the availability of the skilled staff necessary to develop systems and of funds for both equipment and accommodation in which to house it. (This latter being a Property Services Agency responsibility.) Trade Union Side attitudes have resulted in some delays in the introduction of new technology, a recent example being the delay imposed in the introduction of the Datalink system (see Question 14). Shortage of skilled systems staff is also a significant obstacle to the more rapid introduction of small computers particularly in London.

OFFICE MACHINES

9. MSC is responsible for the approval of all requests for new and replacement office machines, although initial scutiny of the demand may take place elsewhere. They also investigate new items and models of equipment and consider new areas of use. The criteria applied are whether:

9.1. the savings in staff/materials will more than pay for the equipment;

9.2. the machines or equipment will save the staff exacting routine work;

9.3. there are special requirements of the work (eg urgency, quality);

9.4. there is no other way of getting work done.

Further checks are provided by HMSO, through whom almost all demands are placed, and who advise on the choice, cost and use of equipment, and by CCTA, whose authority is required for all new mechanisation schemes over £25,000.

10. Control of the introduction and operation of office machines rests with MSC, but is delegated in some areas in the same way as for initial scrutiny of requests.

11. MSC coordinate the production of annual PES estimates for office machines, and monitor the subsequent expenditure—using, for example, monthly statements of demands to HMSO, orders placed by HMSO and expenditure incurred by Finance Division.

12. The contribution of office machines to efficiency can be measured in precise terms only by assessment of staff savings following implementation. There are, however, some benefits which cannot be quantified such as improved service, better working conditions and staff morale. MSC have regular contacts with users to obtain first hand information about the use and effect of machines.

13. As with computers (see para 8 above), the main obstacles to the extension of the use of office machines are the availability of the necessary finance, and Trade Union attitudes in the absence of a National agreement (see Question 24). These latter which are common in many Government Departments have delayed but have not prevented the introduction of some items of new equipment (eg word processors), the upgrading of some existing machines by new and more efficient models (eg electronic typewriters, microwriters) and the extension into general use of items accepted in a few locations (eg microfiche viewers in local social security offices).

Q.13. *What are the arrangements for maximising the efficiency of programmes which are not manpower intensive but consume significant financial resources?*

REPLY

1. The bulk of the Department's activities are manpower-intensive, particularly on the social security side where, for example, the administration of Supplementary Benefit involves taking into account many (and changing) aspects of an individual claimant's circumstances. However, in a Department of 97,000 staff non-manpower costs, such as printing and travel costs, consume a significant percentage of Departmental resources (some 32 per cent of the Administration Vote in 1980–81) and a variety of methods and controls are employed to ensure they are utilised efficiently. Certain services in this field, such as accommodation, are not the Department's sole responsibility and are therefore only partially within its control.

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2. Major points of interest in specific areas of non-manpower costs are set out below:

(a) *Printing and Stationery*
A Departmental Printing and Stationery Unit in Establishments and Personnel Division (EP) oversees all DHSS activity in this field. Its scrutiny committee challenges all printing requisitions. The general drive for economy has resulted in an under-spend of some 18 per cent in 1980–81 on the total printing, stationery and office machine budget. A drive has been mounted against excessive stock levels and a management services study has recommended a new control system for social security local offices (see para 3 below).

(b) *Travel and subsistence*
The budget for travel and subsistence has been divided among the heads of the four units in the Department (HQ, the social security Regional Organisation, NCO and NFCO). In the Regional Organisation these allocations are further divided among sub-units and consideration is being given as to how this process could be extended. Individual claims are subject to scrutiny by line management and centrally.

(c) *Postal arrangements*
An HQ policy section in EP lays down postal policy and recommends improved practices to the senior line management of the Central Offices, Headquarters and the Regions. "Official Paid" stationery ceased to be used from 1 April 1981; all items of mail are now paid for at normal commercial rates. By means of periodic studies and close liaison with the Post Office the most effective use is made of the various postal systems and favourable rates. Examples include a greater use of a specially negotiated Datapost contract and a reduction of about 20 per cent in the number of letters being sent first class.

(d) *Post Office Agency Services* (see Question 1, B)
Social security benefits are paid mainly through the Post Office Counter network and the Government has a cost-sharing financial arrangement with the Post Office for the payment of these services. This agreement is currently being reviewed and the possibility examined of restructuring the financial arrangements to encourage greater efficiency in the Post Office. As a result of a Rayner scrutiny changes are being made in the frequency of paying child benefit and the public offered the facility of direct payment into bank accounts. These changes should produce annual savings of £32 million by 1987–88.

(e) *Telecommunications*
Periodic publicity urges staff to minimise costs by using less expensive methods, such as the Government Telephone Network of lines and direct lines between buildings and sites and also by using PO lines at the cheap rate times. The Central Computer and Telecommunications Agency (CCTA) have assisted the Department to economise by advising on the introduction of additional direct lines, which are cheaper than the public network. A recently completed review in HQ by EP will lead to further economies estimated at £100,000 pa.

(f) *Accommodation*
A joint review with PSA by EP has led to an agreed strategy for the London estate and a similar review of office accommodation outside London is planned. Quarterly returns of space occupancy in HQ are sent to PSA, with a fuller six-monthly report to DHSS senior management.

The two Central Offices (NFCO and NCO) and the social security Regional Organisation review their use of accommodation at regular intervals. A 1980 review of NFCO with the PSA's Maintenance Economy Review team showed that in general accommodation was being utilised efficiently but made some suggestions for improving the use of storage space. Cooperation with the PSA is resulting in the rationalisation of local office space, to the easement of overcrowding in some offices and the release of surplus space in others.

Very little of the Department's accommodation budget has been devolved to it from PSA. Thus while the Department looks carefully at its use of space (% unused, square footage per staff), it depends on PSA to say how costly (in terms of

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maintenance) each building is and whether the cost is acceptable within the overall strategy of the Government estate, eg a seemingly prestigious building on an old long lease may be much less expensive than a new lease on an unpretentious block elsewhere (or a building with high maintenance costs).

3. The Department has a Non-Manpower Costs Working Party which represents all the relevant interests and is responsible for coordinating and disseminating methods of controlling expenditure on non-manpower items. This has had some success—at least £2½ million in non-manpower costs was saved in 1980–81. The Working Party is currently engaged in devising methods of achieving improved control systems.

Q.14. *Please give examples of significant improvements in efficiency achieved in the last five years, explaining the nature of the improvement and also how the improvement was instigated, ie distinguishing improvements flowing from staff inspection, the use of machines or other capital investment, the Rayner exercise and other sources.*

REPLY

1. Examples of areas in which the Department has improved efficiency are set out below. One of these is taken from the NHS and the Committee's attention is also drawn to the Third Report from the Social Services Committee, Session 1980–81, Volume II, p 3.

SOCIAL SECURITY

2. We estimate to have saved some 11,000 posts in a series of efficiency measures and manpower cuts over the past five years. The economies covered a wide range of activities many of which—such as the effect of reducing the use of casual staff in local offices, the computerisation of minor procedures or miscellaneous reductions in the work of regional social security offices—are too small to list individually. However these changes have been achieved without radical change in the structure of social security benefits and can be said to have made more cost-effective use of resources in the administration of such benefits. Some of the major items were:

		Saving (posts)
1.	Reductions in National Insurance Contributions work (eg adopting less precise rules or being more selective in compliance action).	2,650
2.	Reduction in visiting recipients of—	
	(a) supplementary benefit	900
	(b) sickness benefit	180
3.	Discontinuance of checking supplementary benefit entitlement by postal enquiries	700
4.	Reductions in checking calculations of supplementary benefit	600
5.	Rayner scrutinies (see Question 22)	250 (savings to date)

3. An example of a change which has improved efficiency and the quality of service to the public, but without manpower savings, is *Datalink*. This is a computer system which transmits information outside working hours between local offices and Newcastle Central Office, enabling the former to obtain details of claimants' contribution records more quickly than before (saving up to three days) and hence to pay short-term benefits more promptly.

HEALTH AND PERSONAL SOCIAL SERVICES

4. Health authorities' management costs—defined to distinguish them from operational costs—have been subject to central control since 1976. For the first year they were frozen. Thereafter health authorities in each Region were required to reduce their management costs in line with a national objective for the proportion of resources devoted to management. By the due date of March 1980 these objectives had been achieved; there were 2,850 fewer management posts than in March 1976, a saving of some £15 million at 1979–80 pay levels. Control of management costs will continue and a further reduction of 10 per cent by 1984–85 will be achieved as a result of NHS reorganisation.

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STAFF INSPECTION WITHIN DHSS

5. An analysis of the Staff Inspection results (excluding local offices (Question 10(ii)) shows that savings—in addition to those in paragraph 1 above which are the results of policy changes—have been made as follows:

	Recommended	*Implemented*
1976	–447	Not available
1977	–376	–188 (50%)
1978	–429	–343 (80%)
1979	–364	–265 (73%)
1980	–357	–323 (90%)

This indicates a very high rate of implementation over the past three years. The records for the earlier two years were not so comprehensive and the follow-up procedures were not so well defined which makes comparison difficult.

GENERAL ADMINISTRATION OF DHSS

6. (a) *Postal Arrangements:* The reviews mentioned in the answer to Question 13 meant that bills for postal services between 1977878 and 1980–81 amounted to £135 million compared with the sum of £214 million that would have been paid had the full (70 per cent) increases in charges levied by the Post Office applied. The reductions were due to improved efficiency, the use of surplus stocks and reduced ordering in readiness for the changeover to Public Posting Methods.

(b) *Accommodation:* since 1977 the number of HQ buildings has reduced from 35 to 25, saving 150,000 sq ft and with consequential savings in support costs of some £250,000 per annum.

(c) *Typing and Messengerial Services:* over 270 HQ Messenger posts (28 per cent of the then complement) have been saved since 1976, representing a current saving of over £1.5 million per annum. There are 17 word processors at Headquarters and four at NFCO; the typing posts thus saved represent an annual saving of some £400,000.

Q.15. *Please describe how you measure your outputs and whether there are any unresolved difficulties in doing so.*

REPLY

A. OUTPUT MEASURES OF EFFICIENCY

1. *General*

The output of the social security scheme in terms of new claims to each benefit, the average number of benefits in payment, number of payments made, expenditure on each benefit is measured by the routine collection of statistics from local offices and central offices. These statistics are published annually.

2. *Manpower*

DHSS estimates of manpower requirements are based on time study, work measurement and activity sampling methods as adjusted by staff inspection. The payment of social security benefits is manpower intensive and the work can be costed in manpower terms and the staff employed are closely related to the anticipated work load.

3. *Management Information System*

The system provides information from local offices every four weeks on:

(a) the accuracy of benefit payments;

(b) the rate at which work is cleared;

(c) the total workload and available staff resources.

The system enables trends on performance etc to be monitored and also provides comparative figures between local offices and regions.

4. *Local Office Performance Indicators*

The management information system also includes performance indicators which provide not just an account of how much work has been done but also how this relates to agreed

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performance targets. The performance indicators on output cover most of the major work tasks and there are indicators also for accuracy of payment.

5. *Administration Costs*

The costs incurred by DHSS and other Government Departments are analysed and allocated to the main functions of the Department. The costs of administering the social security scheme are further broken down and the costs allocated between the main benefits and the collection of national insurance contributions. Information which can be derived from the scrutiny of administration costs includes the following:

(a) the total cost of administering individual benefits;

(b) the main sources of costs, eg staff costs, encashment charges etc;

(c) an estimate of costs of the three basic operations, ie awarding benefit, maintenance work and paying benefit, for each benefit;

(d) average cost per payment (based on total costs);

(e) cost per weekly payment for claimant (based on payment costs).

This information is not precise but does given an indication of the trend in administration costs over the years, for example, by expressing the administration costs as a percentage of the total benefit expenditure.

B. OUTPUT MEASURES OF EFFECTIVENESS

6. The answer to Question 4 sets out the criteria which are frequently used when appraising proposals for a new benefit or changes to existing benefits. Measuring the output of the benefit by reference to these objectives must necessarily vary according to the particular circumstances. Detailed anaylsis of the data already available to the Department can provide some measures. These would include administrative efficiency, financial effects, work incentives etc. The impact on the family and the beneficiary can often, but not always, be assessed by information obtained in the annual Family Expenditure Survey. Special surveys may also sometimes be necessary, in particular in relation to the take up of benefit, which is an important measure of effectiveness.

Health and Personal Services

The question of output measures is discussed in answer to Questions 5–8.

Q.16. *Have you any internal audit section? Is it headed by a professional accountant? Are internal audit arrangements concerned with effectiveness and efficiency?*

REPLY

As the "Handbook of Key Facts" makes clear, DHSS is a conglomerate of several related but different businesses. However for audit purposes the work is divided between two internal audit branches, one covering social security and one covering health. The Health audit branch undertakes the external audit of the health authorities, as laid down by statute, concurrently with the internal audit of the Health Votes (including centrally financed health services). Health services involve a complex range of resource inputs and outputs and their management requires a wider range of accounting skills than the Social Security system, which essentially delivers cash in accordance with a complex framework of statutes and regulations. Audit staffing reflects this. The Director of the Social Security branch is not a qualified accountant but an Assistant Secretary experienced in the Social Security system, while the Health branch is headed by a Director, professional accountant class. All DHSS audit arrangements are designed to test the effectiveness and efficiency of systems used by management, but this does not extend to measuring final outputs or the achievement of Health and Social Securing policy objectives (eg the effectiveness of a benefit or a health care programme).

Q.17. *How many staff, and what grades, are employed on*

— *staff inspection*

— *management services*

— *extending the use of labour saving machines*

— *internal audit*

— *other work of reviewing efficiency and effectiveness?*

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Grade	*Staff Inspection*	*Management Services**	*Machines***	*Internal Audit Health††*	*Internal Audit Social Security*	*Other†*
Assistant Secretary	½	1	1½	1†††	1	—
Senior Principal	1	2	1	2	3	—
Principal	6	8	7	14	12	—
Senior Executive Officer	23	20	12	41	21	12
Senior Scientific Officer	—	—	1	—	—	—
Higher Executive Officer	29	23	21	63	86	36
Executive Officer	11	10	14	118	196	84
Clerical Officer	3	9	2	16	174	—
Clerical Assistant			2		79	—
Support Staff, eg Typists			2		4	—
TOTALS	73.5	73	63.5	255	576	132

Notes:

* As defined in the answer to Question 11.

** Covers HQ staff only.

† ie Regional Survey Teams, which assist Management in the organisation and operation of work processes in local offices. Figures are the total allocation provided for such work.

†† Covers staff on internal audit of Health Votes (NHS expenditure), external audit of Health Authorities and internal audit of Health Votes (Centrally Financed Services). This latter group includes one Chief Accountant at Principal level and two Senior Accountants at SEO level.

††† Director of Audit (Professional Accountant).

The above table deals with those staff whose job is to carry out special tasks relating to efficiency and effectiveness. In fact *all* staff from the Permanent Secretaries down are responsible for keeping efficiency and effectiveness under review within their area of responsibility.

Q.18. *What members of professional institutes or other specialists with professional qualifications directly relevant to the Department's functions are employed in the Department? In what sort of jobs are they employed? How many of such professionally qualified people are employed in non-specialist jobs? How do they contribute to reviewing either efficiency or effectiveness?*

REPLY

1. Reflecting its extensive responsibilities DHSS employs staff with professional qualifications directly relevant to the Department's functions, in some cases obtained in service, who, broadly speaking, fall into three groups.

2. The first group consists of those contributing to the formulation, implementation and monitoring of government policies on health and personal social services, public health and control of medicines.

— Doctors	135
— Environmental health officers	2
— Scientists (mainly toxicologists and microbiologists)	21
— Pharmacists	92
— Ambulance Advisers	1
— Remedial Professions	2
— Catering and Dietetics	8
— Domestic Service Management	8
— Dentists	38
— Nurses	56
— Social Work Service Officers	115
— Architects, Engineers and Quantity Surveyors	166
— Other Professional and Technological Officers	125

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3. The second group consists of those directly providing services to the public, including fulfilling the requirements of the social security system for medical advice.

— Doctors in the Artificial Limb and Appliance Centres	39
— Regional Medical Service (including 30% contribution to group 1 above)	50
— Social Security Medical Divisions	160
— Artificial Eye Service (Eye fitters etc)	51
— Technical Officers in Artificial Limb and Appliance Centres	86
— Youth Treatment Centres (Residential Care Officers etc)	167

4. There are some 2,700 staff (including 40 medical staff) in the Special Hospitals, which are directly managed by DHSS. Apart from a few exceptions, all staff are employed on NHS Terms and Conditions of Service, except for some 150 administrative staff who are on Civil Service Terms and Conditions.

5. The third group consists of those providing specialist services across the whole Department in order to assist in developing, implementing and monitoring the health and personal social services and the social security system and in managing the Department.

— Computer Scientists	2
— Computer personnel holding qualifications	90
— Research Officers (Social Science)	9
— Economists	18
— Information Officers	20
— Librarians	22
— Operational Research Scientists	28
— Statisticians	39
— Solicitors	68
— Accountants	16

6. There is a small handful of staff with apparently relevant qualifications, mainly in statistics and law who have either deliberately sought non-specialist posts or who were recruited directly to the administration group.

7. The contribution of staff with professional qualifications to the Department's efficiency and effectiveness is the same as that of other civil servants; that is, they would be expected to have proper regard to efficiency and effectiveness in organising their own work and that of others, including their own staff. Many will be members of the units referred to in Question 17 or employed on financial and manpower control.

Q.19. *What use does the Department make, and in what circumstances, of outside consultants or researchers in reviewing effectiveness or in related activities eg devising output measures? How useful have such outside contributions been?*

REPLY

THE USE OF CONSULTANCY FOR COMPUTER/MACHINE SUPPORT

1. A schedule of Consultancy assistance with departmental computer projects over the last three years is below. The schedule shows there have been 13 assignments, eight for studies of future developments and five for specialist technical expertise. The total costs amount to around £595,000 (excluding VAT).

2. The Office of the Chief Scientist (OCS) commissions a £13 million a year programme of external research in the Health and Personal Social Services and Social Security field (see Handbook of Research and Development (HMSO)).

3. The Department commissioned two studies of the effectiveness of these arrangements:

1. Professor Maurice Kogan of the Department of Government, Brunel University, studied over the period 1973–1980 the research management system developed in

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DHSS in implementation of the White Paper "Framework for Government R&D" (Cmnd 5046). The full account of this study is expected to be published early in 1982. A short account was published in November 1980: "Government's Commissioning of Research—A Case Study" (Brunel).

2. Professor J Meadows of the Primary Communications Research Centre, University of Leicester completed in March 1981 a report on a two-year study of "The Dissemination of Findings of DHSS-funded Research". Some of its recommendations have been implemented, but further consideration of this report has had to be deferred because of pressure on staff time in OCS. (We hope to discuss dissemination with the HPSS Research Liaison Groups later this year.)

4. More generally, the Department makes considerable use of outside advisers drawn from the Health and Personal Social Services and from the universities in its consideration of its HPSS policies. Such advisers play a major part in reviewing the effectiveness of health service etc, activities (often using subjective estimates of effectiveness where this is not yet quantifiable).

CONSULTANCY STUDIES AND PROGRAMMING/SYSTEM ANALYSIS ASSISTANCE 1978–81

	Name of Consultants	*Assignment*	*Year(s)*	*Cost*
1.	STUDIES			
1.1	LEASCO	To examine Camelot proposals for achieving claim details	1978–79	£14,350
1.2	LOGICA	Comparative study of ORS planning methodologies	1979	£4,000
1.3	ARTHUR ANDERSON	Potential for wider use of balance of care approach	1979	£48,000
1.4	ARTHUR ANDERSON	Operational Research Study of mentally handicapped	1979	£13,250
1.5	SSL	Assistance with systems design and sizing for MSC6 to develop the long-term operational strategy	1981	£72,800
1.6	CAP	Study of Private Office needs for machine/computer aids	1981	£10,000
1.7	LEASCO	Study of the Camelot Project with advice on implementation of a national scheme	1981	£21,000
1.8	LEASCO	Study of the current situation and of project management controls on the Camelot project with recommendations for national implementation	1981	£39,000
2.	PROGRAMMING AND SYSTEM ANALYSIS ASSISTANCE			
2.1	VANWELL	Programming assistance to SR1D	1979	£900
2.2	SBS	Programming support for medical manpower planning model	1979	£15,669
2.3	TRACE	Resource allocation working party programme	1979–80	£7,500
2.4	ICL	Assistance with programming and systems analysis for the Camelot pilot project	1980–81	£145,227
2.5	ICL	Assistance with programming and systems analysis for the Camelot pilot project	1981–82	Estimated £204,000
			TOTAL	£595,696

Q.20. *Who is responsible under the Permanent Secretary for producing management information including management accounts? Does the management information meet the present needs of managers? If not, what more could be done to fill the gaps?*

REPLY

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1. For the Social Security Operations task, the Management Support and Computers Division is responsible for the Central Management Information Service which consists of a set of annual tables showing inputs and outputs. The outputs, in terms of number of beneficiaries, numbers of claims and appeals, other activities such as visits and references, and standard of performance, are measured from statistics gathered from local and central offices.

2. The basic statistics are collected every four weeks as are the numbers of benefit payments checked and of those found to be incorrect, and the resulting percentage error rates. They are reported by each local office to its regional office through the Management Information System. Regional Offices collate this information to produce regional figures which are then fed to the Headquarter's management division. This system enables management at all levels to monitor performance regularly and to initiate enquiries and remedial action where indicated.

3. The Department's Statistics Division is also involved with the production of management information. Their work is different from that which may be undertaken by Statistics Divisions in some other Government Departments, in that it is substantially concerned with the production of managment information in one form or another. For example, on the health and personal social services side their work provides the basic information required for considering manpower questions, including for example the pay of NHS staff, as well as parallel information on the levels of activity and service provided to allow comparisons of output and efficiency. The scope and timeliness of much of this information which is collated and sent to those responsible for management of services, is at present under review by a Steering Group on Health Services Information (see 5 below). On the social security side, where the management chain lies wholly within the Department, the work of the Statistics Division serves the needs of all levels of management. It involves the extraction and analysis of information from administrative records collected centrally, as well as the organisation of routine and ad hoc statistical enquiries, to supplement other management information collected in the Department.

4. In addition to these systems, which are principally concerned with monitoring the amount of service delivered by the Department's activities the internal management of the Department has procedures for monitoring manpower usage and cash limit performance for everyday departmental resource management. These activities fall broadly as the responsibility of the Social Security Operations Management Team and the Departmental Management Board, the latter handling major issues of policy, organisation or management and having as its standing members the Permanent Secretaries, the Chief Medical Officer, the Principal Establishments Officer and the Principal Finance Officer.

5. Expenditure on Health and Personal Social Services as a whole is monitored by the Department's Finance Divisions through the PGO "Apex" system used by all spending Departments; a more detailed picture of expenditure on hospitals and community health services is obtained through the Health Authority Financial Information System. Further, the analyses described in the reply to Question 4, provides information to management on implementation of policies. Through unit cost trends it provides some information on the efficiency of the service and points up areas for more detailed study. However disquiet over the quality of much of the management information generated within the Health Service led the Department and NHS to set up (early in 1980) a Steering Group to oversee the development of information systems and to propose changes. This Group consists of senior officials from the NHS, OPCS and DHSS.

6. The Group now has in hand a substantial programme to review much of the statistical information generated within the NHS and used by NHS managers and the DHSS. The first fruits of this work—interim reports covering much of the statistical information about hospital clinical activity—were circulated for consultation in the summer, and their feasibility is being tested in field trials. Work is also in progress on community health statistics, financial information systems and is about to start on manpower systems.

7. In broad terms these reviews aim to identify the information required locally to manage services and from this data base identify the information required centrally to

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fulfil the Department's role. It is anticipated that the first of the new systems will be introduced within the NHS from January 1983.

Q.21. *What information is provided by the Department to Ministers on questions of effectiveness and efficiency?*

REPLY

1. The following *annual* reports are now submitted to Ministers:

(a) Scrutiny of Departmental running costs (see para 4 below);

(b) Public Expenditure Survey—financial and manpower programmes. (Both are now done at the same time on a coordinated basis);

(c) Reports on outturn for administration costs and manpower for previous financial year;

(d) Report on social security audit;

(e) Report on Staff Inspection outturn for previous calendar year;

(f) Report on the work of Central Management Services (CMS);

(g) Report on progress in the exercise to review Headquarters functions;

(h) Chief Medical Officer's Annual Report (Reviews health activity data).

2. These reports cover every aspect of the Department's programmes. Over and above these, Ministers' attention is constantly directed—through Parliamentary Questions and debates, discussions with officials and so on—to assessment of the effectiveness of their policies.

3. There are also quarterly returns on both the manpower consumption and the Department's head count. These are important monitoring tools since the Department is expected to operate within approved manpower ceilings. The consumption of man-years is included in such reports since this enables the Department's performance to be measured against a man-years' allocation calculated from staff levels throughout the year. This makes better sense operationally as it enables staff numbers to fluctuate, to meet the varying requirements of the work, within the *total* manpower budget.

4. The annual scrutiny of Departmental running costs enables Ministers to identify and seek explanations for any notable changes in expenditure patterns (see Question 15). Further development of these scrutinies, mainly to enable inter-Departmental comparisons to be made, is being planned.

Q.22. *What role have the Treasury, CSD, E & A Department, the Rayner team and any other central agencies had in promoting effectiveness and efficiency within the Department? How would you assess their contribution in relation to your own?*

REPLY

The Treasury provides an independent check on expenditure by officials outside the Department and thus provides a fresh view of the problems involved. Further, all proposals for additional expenditure have to be approved and the Public Expenditure Survey permits an overall view to be taken of the Department's spending plans. It addition to these routine activities the Accountancy Finance and Audit Division of the Treasury (formerly part of CSD) has given practical advice which has assisted in our reorganisation of audit functions. CSD have also given assistance and advice on training auditors.

The Exchequer and Audit Department recently reported on the cost of administering social security benefits and the Department's manpower controls sytem. E&A have been similarly active on questions of efficiency and value for money in the NHS, including accountability in this Exchequer financed yet highly devolved service.

The CSD is responsible for approving the Department's manpower for the Public Expenditure Survey and also the Estimate for the manpower budget. In addition, they assist with and participate in staff inspections and management services studies bringing a wider perspective and aiding the spread of good practices.

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CSD may also initiate studies, such as the recent reviews of the methodology used to set staffing levels at Newcastle Central Office (see Question 10(v) and of messengerial and typing services throughout the Civil Service.

A joint review with PSA of the Department's London estate has led to an agreed strategy for contraction with substantial savings. CCTA assist in choice of new switchboards and telephone equipment, and HMSO likewise in placing bulk printing and stationery orders with resulting economies.

Eight major Rayner scrutinies have taken place, carried out by DHSS staff in areas suggested by the Department. They carry major implications (potential savings of over 2,000 posts as well as around £32 million in administration costs) and whilst some recommendations have been implemented (saving 250 posts) the majority are either under consideration or have a future implementation date. The reports carry weight—both because they are not wholly internal reviews and also because Ministers and senior officials are directly involved and the reports are published. Because they are completed quickly, substantial and cumulative follow-up is often required to translate broad principles into practical action; nevertheless they provide an effective way of questioning current methods.

Q.23. *What incentives are there to encourage individual civil servants to improve effectiveness and efficiency?*

REPLY

1. It is our experience that most people prefer to work in an efficient organisation and will—without any prompting—draw attention to weaknesses in the system and to tasks and procedures which they see as unnecessary or burdensome. Inefficiencies which cause errors or delays affecting the public will rebound in a high level of complaints.

2. The hierarchical system in the Civil Service can of itself be an incentive to the competitive who will strive to progress—there are well-established staff appraisal and promotion systems. Very few officers indeed do not respond to the challenge thus presented to achieve a more than satisfactory annual report on each year's work.

3. Annual reports which now highlight the way an officer manages resources include assessments of potential and recommendations for promotion. Appraisal reviews also encourages an officer to talk about his job and how it can be improved. It is well known that the annual report is not only the key to promotion but also the means by which an officer's attention can be drawn to inadequate performance.

4. Promotion brings with it not only the satisfaction of more interesting and demanding responsibilities but "professional" status and greater influence as well as the material advantage of an immediate (though in some cases not very great) increase in salary and the prospect, if successful, of benefiting from a higher scale of pay.

5. Together the annual reporting and promotion procedures probably provide a much stronger incentive to effort and good performance overall than less open and informal systems of reward and selection could give. The procedures provide incentives for the swift and for the not so swift who continue to make effort in the race they recognise, by and large, is fair and will reward the meritorious in the end provided that there are sufficient openings. Those who fail to achieve advancement, have never sought to compete, or have wearied of the struggle have always to respond to the spur that a poor annual report will bring its retribution by way of warning, transfer or even premature dismissal in the extreme cases of inefficiency

6. In addition a Staff Suggestions Scheme is operated with a view to improving efficiency and effectiveness. All staff are encouraged to submit suggestions and awards are made for suggestions that are accepted. The size of the award is related to the savings produced and the highest award made to date is £2,600 for a suggestion producing staff savings of £70,000 per annum. In the past three years over £15,000 has been awarded to suggestors.

Q.24. *What influence do trade unions have on (i) manning levels, (ii) the introduction of labour-saving machinery and (iii) new ways of organising work.*

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REPLY

1. The Trade Union Sides have *negotiating* rights on pay and pay-related matters. Recent Employment Protection and Trade Union legislation require management to consult the Unions about manning levels etc, a practice which has long been part of the Whitley system. Management is conscious of the importance, wherever possible, of securing the agreement of the unions to change and we also recognise the advantages of tapping the knowledge and experience of members of the Trade Union Side. However, the final decision on what is to be done must rest with Management.

INFLUENCE ON MANNING LEVELS

2. Manning levels in the Department are influenced by a number of factors:

(a) Changes in legislation or Ministerial policy—such as proposals to introduce an Employers' Statutory Sick Pay Scheme;

(b) Staffing ceilings which may be imposed as part of wider government policies;

(c) Complement reviews of local office staffing;

(d) Routine staff inspections (see Question 10);

(e) Management Services studies (see Question 11) and special reviews.

These are all matters on which, in the interests of good management practice, the Department Trade Union Side are consulted and their views are taken into account in reaching final decisions. Whenever changes stem from legislation, they must, of course, be implemented but the Unions will usually be given the opportunity to comment on the way in which the change is to be introduced.

3. The Unions are opposed to manpower reductions which are not matched by equivalent reductions in workloads. Moreover, most of the unions have, from time to time, urged their members not to cooperate with staff inspections or special staff surveys which might lead to staff cuts. This has raised a number of problems for Management which have to be handled according to the merits of particular issues.

INFLUENCE ON THE INTRODUCTION OF LABOUR-SAVING MACHINERY

4. Social Security operations have become highly computerised over the years, and there are now five computer centres in DHSS (see Question 12). The centre a Newcastle holds 53 million national insurance contribution records and provides information for the calculations which are required under the various Social Security Acts.

5. When the main centres were being established in the 1960s, the unions adopted a generally cooperative line, although concerned that the introduction of Automatic Data Processing would lead to redundancies among local office staff. By and large this attitude persisted until 1979 when they withdrew their cooperation over the introduction of new technology, pending the achievement of a national new technology agreement which included some benefits for staff, primarily a reduction in working hours for all civil servants. In spite of this hardening of attitude opposition to change has not been applied universally; some conversion to new computers has gone ahead, Datalink has been introduced (see Question 14), and the department's accounts have been centralised.

6. In the absence of progress towards a national agreement, the Departmental Trade Union Side decided in May 1981 to opt out of Whitley discussions on new technology. While it is naturally of great importance for industrial relations that the unions should accept new technology, there is some evidence that the views of the staff are not always as hostile as those of their representatives. Nevertheless some projects are now approaching the point where Management must decide whether or not to proceed administratively.

INFLUENCE ON NEW WAYS OF ORGANISING WORK

7. Management firmly believes in the value of consultation with the unions. Thanks to their contacts with, and experience of, all levels of the Department the unions often make a very useful contribution to discussions on the reorganisation of work, and it is the practice to consult them through the various tiers of the Departmental Whitley system.

Q.25. *How do you assess the state of morale in your Department? What are the principal contributing factors? What is the present state of morale?*

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REPLY

1. ASSESSMENT

Line managers are alert to the need to assess the mood of the staff and their efforts are supplemented by senior management who undertake regular programmes of visits to meet staff in local and central offices. Other ways of assessing morale are through work performance and the extent of staff cooperation in tackling new work, and the number of trivial disputes which arise. Other indicators include turnover—but a recent reduction is probably due more to the economic situation than to the current state of morale—and the number of trivial sickness absences in which there has been little change over the past few years (over 30 per cent of staff take no sick leave).

Following expressions of concern from both the Official and Trade Unions Sides about the image of DHSS projected by the media, a joint study group was established in 1979. The group found that staff were affected to some extent by bad publicity and that morale and efficiency could suffer as a consequence.

2. CONTRIBUTORY FACTORS

A number of factors have an effect on staff morale: the perceived attitude of Ministers, senior management and line management to the staff and the extent to which they give evidence of their interest in the staff and support the staff against outside pressures; the Government's stance on the value and place of public sector workers, and the effect this has on the media's presentation of the civil service and public servants; the attitude of the public towards the staff; pay; working conditions, promotion prospects; the way in which new procedures are introduced—including the information and training given to the staff.

3. PRESENT STATE OF MORALE (Autumn 1981)

A general answer is difficult as morale is very variable at present. Understandably after such a long dispute, many of the staff are currently disheartened by the outcome of the pay campaign. Nevertheless, there is a considerable willingness among the staff to work hard, based on a natural desire to be efficient and to provide an effective service for the public. This has been shown in the efforts made by the staff to enable the Department to recover as quickly as possible from the industrial action and to return to normal working.

Q.26. *Do you satisfy yourself that the grants and loans you make to other bodies are efficiently and effectively spent, and if so, how?*

REPLY

The Department makes grants to, and reimburses the expenditure of, a number of outside bodies which provide specialist health services (eg Public Health Laboratory Service Board) or perform administrative functions (eg Prescription Pricing Authority). Many of these agencies have their activities regulated by statute and their financial transactions are subject to scrutiny either by the Department's own auditors or by E&AD.

HQ divisions oversee the work of the agencies and determine the policy within which they are required to operate. Finance Division is responsible for financial control and regularity. Immediate responsibility for the efficient and effective use of resources lies with the various committees and boards of management (which in many cases include Departmental representatives); this is particularly the case for bodies whose services are wholly or mainly of a scientific and technical nature.

Proposals for significant variations in expenditure eg new capital projects are scrutinised by policy and finance divisions and by appropriately qualified professional staff in HQ. The annual cycle of PES and Estimates also affords opportunities for regular appraisals of the agency's financial performance.

The Department also makes grants to voluntary organisations, in the fields of both health and social security, amounting to some £12 million. The purpose of these grants is to support work by the voluntary organisations, and the Department seeks to ensure that money is used effectively as intended; it does not determine policy. The departmental administration staff (including professional staff as appropriate) oversee the grant

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application and the way it is used. Other specialists, eg accountants, may be asked to advise on specific aspects.

Q.27. *Have you any arrangements for the systematic retrospective review of the managment of programmes in relation to outcomes, so as to identify lessons learned which might be applied to analogous programmes in future?*

REPLY

1. For social security benefits there are arrangements for the continuous monitoring of the procedures for paying benefits and the provisions governing entitlement to benefit.

2. In each region there are investigations into local office work by regional survey teams and by internal audit. The survey teams are particularly concerned with the day to day problems of management: the internal audit section with the financial implications such as the avoidance of fraud, waste and extravagance and are concerned with appraising the whole system of management and controls. Central Management Services undertake specific enquiries into particular aspects of the work.

3. The "Whole benefit" reviews are intended to cover all aspects of the particular social security benefit and to highlight problems (see Question 11).

4. These procedures allied to day-to-day consideration of the effectiveness of policies and procedures by both operational management and policy branches within headquarters ensure that operational experience is taken fully into account when designing new benefits or making changes to those current.

HEALTH AND PERSONAL SOCIAL SERVICES

5. As the answers to earlier questions made clear, discrete programmes with possible later analogues are exceptional in the health and personal social services field. For the greater part health and social services expenditure is divided by the authorities themselves between support of different aspects of services according to their own local judgment of priorities, and they monitor each activity as part of the ordinary day to day process of managment. In a limited number of instances, as mentioned in the answer to Questions 5–8, the Department earmarks funds or provides separate funding for specific programmes, and the ways in which these are reviewed are outlined in the answers to those questions. For the generality of health service expenditure the Department relies on information derived through the variety of systems described in paragraph 5 of the answer to Question 20. Information is also received from local authorities about social services expenditure. The programme analyses, described in the reply to Question 4, highlight the extent to which HPSS provision generally is changing in line with broad national objectives.

Q.28. *Please specify expenditures on services bought in from the private sector which could have been bought from government trading services such as HMSO.*

REPLY

It has not been the normal practice for the Department to buy such services from the private sector.

Q.29. *How are complaints from the public fed through into improvments in efficiency and effectiveness?*

REPLY

1. All complaints relating to the services for which the Department has direct responsibility are examined to see whether action is required. There is a general policy of encouraging complainants to take the matter up directly at the appropriate level and where the complaint comes to Ministers or the Department, enquiries are always made locally. This ensures that the local managment—health authority or social security office—has an opportunity to rectify any weaknesses in the system which were responsible for the complaint. Where a complaint reveals a more general weakness—or where there is a series of similar complaints—the responsible policy branch of the Department will consider whether any remedial action is needed. The remedial action can however, have the effect

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of complicating schemes and procedures in order to ensure people with special circumstances are properly dealt with.

2. Health Circular (81)5 provides guidelines for Health Authorities who are expected to answer all complaints fully and fairly and to follow up and remedy any general weaknesses they reveal. The Health Service Commissioner can investigate certain complaints, the Department arranges for his annual reports to be distributed to health authorities so they can have the opportunity to draw any general lessons from them.

Similarly, anyone with a complaint on social security is encouraged to take it up with the appropriate local office Manager in the first instance. The Parliamentary Commissioner for Administration investigates a large number of complaints relating to social security matters; the results of these enquiries are carefully studied to ensure that any lessons to be learned from them are put into practice for the future.

Q.30. *The Sub-Committee hope that the answers given to the foregoing questions will provide it with a general picture of the procedures and machinery used in the Department to promote efficiency and effectiveness. However, the Sub-Committee believes it would be helpful also if the Department could illustrate its general approach by reference to one specific example. In the case of the Department of Health and Social Security the Sub-Committee asks that this should be invalidity benefit.*

The Department is invited to submit examples of measures of performance and actual documents and procedures used in reviewing efficiency and effectiveness in this area of activity, down to the lowest level. The Department is asked to indicate the relevant management units in which the relevant management information needed is brought together.

REPLY

The attached Appendix gives an outline of:

— the conditions for payment of Invalidity Benefit, which is the task imposed on the Department by Parliament;

— the procedures used in dealing with claims for the benefit;

and

— the various checks imposed in the system to ensure the task is carried out efficiently and effectively.

Appendix to Question 30

CONTRIBUTORY INVALIDITY BENEFIT (IVB)

1. INTRODUCTION

DESCRIPTION OF THE BENEFIT

This is an income replacement benefit, during periods of incapacity for work. It takes over from sickness benefit after 168 days' incapacity in a period of interruption of employment (PIE).[1] The benefit is made up of three parts:

(i) the basic benefit—called the pension—which is paid at a flat rate;

(ii) the allowance—the rate of which depends on the claimant's age when he first became ill;

(iii) the additional "component"—the rate of which depends on the amount of national insurance contributions paid by the claimant since 6 April 1978.

The total rate of IVB is higher than that of sickness benefit. This is to take account of the fact that in general the claimant has been and is likely to remain incapable of earning a living for a considerable period (or, because of the operation of the linking rules described above, is likely to have repeated short absences from work).

[1]A PIE is made up of days when a person is not working but claiming sickness, injury or unemployment benefit. PIEs not more than eight weeks apart "link", that is, they are treated as one period.

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In addition to the contributory benefit there is also non-contributory invalidity benefit—which is operated by local offices in a broadly similar way for those who have not paid the necessary contributions for IVB. There is also a non-contributory benefit for housewives whch depends on the satisfaction of a special test of inability to carry out household duties. This benefit is administered centrally by North Fylde Central Office. This answer has been confined to IVB.

2. CLAIMING IVB

The claimant obtains a statement from his GP that he should refrain from work because of his illness. This form (Med 3) incorporates a form of claim to benefit which the claimant completes and takes or sends to his local social security office.

The procedure is the same as for claiming sickness benefit, and indeed the local office will, on receipt of a Med 3 award sickness benefit or IVB as appropriate having regard to the claimant's previous sickness record. For a claimant who is in receipt of sickness benefit the local office will automatically take the necessary steps to transfer him to IVB at the appropriate stage. These include:

(i) Preparation of a payment sheet for invalidity benefit;

(ii) Verification of age to determine the rate of invalidity allowance (IVA);

(iii) Determination of the rate of additional component which involves obtaining details of earnings in the last tax year before IVB begins and a calculation of the rate based on the total record since 6 April 1978—from Newcastle Records.

AWARDING OF BENEFIT

As with most benefits under the Social Security Acts benefit is awarded by the local Insurance Officer (who is the independent statutory authority). The claimant may appeal against that decision to the local tribunal in which case the LIO will prepare a written statement for the tribunal, send a copy to the claimant and will appear at the hearing before the tribunal. Once benefit has been assessed it will continue as long as evidence of incapacity for work continues to be produced and there are no changes of circumstances but the claim is subject to check and supervision (see below).

3. CONTROL ACTION

GENERAL

As explained at 1 above payment of IVB is made because of the claimant's incapacity for work. Evidence of incapacity is normally provided in the form of a doctor's statement advising the claimant to refrain from work for a period because of a specific disease or disablement. Such evidence is not necessarily conclusive. It represents a particular doctor's opinion at the time he examined the claimant. therefore all claims for invalidity benefit are subject to supervision. This may take the form of a home visit by an official of the local DHSS office and/or more commonly of a reference to the Regional Medical Service (RMS) to get a second medical opinion on incapacity for work. The selection of claimants for visits and reference to the RMS is made quite impartially on the basis of standing instructions agreed by the Department's medical advisers. The main considerations are the diagnosis of the disorder causing incapacity for work and the length of time the claimant has been away from work as a result. No-one is called for medial examination until his own doctor has been asked to provide an up-to-date report on his condition and to say whether or not the claimant is fit to attend the medical examination centre.

Invalidity benefit has, of course, to be preceded by 168 days of sickness benefit. It is common, therefore, for a sick visit and for a reference to the Regional Medical Service to have taken place and for advice on the timing of the next check on incapacity for work to have been given before title to invalidity benefit commences.

In this context it is relevant to explain that a good deal of the resources available for supervising incapacity claims are concentrated on suspect claims made at times of holidays, strikes, local sporting events and, in particular, repeated short period claims. These are subjected to special scrutiny in accordance with detailed deterrent procedures.

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As a consequence of the linking arrangements mentioned in the Introduction, invalidity benefit can be obtained following a series of spells of sickness, which may or may not be suspect. The Social Security (No. 2) Act 1980 made it more difficult to obtain invalidity benefit in this way, by reducing from 13 weeks to eight weeks the period between spells of incapacity or unemployment, which lead to the linking of the spells to form one period of interruption of employment. It nevertheless remains important to identify and challenge suspect claims, to prevent the payment of invalidity benefit to people for whom it was not intended.

The control procedures are devised so that claims which are neither suspect nor unduly prolonged escape control action altogether. The point at which to regard incapacity from any particular disease as unduly prolonged is fixed in accordance with medical advice and reviewed in the light of experience.

Many reviews have been undertaken to try to achieve the most cost effective control system possible. They have generally led to reductions in the amount of control exercised. The number of sick visitors and visits conducted have been reduced drastically over the years and preference has been given to control by means of reference to the RMS. However there has been no increase in the available RMS resources, which in 1952 could deal with references totalling 2 per cent of the live load of claims, but currently can cope with only 1.4 per cent of the live load.

At the time the rate of benefit is decided reference is made to a list of common diseases showing when and what control action should be applied to someone suffering from that disease. This will enable a control date to be fixed and a reference to the Regional Medical Service for a second medical opinion on incapacity for work will be made if benefit is still in payment at the relevant date.

If the RMS doctor is of the opinion that the claimant is not fit for work he will recommend whether any further control action is needed and, if so, when this should be reviewed.

If the RMS doctor is of the opinion that the claimant is fit for work, including some other work other than his normal job, he will advise the local office and the claimant's GP accordingly. A GP is not bound by the opinion of the RMS doctor but is free to advise his patient in the light of his own clinical judgment at the time he sees the patient. Where the GP issues a final (closed) statement this will terminate the claim to benefit. Where the GP does not issue a final statement there may be further reference to the RMS before, either the RMS and the GP reach agreement or, if the GP continues to issue "open" statements and the claim to benefit thus continues, the claim is referred to the LIO to give a decision on the question of the claimant's incapacity for work. In the event that the LIO decides that the claimant is not incapable of work the claimant is notified of the decision and at the same time is informed of his right of appeal to the local tribunal against the LIO's decision.

4. REVIEW AND CHECK ACTION

Claimants are asked to let the local office know if their circumstances change in a way which will affect their entitlement to benefit. Often such changes cannot be anticipated by the local office eg. a wife for whom an increase of benefit is paid takes up work or starts to earn at a wage of such an amount as to affect the rate of benefit.

Experience has shown that for one reason or another claimants do not always advise the local office of changes in circumstances and so a system of checks and reviews has been worked out. The frequency and type of check depends on the circumstances of the case—but basically the case of a claimant with a family for whom increases are being paid will be checked more than a claim from a single man or woman.

When review dates are reached the appropriate form of enquiry is issued to the claimant and continuation of benefit payment depends on the return of the completed form.

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5. PAYMENT OF IVB

Each claimant is allocated a weekly pay day (Mon–Thurs) according to his national insurance number. The period covered by the payment and the method of payment vary in general depending on the length of the forward period covered by the doctor's statement.

If statements are being issued weekly then benefit is paid weekly (in arrears) by girocheque. If the statement is for a forward period of two weeks or more and the claim is four or more weeks old payment will be made each fortnight (one week in arrears one week in advance) by girocheque.

If the statement is for a forward period of eight weeks or more payment will be made by issue of a book containing eight or more (maximum 13) orders—one payable in each week of the 8–13 ahead. Two-thirds of IVB beneficiaries are paid by order book. As at 31 May 1980 there were 614,500 people in receipt of IVB.

6. CHECKS ON IVB CASES AT THE PAYMENT STAGE

As each case held must be brought out at regular intervals for payment this is a convenient time to check the accuracy not just of the payment calculated as due but also, in selected cases, of the accuracy of the assessment of the award and rate of benefit. The procedures for checks by local office supervisers who authorise all payments both by girocheque and order book are at Annexes 1 and 2.[1]

7. CHECKS ON IVB (AND OTHER) CASES BY SHORT-TERM BENEFIT MANAGER (HEO)

The checks made by Managers are detailed at Annex 3.[1] Annex 3.3 (Circular OA 126) gives details of the checks to be made on benefit payment cases including those for IVB. Appendix 1 of the Circular explains how cases are selected. Appendix 2 the aspects to be checked in each case. Every four weeks the numbers of benefit payments checked and of those found to be incorrect, and the resulting percentage error rate, are reported by each local office to its regional office through the Regional Organisation's Management Information System (see Question 15). Regional Offices collate this information to produce regional figures which are then fed to the Headquarter's management division. This system enables management at all levels to monitor performance regularly and to initiate enquiries and remedial action where indicated. The relevant local office performance indicator (PI) relates to claims for incapacity benefits rather than to IVB alone. This is because an individual claims for incapacity and is then awarded the appropriate benefit (see 2 above). Over the country as a whole about 120,000 National Insurance short-term benefit payments are checked every four weeks.

8. AUDIT CHECKS

The work of Audit covers several main areas.

1. Routine Audit.

Periodically each local DHSS office is visited by an audit team (on average every 12 months). The team examines a number of the short-term benefit cases, including IVB cases, which have been subject to test check by the local office HEO (see 7 above).

The team's object is to check that management's own control systems are being properly operated and to validate on a regional and national basis the local office management reports on the accuracy of payments. The size of the sample selected by the auditors does not allow validation of the PIs of each individual local office.

As a result of these routine checks the auditors produce quarterly reports. Copies are sent to the policy, procedures and management divisions of the Department who watch for trends in the work and consider what action is necessary—eg see 3 below.

[1]Not printed.

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2. Systems Audit

This is a detailed audit examination of all the systems and procedures throughout the Department and is to be carried out over a period of five years. It started in April 1981.

IVB is high on the priority list for review.

3. Special Audit

As a result of their work on routine audits, or at the request of Headquarters divisions who may want trends investigated, the auditors will undertake special studies.

Such a study was recently made of IVB cases, at the stage of the first payment of the benefit, to check the accuracy of the payment in relation to the assessment of the award and rate of benefit. The auditors presented their report to the interested divisions at DHSS Headquarters in May 1981 with requests for comment and suggestion for remedial action. As a result the divisions undertook to put more emphasis on the trouble spots in rating of IVB claims during staff training courses, examined the instruction to local offices about the rating of IVB claims (but could not recommend change to simplify them) and gave instructions for the strengthening of checks by Supervisors at the payment stage. The auditors will check again on this subject in the same way in about 12 months time to see and report to divisions what improvement there has been in the quality of work as a result of the measures taken.

9. STATISTICAL SURVEY

Details of a 1 per cent sample of claims, including claims to IVB, chosen with references to the claimant's national insurance number are collected by local offices and sent to the Statistics branch for compilation, analysis and monitoring.

A copy of the list of tables relating to Invalidity Benefit produced by the statistics branch is at Annex 4.[1]

10. REGIONAL SURVEYS

The Regional Offices of the Department have teams who go out to survey work in local offices (see Question 17). The teams generally have set objects and usually take their cue for action from trends in quality, intake or output or work revealed by the work returns presented to them each month by the local offices. The team examines the state of a particular aspect of work in a number of local offices in their region, and talks to staff and management. A report of the findings is produced and a copy sent to each local office manager. The reports make recommendations for methods of improving the work. A copy of each report is also sent to the management division at DHSS Headquarters (which also keeps a register of the surveys undertaken in each region) who let the relevant policy and other Headquarters branches have copies for information and comment as necessary. Comment is fed back to the Region.

[1]Not printed.

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Examination of Witnesses

Sir KENNETH STOWE, KCB, CVO, Permanent Secretary, Mr M J A PARTRIDGE, Principal Establishment Officer (Deputy Secretary), and Mr G G HULME, Principal Finance Officer (Deputy Secretary), Department of Health and Social Security, called in and examined.

Chairman

834. Sir Kenneth, we thank you for coming to give evidence to us this afternoon in our inquiry into efficiency and effectiveness in the Civil Service. Would you ask either of your colleagues to deal with any particular questions which arise as you wish? In getting at the test of effectiveness in any area it is obviously important to get some measure of what you are achieving. In your evidence you make reference to the family expenditure survey as the basic broad sweep coverage of the social condition of the British people. That survey is being cut under the Rayner proposals. Will it damage the usefulness of the survey to you in measuring effectiveness?

(Sir Kenneth Stowe) I doubt that it will damage our effectiveness. I do not think any of us would want to argue that it is the only test of the effectiveness of the social security scheme, and that was the point to which our evidence primarily related. There are many other tests of effectiveness. Ultimately, of course, the test lies in the judgments reached in this House, but I do not myself believe we shall suffer any great disadvantage by what is proposed. If I may, I would like to ask Mr Partridge whether he wants to comment further on that from his knowledge of it.

(Mr Partridge) I do not think I have a great deal to add. The family expenditure survey is one of our main surveys on the policy effectiveness of social security, but we have a good deal of other output measurements of the effectiveness of management in the delivery of benefits—how efficiently and effectively we do that—and we have been monitoring it for ten years. We have a good deal of output measurements and they are all going full blast.

835. But they are internal measurements of your own procedures and administrative efficiency. Is there anything other than the family expenditure survey which directly operates, if you like, closing the loop from the client beneficiaries—call them what you will—back to the Department?

(Mr Partridge) I think the internal measurements do give some feedback on the effectiveness of policies. We have been measuring the supplementary benefits scheme over the last four years and the effectiveness of how those delivering these benefits to the populace has an impact on the policy. There is a great deal of criticism of certain parts of the scheme coming out of the monitoring of it, so the internal measurements do give some guide to effectiveness. The other feedback we have is that we have a good deal of economic and statistical advice in the Department apart from FES. We have two models of how the policies operate. There are population and benefit models, like the Treasury model. We use these two models perhaps more effectively than the Treasury model.

836. It must depend on data from the prime source, from the end receiver of the service you give. Is there any systematic comprehensive survey other than the family expenditure survey?

(Mr Partridge) Yes. There is the family finances survey which is something which has been done specifically for us. It is not a continuing survey like FES, but we will be repeating it. It gives a lot more information in more depth than FES about particular families at risk. The trouble with FES is that it is very broad band when you want to identify particular types of families, perhaps families with more than four children on supplementary benefit. This survey gives a lot of information about particular groups.

837. How often do you carry it out?

(Mr Partridge) Normally, we carry it out every three or four years.

838. How large a sample is it?

(Mr Partridge) I could not say offhand, but we could let you have a note[1] on it.

839. Taking the same point about the health field, there has been a good deal of discussion in the medical profession about the computerisation of records and accurate characterisation of the state of the health of the nation and so on. Is that an area in which we would expect to see increased activity in the future or not?

(Sir Kenneth Stowe) Not especially, Chairman. I do not think we would regard

[1]See Appendix 13.

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that as highest in our priorities at the moment. The computerisation of health records is an immensely complicated field, as I am sure you know; it raises issues of great concern both to patients and to the clinicians concerned with them. The use made by the Department of clinical records must, I think, be very, very limited. Of course, there are very substantial blocks of data derived from our statistics within the Health Service relating to hospital activities and other things, and they are already largely computer based, but I would not myself judge that the development of the kind of computer based information system which you are referring to, which would be related to clinical records, would be of very great interest to us over the next few years.

840. The Select Committee on your Department has taken an interest in the adequacy of preventive medicine as being of far greater cost-effectiveness than once people become ill. Does that not depend on improved information of some kind so that you can identify the source of illness?
(Sir Kenneth Stowe) Yes, it does indeed. I suppose the kind of information which would come most readily to most people's minds in that context is the information acquired over many years for the purpose of establishing a link between smoking and cancer. There is obviously a great deal of statistical material lying behind all clinical research and research into preventive medicine in those fields. That research and the data needed for it will, however, come from the efforts of those who are researching in medical fields rather than from the efforts of the Department itself.

841. Would it be true to say, therefore, that in both social security and health in terms of measuring effectiveness, in the last resort you do not regard it as your job; you are basically guided by the political and professional pressures in the community as a whole?
(Sir Kenneth Stowe) I would not dissent from that.

Mr English

842. I doubt whether anything I ask you will surprise you, Sir Kenneth. You will recollect that some time ago the Chairman of the Regional Health Authorities produced a report wherein they pointed out that the chief executive of a regional health authority could not as a matter of normal course have your job. Do you think that is a good thing? In France that could happen, if there were such a thing as a French health service in the sense that we have the NHS. Is it not a bit odd that the administrators of the Health Service are not part of the Civil Service?
(Sir Kenneth Stowe) You have asked me two quite different questions.

843. They are linked.
(Sir Kenneth Stowe) Yes.

844. If they were part of the Civil Service one of them could get your job; it is because they are nominally not part of the Civil Service that they cannot.
(Sir Kenneth Stowe) If I might take up your first question, it is not so much a matter that they cannot as that in practice they do not. There is nothing to prevent someone with Health Service experience, as with other forms of experience, becoming a civil servant at a later age than the normal postgraduate entrant, and we do have some in the Department who have risen high in the public service. I see no objection in principle; only practicalities stand between that avenue and one of them becoming my successor.

845. Would you advocate to your Minister that in future, not perhaps precisely your job, but the job under you—being in charge of the Health Service—should be advertised not necessarily publicly, but to all eleven chief executives of the 11 health regions of the Health Service?
(Sir Kenneth Stowe) If the Minister wished to advertise a senior post, I do not think I would want him to confine the advertisement to candiates from the Health Service.

846. So you would be in favour of advertising it more widely?
(Sir Kenneth Stowe) No, I did not say that.

847. I noticed. That is why I asked the question.
(Sir Kenneth Stowe) No, I do not think I would. In fact, I do not think it would be open to me to advise my Secretary of State to put out to open competition a post which, at that level, is a post which is filled by decision of the Prime Minister. I think that that would be a matter that the Prime Minister would have to decide.

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848. We shall ask Sir Robert Armstrong. The other point I would like to ask is about RAWP. I am not going into the details of RAWP. The real question I want to ask is a very simple one. I think you perhaps know some of the origins of RAWP?
(Sir Kenneth Stowe) Yes.

849. I personally was appalled to find out, when I first became an MP for Nottingham, that it had the lowest amount of expenditure per head as compared with the place in which I had been born and brought up—Liverpool. This was inherited by the Health Service in 1948 or so, but nothing had ever been done. Can you think of a good reason why nothing at all was done, until there was political pressure, to even up the health provision of the United Kingdom, for 20 years?
(Sir Kenneth Stowe) I think that, if I may, I shall turn to Mr Hulme. He may know the history better than I do.

850. It is long before your time, I understand that. It is not before your time in the Civil Service, but it is before your time in the Department.
(Mr Hulme) It is difficult, without a bit of notice, to go back over the history. Basically, I think it came down in those days, as now, to political judgment on the balance between the claims of the South and the claims of the North and Midlands. Some efforts were made, but also there were very strong deficiencies in the service in the South-East in those days, which influenced the Department and ministers of the day to say that there would be roughly equal rates of growth. I think that that is what happened, and there was a shift in policy in, I suppose, the 1960s.

851. What you are really saying is that the system was so constructed that conservatism prevailed over equality?
(Mr Hulme) Yes, that is right. If you look at the position in France and so on, you find a somewhat similar picture. It is somewhat difficult.

852. That is so in many countries, including the United States. I have only one other question, and I think that again it is familiar to Sir Kenneth at any rate, on the other side of the Department. Do you think that the combination of health and social security is actually a good one?
(Sir Kenneth Stowe) It has its merits: it has its disadvantages. Its merits are, I think, that it gives a Cabinet minister an overview of a very, very wide, broad area of social policy. Its demerits are equally apparent: that you combine in one department very substantial, direct, managerial responsibilities towards the operations of social security, with the equally direct, but very different relationship between the Department and the health authorities, with the indirect, but fairly common relationship between a central government department and local authorities; you add to that the responsibility for the provision of what we call centrally financed services, ranging from the special hospitals (the Ramptons and the Broadmoors) to the toxicology laboratory in St Bartholomew's Hospital. It is an enormous spread, and it poses managerial problems. That having been said, however, my judgment would be that the balance of advantage lies in leaving it alone, for the reasons which I just stated, with this proviso, if I may make it (because I know this is of interest to you, and we have, indeed, discussed it before): there are interfaces between the Department as presently constructed and other parts of the Whitehall machinery.

853. That is my next question.
(Sir Kenneth Stowe) Then I shall stop there and leave the question to you.

854. It is a very simple one, and I asked it at the last meeting. What is your view about not the policy aspects, but the detailed aspects of, say, collecting income tax and paying out money in social security, given that the policy has to be done within the Department itself (I do not know whether that is so in both cases)? Could the actual managerial work, which takes a lot of people, be put into one non-ministerial body (which I think is the current phrase)?
(Sir Kenneth Stowe) Yes, it could be. However, I would now argue—and I would take a different view on it now from that which I took ten years ago—that we have now made such progress with development on (a) computerisation and (b) (to use a horrible word) the interfacing of those operations between the Department and the Inland Revenue, that the benefits to be gained now, by trying to bring them all together, would be at best marginal and vastly outweighed by the costs and complexity.

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Mr Eggar

855. Sir Kenneth, what impact did the Civil Service Department have on your Department?

(Sir Kenneth Stowe) I would like to speak, if I may, by reference to not only my present Department, but my past Department. The answer is: a very big impact. It was the vehicle through which the pressures on departments, to try to carry out their functions within a constrained manpower budget, have been channelled for many years.

Chairman

856. Would you say what your other department was?

(Sir Kenneth Stowe) The Northern Ireland Office. Since I have only been in this Department four months, I think I could more helpfully answer by reference to that. An important point is that one was a very small department, and I now work in a very big department. I would say that in each case the functions related to the pursuit of efficiency (that is, manpower control and the improvement of methods and procedures) were a very important activity that must be carried out from the centre. I never regarded that—and I do not think my colleagues have ever regarded it—as a burden, but rather as a stimulus and a challenge, and in various circumstances as a very important support.

Mr Eggar

857. If I may say so, that is the most surprising and unique point of view so far that we have received in evidence. However, do you mourn the passing of the old Civil Service Department, in view of what you have just said?

(Sir Kenneth Stowe) No, I do not, because I was very careful to describe functions, rather than labels or, indeed, individuals. Our understanding—and I think it is a clear understanding—of the changes which the Prime Minister has made in the machinery of government, makes it clear that the functions to which I have been referring will continue; not only that, but they have the merit (which certainly weighs heavily with us in a department of our size) of combining control of money and manpower together. This is especially important to us, because in so many of the things that we do—if I can give you an illustration—there is a direct trade-off between money and manpower: that is, to save money we may use more manpower but if we spend money we may save manpower. It is desirable that they should be looked at together from the centre, but that is not to say the other functions of pursuing efficiency in the sense in which I described it earlier cannot be carried out as effectively, if not more effectively, hereafter.

858. Does Mr Partridge want to answer the next question? How much time do you spend talking to the officials of the Department of the Environment about the MINIS and JOUBERT systems?

(Mr Partridge) Quite a bit, and I have also spent quite a lot of time talking to officials of what was the CSD about this. We have had a presentation on the systems and I have had talks with my opposite number, their Principal Establishment Officer, about both. I should say that we ourselves are doing parallel things in DHSS to MINIS and JOUBERT and we are quite a long way along the track of making changes and what we consider to be quite considerable improvements. I think the Department of the Environment would be the first to say that MINIS and JOUBERT are very much tailored to their own circumstances and their own Department; they are different from us. They are much smaller and they have what Sir Kenneth has described as typical cabinet minister functions. Ours is a conglomerate of five big businesses, if you like, and you have to control each, and we also have a large regional organisation. In our case there is a small headquarters of 6,000. I have spent a large proportion of my time studying their methods. We think we have taken some of the best parts of it and adapted them to our circumstances.

859. Did they provide the stimulus and, if not, where did it come from?

(Mr Partridge) We started ourselves on both control of manpower in the regional organisation and control of manpower in headquarters and we have conducted our own management review of headquarters over the last two years under Ministers' directions and have so far, as our Minister said in the House two weeks ago, saved 14 per cent on our headquarters staff in the last two years. We have saved about 11,000 staff in terms of the manpower outside headquarters in the last five years and we hope to save another 11,000 in the next three years. On JOUBERT we are quite a long way along the road. I work with Mr Hulme. We have been trying to adopt a

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cost-centres approach and to get costs devolved to units on the social security and health side. We have studied the implications of JOUBERT and MINIS and have tried to take action in the examples we give, but it was started on our own Ministers' initiative.

(Sir Kenneth Stowe) That is a necessary point to be made, because our headquarters function review, which is our equivalent of MINIS, was conducted, as it would have to be in any department, under the very close personal direction of ministers. There is a double criterion to be met: it has to be appropriate to the Department and the different parts of it and it has to meet the requirements of Ministers, and the important thing about our functions review is that it was done in a way which met these criteria.

860. You have recently had a change of Minister, but did the old Secretary of State's requirements match up to the new Secretary of State's requirements, and has the new Secretary of State taken a close interest?

(Sir Kenneth Stowe) He has most certainly taken a close interest in assembling before him all the material. In fact he has much knowledge about the way in which the functions review is being carried out. The way we have done it over a longer time span, with some sensible targets for savings in manpower, than under the MINIS system requires continuity; there must be periodic monitoring by ministers to make sure we are carrying out the functions they want in manpower which they agree are appropriate for headquarters function.

861. Finally, we have talked already about the diversity of the areas which your Department covers, but, broadly speaking, it is right to say that on the health side of your business, so to speak, you have little control over precisely how regions allocate money. On the social security side you have a great deal of control. What are the disadvantages in operating in the way you do on the health side and the advantages, and what are the advantages and disadvantages of operating in the way you do on the social security side?

(Sir Kenneth Stowe) On the social security side, we are operating under a framework of law which specifies very precisely who, and in what circumstances, shall be entitled to what money in return for what contributions. That means you are operating at a relatively junior level of staffing. The staff are face to face with the public carrying out instructions which are prescribed and founded in law and are very detailed.

862. I understand that, but what about the impact of that on effectiveness and efficiency?

(Sir Kenneth Stowe) As to the impact of that on effectiveness, first of all we go back to the point the Chairman made. The ultimate judge of the effectiveness of those benefits must be Parliament which has prescribed them; they are not matters of judgment which derive from the Department; they are in no way dependent on the judgment of local officials administering the scheme. That is the contrast I draw between that side and the health side where we are essentially funding institutions and services which will enable the Health Service professions to carry out their function of caring for individual patients. There is a big contrast between the two. It is very easy to measure the effectiveness of one side because one can simply measure by audit or by computation whether or not claimants are getting the benefits to which they are entitled in good time and in a way which is appropriate. It is very difficult to measure effectiveness in respect of the Health Service, although I think we may come back to that. Mr Hulme may be able to develop that by reference to some of our research.

Mr Wainwright

863. I have one question on JOUBERT. What problems are being experienced in moving over to a management accounting system, which means having cost centres, and in reconciling the new system with the traditional methods of financial control within the Civil Service?

(Sir Kenneth Stowe) Can I turn to the Principal Finance Officer?

(Mr Hulme) One of the main issues is the actual cost of establishing budgets at different levels and deciding the cost benefit relating to particular budget methods, whether in fact one really wants to get down to divisional budgets for various non-staff costs. There is control of staff at division and branch level but not necessarily budgetary control of expenditure on postage or telephones or photocopying or accommodation. Those non-staff costs are at the moment controlled at a very aggregate level. We have the Department's headquarters in London and we have the central office in

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Newcastle. We have brought in an accountancy-based consultancy firm to help us with the question of what is a cost-effective way of devolving these budgets. We have recently computerised our accounting system which has made it possible to move in that direction, and we are now getting advice on how we can best develop a decentralised budget system.

864. I appreciate this is bound to take time and you will not have settled it yet, but the crucial matter for decision is the size of area of responsibility for what you eventually decide on as cost centres.

(Mr Hulme) Yes, and what is cost-effective in this area.

865. On the question of unit costs, just now you volunteered a health service comparison with France. What cost and resource consumption comparisons do you make with other countries in Western Europe in respect of routine, frequently done Health Service operations—medical and surgical treatment and so on?

(Mr Hulme) We have participated in various international exercises. Clearly, getting information on a common basis is quite a costly business. We have participated in exercises run, for example, by OECD and WHO. In the main, these exercises have concentrated on looking at the allocation of national resources to health and how it relates to gross national product, and the cost of administration and so on. In that respect we do compare very well with Western European countries. Again, I think that in terms of medical costs we certainly compare well. When it comes to something like nursing, the problems of definition are quite difficult. There have been one or two exercises carried out in an attempt to pick out different hospitals in different countries in order to see what conclusions can be drawn, but they have not been very successful. One of our economists works in this area, and indeed one of my assistant secretaries has visited a number of European countries to look in a broad way at how they organise their services and what their costs are. Again, I think it is fair to say that we compare pretty well. I think that our cost per in-patient day tends to be a bit higher than in some countries, but we have got a bigger turnover, so our cost per case tends to be lower, as a sort of rough generalisation.

866. Given time, do you consider this field of international cost comparisons actually for items of treatment—for instance, the tonsilectomy of a schoolchild of a certain age? Do you regard this as a fruitful field for checking on the cost-effectiveness of our National Health Service (which, of course, has no internal competitor)?

(Mr Hulme) Yes, it could be. What we have actually been doing before that is making some comparisons with the private sector in this country, and we have had one or two exercises of this kind, to compare costs. I think it comes down to resources. We could only do it on a very selective basis. If we choose tonsilectomies, that may not throw any great light on the general efficiency of the system. As I say, what we are doing is working with various people in other countries and international organisations, in what seem to be worthwhile, joint exercises.

867. You will be aware, however, that comparisons within this country with the private sector are likely to be very misleading, are they not, because one of the main objectives of private-sector treatment is to get *the* consultant to do the operation; that is one of the main motives for "going private", and that, of course, alters the costs enormously, does it not?

(Mr Hulme) While we are looking at what the costs are, we are including whether or not they involve consultants. There are obviously many elements of cost which are the same, which are not affected by that particular factor.

868. On the social security side, there is evidence, to us and to the PAC (and it is not surprising), that over recent years home visits to invalid clients, pensioner clients and other supplementary benefit clients have fairly steeply declined. Is that trend continuing?

(Sir Kenneth Stowe) There has been a substantial decline for specific purposes over recent years. The trend has now ceased, I think. In other words, the activity has flattened. The background to it is essentially the background of constraint on manpower and consideration of how best to deploy the resources that are available. Mr Partridge did quite a lot of the work in this field, and perhaps I could ask him to elaborate on my reply with regard to that point.

(Mr Partridge) I think that that is the kernel of the matter: we were all the time

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after how, most cost effectively, to use the resources we had got. We did find out, for example, on sick visiting, that the actual output in terms of how effective it was was not very high, and that it was much higher on referring people to the regional medical officer. Therefore, we have discontinued a lot of the sick visits, and we have picked out the ones which are most cost effective. Similarly, on the supplementary benefits side, we discovered that a lot of the visits, although they were very nice for the pensioners, did not produce very much. It was a good service. With constrained resources, we reckoned we could attend to more people's benefit needs in different ways.

869. I am ready to accept that, with restrained resources, you are deploying those as best you can. However, would you agree that there is bound to have been a decline in effectiveness, if you are cutting down the visits, for instance, to aged pensioners?

(Mr Partridge) I think that there is a decline in welfare. Whether that is the most effective use of the system I think is another question. It is a question of how much you are prepared to pay to give a certain degree of welfare. It may be (this is arguable) that the amount of welfare we gave was too expensive and too high.

870. But welfare is the name of the system. Is not that what it is all about?

(Mr Partridge) It is, yes. I am not saying that we have discontinued all welfare. What I am saying is that there are some bits of welfare which perhaps were more of a luxury than others.

(Mr Hulme) It is not providing infinite welfare—if I may add to that—it is, as it were, finite.

871. No, I am simply asking whether you agree that there is a change in the total effectiveness. Do you agree with that?

(Mr Partridge) Yes.

(Sir Kenneth Stowe) I do not think we would agree that there has been a change in the effectiveness of the administration, if you define "the effectiveness of the administration" as being what we are required by statute to carry out. The background to it is that, in the course of carrying out that administration in what used to be regarded as an effective way, we built up a pattern of visiting a lot of old people, because the staff in the local offices were very well received, and old people like being visited. However, the liking of the visits and the relationship they built up with the visiting officers was really secondary to the objective of the scheme, which was to ensure that they had the right amount of money at the right time. In terms of the effectiveness of the original scheme, I think we would argue that we are now using our resources better than we were before.

872. But smaller resources?

(Sir Kenneth Stowe) But smaller resources, yes.

Mr Beaumont-Dark

873. You run a pretty big business of about £38 billion and 97,500 people, with another 800,000 or so in the NHS. Under manpower, you break down these 97,500 people as: 6,000 headquarters, 70,800 social security, 12,700 Newcastle central office, and 7,800 others. You tell us that you have saved 11,000 posts over the last five years, and that you are going to save another 11,000. Before I deal with the present, I can see how some of the savings are going to be made by passing it on to private employers (which strikes me as being the oddest kind of savings, except to those who say "We save it", and some of us suffer who pay it). What were these 11,000 savings, and how did they come about (apart from the obvious efficiency in your Department)? Are they genuine savings, or—putting it bluntly—have they been shuffled off on to someone else's bailiwick?

(Sir Kenneth Stowe) No. If I could give you some examples of the 11,000 posts saved: we saved 2,650 from reductions in national insurance contributions work (that is, adopting less precise rules); we discontinued checking supplementary benefit entitlement by postal inquiries (700); we reduced the checking of calculations of supplementary benefit (600); and we have so far scored 250 savings from the Rayner scrutinies.

874. But with some of those savings, where you say you do not check as much, etcetera, does anybody suffer from the abuses that may take place? I am not criticising the fact that you have saved people, but does anybody suffer, in the sense of people outside government circles, because you do not check, or is it just a bit of extra tax, frankly, or abuse?

(Sir Kenneth Stowe) It works both ways. What we have found over the years is that, if you are engaged in large-scale, clerical

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operations, you can always expect to get a certain level of error; you can equally be certain of finding that check after check after check after check will not totally eliminate that error. It becomes a matter, therefore, of finding where is the most cost-effective line at which to draw your checking. We decided that we had drawn it perhaps a little bit too high up, and that by pulling it back we were saving staff and not putting at risk sums of money that would have outweighed the savings that we have achieved. Again, perhaps I may turn to Mr Patridge on this.

(Mr Partridge) I would like to give two examples. On contributory benefits, historically we have always checked a sample of cases (5 per cent). On supplementary benefits, again for historical reasons, it was a 100 per cent check; everything done by a clerical officer was checked by his executive officer. That struck us as being a matter of overkill. We have gone in for a sample check which has saved staff; we have gone for more effective sample checks rather than 100 per cent checks on everything, which we discovered led to more errors because clerical officers knew it would be checked and they did not take much care.

875. With the 11,000 to come over the next three years there is the scheme which has now been put forward which means you will be able to claim savings of 3,500, and industry is already groaning under one impost after another of governmental savings which are passed on to it by way of extra cost. Is is really a good thing to save 3,500 staff at somebody else's expense? Is it not really a three-card trick saving? I presume you will consider these amongst your savings, will you not?

(Sir Kenneth Stowe) Yes, they will count as savings, and indeed they are savings which we will hope to score along our path towards achieving the Government's objective of a Civil Service of 630,000 strong by 1 April 1984.

876. If they are passed on to private employers the private employers are paying for the staff savings, just as we all employ tax inspectors. My firm employs ten people, not for my benefit but so that the Governmet can get what I have not got.

(Mr Hulme) The benefit is a benefit to the workers in that firm and therefore it is a question of whether that function is a function to be handled by central government or by the employer. The Government has decided that this is a function which should be handed back as it were to the private sector, which is what happens in Germany, and employers will pay less in contributions.

877. I hope you do not make too many savings because I cannot afford to make too many, like the ones I am making now.

(Mr Partridge) Can I add to that?

878. I would be delighted to have another half an hour on this but we are pressed for time. Let us take the local office network. As far as I understand it, Sir Geoffrey Otton suggested that we were being over-generous and could save more people. Is there any real reason why we are not changing the formula? Is there any pressure on you internally or unionwise not to change the formula?

(Sir Kenneth Stowe) You are referring to the management formula in the local offices?

879. Yes.

(Sir Kenneth Stowe) There is no reason why we should not proceed with the adoption of that formula which we have reviewed. In my judgment, we are going through a proper process of consultation with the union side who will be concerned with the consequences of this. We hope they will respond to our invitations on consultation, but in our judgment the case is established and we are proposing to proceed with it as soon as we can.

880. We shall have less regional offices?

(Mr Partridge) There will not be any more local offices.

(Sir Kenneth Stowe) There will be more responsibility in the local offices.

881. More responsive to the needs of the people?

(Sir Kenneth Stowe) Yes.

882. And it will not cost any more when you talk about savings?

(Sir Kenneth Stowe) That is so.

Chairman

883. In conclusion, can I ask Mr Partridge to tidy up one thing? He referred to the household model covering instances of benefits and compared it with the Treasury model. Is that model publicly available?

(Mr Partridge) I do not think it is at the moment. We have got a number of models.

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One is a population model, a model of the population of beneficiaries we serve. We have another one called a benefit model. We have a number of individual models. We have built up a model for the purpose of the supplementary benefit scheme review.

(Sir Kenneth Stowe) Would you like to have a note[3] on it?

884. Could we ask you to publish them, not necessarily to this Committee?

(Sir Kenneth Stowe) Yes.

Mr English

885. Are they available to those academics capable of understanding them?

(Mr Partridge) There is no reason why they should not be.

Chairman

886. Mr Hulme wanted to make a point about research. You did say you were not measuring all agencies like health authorities who have local responsibility for medical research, but there is a problem about effectiveness.

(Mr Hulme) There are many areas where we do leave the effectiveness of the projects undertaken in the Health Service to research undertaken by other people. For example, research into a particular operation would be a matter for medical research, but we conduct a lot of research ourselves into the cost-effectiveness of particular programmes. For example, some years ago we introduced a pilot scheme for a kind of model mental health service in the Worcester area (the Worcester project). We arranged the research and monitored the effectiveness of that particular programme. We give selected details of this work to the Social Services Committee and we do issue a research handbook. There is a good deal of work going on in selected areas.

887. This is a problem area, is it not, because the arrangement is somewhat different from that in other countries? If, for example, one looks at food policy, nothing could be more offensive to the British people than to be told what to eat. Nevertheless, we are the only western country which does not have a food policy and regard it as a clinical test of the incidence of coronaries. Is this not an extraordinary result of the division of responsibility?

(Mr Hulme) We may not have a food policy but we do give advice on dietary matters and the professions give that advice.

Mr English: We subsidise margarine and increase the cost of butter, but let us not go into it. Can I pick up one point?

Chairman. We must conclude.

Mr English: I want to talk about medical research. You did raise it.

Chairman: It is not in the scope of the inquiry.

Mr English

888. Surely, it must be a matter of concern to the Department if so little MRC money is devoted to the problems of old people given that they form such a large proportion of the expenditure of the Health Service.

(Mr Hulme) We have revised our arrangements with the Medical Research Council where in fact there is consultation at a high level on the shape of that programme. Lots of things come into this. Which are the areas where research will be effective?

889. When was that revision done?

(Sir Kenneth Stowe) Last year and it takes effect in the current financial year.

(Mr Hulme) We also have research liaison groups with outside researchers in areas which are our responsibility. One has looked at programmes for the elderly. The White Paper on the elderly, and the discussion document which preceded it was very largely based on work which had been commissioned by this research liaison group.

Mr Eggar

890. Could I refer you to page 55 of the evidence you have given us. In paragraph 5, line 5,[1] you talk of the introduction of new technology, labour-saving machinery, and the attitude of the trade unions. You say that the trade unions withdrew their cooperation in 1979. Have you got their cooperation back, and what exactly does "withdrawal of cooperation" mean in this context? In your view, is the attitude of the unions actually stopping you from saving money and increasing efficiency?

(Sir Kenneth Stowe) I will ask Mr Partridge to say something about this but, to make a practical point, the reason why the trade unions have withdrawn their cooperation is because they have sought a national

[3]See Appendix 13.

[1]See p 275.

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agreement on new technology. That has meant that in the departmental field of operations we have had to approach each of these one-off in order to produce a solution which is acceptable to the Department and, we hope, to the trade unions as well on how new technology should be introduced. Mr Partridge can add something to that with reference to the two or three recent episodes.

(Mr Partridge) We are awaiting this agreement; discussions are going on at national level, and if we get agreement it will make it much easier, but the short answer to whether it is stopping us saving money and increasing efficiency is no. We have had a number of discussions with our departmental unions without a national agreement and have proceeded to introduce a data computer link between the local offices and Newcastle. That took place last year. We are replacing our big computer at Newcastle—the biggest in Europe—and are proposing to introduce laser printers and mini and micro-computers. The short answer is that it takes a bit longer.

891. There has been no loss of efficiency?

(Mr Partridge) No.

Chairman: Sir Kenneth, you have submitted comprehensive written evidence which is a valuable contribution to the broad cross-sectional sweep. This has been in no sense an inquiry into the effectiveness and efficiency of your Department but rather an inquiry into the problems of monitoring this across the field of government, and we thank you for your help.

Memorandum submitted by the Department of Employment

MAIN FUNCTIONS OF THE DEPARTMENT OF EMPLOYMENT GROUP

The Group comprises the Department and its Agencies: the Manpower Services Commission (MSC), the Health and Safety Commission and Executive (HSC/E), and the Advisory Conciliation and Arbitration Service (ACAS)

Functions of the Department include the preparation of industrial relations legislation; giving advice and information on manpower supply and demand; the administration of legislation governing wages, redundancies, work permits and equal opportunities in employment; the administration of the Government's Special Employment Measures (shared with MSC); the oversight of the Agencies; and the payment of unemployment benefit on an agency basis for DHSS.

The main functions of the MSC are to assist people in selecting, training for, obtaining and retaining employment suitable to their ages and capabilities; and to obtain suitable employees. one of MSC's current priorities is the Youth Opportunities Programme.

The HSC/E were established under the Health and Safety at Work Act 1974. Their main functions are the development of policy on health and safety at work, including proposals to Ministers for regulations and the enforcement of health and safety legislation.

The main functions of ACAS are to provide facilities for conciliation, mediation and arbitration as a means of avoiding and resolving industrial disputes; to provide advisory services to industry on industrial relations matters; and to undertake inquiries aimed at promoting the improvement and extension of collective bargaining.

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Enquiry into Efficiency and Effectiveness in the Civil Service
Department of Employment reply to the Questionnaire
Background

Q.1.

Broad outline of 1981–82 estimates (inc Supp Est)		£
(a) Manpower		193,277,000
(b) Administration Costs		30,018,000
(c) Grants and Loans to other bodies (details below)		1,420,875,000
(d) Goods and Services		6,683,000
(e) Other expenditure	132,199,000	
less receipts (details below)	103,432,000	28,767,000
		1,679,620,000

Major items of expenditure included in the above figures

(a) *Manpower* Includes £157,258,000 for Unemployment Benefit Service and Local Office work.

(b) *Administration Costs* Includes £18,531,000 for Unemployment Benefit Service and Local Office work.

(e) *Other Expenditure* Includes £129,093,000 for payments to people who retired early under the Job Release Scheme.

(i) Details of grants and loans to other bodies	£
Manpower Services Commission (Net)	734,007,000
Health and Safety Commission (Net)	80,816,000
Advisory, Conciliation and Arbitration Service (Net)	12,738,000
*Community Industry Scheme	22,042,000
Trade Union Education and Training	960,000
International Labour Organisation Subscription	1,758,000
Grants for the Training of Careers Officers	397,000
Grants to Local Authorities for careers services	6,374,000
*Community Enterprise Programme—Grants to sponsors	92,830,000
*Grants to Remploy Ltd	39,535,000
*Loans to Remploy Ltd	6,853,000
*Grants to Local Authorities for seriously disabled	10,067,000
*Grants to Voluntary Bodies for seriously disabled	2,465,000
*Duchess of Gloucester House Resettlement Expenditure	338,000
Small Firms Employment Subsidy—residual grants	1,000
*Job Creation Programme—residual grants	24,000
Temporary Short Time Working Compensation Scheme—grants	388,500,000
National Dock Labour Board Loan	20,000,000
**Trade Union Ballots	1,100,000
	1,420,875,000

*Administered by MSC
**Administered by ACAS (Certification Officer)

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(ii) Details of Significant Receipts	£
National Insurance Fund	90,825,000
Redundancy Fund	5,293,000
Maternity Pay Fund	641,000
*Manpower Services Commission	4,512,000
*Health and Safety Commission	666,000
*Advisory, Conciliation and Arbitration Service	218,000
Fees for Licensing of Employment Agencies	856,000
Other Receipts	421,000
Total	103,432,000

*Work performed by DE—Group Personnel Unit Solicitors and Establishments, Statistics, Computer and Finance Branches including all payroll work on behalf of the three grant aided bodies.

Q.2. *How many people are employed by the Department and its agencies and on what main blocks of work? How many of these are civil servants?*

1. Staff in post at 1.7.81 for each main DE activity is shown below

	Permanents	*Casuals*	*Total*
Department of Employment	*28,408*	*1,641*	*30,049*
of which:			
Unemployment benefit staff in HQ, RO, regional (RO) area and local offices	23,638	1,420	25,058
HQ and RO staff on:			
— Redundancy Payments, Maternity Pay, Handling of Redundancies, Insolvency Payments	392	61	453
— Special employment measures	243	31	274
— Regulatory and advisory (wages inspection, foreign labour, employment agencies, race relations, careers service)	477	3	480
— Statistics	291	15	306
— Support services	*2,605	97	2,702
— Other functions	198	1	199
Industrial Tribunals (IT) and Employment Appeals Tribunal (EAT)	532	13	545
Office of Manpower Economics	32	—	32

*It is estimated that 1,200 of these are employed in support of the Unemployment Benefit Service (UBS) and 460 in support of MSC, HSE and ACAS.

Manpower Services Commission	*23,293*	*933*	*24,226*
of which:			
Employment Service Division	12,750	483	13,233
Training Services Division	7,528	293	7,821
Special Programmes Division	1,729	124	1,853
Central and Regional Manpower Services	1,286	33	1,319
Health and Safety Executive	*3,828*	*137*	*3,965*
Advisory Conciliation and Arbitration Service	*704*	*13*	*717*
DE GROUP TOTAL	56,233	2,724	58,957

All staff shown are civil servants, except that the "DE–IT/EAT permanents figure includes 75 full-time chairmen appointed by the Lord Chancellor as office-holders under the Crown.

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18 *November* 1981] [*Continued*

Q.3. *What significant changes have there been in the functions of the Department in the past five years?*

Significant changes in DE functions after April 1976

Date	*Change*
July 1976	*Employment Agencies Act 1973* came into force, making licensing with DE compulsory for agencies by *November 1976.*
October 1976–March 1978	*Recruitment Subsidy for School Leavers* (RSSL) replaced in *October 1976* by *Youth Employment Subsidy (YES)* for long-term unemployed young people under 20. YES scheme closed in *March 1978.*
January 1977	Final payments made by the Department of *Regional Employment Premium* (for manufacturing firms in assisted areas).
January 1977–April 1978	The following provisions of the *Employment Protection Act 1975* came successively into force: (i) itemised pay statements; (ii) minimum guarantee pay during lay-offs: main provisions and industry exemption orders; (iii) maternity pay rebates; (iv) time off for public duties; (v) time off for trade union duties, and activities. Complaints may be referred to industrial tribunals. In addition DE has certain executive functions in relation to (ii) and (iii).
July 1977–March 1980	*Small Firms Employment Subsidy* (SFES) introduced for special development areas (SDA) in *July 1977.* The scheme was extended in *July 1978* to manufacturing firms only in assisted and inner city partnership (ICP) areas; further extended in *January 1979* to all firms in SDA/Development area (DA)/ICP areas and manufacturing firms throughout GB; and restricted from *July 1979* to manufacturing firms in DAs/SDAs. The scheme closed in *March 1980.*
October–December 1977	DE's *manpower intelligence and planning work* in Scotland and Wales transferred to Scottish and Welsh Offices respectively, reflecting policy of decentralisation. The same function for English regions transferred to MSC regions, following DE Group management review.
January 1977–March 1980	*Job release scheme* (JRS) introduced in *January 1977* for men over 64 and women over 59, in assisted areas; extended in *April 1978* to all GB; extended in *April 1979* to men over 62 and disabled men over 60; age for able bodied men reverted to 64 in *March 1980.*
May 1978–April 1979	*Short time working compensation (STWC) arrangements for textile, clothing and footwear industries* introduced in *May 1978,* following EEC objections to application of Temporary Employment Subsidy (TES) to these industries. *Temporary short time working compensation scheme (TSTWCS)* covering all industries replaced TES and STWC in *April 1979.*
August 1978–June 1979	*Adult Employment Subsidy* for long-term unemployed run experimentally in Merseyside, Tyneside and Leeds.
January 1979–January 1981	Target level of *wages inspection* increased in *January 1979* from about 1 in 10, to 1 in 6, establishments per year; target reverted to 1 in 10 for year commencing *January 1981.*
March 1979	Standing commission on Pay Comparability set up.
May 1979	Following the change of administration, DE's role in *administering incomes policy* abolished. Role now confined to informing and advising Treasury and other Departments on pay developments (settlements no longer monitored in detail).
July 1979	Royal Commission on Distribution of Income and Wealth abolished.
March 1981	Standing Commission on Pay Comparability abolished.

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EFFECTIVENESS

Q.4. *What are the arrangements for monitoring the effect of programmes, for measuring and monitoring progress in achieving objectives, for considering alternative programmes for achieving objectives, for reviewing objectives in the light of progress and alternative programmes considered?*

1. These questions are most appropriately applied to the special employment measures of which the Job Release Scheme (JRS) and Temporary Short time Working Compensation Scheme (TSTWCS) are administered by the Department

2. Since the inception of special employment measures the Department has maintained a programme of monitoring and evaluation designed to check upon the effectiveness and the cost effectiveness of each measure. In addition to the regular collection of information of the sort described in the answer to Question 5, a few small ad hoc studies have been mounted using the Department's own resources but since it is not staffed to do its own survey work, the bulk of the work has been done by outside researchers. Examples are the survey of TSTWCS reported in the Department of Employment Gazette of May 1980 and the survey of JRS reported in the July 1980 issue.

3. Senior officials and Ministers regularly review these schemes, and their relative cost effectiveness in meeting the common objective of providing a constructive alternative to unemployment is an important consideration. The small firms Employment Subsidy for example was ended because evaluation surveys had shown it to be the least cost effective.

4. The Department's major operation is the Unemployment Benefit Service (UBS). The objectives are to pay monies due to claimants promptly and accurately at minimum cost. Effectiveness and efficiency here overlap. Local offices make returns monthly showing volumes of work and staff requirements, based on a work measurement scheme, which are compared with staff in post. By this means, staff levels are related strictly to levels of unemployment.

5. These returns are supplemented by management surveys and internal audit reports of individual offices which inter alia draw attention to the accuracy of the payments made. The internal audit reports go to the Regional Offices and a copy of the annual audit report, which covers the UBS goes to senior management. The management information system is being extended to provide more regular and more frequent indications of effectiveness in meeting the speed and accuracy objectives of the UBS at local office, area and regional levels.

6. The HQ branch with responsibility for the operation of the UBS submits a monthly report to senior management, including the Permanent secretary, which covers volumes of work, staff numbers which the volume of work justifies according to the staffing basis scheme, staff in post, the ratio of claimants to staff in post, overtime and general comments relevant to current operations. The Regional Benefit Managers meet with HQ staff every two months and a UBS Committee, chaired by the Permanent Secretary meets periodically to review operations and developments in the benefit service.

7. Redundancy Payments and Maternity Payments work, carried out in some seventeen offices, is also subject to monitoring by regional benefit managers and the HQ policy branches concerned.

Q.5. *What are the problems in devising satisfactory measures of progress and examples of progress reviews?*

1. The answer to this question must be read in conjunction with the answer to Question 15, which is concerned with measuring outputs and the difficulties in doing so.

2. Where the objectives are readily translated into quantifiable terms there is no difficulty in measuring progress. For example the effectiveness of the Temporary Short Time Working Compensation Scheme (TSTWCS) is measured by reference to:

(a) monthly applications (recorded by region and type of industry);

(b) monthly total of people on short time working under the Scheme;

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(c) monthly total of jobs claimed to be at risk;

(d) monthly assessment of the effect on the register of unemployed;

(e) payments made under the scheme.

3. Progress is therefore regularly reviewed by the HQ policy branch concerned, as it is with the Job Release Scheme and in a similar way. Information about the take up of the Schemes is regularly published—copies of typical Press Notices are attached.[1]

4. Where outputs are apparently readily defined progress is readily monitored, but even with TSTWCS there remains the difficult question: what would have happened without the scheme? Employers can be and are asked in sample surveys of this and other special employment measures, but uncertainties are bound to remain.

Q.6. *Does evaluation extend to the effectiveness of programmes not consuming large quantities of resources and in particular to regulatory activities and inspectorates?*

1. Attempts to assess effectiveness are by no means confined to those activities which consume directly or indirectly large quantities of resources. The following paragraphs illustrate what is done in other areas.

2. LICENSING OF EMPLOYMENT AGENCIES

Amongst factors helping the HQ policy branch concerned to evaluate the effectiveness of the Employment Agencies Act 1973 in protecting the users of an employment agency or employment business are the volume of complaints received from members of the public, both at regional level and at HQ through correspondence; representation from trade associations and pressure groups; feedback from the regions on problems arising and the level of non compliance as indicated by proposals to refuse or revoke a licence and cases which result in prosecutions. Monitoring of licensing and enforcement activity is by means of a quarterly return, which also has some bearing on effectiveness, from the regions to HQ. A copy is attached.

3. WAGES INSPECTORATE

The Chief Wages Inspector has a list of performance indicators which enables him to assess the level of activity of his team and its effectiveness in ensuring compliance with the orders of Wages Councils. The information on the quarterly returns from each of the sixteen areas in which his inspectors operate includes:

numbers of establishments inspected by visit and,
indirectly inspected (ie through visits to samples of branches of multiples or by examining records at head offices),
percentage where any infringement found,
number of employers prosecuted,
number of complaints received,
percentage of workers, whose pay was examined, who were found to be underpaid,
amounts of money recovered.

Review of these statistics over a period of time gives an indication of progress or otherwise in raising the level of compliance with the orders of Wages Councils.

[1]Not printed. Press Notices are issued from the Department of Employment, Caxton House, Tothill Street, London SW1H 9NA.

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EMPLOYMENT AGENCIES ACT 1973

RETURN FOR QUARTER ENDING

PART 1—Licensing

	1	2	3	4
	EA only*	*EB† only*	*EA & EB*	*Total*
1—FRESH APPLICATIONS				
(a) Received during the quarter				
(b) Licenses granted during the quarter				
(c) Applications withdrawn during the quarter				
(d) Still under consideration at end of quarter				
(e) Number in 1(b) known to relate to change of premises				
(f) Number in 1(b) known to relate to change of ownership				
2—RENEWAL APPLICATIONS				
(a) Received during the quarter				
(b) Licenses granted during the quarter				
(c) Still under consideration at end of quarter				
3—LAPSED LICENSES				
Number lapsed during the quarter (ie did not renew; those included in 1(e) and 1(f) and others known to have ceased to trade and lapsed.				
4—NUMBER OF LICENCES OF CURRENT AT LAST DAY OF QUARTER				

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PART II—ENFORCEMENT

5—COMPLAINTS

(a) Number received during the quarter

(b) Number dealt with during the quarter
(i) Found to be outside the scope of the EA Act
(ii) Falling within scope of the Act and found to be substantiated

(c) Number outstanding at end of quarter

6—VISITS

(a) Before issue of licence (when deemed to be necessary)

(b) First inspections

(c) Second and subsequent inspections

(d) In connection with complaints (conducts)

(e) In connection with complaints (unlicensed activity)

(f) Number in (d) and (e) where full inspections found to be necessary and carried out (other than a scheduled first inspection as at (b)).

(g) Follow-up inspections in connection with complaints (other than scheduled under (e)).

(h) For purposes other than (a)—(g) above

GRAND TOTAL OF ALL VISITS MADE

EA* = Employment Agency
EB† = Employment Business

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Q.7. *Who are responsible for programme evaluation and effectiveness?*

1. There is no one unit which is responsible for this work: it is diffused amongst HQ policy branches.

2. The Department's Economic and Social division, which is headed by an under secretary, provides a service to the policy branches assisting with programme evaluation and the measuring of effectiveness.

3. As explained in the reply to Question 4 there are arrangements for considering effectiveness at senior levels notably in the UBS Committee and in reviews of special employment measures.

Q.8. *How is the effectiveness of new and experimental programmes monitored?*

1. This question is most relevant to the special employment measures. As new schemes are introduced arrangements are made to gather relevant statistical information for month by month monitoring by the HQ policy branch. An example of this can be found in the answer to Question 5. This routine work may be supplemented by research studies which examine the operation and effects of the scheme in greater depth. Reports of such studies can be found attached to the reply to Question 19.

2. Schemes are occasionally first introduced experimentally, as was the case with the Adult Employment Subsidy (AES). this scheme was run on a pilot basis in three areas for a nine month period from 7 August 1978 to see whether the flow of the register of long-term unemployed people could be increased by a subsidy to employers. The take-up was so much lower than expected that comparisons with the data from the selected control groups were invalidated. Moreover, a survey by an outside firm showed that over two-thirds of the subsidised individuals would according to their employers have been taken on without the subsidy. The experimental scheme was subsequently discontinued.

Q.9. *Who is responsible for efficiency and to whom do they report?*

1. PROGRAMMES DIRECTLY MANAGED FROM HEADQUARTERS

(a) Some programmes are directly managed from Headquarters. Work functions operating under these central management control arrangement include:–

Wages Inspection
Career Service Inspectorate
Race Relations Advisory Service
Finance[1]
Audit

(b) In each case, the central control over programme efficiency is exercised by the Headquarters sub-branch or section head (Principal or Senior Principal) who is responsible for the operational efficiency in various regional or area commands within the particular work function. Each one reports to an Assistance Secretary Branch head with wider responsibilities eg for policy relating to the programme.

2. PROGRAMMES OPERATING UNDER DECENTRALISED MANAGEMENT CONTROL

(a) 7 Regional Benefit Managers and Benefit Managers for Scotland and for Wales (Senior Principals) are responsible for the efficiency of programmes carried out within their region under decentralised management control arrangements. The main programmes covered in this way are:—

Unemployment Benefit Service (UBS)
Redundancy Payments Scheme (RP)
Maternity Payments Scheme (MP)
Temporary Short Time Working Compensation (TSTWCS)
Licensing of Employment Agencies (EA)

(b) The RBMs and BMs (Scotland and Wales) report to the HQs Branch Head (Assistant Secretary) responsible for the benefit service and to the Director of

[1]Includes the operation of the Job Release Scheme, for which policy responsibility rests with an HQ policy section.

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Establishments on issues relating to staffing and organisation. UBS operations are also subject to review by the UBS Committee which is chaired by the Permanent Secretary. Other Headquarters policy branch heads concerned with RP, MP, TSTWCS and EA programmes which are operated under decentralised management control, are responsible for monitoring the regional operational efficiency of the work functions for which they carry policy responsibility.

3. SENIOR MANAGEMENT

The Permanent Secretary and the Secretary of State regularly monitor expenditure and staff levels. Fuller information is given in Annex A to the reply to Question 20. In addition the Permanent Secretary, through the Economies Group which he chairs, settles the programme of management surveys and commissions studies of various costs.

Q.10. *Staff Inspections*

1. *To whom are staff inspectors responsible?*
2. *Does staff inspection cover the whole Department and all of the associated public bodies for which it is responsible?*
3. *Do staff inspectors cover the whole Department every three years?*
4. *What are the arrangements for ensuring that staff inspectors' recommendations are carried out?*
5. *To what extent are staffing formulae used for routine operations?*
6. *How do you measure whether staff inspections are successful?*

1. Unlike most other Departments, staff inspection and management services work in DE is carried out by one HQs survey unit using staff who are trained in both techniques. The survey sub-branch is headed by a Chief Inspector (Senior Principal). He reports to an Assistant Secretary who is responsible to the Director of Establishments for personnel management, training and complementing as well as the survey operations.

At regional level there is a small team of inspectors reporting to each Regional Benefit Manager. They monitor the application of the staffing formula for the UBS to local and area offices and examine the organisation and efficiency of these offices.

2. For both staff inspection and management services work, the DE Headquarters survey unit also cover the Central Office and Regional Offices of Industrial Tribunals for England and Wales and the Office for Scotland; the Employment Appeals Tribunal; Office of Manpower Economics; and the Advisory, Conciliation and Arbitration Service. Within DE, the HQs survey unit carries out staff inspections of HQ Branches and Regional Offices. The Regional inspectorates cover the local and area benefit office networks.

The MSC and HSE have their own staff inspection and management services units but there are joint working arrangements on projects which have a DE Group dimension. These also provide means of pooling specialised skills and experience and maintaining common standards.

3. There is a cyclical programme of HQs survey planned reviews in which the main emphasis is placed on staff inspection ie examination of need for the work to be done, the way in which it is organised and the numbers and grades required to discharge essential functions. The programme is varied according to assessed need and is not applied inflexibly. The general aim is to ensure that priority is given so far as possible to areas where the changing pattern or demands of the work indicates that a review needs to be made. No substantial area of work would be left for much longer than four years without examination. All HQs survey programmes are approved by the Permanent Secretary's Economies Group.

The Regional Inspectorates operate a cyclical programe of local/area office reviews, with the aim of reviewing the operation of the staffing basis scheme in each local office every two years.

4. The complementing sub-branch, headed by a Senior Principal reporting to the Assistant Secretary, negotiates with management the implementation of survey staffing recommendations, takes the lead in consultations with Staff Side, and monitors implemen-

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tation of agreed recommendations. If substantial agreement with management looks unlikely within three months of the issue of a survey report this is reported to the Permanent Secretary. An annual report on staff inspection operations which also shows the rate of implementation is sent to the Director of Establishments, the Permanent Secretary and the Secretary of State. The Civil Service Department also receive a copy of this report.

5. The staffing of local offices in the benefit service is controlled by the use of a work measured staffing formula, which is subject to major review periodically by the HQs Survey Branch and also as necessary to take account of ad hoc changes in unemployment benefits and procedures. In other areas of demand-related work (eg payroll, special employment measure schemes) unit times for aspects of the work are usually prepared by the survey branch following a staff inspection or management services examination. These can then be used for control purposes by the complementing branch as work volumes change between reviews.

6. The success of a staff inspection ultimately depends on the extent to which recommendations contribute to a result which leaves the areas examined more efficiently organised with appropriate numbers of correctly graded staff. There is no single performance indicator which can encompass each of these factors and then measure them against the cost of the staff inspection operation. Crude measures of effectiveness are obtained by comparing the cost of inspections with the value of implemented savings and by observing the degree of implementation for recommendations made. Evidence from staff inspection does not of course always point to the need for staff reduction.

Q.11. *Management Services*

1. To whom are management services responsible?

2. Do they work by invitation of managers or is there a systematic programme for reviewing the organisation and methods used in the Department?

3. What are the arrangements for ensuring that the recommendations of management services studies are carried out?

4. How do you measure whether your management services are effective?

1. This question is answered at 10(1) above.

2. A few topics for management service review are suggested by line management. More frequently examination of a total work function at all levels of the organisation is prompted by the complementing branch, or arises from problems noted during the course of planned review (staff inspection) operations. The Permanent Secretary's Economies Group also identifies some areas for examination and, as noted above (para 10(3)) approves all survey programmes. Regional inspectorates' examination of organisation and efficiency in local/area offices is carried out on a cyclical programme in conjunction with staffing reviews (see para 10(3) above).

3. The project team leader is initially responsible for agreeing plans for implementation of recommendations with line management, and the complementing sub-branch where appropriate. If irreconcilable differences arise on the appropriate action to be taken, they are referred to senior staff for decision. The Permanent Secretary's Economies Group receives reports on action agreed and taken following reviews carried out on their behalf.

4. The cost of each review is assessed and in many instances may be measured against the savings achieved. With some management services work the value is less easily measurable and can only be judged by customer reaction and response eg where a member of the survey staff is assigned to work with operating staff on a joint assignment to overcome a particular problem on which specialist assistance has been requested.

Q.12. *Machines*

1. What is the organisation within the Department for:

(a) seeking economical uses for machines including computers and other electrical and electronic devices?

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(b) introducing and operating them?

(c) assessing the cost benefit of other investment opportunities affecting the running of the Department?

2. How is the contribution of machines to efficiency measured?

3. Are there any obstacles to their use within the Department wherever they would be economical

1. (a) Two areas of DE Headquarters organisations are concerned with mechanisation development. The Computer Branch, the Director of which reports direct to a Deputy Secretary, has hitherto been mainly concerned with potential large computer applications, whilst a separate section of the Survey sub-branch (paras 10 and 11 above) has been responsible for developing uses for small machines (word processors, accounting machines, reprographic, packaging and despatch machinery). The interests of the Computer Branch and of the Survey Machines Section now frequently converge in areas of work suitable for development of micro-processor and mini-computer systems. The two units are conducting a joint review by consulting line managers about possible areas of development as a necessary preliminary to clarifying areas of responsibility and preparing a forward development strategy.

(b) Main-frame computer applications are developed, introduced and operated by Computer Branch in consultation with the customer. For smaller machine operations, the Machines Section of the Survey Unit develop the system usually as a joint venture with the manufacturers, and in consultation with the customer up to the stage of testing and commissioning. Thereafter the customer/user takes over the system with the machines section monitoring the operation as necessary.

(c) Suitable areas for development may be identified as a result of management service assignments or by examining new machine developments and considering possible applications within the Department. As noted in 1(a) above, a general review of possible developments is being conducted in consultation with a range of potential users. Feasibility studies of any potentially promising areas for development are always carried out either by Computer Branch or the Machines Section and these include DCF analysis of the investment where appropriate to support recommendations to develop a new system/application.

2. A review of new systems/applications is made after about 12 months of live operations to ensure that forecast benefits or savings are being achieved.

3. The main obstacle to faster development is the shortage of trained and experienced staff with the necessary skills. A further problem is that in spite of manufacturer claims to the contrary, standard package software can rarely be used without modifications. Union attitudes to new technology are defensive particularly in areas where machines/computer applications are displacing manual procedures for the first time. Attempts to negotiate a central agreement with the Unions on new technology which have so far been unsuccessful can sometimes impede or cause delay in reaching agreements Departmentally for particular projects.

Q.13. *What are the arrangements for maximising the efficiency of programmes which are not manpower intensive but consume significant financial resources?*

1. Wherever large sums of money are involved it is clearly necessary to devise a tight financial control system and ensure that the system is operated efficiently. Such systems have been developed for the long established Unemployment Benefit Service (UBS) (benefits paid in 1980–81 £2,217 million) and the Redundancy Payments Fund work (payments in 1980–81 £305 million). The systems, the former substantially computer based and the latter manually based, are subject to regular internal audit in the interests of both propriety and accuracy.

2. The Department itself operates two of the special employment measures, the Temporary Short Time Working Compensation Scheme (TSTWCS) and the Job Release Scheme (JRS) against which £365 million and £136 million respectively were paid out in

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1980–81. At their inception the choice between manual payments, using our regional finance office network, (TSTWCS), and main frame computer payments (JRS) was carefully considered. Relevant factors at such a time include the time available between the announcement and the introduction of the scheme, the number and frequency of payments and the likely life of the scheme, although this may be difficult to predict.

3. Whenever a new scheme is to be introduced, and the basic decision about the method of payment has been made, the proposed financial control system is referred to the finance policy branch, management services, the complementing branch of Establishments and finally internal audit for comment. Once the scheme is in operation internal audit of the control system is arranged as soon as is practicable.

4. Management services and staff inspection (see answers to Questions 10 and 11) also have a role to play in ensuring operational efficiency and examples of their contribution can be found in the answer to Question 14.

5. In relation to the sums paid out the manpower resources involved may not be significant, although this is not the case with the UBS. Nevertheless in the interests of efficiency, ie minimising the resources used in implementing the programme, close monitoring of work levels and staffing is necessary. Arrangements to this end are made by the HQ policy branches. For example statistical information is produced weekly by the seventeen redundancy payments offices covering the type of claim, the numbers received and cleared in the week and the backlog of claims. Also recorded are the numbers of EO and CO staff deployed on one major aspect of the work. The policy branch responsible for TSTWCS pursues a simlar course and draws the attention of regional management to apparent inter regional discrepancies in operational efficiency.

Q.14. *Significant improvements in efficiency over last five years and how they were instigated*

1. Benefit Service

(a) The Unemployment Benefit Service is in the last phase of a programme, which started in 1974, to process benefit claims by computer. In May 1979, 79 per cent of claims were on the computer and 94 per cent by July 1981; conversion is expected to be complete by 1984. This development was initiated following a DE Working Party review of possible future main frame computer applications and a limited feasibility study with DHSS relating to the payment of unemployment and sickness benefits.

(b) Following a pilot experiment under the last administration fortnightly attendance and payment (instead of weekly) was introduced in Unemployment Benefit Offices in September 1979.

(c) A work measurement survey carried out in March 1979 led to a 6½ per cent reduction in staffing of Unemployment Benefit Offices from October 1980.

(d) These three measures combined have reduced the staff needed to service a given level of unemployment by over 25 per cent. On a live register of 2.5 million, with 94 per cent of claims on the computer, estimated savings are 8,500 staff and £52 million on salaries and other expenditure.

(e) Further improvements in efficiency are now proposed as a result of the Rayner scrutiny on the delivery of benefits to the unemployed but these will not start to take effect until 1982–83.

2. Staff inspection and management services reviews make a regular contribution to cost reduction. Some significant recent savings have been achieved in:

(a) Staffing of Redundancy and Maternity Payment work. A functional economy study was prompted by staff inspection results in two regions. It recommended changes in the organisation of the work and staffing which would have produced savings of 105 staff units (about ⅓ of complement). The re-organisation coincided with a sharp increase in redundancy payments but in spite of a 300 per cent rise in the volume of work since that time the staffing numbers engaged on this work have increased by

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only 50 per cent. A full review is now being made of working procedures with a view to further economies.

(b) HQ Messengerial, Registry and Despatch Services. Soon after the move into Caxton House in Autumn 1979 the opportunity was taken to review the organisation and staffing of common services in the light of the fewer number of office buildings occupied by the Department in central London. A reduction of 78 posts was achieved out of a total complement of 281 posts previously engaged in this area of work in central London and Watford. There were also some small financial savings resulting from the curtailment of the van services.

(c) A series of short economy studies was carried out in conjunction with audit staff for the Permanent Secretary's Economies Group in 1979–80. The topics covered included licensing of Employment Agencies, statistics, telephone usage, official vehicles, issue of departmental circulars, supply of newspapers and periodicals, library services and HQs returns. The studies resulted in staff savings of 69 posts (of which 45 where savings in MSC); and financial savings of about £280,000 per annum.

3. A recent recommendation of the Rayner inter-departmental scrutiny of Statistical Services proposed that savings in the cost of the Census of Employment should be obtained by the use of sampling methods and by re-organising the census operation. A feasibility study has recently been completed by a joint Statistics Branch, Computer Branch, Management Services team and approval has now been given for implementation of their recommendations to build an entirely new statistical computing system to operate from 1984 leading to savings over existing costs of about £1.7 million annually for an initial investment of £1.1 million to £1.4 million. In the meantime, savings of 120 man years in casual staff will be achieved for the 1981 census through increased centralisation and mechanisation of dispatch and receipt of forms.

Q.15. *How do you measure outputs? Are there any unresolved difficulties in doing so?*

1. Outputs obviously vary according to the activity. In the case of the Unemployment Benefit Service and redundancy and maternity payments work output measures are provided simply by the volumes of work processed ie claims received and paid, and insofar as speed and accuracy are objectives, the interval between receiving a claim and paying it, and such under and overpayments as can be identified.

2. There are similar readily indentifiable output measures for JRS and TSTWCS, where the take up of the schemes is reflected in the numbers receiving allowances or in respect of whom subsidies are paid. However, as earlier indicated, whilst an estimate can be made it is not possible to be absolutely sure of the effect that the schemes are having on the unemployment register for there can be no certainty as to how employers and employees would have behaved in the absence of the schemes.

3. Finding appropriate output measures becomes more difficult when the objective is to influence behaviour eg the Work Research Unit through advice and assistance aims to improve the quality of working life. It is easy to record the number of visits to companies and trade unions and to know the number of advisory projects: it is not so easy to judge the effects of the advice given.

Similarly in monitoring the work of the Careers Service Inspectorate, which offers guidance, advice and encouragement to the Careers Service of Local Education Authorities, the visits made by inspectors are readily recorded but it is difficult to isolate the effects they have on the Careers Service in any measurable way.

Q.16. *Is there an internal audit section? Is it headed by a professional accountant? Are the internal audit arrangements concerned with effectiveness and efficiency?*

1. The Chief Internal Auditor, who is a principal, has a staff of seventy internal auditors of whom seven are SEOs, 28 HEOs and 35 EOs. The work of the unit is closely supervised by the Director of Accounts and Audit, an assistant Secretary who is himself a qualified accountant. Internal audit activities are also reviewed by an Internal Audit Committee which is chaired by the PFO and whose members include two other under secretaries, the

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PEO and the head of the division responsible for the UBS and special employment measures. The resident Exchequer and Audit principal attends meetings of the Committee as an observer.

2. Effectiveness and efficiency are covered by the objectives set out in the Department's Internal Audit Guide. Whilst effectiveness is well covered in the audit of major activities such as the UBS and the special employment measures, efficiency, save for the joint exercises referred to at 2(c) in the reply to Question 14, has more often been considered to be the province of staff inspection and management services staff because so many of the activities of the Department are staff intensive.

Q.17. *How many staff and what grades are engaged on Staff Inspection, Management Services, Internal Audit and similar work?*

1. As explained above (Questions 10 and 11) staff inspection and management services run as a combined operation in DE. The division of staff between the two types of work varies but the figures below reflect the current dispositions of staff in post for work in progress.

		Senior Prin	*Prin*	*SEO*	*HEO*	*EO*	*Others*	*Total*
Staff Inspection HQs		0.2	1.0	2.5	2	0.5		
Management Services HQs		0.8	1.5	5.5	4	1.5	8	32
Extending use of Labour-saving machines	Machines Section		0.5	1	2	1		
	Computer Branch Systems	0.5	1	6	20	7		34.5
Regional Inspection			3	9	30	31	15	88
Internal Audit			1	7	28	35		71
Other work of reviewing efficiency and effectiveness			1		1			2

* Computer Branch systems staff are engaged on the maintenance and enhancement of existing systems as well as the development of entirely new facilities.

Q.18. *What members of professional institutes or other specialists with professional qualifications directly relevant to the Department's functions are employed in the department and in what sort of jobs are they employed? How many of such professionally qualified people are employed in non specialist jobs and how do they contribute to reviewing either efficiency or effectiveness?*

1. ACCOUNTANCY

There are four members of professional accountancy bodies, one of whom is employed as Head of Computing; the remainder are in the department's finance division, one being Director of Accounts and Audit.

2. COMPUTERS

There are two members and four associate members of the British Computing Society. These are all employed on computing work.

3. ECONOMISTS

There are twenty academically qualified in economics and recruited into the Government Economic Service. All but one of these are employed in providing policy advice of a economic kind to senior officials and Ministers. The one exception is himself heading a policy branch.

4. LEGAL

There are twenty-one qualified solicitors or barristers recruited into the Legal Branch. All are employed in normal government department legal work.

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5. PERSONNEL MANAGEMENT

Two staff who are qualified as members of the Institute of Personnel Management work in the Department's Establishments Division.

6. PSYCHOLOGY

There are four academically qualified in psychology and recruited as psychologists. They are mainly engaged in research projects.

7. RESEARCH OFFICERS

Fourteen officers academically qualified in economics, sociology or psychology are engaged in carrying out or monitoring research and in providing research based advice to policy branches.

8. STATISTICS

Twenty-four officers academically qualified in statistics and recruited to the Government Statistical Service are assessing and producing statistical series and providing statistically based advice to senior officials and Ministers.

9. EFFICIENCY AND EFFECTIVENESS

The economists, statisticians, psychologists and research officers are very much involved in policy branches' evaluation studies (see answer to Question 7). The economists also contribute to estimates of the take up of demand related schemes. One of the members of the Institute of Personnel Management is responsible for the department's staff inspection and organisation and methods activity. A qualified Accountant heads the Accounts and Audit Branch.

Q.19. *What use does the Department make of outside researchers in reviewing effectiveness or related activities? How useful have such outside contributions been?*

1. The most extensive use of outside researchers in reviewing effectiveness has been in connection with special employment measures. Examples previously quoted are the survey of the Temporary Short Time Working Scheme reported in the Department of Employment Gazette of May 1980 and the survey of the Job Release Scheme reported in the July 1980 issue. Copies are attached.[1]

2. The results of their work have been valuable in guiding policy on these measures and have from time to time resulted in an alteration in the mix of measures in favour of those which are the most cost effective or which best serve current policy aims.

Q.20. *Who is responsible under the Permanent Secretary for producing management information including management accounts? Does the management information meet the needs of management?*

1. The PFO and the PEO both provide management information for the Permanent Secretary. The former covers the use of manpower and the latter the use of financial resources. (Details are given in Annex A).

2. The DE administration vote is so structured as to provide a measure of cost centre accounting of activities such as the Office of Manpower Economics and the Industrial Tribunals. Pilot exercises extending the use of cost centre accounting are in hand, whilst local budgets have been introduced for travel and subsistence.

3. Regional Finance Offices (RFOs) supply to Regional Benefit Managers (RBMs) the following:

(a) A statement (Annex B) showing for certain subheads, how actual expenditure compares with estimated expenditure, the monthly estimates having been arrived at by RBMs from annual profiles supplied to them by the HQ finance policy branch. RFOs frequently comment to RBMs on the reasons for substantial differences.

(b) A detailed analysis by area and local office, and by Regional Office (RO) section, of travel and subsistence expenses. The RO analysis varies to meet RBM wishes.

[1]Not printed.

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(c) Details of high travel and subsistence expenditure by individual officers. The interpretation of "high" is left to RBMs and RFOs.

4. As indicated previously HQ policy branches have evolved their own management information systems to monitor both effectiveness and efficiency.

5. There is no expressed senior management need for management information which is at present unfulfilled.

ANNEX

EXISTING CONTROL INFORMATION

Finance

Within Finance Division

(a) Monthly—comparison of actual outturn (including committed expenditure in suspense) with estimates/cash limits broken down by vote to subheading level.

(b) Quarterly—a statement by vote and subhead of the latest forecast outturn compared with annual estimate/cash limit. A commentary on significant changes is produced on each occasion, except for the March statement.

(c) During last three months of the financial year forecast outturn figures are updated monthly (weekly in March).

For Senior Management (via PFO to Secretary of State and Permanent Secretary).

Short statement and commentary comparing actual expenditure to date (including committed expenditure) with estimate to date and forecast annual outturn with estimate/cash limit. (End June, September, November–March monthly.)

Detail Controls

(a) General Administration Expenses are broken down to around 20 subheads and go to the appropriate Administration Branch quarterly for information and comment.

(b) Finance Policy Branch receives monthly printout of general administration expenses analysed down to 120 account numbers.

(c) Regional Benefit Managers receive monthly statements of outturn on travelling and subsistence, telecommunications and contract cleaning comparing them with profiles of estimated expenditure.

(d) Entertainment. Special control exercised by D/AA.

(e) Special investigations, eg repayment arrangements with HMSO.

Staffing

(a) Staff statistics are compiled monthly by location and quarterly by grade and function for all areas of the Department.

(b) Staff wastage is analysed quarterly by grade.

(c) Staff levels are monitored against work volumes monthly in the case of the Unemployment Benefit Service and quarterly with other demand-led areas, and staff numbers on special employment measures are also the subject of ad hoc reviews.

(d) Staff utilisation is monitored quarterly against estimates profiles for cash limits returns.

(e) All areas of the Department except the UBO network are staff inspected not less frequently than every four years. The operation of the Staffing Basis Scheme in each UBO is reviewed by regional inspectors every two years, and ad hoc reviews are conducted as necessary; in the meantime it is monitored monthly by Regional Benefit Managers.

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For Senior Management

(f) Commentary on staff turnover is provided quarterly for the Permanent Secretary.

(g) Commentary on staff levels is submitted by the Director of Establishments quarterly to the Permanent Secretary and Secretary of State.

Regional Cash Limits—Monthly Expenditure Return

Region NW *Month* July 1981		*Estimated Expenditure*	*Actual Expenditure*	*Less than the Estimate*	*In Excess of the Estimate*	*Remarks*
5A221	Month	17,500	10,938	6,562		
UBO & RO Benefit Staff: Travel & subsistence	Cum Tot	72,000	48,710	23,290		
5A223–224	Month	3,500	1,081	2,419		
Staff Training Expenses: Unemployment Benefit	Cum Tot	14,000	8,625	5,375		
5A351–367	Month	40,000	40,889		889	
Telecommunications	Cum Tot	155,000	130,000	24,816		
5A406	Month	7,000	8,128		1,128	
Regional Staff on Redundancy, Maternity Funds, Special Schemes, Employment Agencies, Statistics work, Staff section, Inspection, premises and Registry duties: Travel and subsistence	Cum Tot	29,500	29,063	437		
5A407–408, 410–411	Month	5,000	5,105		105	
Staff Training Expenses: Other than Unemployment Benefit	Cum Tot	18,500	13,691	4,809		
5A461	Month	12,500	14,182		1,682	
Contract Cleaning	Cum Tot	49,500	50,845		1,345	

Q.21. *What information is provided by the Department to Ministers on questions of effectiveness and efficiency?*

1. The following control information is provided for Ministers:

(a) short statement and commentary comparing actual expenditure to date (including committed expenditure) with estimate to date and forecast annual outturn with estimate/cash limit (end June, September, November–March monthly);

(b) commentary on staff levels quarterly;

(c) reports on the activities of the Economies Group, studies undertaken and their outcome;

(d) commentaries on the Estimates and the statement of departmental running costs, which explaining movements in costs, touch on efficiency;

(e) information about the effectiveness and cost effectiveness of the special employment measures as part of the regular review of these schemes.

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Q.22. *What role have the Treasury, CSD, E and A Department, the Rayner team and any other central agencies had in promoting efficiency and effectiveness in the Department?*

1. Treasury, CSD and Exchequer and Audit Department all monitor aspects of the Department's performance in promoting efficiency and effectiveness. The CSD and Treasury vetting of budget bids and the questioning of past spending patterns in one form of monitoring. In other areas, CCTA oversee the technical evaluation of investment proposals for computers and office machines; CSD staff inspection division examine departmental programmes and individual inspection reports and receive an annual report summarising results achieved; a similar range of information on internal audit performance is supplied to E and AD. Both CSD staff inspectors and E and AD auditors have the right of entry to examine areas of work as they see necessary.

2. The Department's view is that the main effect of central oversight is to stimulate and strengthen the Department's own efforts to improve effectiveness and efficiency; that this is the right approach and that central intervention tends to be less helpful where it takes over from Departmental efforts or where it prescribes the form of those efforts too precisely. The central agencies also provide a valuable source of specialist advice and assistance. Central agency staff often serve as members of steering groups for development projects or provide specialist input on Department reviews.

3. The development initiatives undertaken by central agency staff, the inter-departmental reviews which they sponsor, and the information disseminated on new developments, trends in costs and achievements elsewhere often provide useful pointers to potential applications or to the need for further investigation of possibilities in DE. Capacity to follow up some of these initiatives may at times be constrained because of shortages in some areas of trained and experienced staff.

4. CSD of course also have a vital central role providing training for specialist staff on systems and computer programming, management services, staff inspections, accounts and audit work.

5. Rayner scrutinies have already proved in DE to be an effective medium for opening up searching examination or wide-ranging topics and policies, which sometimes cross Departmental boundaries. The spin-off effect of the scrutiny programme is also beneficial; the scrutinies have encouraged greater interest to be taken in the results of internal reviews and are providing a stimulus to the staff engaged on such work to challenge fundamental issues.

6. The Rayner scrutiny of departmental running costs has however proved less rewarding and the Department is not yet persuaded that it is cost effective.

Q.23. *What incentives are there to encourage individual civil servants to improve effectiveness and efficiency?*

1. The major monetary incentive available to civil servants is promotion. Contributions and attitudes to efficiency and effectiveness are among the factors considered by line managers and promotion boards in assessing individuals' claims to promotion. A specific item on use of resources has recently been included in annual reports on staff performance.

2. There is a Staff Suggestions Scheme which has been running for many years, in line with guidance on policy and procedure developed centrally through the CSD's Standing Conference of Staff Suggestion Scheme Chairmen. Recently proposals have been made to improve the image and effectiveness of departmental schemes. In DE during the year ending 31 July 1981 451 suggestions have been considered, 55 adopted, and £960 paid in monetary awards.

3. Managers are encouraged to involve their staff in the consideration of important issues before decisions are taken and to stimulate regular discussions of current work problems. In this context in the Unemployment Benefit Service Briefing Notes are prepared periodically by headquarters to form a basis for discussion between local office managers and their staff. Since they were introduced in 1977, nearly 50 Briefing Notes have been issued on a variety of topics.

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Q.24. *What influence do Trade Unions have on*
1 manning levels?
2 the introduction of labour-saving machinery?
3 new ways of organising work?

1. The Department seeks to agree manning levels with the trade unions, notably in staffing the UBS. Joint discussion of these matters often leads to wiser and in the long run, more effective solutions than would have resulted from management action without consultation. There is sometimes a temporary cost to efficiency due to the delay involved in the search for agreement, but the Department does not believe that manning levels have persistently been higher than they should be because of trade union influence.

2. While the unions attitude to the introduction of labour-saving machinery is defensive, they have not had in the Department, in the longer term, an adverse influence on the introduction of labour-saving machinery particularly as regards the conversion of unemployment benefit work to ADP.

3. In relation to the introduction of new ways of organising work the unions have been resistant when they felt that the drive for economy was overriding other considerations, but they have not in the end blocked any major innovations.

Q.25. *How do you assess the state of morale in the Department and what are the principal contributing factors? What is the present state of morale?*

1. We attempt to watch for changes in factors which might have some bearing on the state of morale by encouraging line managers to be in close touch with their staff at all times, by listening carefully and frequently to managers' impressions, by feeding in impressions of senior staff from their visits to the "work face", by listening to what the staff unions have to say and by keeping an eye on relevant statistics eg staff wastage.

2. The questionnaire asks what are the principal contributing factors to the state of morale? The Department would suggest that:

(a) basic conditions, a good working environment and satisfactory economic rewards—the "hygiene factors"—must be right;

(b) beyond that management must give leadership and a sense of purpose;

(c) the smaller the basic unit of organisation, the better.

3. As regards the present state of morale, the staff of the Department are in no way immune from general discontents in the Service eg on pay, fears of worsening career prospects and resentment of some public attitudes towards the Service. On the other hand, the UBS comprising the great bulk of the Department's staff, has coped well with a fast increasing work level, rapid changes in work methods, physical conditions often inadequate, and major operational difficulties during the Civil Service pay dispute. That the service to the public has on the whole been effectively maintained seems to argue for concluding that morale in DE has held up well so far despite the presence of many adverse factors.

Q.26. *How do we satisfy ourselves that the grants and loans made to other bodies are efficiently and effectively spent?*

1. The oversight of the grants in aid to other parts of the DE Group is dealt with fully in the reply to Question 30, including the responsibility of the MSC for expenditure of money carried on the Department's own votes.

2. The Department itself pays grants as follows:

(a) *Trade Union Training and Education*—estimate provision 1981/82 £960,000

Auditors from the Department and the Department of Education and Science are currently carrying out a joint audit of the system of control over monies paid to the TUC which accounts for 95% of the expenditure.

(b) *Grants for the Training of Careers Officers*—estimate provision 1981/82 £397,000

The scheme, which is intended to subsidise full-time study at an approved institution to obtain the Diploma in Careers Guidance, will be administered by the Local Government

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Training Board. The Departments Career Service Branch, which keeps in close contact with the Training Board and Local Authorities will be responsible for checking on the administration of the scheme.

(c) *Grants to local Authorities for the Careers Service*—estimate provision 1981/82 £6,374,000

Grants are made to Local Authorities to strengthen the Careers Service by employing additional staff in areas of high unemployment. The allocation of posts is controlled by the Department's Careers Service Branch. The Branch's regional organisation of fifteen inspectors is required to ensure that the additional staff funded by the specific grant are being used for the purposes intended.

(d) *National Dock Labour Board*—estimate provision 1981/82—£20m

Loans are used to meet payments to redundant dockers under the National Voluntary Severance Scheme (NVSS) where existing levy income, paid by Port Employers is inadequate. The Department receives monthly statements of expenditure and forecasts for the following month which allows expenditure to be monitored. The policy branch concerned also receives regular information about the financial position of each port which operates the NVSS.

Conditions of the scheme are agreed between employers' and employees' representatives. The Department monitors the redundancies which take place. The granting of the loan enables the Department to lay down some conditions affecting the financing of severances.

Q.27. *Have we any arrangements for the systematic retrospective review of the management of programmes in relation to outcomes so as to benefit from the lessons learned?*

1. This question particularly relevant to the special employment measures which have a common objective, namely to provide a constructive alternative to unemployment.

2. The same policy branch is responsible for each of the schemes directly administered by the Department. Experience, particularly the results of surveys into operational efficiency and audits of financial controls, is certainly used when new schemes are developed. More specifically the Temporary Short Time Working Compensation Scheme adopted some features of the Temporary Employment Subsidy and the new Young Workers Scheme owes much to the old Youth Employment Subsidy and the Recruitment Subsidy for School Leavers.

Q.28. *What expenditure is bought in from the private sector which could have been bought from government trading services?*

1. At present virtually all expenditure on goods and services is for items procured through government trading services (Central Computer and Telecommunications Agency, Central Office of Information, Property Services Agency, Office of Population Censuses and Surveys and HMSO. Some very minor items such as commercially published books are obtained, with the agreement of the appropriate Government trading service, from private sources. The total cost of these privately obtained supplies is very small; it is hard to be precise but it is not thought to exceed £20,000 per annum. (It is assumed that the question does not cover cleaning of premises by contract cleaning which it is estimated will cost £1,628,000 in 1981/82.)

Q.29. *How do we feed through public complaints into improvements in effectiveness and efficiency?*

1. Complaints from the public may be received by Ministers, HQ staff or staff in the field. The first two categories receive policy branch consideration and the third does in those cases where it is warranted. Where justified procedures may be changed eg in redundancy payments work to expedite payments. In the case of the Temporary Short Time Working Compensation Scheme reports of repeated failures by employers to calculate guarantee pay correctly led to the production of a standard leaflet showing a method of calculation.

2. Occasionally the complaints may indicate that a change in the legislation is needed and the policy branch concerned would then make recommendations to that end to

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Ministers. Complaints about the cost to the parties of bringing or defending a case before an Industrial Tribunal led to the Industrial Tribunals (Rules of Procedure) Regulations 1980, which introduced a new procedure designed to weed out meritless claims by means of a pre hearing assessment, thus saving the parties and the public the expense of a full hearing.

Q.30. *The control exercised over the Manpower Services Commission.*

1. The 1973 Employment and Training Act sets out the statutory basis for the Commission's responsibilities and relations between the Commission and the Secretary of State. For its part the Commission is required to submit to the Secretary of State from time to time particulars of what it proposes to do to fulfil its functions, to ensure that its activities are in accordance with proposals approved by the Secretary of State, and to give effect to any directions given it by the Secretary of State. Apart from the right to appoint the Chairman and the other members of the Commission, the Secretary of State may issue directions to the Commission and may approve its proposals with or without modifications, or turn them down.

2. The main formal process through which Commission proposals are considered by Ministers is the preparation and submission of the MSC's Corporate Plan to the Secretary of State for Employment (and the Secretaries of State for Scotland and Wales who have similar responsibilities towards the MSC in their countries) every year. The Plan, which contains the Commission's proposals for its activities in the next financial year and several subsequent years, provides Ministers with an opportunity for an annual stocktaking of the MSC's activities. After whatever discussions and modifications that may be necessary the proposals in the Plan are approved by the Secretary of State as the basis for the operations of the Commission in the following year.

3. However, running alongside this annual exercise is a process of day to day contact and consultation, both formal and informal, between the Department and the MSC both at the level of the Commission and Ministers and between officials acting on their behalf. New proposals from the Commission are considered by Ministers and officials as they arise during the course of the year. Similarly there are occasions when the MSC is asked to consider new initiatives or changes of policy by the Government, though in no case to date has there been a formal direction issued to the Commission by the Government.

4. In developing its policies the Commission normally keep the Department abreast of what is being planned. The Department frequently provides observers for MSC groups set up to review particular areas of Commission policy.

5. The primary concern of Ministers and of the Department is with oversight of the major policies and objectives pursued by the MSC and the overall level of resources to be made available to the MSC for those purposes. Ministers have to deal with questions on MSC activities in Parliament and in correspondence with MPs and others, Ministers and DE officials also become involved with the work of the MSC at a more detailed level, and from time to time raise questions about how such work is being done. However, the DE is not staffed or organised to undertake detailed oversight of the way the MSC carries out its functions. This reflects the division of Accounting Officer responsibilities for MSC activities and an awareness that from the outset the MSC has had a strong management thrust, operates an annual planning and review system and in the course of regular reviews of its operations shows concern for both effectiveness and efficiency. A copy of the recent review of its employment rehabilitation services well illustrates this[1]. The DE's Accounting Officer (the Permanent Secretary) is required to be satisfied that the Commission's Grant in Aid can and should properly be paid over and that the MSC has suitable staff and systems for managing it. The MSC's Accounting Officer (the Chairman) has responsibility for the efficient and proper application of the money in question.

Financial Control

6. The division of responsibility of the two Accounting Officers is set out in the letter of appointment issued to the Chairman of the MSC by the Treasury. This is supplemented by paragraphs 21–24 of the revised memorandum of the responsibilities of an Accounting Officer issued by the Treasury on 31.3.81 (Annex A). The detailed terms and conditions

[1]ESP, 76, *July* 1981 available from the Employment Service Division, Moorfoot, Sheffield S14 PQ.

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attached to the issues and expenditure of the grant in aid appear in the memorandum of financial arrangements. (Annex B).

7. The finance divisions of the Department and MSC are in continuous contact as described in paragraph 3. Their relationship provides an interchange of information on the financial implications of new projects and proposals, guidance on financial practices and procedures and for the transmission of advice from central departments. In this way the Department keeps abreast of changes in the Commission's financial requirements from estimates and forward year forecasts already agreed.

8. More specifically the annual estimate for the grant in aid submitted by the Commission is examined in detail within DE prior to reference to the three Secretaries of State for approval. The estimate is then presented to the Treasury by DE officials. When required MSC officials take part in the ensuing detailed discussions leading to the final acceptance of the Commission's expenditure proposals. A similar procedure applies to the consideration of the Commission's public expenditure forecasts for later years, the basis of which is the Corporate plan described in paragraph 2.

9. Applications from the Commission for issues of grant are examined by the Department to ensure that funds transmitted are not in excess of requirements and that working balances are being maintained at reasonable levels. Expenditure is monitored continuously by service and explanations obtained where outturn varies from the estimate profile. Periodic reports are submitted to the Department's Accounting Officer. The Commission is permitted some reallocation of expenditure within the grant in aid but subject to the limitations set out in the financial memorandum.

10. Certain expenditure programmes are administered on an agency basis by the Commission on behalf of the Secretary of State. These include the provision of sheltered employment for seriously disabled people the Community Enterprise Programme and Community Industry. The necessary financial provision is make in the Department's Votes and not in the MSC grant in aid. Advances of grant are made by DE and MSC to meet the cost of the programme including the Commission's administrative costs. The agency arrangements include the agreement of operating criteria and the financial conditions which are set out in memoranda. Examples of those prepared for the Community Enterprise Programme are attached (Annex C(i) and (ii)).

CONTROL OF MSC STAFF NUMBERS

11. The MSC needs the consent of the Secretary of State for Employment and the approval of the Minister for the Civil Service as to the numbers and terms of employment of its staff. In this function the Secretary of State is advised by the Department's Establishments Division and the Minister for the Civil Service by CSD's Manpower Division.

12. The main mechanism for exercising this control is the annual round of PES forecasts and Supply Estimates. The manpower component of MSC's forecasts and estimates are rigorously checked and, if necessary, challenged, in the context of policies approved by Ministers. CSD Manpower Division, in turn, subject the forecast and estimates to examination before acceptance.

13. This estimates control is supplemented by formal arrangements for the authorisation of complements in the MSC. With the agreement of the CSD the Department has delegated authority from itself to the MSC to vary complements for all grades with a salary maximum below that of Assistant Secretary within the approved Estimates provision and subject to the limits which are applied generally to larger Government Departments. Posts at or above Assistant Secretary level have to be approved by the CSD, and all proposals for the creation of such posts are personally approved by the Secretary of State before reference to the CSD. Additionally DE and CSD approval is required for significant changes in the distribution and grading of MSC's staff.

14. DE Establishments Division, in addition to their critical scrutiny of forecasts and estimates, keep a regular watch on developments within MSC in relation to agreed policy through the examination of their internal staff inspection reports and monitoring of their

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regular staff in post returns. There is, in fact, a continuing dialogue between the Department's Establishments Division and the MSC's Corporate Services Division to ensure as far as possible that staff numbers are kept to the minimum necessary to carry out the MSC's approved functions and that grading standards remain consistent with those in the Department and the Service at large.

15. Superimposed on this general activity is the Department's need, in relation to the DE Group as a whole, to respond to central initiatives affecting manpower. The Department's Establishments and policy liaison divisions contribute to the advice provided to Ministers on the consequences for the Government's programmes of cuts in manpower levels in all parts of the DE Group including the MSC. The Establishments Division is responsible for monitoring the MSC's progress towards agreed manpower targets.

16. The Secretary of State takes a close interest in staff levels in the Department and its agencies (including the MSC), and since early 1980 has received a quarterly commentary on staff levels and progress towards manpower targets in each part of the Group. He has asked the Chairman of the MSC (and the Chairmen of HSC and ACAS), to take similar action to monitor staff levels in their organisations, whilst retaining his overall responsibility for these matters.

Staffing Surveys

17. The MSC has its own staff inspection and management services unit. DE Headquarters survey staff sometimes join MSC projects where there is a special DE interest in the outcome, or where there is a DE interest in the outcome, or where there is a DE Group dimension to be considered. On other occasions, DE survey staff may be assigned temporarily to MSC reviews to supply a need for staff with experience of a specialist work area or survey technique. These joint working arrangements enable a standard approach to survey work to be maintained and help to ensure that uniform standards (eg on grading) are applied.

ANNEX A

Letter from Sir Douglas Wass, KCB, Permanent Secretary, HM Treasury to Sir Richard O'Brien

Your appointment as Chairman of the Manpower Services Commission carries with it the responsibility of Accounting Officer for the Grant in Aid Account of the Commission to be prepared in accordance with the terms and conditions set out in the Memorandum of Financial Arrangements issued to the Commission by the Department of Employment.

My purpose in writing to you is to inform you that the Treasury have appointed you Accounting Officer for the Grant in Aid Account with effect from 20 April 1976.

You will be associated with the Accounting Officer of the Department of Employment on any matters relative to the expenditure of the Commission from the grant in aid which may arise before the Public Accounts Committee. I enclose a note of your responsibilities and of those of the Accounting Officer of the Department in relation to this expenditure.

In your capacity as Accounting Officer you will be responsible for observing the conditions laid down by the Department; for safeguarding the public funds in your charge; and ensuring that they are applied only to the purposes of the Manpower Services Commission as approved by Parliament. But this is only part of your responsibility for efficient and economical administration of the Commission's activities; and it is this broad responsibility for good management for which you will be called to account by the Public Accounts Committee. The note, therefore, defines your duty towards financial propriety but places the main emphasis on your wider responsibility.

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I am sending copies of this letter to the Comptroller and Auditor General, to the Clerk of the Public Accounts Committee and to the Permanent Secretary of the Department of Employment.

D W G Wass

April 1976

Note on the responsibilities of the Accounting Officer of the Department of Employment and of the Accounting Officer of the Manpower Services Commission

The Accounting Officer of the Department, besides ensuring compliance with administrative practices which apply generally to the expenditure of public funds, has a responsibility to satisfy himself that the conditions of the grant in aid voted by Parliament to the Commission are duly observed, and that in particular the Commission have taken such steps and created such machinery as are necessary to enable them to observe these conditions. Such conditions will include not only those expressly written into the Estimate as presented to Parliament and those made explicitly by the Treasury at the time of the preparation of the Estimate, or at any other time; they will also include compliance with recommendations of the Public Accounts Committee or the Expenditure Committee made in relation to the Commission and accepted by the Government after consultation with the Commission.

2. *The Accounting Officer of the Commission* is responsible for all expenditure out of the grant in aid made to the Commission and for the due collection and bringing to account of all receipts of any kind arising out of the work of the Commission. He has also a responsibility not only for seeing that the rules and conditions laid down by the Department of Employment are observed but also for the efficient and economical conduct of the work of the Commission. In so far as the Commission delegate the performance of any of its functions to the Employment Services Agency or the Training Services Agency, as provided for in s.2(5) of the Employment and Training Act, 1973, it will be for the Commission's Accounting Officer to satisfy himself about the financial, management and organisational control arrangements in those Agencies (on the lines of paragraphs 6 to 8 below) and to attach such conditions to the grants to them as will enable him to fulfil his accountability to Parliament for the detailed expenditure of the grant in aid voted to the Commission.

Connection between finance, policy and administration

3. It is a cardinal principle of public finance that due regard can never be paid to financial considerations if finance and administration are divorced so that finance is kept separate from other factors which enter into policy decisions. The Accounting Officer, as the senior officer of the Commission, must make sure, as a prerequisite of efficient and economical management, that financial considerations are taken into account at all stages by the Commission in formulating policy proposals, and in their execution; he must be prepared to answer for the efficient and economical conduct of the Commission's business as a whole.

Avoidance of waste and extravagence

4. As part of this general conception, the Comptroller and Auditor General is expected by the Public Accounts Committee to bring to the notice of Parliament any cases of apparent waste or extravagant administration (as well as any weakness in financial procedure), and the Committee expect the Accounting Officer of the Commission to satisfy them that the duties of the Commission as approved by Parliament have been carried out with due regard to economy, and to furnish them with explanations of any indications to the contrary to which their attention has been drawn. If the Accounting Officer is in any doubt whether he could defend a particular item of expenditure again a charge of wastefulness or extravagance he should consult the Department.

Importance of Management

5. The Plowden Report (Control of Public Expenditure, Cmnd 1432), paragraphs 44 to 47) emphasises the importance of management. The report defines management as

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covering the preparation of the material on which decisions are taken; the technical efficiency with which large administrative operations are carried out; the cost consciousness of staff at all levels; the provision of special skills and services (scientific, statistical, accountancy, O & M, etc) for handling particular problems; and the training and selection of staff. The report stresses that it is on these that effective control of expenditure and value for money depend.

Organisation and staff

6. An Accounting Officer cannot carry out this responsibility for efficient management unless he is supported by a sound organisation which provides for proper delegation of duties. It is therefore one of the chief duties of the Accounting Officer of the Commission to make sure that the Commission's office is organised and staffed on sound lines, and in particular that there is a finance officer for day to day financial administration who will control the expenditure of the Commission and will be the link between the Commission and the Department in regulating the financial aspect of the Commission's activities. This officer, in cooperation with the officers in the Employment Services and the Training Services Agencies responsible for financial and establishment matters, will have a particular responsibility on behalf of the Accounting Officer for seeing that full value is obtained for the expenditure of the public funds with which the Commission is entrusted.

Safeguarding of public property

7. It is the duty of the Accounting Officer of the Commission to ensure that the public funds entrusted to his care are properly safeguarded and that there are independent and effective checks, made without reference to personal considerations, of cash balances in the hands of any officer. Similar care must be taken of stores or any other property acquired with public funds.

Regularity and propriety of expenditure

8. It is equally part of the duty of the Accounting Officer of the Commission to ensure that the funds entrusted to the Commission are applied only to the purposes of the Commission as approved by Parliament and in accordance with any conditions laid down by the Department, eg for transfers between one item and another in the grant in aid estimate. If a particular item of expenditure proposed is, in his opinion, of such a nature as to involve a question of formal regularity or propriety, he should consult the Department.

EXTRACT FROM THE REVISED MEMORANDUM ON THE RESPONSIBILITIES OF AN ACCOUNTING OFFICER: March 1981

21. The Treasury also appoints Accounting Officers for some non-departmental public bodies (eg the Manpower Services Commission, most museums and galleries, the Scottish and Welsh Development Agencies and the Research Councils). Appointments of this kind are made by analogy with appointments of Accounting Officers in departments. The normal practice is to appoint the senior full-time officer of the body. Those so appointed have broadly the same duties as Departmental Accounting Officers as described above and exercise them on behalf of the office holder or holders in charge of the body. The Accounting Officer of a non-departmental body, like the Accounting Officer of a department is responsible for all the public funds entrusted to him, and for signing the related accounts. In many cases his responsibility will be confined to the grant-in-aid account of the body which is financed from the vote of its sponsoring department; but some bodies have access to public funds from other sources besides grant-in-aid.

22. Whether or not a grant-aided body has its own Accounting Officer, the responsibility of the Accounting Officer in the sponsor department is to ensure that the conditions attached to the grant-in-aid conform with the terms of the Vote; to monitor compliance with these conditions by the body; and to satisfy himself that the financial and other controls applied by the department are appropriate and sufficient to safeguard public funds. Among other things he will need to satisfy himself about the quality of its management. The Accounting Officer of the body in receipt of the grant-in-aid has a

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special responsibility to see that the rules and conditions laid down by the Department issuing the grant-in-aid are observed.

23. An Accounting Officer in a grant-aided body will normally appear before the PAC alongside the Department Accounting Officer responsible for the payment of the grant-in-aid.

24. The absence of an Accounting Officer appointment in a non-departmental body does not lessen the nature and scope of its accountability to Ministers and through them to Parliament, or the right of the PAC to take evidence direct from the body if it wishes. The approved signatory of the accounts, normally the Chairman or Chief Executive, will, as in the case of a Departmental Accounting Office, automatically assume a primary responsibility to answer for that body in any examination by the PAC and may be summoned to appear before the Committee for that purpose.

ANNEX B

MANPOWER SERVICES COMMISSION—MEMORANDUM OF FINANCIAL ARRANGEMENTS (REVISED SEPTEMBER 1978)

1. In accordance with Section 11 of the Employment and Training Act 1973, provision is made in a Vote of the Department of Employment for the Grant-in-Aid to the Manpower Services Commission.

Responsibility for the activities of the Commission in Scotland and Wales was transferred to the Secretaries of State for those two countries on 1 July 1977. The transfer of financial responsibility to the two territorial Secretaries of State took place on 1 April 1978 and from that date the Scottish and Welsh contributions towards the decentralised provisions of the Grant-in-Aid appear in Votes of the Scottish Economic Planning Department and of the Welsh Office with corresponding receipts in a Vote of the Department of Employment.

The Grant-in-Aid shall be used only in the exercise of the Commission's functions and powers and in accordance with proposals submitted to and approved by the Secretaries of State for Employment, for Scotland and for Wales, and subject to any directions given by any or all of the three Secretaries of State under Sections 2 and 3 of the Employment and Training Act 1973.

Estimates and outturn

3. Proposals for expenditure for an accounting year as defined in the Employment and Training Act 1973, Schedule 1, para 20(a) shall be submitted to the Department of Employment and the Scottish and Welsh Offices (hereafter referred to as the "three Departments"), as soon as possible in November in the preceding year in such form and with such explanatory information as the three Departments may require. Where the Commission considers it necessary to provide for supplementary expenditure in an accounting year they shall approach the three Departments about the form and timing of any such requests.

4. The Commission shall provide such forecasts of outturn of expenditure for an accounting year as the three Departments may from time to time require. In particular, a forecast of the outturn of expenditure for an accounting year shall be submitted to the three Departments as early as possible in December in that year under the same headings as the original estimate and details of the actual outturn shall be provided as required by paragraph 13. Copies of monthly accounts of expenditure shall also be provided for the three Departments as they are prepared.

5. The Commission shall supply the three Departments with forward forecasts of their estimated expenditure, supported by such explanatory information including revaluations of existing forecasts as may be required from time to time. In this connection estimates of expenditure for the five-year Public Expenditure Survey period will normally be required as early as possible in February in each year.

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Note

In paras 3, 4 and 5 the intention is that the MSC should submit total forecasts, estimates and outturns for the grant in aid to the Department of Employment and those for Scotland and Wales to the respective Offices.

6. The Commission shall be free to incur expenditure on its proposals as approved without further reference to the three Departments. If, in any of the three Territories, the need arises for expenditure not foreseen when these proposals were approved; eg on an important new function or a considerable extension of an existing function, the approval of the appropriate Department of Departments should be sought. The Commission may embark on experiments or pilot studies but should consult the Secretary of State for Scotland and for Wales if any such study appears likely to lead to substantial commitments in later years. The three Departments reserve the right to require further information about proposals at any time or to require modification of plans already approved.

7. Where the Commission assumes responsibility for schemes and projects previously operated by the Department of Employment in the field of Employment and Training, that Department will advise them of the conditions attaching to the schemes, or grants, allowances etc paid under them. These may not be varied without the agreement of the Secretary of State for Employment who will consult the Secretaries of State for Scotland and for Wales as necessary.

8. (1) Notwithstanding the powers to re-allocate expenditure within the Grant in Aid set out in paragraph 9 the Commission shall not have power to make payments to staff, members of the Commission, Committees and public in respect of travelling expenses, fees and other allowances in excess of rates agreed for the time being by the Secretaries of State with the approval of the Minister for the Civil Service.

(2) The consent of the Secretary of State for Employment, in consultation when appropriate with the Secretaries of State for Scotland and for Wales, with the approval of the Minister for the Civil Service, is needed for the numbers and terms of employment of staff of the Commission.

COMMISSION'S POWERS TO REALLOCATE EXPENDITURE WITHIN THE GRANT IN AID

9. Without prejudice to the provisions of paragraphs 2 and 6 the Commission may reallocate expenditure within the Grant in Aid Appendix of the Department of Employment's Annual Vote for the current year subject to the limitations set out in (a)–(g) below. For the purpose of this paragraph national contribution is defined as the contribution towards the Grant-in-Aid met from *either*

(i) a Vote of the Scottish Economic Planning Department

or (ii) a Vote of the Welsh Office

or (iii) the difference between (i) and (ii) and the grant-in-aid appearing in an expenditure subhead in a Vote of the Department of Employment.

(a) The Commission may within each of its four programmes reallocate expenditure between the items contained in any one national contribution.

(b) The Commission may within any one national contribution vary expenditure between its different programmes to the extent of 2 per cent of the contribution appearing in the receiving programme. The appropriate Secretary of State shall be advised.

(c) The prior approval of the appropriate Secretary of State would be required for reallocations of expenditure as defined in (b) but in excess of 2 per cent.

(d) The Commission may vary expenditure between any two of the national contributions towards its estimates up to the limit of £500,000 either within or between its programmes provided that in the latter case the 2 per cent rule was not breached. The appropriate Secretaries of State shall be advised.

(e) The prior approval of the appropriate Secretaries of State would be required for

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reallocations of expenditure as defined in (d) but in excess of £500,000 or, where applicable, the 2 per cent limit except in cases where it is necessary to provide for expenditure in any one country in excess of the sum voted for that particular country. In such cases the appropriate Secretaries of State shall be advised in advances.

(f) Reallocation of expenditure shall not create a significant continuing extra charge on public funds nor add to the total net expenditure of the Commission for the financial year.

(g) Reallocated expenditure shall not be used to finance new commitments for capital expenditure on land, buildings or equipment in excess of £200,000 for any one project without the approval of the appropriate Secretary of State.

ADMINISTRATIVE PRACTICES APPLICABLE TO EXPENDITURE OF PUBLIC MONEY

10. The Commission shall comply with any recommendation relating to the Commission made by the Public Accounts Committee or Expenditure Committee of the House of Commons and accepted by the Treasury and with the administrative practices applicable to the expenditure of public funds. In addition to prohibition on borrowing in Section 2(5) of and the requirements of paragraphs 14 and 21 of Schedule 1 to the Employment and Training Act 1973 about the keeping and furnishing of accounts the Commission shall observe the following conditions.

(a) The keeping of accounts shall include the maintenance of inventory, stock and store accounts;

(b) They shall maintain an effective internal audit of the financial transactions of the Commission and its Agencies and shall satisfy the Department of Employment that their accounting etc procedures contain adequate safeguards against fraud;

(c) They shall not undertake any insurances (other than statutory) except in accordance with current Treasury requirements or approvals;

(d) Whenever reasonably practicable, contracts for works, equipment, stores and services etc shall be placed on a competitive basis and unless there are good reasons to the contrary the lowest competitive tenders shall be accepted;

(e) Fees or charges made for facilities and services shall be calculated in accordance with current Treasury requirements or approvals;

(f) i. Disposals of surplus equipment or stores shall be at current market value, unless the Department of Employment agrees that this is inappropriate in the circumstances.

ii. Disposal of surplus property held by the Commission or the Agencies shall be conducted in accordance with the practices applicable to property purchased out of public funds.

(g) The Commission shall not acquire property outside Great Britain without the consent of the Department of Employment.

(h) The Commission shall observe the terms of its agreement with the Property Services Agency for the purchase and leasing of property and the provision of an estate management service by the Agency. Where exceptionally they choose to use other agents they shall inform the Department of Employment. Purchases (except those below £100,000) shall be at current market value as assessed by the District Valuer. For cases under £100,000 purchases will be made at a value assessed by the Property Services Agency. If exceptionally the Commission proposes to pay more than current market value approval should be sought of the Department of Employment. The Commission shall seek departmental authority for expenditure of individual projects in accordance with delegated authorities then obtaining.

(i) Receipts including proceeds from the sale of capital assets will be credited as receipts against an equivalent amount of Grant-in-Aid payments.

(j) The Commission shall not invest balances of the advances of Grant-in-Aid in the Deposit Accounts by the Paymaster General for the Commission.

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(k) They shall not raise money or charge any asset or security.

(l) The Commission may make a loan to an Industrial Training Board only with the approval of the Secretary of State for Employment and on such terms as he may prescribe. Receipts from repayments of loans or interest thereon shall be surrendered to the Department of Employment.

(m) The Commission may authorise the investment or borrowing of money by Industrial Training boards under Section 5(?) and (5) of the Industrial Training Act 1964 (as amended by the Employment and Training Act 1973) subject to the conditions laid down by the Department of Employment.

(n) They shall maintain a record of all losses of cash, equipment and stores and shall report forthwith to the Department of Employment any individual loss exceeding the delegated authority of the Commission. They shall also seek Departmental authority for making any ex-gratia payment of for abandoning any monetary claim in excess of the current delegated authority.

(o) The issue of grants by the Commission to other bodies shall be in accordance with the administrative practices applicable to grants made out of public funds and the disposal of assets partly or wholly acquired by grants will be subject to the rules applying to the disposal of government financed assets. The Comptroller and Auditor General shall have the right of access to the books of the bodies receiving the grants.

11. Notwithstanding the amount of the Grant in Aid provided in the departmental vote, the Commission may carry forward from one year to another a working balance not exceeding the amount prescribed from time to time by the Department of Employment.

12. Applications for advances of Grant-in-Aid, according to the Commission's needs and requirements, will normally be made monthly in a form prescribed by the Department of Employment.

13. A Grant-in-Aid Appropriation Account for each financial year in a form to be prescribed by the Secretary of State for Employment with the approval of the Treasury shall be prepared and signed by the Commission's Accounting Officer and submitted to the Department of Employment not later than 30 September following the end of the financial year.

14. The officer duly appointed by the Treasury as the Accounting Officer of the Commission (ie the Chairman) shall be responsible to Parliament for the expenditure out of the Grant-in-Aid and for the efficient and economical conduct of the Commission's business as a whole.

ANNEX C (i)

CRITERIA GOVERNING THE GRANT TO THE MANPOWER SERVICES COMMISSION FROM THE DEPARTMENT OF EMPLOYMENT TO FINANCE THE COMMUNITY ENTERPRISE PROGRAMME

Introduction

1. The Secretary of State for Employment (hereinafter referred to as the Secretary of State), under the powers vested in him by Section 5 of the Employment and Training Act 1973, has authorised the Manpower Services Commission (hereinafter referred to as the Commission) to operate on his behalf the Community Enterprise Programme (hereinafter referred to as "the programme"). This agreement relates to the conditions to be observed in the operation of the programme and in the use of the funds made available to the Commission for it. It is made pursuant to Section 2(2)(a) of the Employment and Training Act 1973 and to the terms of that part of the Secretary of State's letter of 20 November 1980 to the Chairman of the Commission which outlined the purpose for which funds were being made available to the Commission.

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2. The Commission will be responsible for ensuring that the conditions attaching to the grant contained in this agreement are observed and that the programme is operated efficiently and economically.

Aims of the Programme

3. The broad aim of the programme shall be to provide temporary employment in Great Britain of community benefit for unemployed persons of 18 years of age and over with particular emphasis given to the improvement of the environment. The number of places provided under the programme will be reviewed from time to time in agreement with the Secretary of State.

4. In operating the programme, the Commission will seek to promote the establishment and carrying out of schemes by sponsors which will provide temporary worthwhile jobs. Schemes shall not be approved which are likely to put at risk existing business or jobs in normal employment and the Commission shall satisfy itself that the work would not otherwise be done. The Commission will:

(1) seek the active cooperation of local authorities and Health Service Authorities in the sponsorship of schemes in the personal social services and other fields;

(2) encourage other public bodies (including the nationalised industries), voluntary organisations, charities and community groups to sponsor suitable schemes;

(3) encourage the private sector to participate in projects of benefit to the community provided that any element of private advantage is incidental and secondary to the main purpose of the project;

(4) provide opportunities for voluntary organisations to recruit full time temporary employees to assist the unemployed in finding part-time voluntary work in the local community;

(5) provide funds towards the costs of any incidental form off-the-job training or further education which is of direct relevance to CEP employees' jobs and would significantly improve their employability;

(6) where applicable, seek the support of appropriate trade unions and employers' organisations.

5. In operating the programme the Commission will give priority to:

(1) persons aged 18 and under 25 who have been unemployed for six months or more and those aged 25 and over who have been unemployed for a year or more;

(2) groups specified in (1) above nationwide but with priority given to projects in areas of high unemployment;

(3) such other groups and areas as the Secretary of State may decide from time to time.

6. Employment on projects funded by the programme will be limited to a maximum of 12 months. Exceptions to this rule may be allowed for supervisors and employees with skills essential to the continued successful operation of a project and for whom no suitably qualified replacement is available from the unemployed register.

Responsibilities of sponsors

7. Sponsors of schemes established under the programme will be the employers of all persons recruited to schemes approved by the Commission and will be responsible for the payment of salaries/wages and other payroll matters (ie, Income Tax, National Insurance and, exceptionally, Redundancy Payments) arising out of such employment. In addition sponsors will be responsible for all statutory obligations arising in the course of the employment of those recruited under the programme.

8. The Commission will require sponsors to establish and maintain separate accounting arrangements for authorised schemes including daily attendance records of all persons recruited for and engaged on such schemes.

9. The Commission will refund to sponsors the costs they incur on salaries/wages, within the appropriate local rate for the jobs for a basic working week and such limits as

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may be decided by the Commission with the approval of the Secretary of State, and the related employers' costs specified in the agreement on financial arrangements. Sponsors who wish to pay the local rate in full where it exceeds the limit will be required to fund the additional cost from their own resources.

Review of the programme

10. The Secretary of State has the right to initiate a review of the programme at any time and the Commission shall cooperate in any such review or monitoring programme which the Secretary of State may decide to establish. The Commission may seek the Secretary of State's approval for a change in the nature of the programme to take account of experience in operating it.

11. The Commission will provide reports to the Secretary of State in the operation and progress of the programme and any other information the Secretary of State may require.

Financial arrangements

12. Detailed financial arrangements are set out in a separate memorandum.

ANNEX C (ii)

AGREEMENT COVERING THE FINANCIAL ARRANGEMENTS BETWEEN THE DEPARTMENT OF EMPLOYMENT AND THE MANPOWER SERVICES COMMISSION FOR THE OPERATION BY THE COMMISSION OF THE COMMUNITY ENTERPRISE PROGRAMME

1. In letters dated 20 November 1980 and 31 March 1981 the Secretary of State authorised the Manpower Services Commission to operate the Community Enterprise Programme; the conditions to be observed in operating the programme have been detailed in a separate memorandum. The financial arrangements for the programme will be as in paragraphs 2–13 below.

2. The Secretary of State will make available to the Commission advances of money to be used only to meet authorised expenditure on the programme as detailed in paragraph 3 of this Agreement or exceptionally under paragraph 6 of this Agreement. Provision for the programme will be separate from and in addition to the grant-in-aid made to the Commission. In carrying out its responsibilities under this Agreement the Commission will observe the administrative practices applicable to the expenditure of public money as set out in section 10 of the Memorandum of Financial Arrangements governing that grant-in-aid. Nothing in this Agreement will be construed as giving the Commission power to re-allocate money advanced for the purpose of this programme to programmes covered by the grant-in-aid.

3. Authorised expenditure in relation to the programme includes:

(1) the salaries or wages and associated employers' costs for national insurance, superannuation, accommodation and other administrative costs of the staff administering the programme;

(2) the costs of (a) staff travelling, subsistence and other administrative expenses incurred directly in promoting and operating the programme, (b) travelling and incidental expenses, subsistence and compensation for loss of earnings claimed by and paid to members of the Area Boards established by the Commission in so far as the expenditure can properly be appointed to work relating to the programme; the rates to be paid will be those approved at the time by the Secretary of State;

(3) the salaries or wages, within such limit as may be decided by the Commission with the approval of the Secretary of State, and associated employers' costs for national insurance contributions, and, if applicable, superannuation and redundancy payments, in respect of employees on approved schemes;

(4) the agreed costs of materials, equipment and administration incurred by sponsors on approved schemes, less any receipts for sales, the net amount being subject to a

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limit of £400 per job proposed for a full year—jobs proposed for less than a full year will attract payment on a proportional basis; the limit may be revised by the Commission with the approval of the Secretary of State;

(5) the agreed costs of any formal off-the-job training or further education which is of direct relevance to the job of scheme employees or which would significantly improve their capability;

(6) the cost of recruitment of scheme employees necessarily recruited through PER where this has been approved by the Commission.

4. On completion of a scheme there shall be paid over to the Commission or set against authorised expenditure (1) any MSC funds held in excess of those required to meet approved expenditure, taking into account any receipts derived from the scheme and (2) the proceeds of the sale at current market value of the equipment and unused materials acquired with the funds provided under paragraph 3(4) above, where the Commission has not authorised such assets to be reallocated to another scheme.

5. For the purpose of calculating the expenditure chargeable in respect of paragraph 3(1) above, the Commission will estimate/establish the numbers of staff by grade engaged on the administration of the Programme and thence, wherever practicable, the actual costs. Otherwise, the Commission will apply the appropriate rates of "overall costs" given in the relevant "Ready Reckoner for Staff Costs" issued by the Department; should actual salary costs but not on-costs for premises etc be available, the latter may be deducted from the Ready Reckoner by calculating the difference between Overall Cost and Basic Staff Costs.

6. The Commission will seek prior approval of the Secretary of State before incurring any expenditure other than that covered by paragraph 3 of this Agreement; Departmental officials will seek Treasury approval where appropriate.

7. The Commission will prepare estimates of expenditure on the programme and make available such financial information as the Department may from time to time require. Expenditure and receipts will be recorded under the following heads:

(1) administrative costs of the Commission

(2) grants to sponsors for approved schemes

(3) costs of training scheme employees.

8. Applications for advances of the grant according to the Commission's needs will be made monthly on a form prescribed by the Department.

9. All losses of cash, equipment and materials and special payment incurred in the operation of the programme, other than those arising from fraud on the part of a servant of the Commission, will be borne on the Department's Vote; the Commission will report to the Department all such losses and special payments chargeable to the Vote and dealt with under its delegated powers. Losses arising from fraud on the part of a servant of the Commission will be met from the Commission's grant-in-aid.

10. The Commission will arrange for its Accounting Officer to provide to the Department an annual certificate of correctness and propriety of expenditure and receipts.

11. The Commission will ensure that the number of places provided under the programme does not exceed the number agreed from time to time with the Secretary of State.

12. The Commission and the Department undertake no liability in respect of the loss of or damage to any property, real or personal, caused or suffered by persons employed or sponsors participating in the programme or in respect of personal injury by death caused or suffered by such persons. The Commission will ensure that this provision is made clear to sponsors.

13. The Commission may incur expenditure under the programme from 1 April 1981 up to such date as the Secretary of State may determine. On the expiration or termination of the programme the Commission will pay to the Department any surplus money remaining from advances made by Department in respect of the programme.

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Examination of Witnesses

Sir KENNETH BARNES, KCB, Permanent Secretary, Department of Employment; Mr F J BAYLISS, Accountant General, (Under Secretary), Department of Employment; Sir RICHARD O'BRIEN, Chairman, Manpower Services Commission; and Mr D G STORER, Director of Corporate Services, (Under Secretary), Manpower Services Commission, called in and examined.

Chairman

892. Sir Kenneth and Sir Richard, thank you for the very comprehensive written evidence which you have submitted. You will appreciate that this is in no sense an inquiry into the effectiveness and efficiency of your Department and the Commission, but rather a broad, cross-sectional view of practices in different government departments, to see what are the appropriate lessons that can be drawn across the board for central supervision. One particular question which we have been interested in—and it is why, indeed, we asked you to come—is to cover the question of methods of reviewing efficiency in agencies, rather than in central government departments. Sir Richard, in his evidence, did give very complete documentation of his role as an accounting officer; it really appears, to all intents and purposes, as if he is in fact a government department, but without a minister. Is that the case?

(Sir Kenneth Barnes) Clearly Sir Richard has accounting officer responsibilities, as I have. However, it would not be accurate to think of the MSC as a department without a minister, because it is responsible to a minister, and not to a collectivity of ministers as a department is. In many respects though, looked at as an organisation, and bearing in mind particularly that it is in this case staffed by civil servants, there would be more similarities than differences.

893. Could I ask Sir Richard to answer? Does the status that you have, both as an accounting officer and by the rules under which you operate, allow you any significantly greater freedom of manoeuvre than if you were a government department?

(Sir Richard O'Brien) Yes, I think it does, because we have set out to run the Commission, in particular, like a large, private-sector organisation. We sought to manage our affairs, to define priorities, to deliver programmes and to make management accountable for achieving results, in accordance with the priorities and the targets laid down. We have developed a system of planning (what we call corporate planning) and the monitoring of performance against the plan, which I think goes beyond normal accounting officer responsibilities. As far as *I* am concerned, the two come together quite fruitfully. I think that it is in this respect that I would say that we differ from a government department. If you wish, I am very happy briefly to expand on that.

894. The corporate plan you publish, and the various measures of the effectiveness of the special programmes and so on we are very familiar with. However, could I ask Sir Kenneth why that approach that Sir Richard has outlined is *not* applicable in a government department?

(Sir Kenneth Barnes) I would say that it is particularly applicable to an organisation that is carrying through large executive programmes. If your department is similarly doing that kind of programme, then I would not argue against the appropriateness of those methods to a department. In our own case, we do not quite have the kind of spending programmes—we do not have programmes like the youth opportunities programme or the government training programme generally—that they operate. If we did, I think we should find ourselves using methods nearer to the ones that Sir Richard is describing.

895. You are a policy-orientated department without any massed battalions.

(Sir Kenneth Barnes) We have one massed battalion.

896. Unemployment benefit, yes. You are aware of the MINIS system which is operated in a similar sort of policy environment by the Department of the Environment. Have you looked at that?

(Sir Kenneth Barnes) Yes, I have looked particularly at the memorandum that this Select Committee had, describing the system.

897. Is it applicable in the Department of Employment?

(Sir Kenneth Barnes) We do not have a system comparable to that, in operation. I think we have a good deal to learn from it,

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and that we probably should be moving to some extent in that direction. However, we are a very much smaller organisation than the Department of the Environment. For instance, we have nine Under Secretaries against their 48. That is relevant as to whether a full-blown system of that kind is worth money in our own case. We also have a number of our activities that are reactive rather than of a kind that you can plan ahead. There again, they may not be apt for such a system. However, I do think that we have got a need for looking more systematically at the objectives of the various parts of the Department—where they think they ought to be in a year's time—and then talking about progress when we get to the end of the year. We have made one or two moves in that direction some time ago—I should say, a couple of years ago—but they rather got overlayed by concentration on staff reductions. I think that we probably should get back to that, which would bring us somewhat in the direction of MINIS.

898. If you have only got nine Under Secretaries, is not it rather a good idea for the Minister to know what they are doing?

(Sir Kenneth Barnes) I think that the Minister *does* know what they are doing, and that the fact that there are only nine tends to help.

Mr Eggar

899. The Secretary of State for the Environment said very clearly that he did not believe he could have made manpower savings without losing efficiency and effectiveness without MINIS, or its equivalent, and without the JOUBERT system. How on earth can you seriously make manpower savings in the most optimum way without having the necessary information and without being able to present your Minister with the necessary information that only MINIS can provide?

(Sir Kenneth Barnes) We have a good deal of information about those parts of the Department where it is most applicable. If I could take an example, we have a wages inspectorate with several hundred inspectors and we do have a fair flow of management information of the kind MINIS is designed to provide, and in fact ministers have been able to review that activity and make staff reductions in a sensible way, but at the minute we have not got comprehensive arrangements of that kind for all branches in the Department.

Mr English

900. I do not know about the information submitted to ministers, but in the light of successive reports in two Parliaments about the form of the estimates there is no doubt that the amount and nature of the information submitted to Parliament has been regarded by successive Committees of this House as inadequate, but that is a matter for the Treasury rather than yourselves. You may possibly have seen the reports which we published and the Government's reply. I was interested when you mentioned the Manpower Services Commission and described them as civil servants. You may recollect that four years ago I used them as an example of how fallacious the definition of "civil servants" was. When they were in government departments they were civil servants and when they went out they stopped being civil servants and when they went back in they were civil servants again. What are they at the moment? Presumably, they are civil servants because you have so described them.

(Sir Kenneth Barnes) Yes. It was the original intention that they should not have Civil Service status, but that decision was rescinded and they are now civil servants.

901. But in the period when they were not they increased.

(Sir Kenneth Barnes) I think so, yes.

902. Speaking from memory, they increased by about 2,000 or 4,000?

(Sir Kenneth Barnes) Yes. I think the reversion to Civil Service status was primarily as a result of pressure from the staff unions.

903. It seems that hiving them off did not lead to a reduction in numbers.

(Sir Kenneth Barnes) No. I think the intention at the time they were hived off was that both training programmes and the employment service ought to be expanded on what were then seen to be public policy grounds, and indeed that expansion had begun before the setting up of the Commission, but it went at a much faster pace once the Commission was established.

904. I should like to ask Sir Richard one question which is fundamental to the whole question of efficiency and effectiveness in the Civil Service. Long before the time of either Sir Richard or Sir Kenneth—long before the time for which either is respon-

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sible—we had an employment service—call it what you like—which clearly did not provide for the needs of the public, because people set up in business to provide services and charged for those services and they were paid for them, perfectly properly in a democratic society. Clearly, they were filling a need that your predecessors in title were not fulfilling. Why do you think that we in Britain were so backward at providing what people clearly wanted? We could have charged fees and saved the taxpayer money; we could have provided a service for which people would have been prepared to pay and never did. As a result, we left it to other people because we were thoughtless. I attribute this as much to politicians as to civil servants; I am not singling out anybody. No one person is to blame. Why do you think it is we are so backward in organising things publicly efficiently?

(Sir Richard O'Brien) I cannot answer it generally. What I would say in regard to my own area of responsibility is that we accept an absolute obligation to attempt to run all our programmes on the basis of efficiency and cost-effectiveness as defined by this Committee. I am familiar with your definitions and I agree with both. We do that with the firm intention of improving what I might call our productivity, using that word very generally, year by year. There is no reason at all why a public body of this kind should not set itself clearly identifiable targets to achieve just that, and that is what we do. Sometimes in some areas we achieve more success than in others. What I would claim is that at least we are aware, because of our performance indicators—and we have an executive board which every month has a set of performance indicators in front of it which corresponds to profit and loss accounts in the private sector—of the way our resources are being used in a particular area, whether we are talking of the penetration rate of the employment service and the number of people placed in work, or the number of young people taken in under the Youth Opportunities Scheme, or the number of people in skillcentres and their throughput and their success or lack of it in placing people from those skillcentres in jobs. In my view, there is a great opportunity for efficient management of that kind, and I do not want to give you the impression that we are at the end of the road; it is something we are trying to develop all the time. We try to revise our measurement all the time; we try to push down the financial information to management and try to extend budgetary control. We are expanding the use of management accounting and so on, and in fact the Executive Board Director responsible for those matters is Mr Storer on my right, so I would say that if the public sector—I cannot speak for it generally—has been backward in this respect it is a misfortune for all of us because I believe there are great opportunities for large scale operations, and the public sector usually means large scale operations, to be handled efficiently with proper accountability in the way I have mentioned.

905. It was perhaps an unfair question because it does relate to a period during which neither of you was in charge. What I am trying to find out is why so obvious a thing as providing adequate employment services and making money out of them was not thought of. Why was it that the old labour exchanges were thought of only in terms of finding jobs for the unskilled?

(Sir Kenneth Barnes) There is one comment I would make. There was at that time, and in some quarters there still is, what you might call a doctrinal objection to charging either job seekers or employers. For instance, the TUC would still be opposed to it, and in most European countries there are free employment services and by and large private employment agencies are not allowed under the law, so I think that was the reason why we did not go in for charging for the employment service. In later times, of course, we have had the PER, the Professional and Executive Register, which does charge employers because that part of the market has been identified as being able to bear it, but we have never ourselves extended the charging of below the professional and executive level, and whether or not that would be practicable is a very debatable question.

Mr English: What worries me is that you are a bit like the old Post Office information service—telephone inquiries. We do not charge for it in this country but we do not provide the service which is provided in the United States either.

Chairman

906. Can we move on to the unemployment benefit service? As I understand it, there has been a recent Rayner study which has recommended that it should be wholly the responsibility of the Department of

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Employment. Is that the case, and is it to be implemented?

(Sir Kenneth Barnes) With respect, that is not quite accurate. It did recommend we should move to a system whereby an unemployed man could get all the benefits he was entitled to at one office instead of having to deal with two offices as he does now, our own and the Department of Health and Social Security. It was recommended that the two should be brought together under one office, and it was further recommended that that office should be run by the Department of Employment. That recommendation is a very far-reaching one in the sense that it could not possibly be done quickly. The premises problems alone would mean very heavy capital expenditure, so it would take a great deal of time, but whether we should be moving in that direction is a question which ministers still have in front of them; they have not yet decided on it.

907. It is, though, a loose end left over from the days when the payment of unemployment benefit was handled in the one office, was it not, before the job centres?

(Sir Kenneth Barnes) I think that the days you are referring to were days when the employment office was in the same premises and, indeed, part of the same organisation as the benefit system. Those two were separated out before the setting up of the Manpower Services Commission. Once you bring the employment office in, you have a trio of offices with which the unemployed man has to deal: he goes to the DHSS office for his supplementary benefit, he comes to the Department of Employment for his unemployment benefit, and he is also involved with the job centre for his job. The Rayner proposal was to reduce those three offices to two; the unemployed man would still be concerned with the job centre, but a further very important recommendation which they made (and which *is* to be implemented) is that the unemployed man should no longer be compelled to register for work at Sir Richard's job centre, that that should become voluntary and not be a condition of his getting his benefit. Those were really the bones of the survey.

908. Taking the break-up of the original responsibilities of the Department of Employment at its broadest, Sir Richard finds himself in the position of being responsible for a Manpower Services Commission, but unable to look at the primary factor in the supply of manpower—namely, pay. While we are in a position where it is the policy of the Government not to look at pay at all, perhaps that is defensible. However, can it not produce some extraordinary policy snarl-ups, if there is no agency or body able to look at the manpower position from both the supply and demand and the price point of view?

(Sir Richard O'Brien) That is undoubtedly true. I do not think it is my function to comment on the Government's policy and their allocation of particular functions. However, it is, of course, absolutely true that if you look at manpower policy from a supply and demand point of view, in all its aspects, you cannot ignore pay. As you say, though, a line is very clearly drawn, and pay is not our concern.

909. Indeed, it is so clearly drawn, Sir Richard, that an inquiry was carried out for the Manpower Services Commission, into the crucial question of the supply of skilled manpower, by Professor Lawrence Hunter, was it not?

(Sir Richard O'Brien) That is right, in Scotland.

910. Being interested in that, I wished to see the matter pursued, to take up the crucial question of the influence of pay upon the availability of manpower. There is no public agency able to finance work in this field. I had to secure finance from a private research fund, in order to get some work done. Is not that an anomalous position, Sir Kenneth?

(Sir Kenneth Barnes) If I have understood you aright, I do not see why, in principle, my own Department could not finance research into a pay question. We have done that, and do that, from time to time. There is no bar to our doing that.

911. I think you are absolutely right, Sir Kenneth, and there was discussion, under the previous Government, as to your Department undertaking some research of this kind, but the present Government was not interested in pursuing it?

(Sir Kenneth Barnes) Yes. I think that the volume of research on pay would depend on how interventionist the Government wanted to be on pay. At present, of course, there is less justification for our doing research on pay, from that point of view.

912. There is a particular local manpower question here, in that you can get structures of industry locally where the

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supply of skilled manpower evaporates according to the business of the motor vehicle industry, for example. The design of training policies and, indeed, pay policies in local companies is a very local matter which the organisation of the MSC is well equipped to deal with in terms of the training and placement aspects, but not in terms of the pay aspects.

(Sir Richard O'Brien) It is true that—and I am sure you are familiar with this—we have done a number of local labour market surveys, and it is true that we are moving steadily in a direction of giving more and more importance to local labour markets as well as the national labour market, for the very reasons that you have mentioned. I think that this trend towards giving more prominence to the local labour market, in our affairs, will grow in the future, particularly as we develop our new training policy called the new training initiative. Many of these surveys to which I have referred have, of course, mentioned pay; indeed, all of them, to my recollection (I am trying to think of a number of them now), have done so. The actual pursuit of those sections which involve pay has to be done elsewhere and has to be pushed over to employer organisations, to trade unions or, as appropriate, to the Department of Employment itself.

Mr Beaumont-Dark

913. I have listened with fascination to this talk about the local labour market and the flexibility that is needed, but, if I may say so, is not that just a theory, just as so many things are? You can only have a flexible labour market in a non-unionised workforce, because the pay levels are fixed nationally. What we are talking about is going back to commonsense (which strikes me as highly unlikely in this country), where you do negotiate pay settlements according to the employment prospects and how you can get labour. Surely the MSC is not going to spend tens of thousands of pounds telling us what we all know already: that you cannot negotiate locally, because somebody who knows nothing about it in London tells you what a man in Bradford or Glasgow should get paid? The Manpower Services Commission can do nothing about that, can it? Or if it can, I shall give it another few thousand staff. Are you not talking very theoretically about what you would like to do and what you can do?

(Sir Richard O'Brien) No, I am not, and I am sorry if I have not explained myself very clearly. First of all, I am making a general point that so far the importance of the local labour market and all its differences and variabilities has not been highlighted enough in public policy. We are beginning to do so. This has the backing of the Department of Employment. I hope it will come through more strongly. The West Midlands, for example, is a local labour market with which I have some familiarity. The Potteries area is another type of local labour market, and the Borders of Scotland are a local labour market. We have done a manpower survey on that. Inside a local labour market you have a whole number of questions; they will start with the recruitment of people, the supply of young people to industry, is this going to be adequate, what kind of training do they need, how shall they be encouraged to move into the proper jobs, and so forth. It is all about the operation of the employment service, among other things. It will be all about the provision of training, whether this is adequate, and all the rest of it. It will be all about the utilisation of labour—and now I am moving to your point—and is labour, particularly skilled labour, used flexibly and productively in the plant? All these things might well be highlighted by the MSC, might well go to, say, the district manpower committee for that particular area, and they would have to decide what action they could take.

914. You are saying that you are having some effect upon breaking down this problem of having a kind of universal wage bracket at all BL factories or all ICI factories, are you?

(Sir Richard O'Brien) No, I am not, because it is not my business. I have to stay inside my responsibility.

915. Very well, the Department.

(Sir Richard O'Brien) I am not concerned with that, but I am concerned with more flexibility in training provision, which in turn would lead to more flexibility in the use of labour. However, the actual negotiations side is a matter for Sir Kenneth.

Mr Wainwright

916. On the MSC training side, I know you pay a lot of attention internally to your unit costs—the cost of training an unskilled person in a particular skill—but what external cost comparisons do you make?

(Sir Richard O'Brien) We have been developing these and we have done some

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particular work recently to compare our costs with some big private sector firms, and also with private trainers, people who are in the business of providing training. We are developing cost comparisons with those outside bodies.

917. After the initial running-in problems of making those comparisons you are finding that they are likely to be valid and helpful?

(Sir Richard O'Brien) We are finding these to be very valid and helpful because they sharpen up our approach to our own efficiency and our own practices. We have to be very careful that we are comparing like with like, if I may say so. I know I need not say that to you, but we are a permanent operation and therefore we must always continue to make provision. If sometimes people are not there it does not mean we would close down the operation as one might do if one were operating commercially. We would need to keep that facility there because the public perspective is rather longer. I am merely pointing out the fact that we are not making our comparisons crudely but trying to assess generally our efficiency against that of other providers.

918. When these have been perfected and the whole system is working well will you be inclined to publish some of them?

(Sir Richard O'Brien) Yes. We have already published a lot of information, not what I talked about just now because this is only coming through at the moment. We are publishing a lot of information, much of it in the annual report, and we shall certainly go on doing so.

919. Including cost comparisons?

(Sir Richard O'Brien) Yes. What we often do is publish information which has been collected from surveys, research, reports or whatever. We often put this into written form and publish it, say, in the Department of Employment Gazette.

Mr Eggar

920. First of all, can I ask you about your answer to Q.12. In paragraph 3 you say: "Union attitudes to new technology are defensive particularly in areas where machines/computer applications are displacing manual procedures for the first time." To what extent do union attitudes in that particular area affect the Department's ability to perform its job as efficiently as it would like?

(Sir Kenneth Barnes) As regards the introduction of new technology?

921. Yes.

(Sir Kenneth Barnes) I would not myself have said our ability to do our job is or has been inhibited by union attitudes. The unions certainly have had a defensive attitude very often to the introduction of new technology. Whilst there were attempts to negotiate a national agreement in the Civil Service on introducing new technology there was sometimes resistance to moving ahead in particular departments, but in our own case we have carried out a big computerisation programme on the benefits service which has been going on for many years, and we have not had union resistance. We have had plans to introduce things like mini-computers and word processors and have had very little trouble; we have discussed it with the unions, but I would not say this has added up to any significant delays in our case.

922. In other words, the unions have been ineffectual in their opposition?

(Sir Kenneth Barnes) They have not in any case carried their opposition to the point of industrial action. We have not always reached agreement on introducing a particular piece of technology. Sometimes we have had to go ahead after trying to reach agreement, but that applies only to relatively minor instances. Our main new technology programmes have gone ahead broadly with agreement on the part of the unions.

923. With no delays?

(Sir Kenneth Barnes) I would not say we have had significant delays. It would be foolish if we introduced these things by fiat and did not go through the process of consultation and discussion, and that takes time, but I do not think that has led to significant delays in our case.

924. What does "significant" mean?

(Sir Kenneth Barnes) I would have thought "significant" meant that the work was suffering compared with what it might have been had we not had to have such consultations. Frankly, I think we would have had to have consultations or discussions with our staff even in a non-union situation and it would have taken up, I

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would have thought, a comparable amount of time.

925. Could I ask Sir Richard a couple of questions? From the point of view of MPs we are in a rather awkward position in regard to the MSC because we do not feel you are as answerable to us as you would be if your functions were carried out inside the Department of Employment. What are the advantages that you see in your unique status?

(Sir Richard O'Brien) First of all, may I say that we would wish MPs to feel they are able to obtain from us directly or indirectly any information they want about any aspect of our affairs, and we do seek to publish a great deal of information. We publish an annual report and a manpower review, and we publish the corporate plan which is crucial to an assessment of what we do. We are always publishing surveys and so on and so forth. We are very anxious to be an example of open government to the maximum extent. That said, I would say we justify ourselves to a great extent in our claims for tripartism, that is, the involvement of employers, unions and education. There are nine commissioners: three from the TUC, three from the CBI and three from local authorities and the world of education. I would say that because the MSC incorporates these bodies and constituents it has been able to move more quickly than would otherwise have been possible. I am thinking of the introduction, say, of the Youth Opportunities Programme and the introduction of the original job creation programme, now called community enterprise. I think a more recent example is the rationalisation of the skillcentre network which has been a difficult operation which we have managed to carry out. I think of the new training initiative, to give something a little more up to date. We have spent long hours in getting agreement between these bodies on the objectives of the training schemes in the eighties, so I hope these would be fair claims in regard to the articulation of policy on an agreed basis which leads to a much more assured decision-making process afterwards, because we know that in the last analysis we rest upon the support of the CBI, the TUC, local authorities and education. Because of our partially hived off status we have developed the planning and monitoring process which I referred to earlier in answer to the Chairman.

926. Let us take the example of your job centres, in particular the cost evaluation of those job centres. Your famous job centre in Piccadilly always comes to mind. Each one of us has job centres situated in particularly expensive high street spots in his constituency. How do you work out the effectiveness and cost per man of those job centres, and how do you compare them across the country?

(Sir Richard O'Brien) We have cost information coming to us all the time; we know exactly how much it has cost to establish a job centre in a given locality. We estimate the market availability and expect a certain penetration of that market. In short, we believe that ensures the cost-effective investment of public money in that particular job centre in that place, and thereafter we monitor the on-going cost of the job centre and the placing rates—the number of people placed in work—and check the unit costs. We do this continually. Only today I sent a letter in some detail to a particular MP. I have given him the cost per placing for each of three offices which happen to be in West Yorkshire. I have given him the cost per placing of not only those offices but the offices for the East Pennines area generally on a wider basis. This is not a one-off exercise; it is part of the on-going monitoring process which I mentioned.

927. How many job centres have been closed?

(Sir Richard O'Brien) I would have to have notice of that, I am afraid. The Piccadilly job centre has been closed, of course, because we did not think this was cost effective; it was believed to be when we sited it, but we were proved wrong and we have closed it down. Perhaps I could refer to Mr Storer.

(Mr Storer) I am afraid I cannot help you. We can look it up.

928. It would be very useful, Sir Richard, since I have raised this specific example of job centres, to try and identify what your criteria are for establishing them; and, as against those criteria, how they have performed, and what action has been taken as a result of poor performance.

(Sir Richard O'Brien) We have sent a great deal of information, answering precisely these points in considerable detail, to the Select Committee on Employment. Would you like to have this?

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Chairman

929. No, we would not wish you to duplicate it, but just to give us the specific answer on how many job centres have been closed.

(Sir Richard O'Brien) I will send you that.

Mr Eggar

930. I was not aware of the evidence that you had given to the Select Committee on Employment.

(Sir Richard O'Brien) We can send you a selection of it, if you like.

Chairman: Please do not duplicate any of it. We are concerned about effectiveness and efficiency in our own backyard too!

Mr Eggar

931. Sir Kenneth, how do you check what the job centres are doing in your particular MSC field? How do you ensure that, even if they think they have got it right, you think they have got it right?

(Sir Kenneth Barnes) First of all, we control the amount the Manpower Services Commission spend on the employment service, because my Secretary of State has to approve their corporate plan. That is a relatively blunt instrument, and it says that they can spend say £100 million on the employment service. Above that, it would be open both to officials and to ministers to represent to the Commission any views they might have about job centre siting or job centre policy, and that happens quite frequently. The other method we use is that when an aspect of the Commission's activities is reviewed in depth—as has happened continually throughout the Commission's life—we would now normally field somebody from the Department to take part in this. In fact, a review, under Sir Derek Rayner's auspices, of the employment service, is something that we are now working on, and the Department will take a part in that, with the Commission.

932. That is all very well. That is almost—I will not say "perfunctory", because that would be unfair—automatic checking. Do you say "We do not like that particular aspect of what the MSC is doing, so we will do a particular investigation—if necessary, with the use of management consultants or whatever—into really checking whether they are taking the right decisions"? Do you do that kind of check?

(Sir Kenneth Barnes) I am not sure whether the checks we have done or participated in will be what you have in mind. I do not think I can think of a review of the kind I am talking about, except applying to a sort of discrete activity of the Commission. For instance, we have recently had a review of the PER service that was mentioned earlier. We were in consultation with the Commission about the review of the comparison between the costs of Commission training on the one hand and private training on the other, that Sir Richard was talking about a little while ago. I do not think we would ourselves come in and survey a particular line of action, as it were, and impose this on the Commission. We have always done it in agreement with the Commission. We have not really had any difficulty in getting their agreement to a survey either by the people from the Department and the Commission or involving outsiders, consultants, etcetera.

Chairman: Sir Kenneth, I very rudely interrupted you when you were being questioned by Mr Beaumont-Dark, on the question of pay. I do not know if you wish to take up the point you were going to put.

Mr Beaumont-Dark

933. You were going to reply, I thought, but you were cut off short. I believe that you were going to reply to the question that I raised about pay, and whether you thought that the Department had a part to play in trying to get a differential system which might well help some of the unemployed, if there were differentials in the country, instead of this standard unit.

(Sir Kenneth Barnes) The only concrete example of a proposed action that has a bearing on that would be the young workers scheme that we are intending to introduce in the New Year, which is a subsidy scheme to promote the employment of school-leavers, but does have a condition that the subsidy is only payable if the young person's wages are below £40 a week. There is a motive there for affecting the market in the sense of the price of labour, in the interest of enlarging jobs. However, that is a very particular and limited example. I would not like to say that the Department thinks of itself as having any responsibility or, for that matter, power to influence the pricing of labour in the market generally. Obviously changes in the collective bargaining system—for instance, if you get a move to

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local bargaining, as against industry bargaining—might well loosen up the market in the sense of differentiating the price of labour. However, I do not think that the Department, under present direction, regards itself as having either responsibility or power in that regard.

934. Do you ever evaluate, as a department, the effects of various legislation, after it has been in being for a time? One of my pet hobby-horses is the so-called Employment Protection Act which most of us in business think protects unemployment terribly successfully! Do you ever take an Act—not on a political basis, but on a genuine, analytical basis—and say to ministers "We have evaluated the effect of what you were trying to get us to do with that piece of legislation, and we think it is or is not working as you wanted it to or we all wanted it to"?

(Sir Kenneth Barnes) Yes. In recent times, we have always tried to evaluate, in one way or another, the legislation of that kind, including various provisions of the Employment Protection Act. It would be standard practice now for us to try some evaluation. Normally one finds that we have to mount a survey of some kind. You usually have to go round and ask the customer, as it were, what the effect of it has been. None of it is very scientific, particularly in the field you mention. However, we certainly have tried to do that. If one thinks, for instance, of the unfair dismissal provisions of the Employment Protection Act, we have commissioned a number of pieces of research, to try and find out what effect those provisions have had: have they prevented employers from recruiting where they might otherwise have recruited, have they had an influence on the kinds of procedures that employers have leading up to a dismissal, and so on. We have commissioned research on those things and have published the results.

Mr Beaumont-Dark: Then it would not surprise you to hear that many people think it is a piece of legislation that needs strongly amending.

Chairman: With that helpful advice on a matter which is not directly within the scope of this inquiry, may we thank you, Sir Kenneth and Sir Richard, and your colleagues, for all the very helpful evidence which you have given to us.

ANNEX

Note by the Manpower Services Commission

CLOSURES OF JOBCENTRES

1. At the hearing on 18 November the Sub-Committee asked MSC's Chairman for information about jobcentre closures, in particular closures because the jobcentre had been considered to be ineffective. This note seeks to meet that request and also includes some background material on the jobcentre programme, the arrangements for considering proposals for new jobcentres and for reviewing jobcentres' performance. More detailed evidence on these issues was included in a memorandum submitted by the MSC to the Select Committee on Employment on 25 March 1981.[1] The following paragraphs of that memorandum are particularly relevant:

(a) D5-D13 as regards the factors taken into account in selecting premises;

(b) E1-E5 as regards the test of cost effectiveness;

(c) F2-F3 as regards monitoring performance.

As part of the policy of modernising the public employment service formulated during the late 1960s and early 1970s with the support of successive Governments the Employment Services Division of the MSC are progressively replacing traditional Employment Offices with Jobcentres. The latter are well designed premises sited in convenient or accessible locations, ie where there are substantial pedestrian traffic flows. Proposals to open new jobcentres, or to convert an existing Employment Office into a jobcentre, are subjected to a rigorous scrutiny to ensure the project is likely to be cost-effective. (See also para 3 below). The starting point in each locality is whether the existing Employment Office is

[1] HC (1980–81) 51–viii.

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suitable, in terms of its location and physical characteristics, for conversion into a jobcentre.

3. The main criterion taken into account is assessing the cost-effectiveness both of proposed new jobcentres and of recently opened jobcentres is the cost per placing. This cost takes account of the capital cost of converting the premises, of the building's rent etc, of relevant staff costs and of the number of placings achieved by the jobcentre, ie of its performance. Comparisons between jobcentres and the Employment Offices they have replaced have generally shown that jobcentres have achieved more placings per staff unit and a lower cost per placing. New jobcentres are authorised only where an improvement in performance can be expected.

4. The performance of new jobcentres is closely monitored—at monthly and quarterly intervals by Local and Area management—and two six-monthly reviews are undertaken by the Executive Director who had been responsible for final authorisation of the project. The Executive Director reports to the Chief Executive on these six-monthly reviews, which range widely and cover an evaluation of the jobcentre performance, costs and staffing, the prospects in the labour market, and any particular strengths or weaknesses. Any shortfall in placings or failure to achieve the projected reduction in the cost per placing means that the jobcentre is subject to general review again at this level in another six months. If, after three or four reviews, and adjustments to operations, the jobcentre is clearly failing to achieve the performance and cost reductions predicted, then radical alternatives are considered, including staff reductions and, as a last resort, closure. Once new jobcentres have satisfied the Executive Director's review, their performance, along with that of all Local Offices, continues to be kept under surveillance by District and Area Managers, and any appropriate remedial action is taken.

5. The modernisation of the Employment Service began in 1973 and by 31 October 1981 750 jobcentres had been opened; eight jobcentres have been closed and brief details and reasons for closure are set out in the Appendix to this note. It will be seen that several factors may have contributed to a decision to close a particular jobcentre and that a simple distinction between closures because the jobcentre was considered ineffective and closures for other reasons is not always appropriate.

6. The relatively small number of closures reflects the thoroughness with which proposals for new jobcentres are examined, and the effectiveness of the action taken to improve the performance of jobcentres which are not coming up to expectations.

Employment Service Division
November 1981

APPENDIX

JOBCENTRE CLOSURES

Kirkby-in-Ashfield

This office was opened during 1976 as an additional Employment Office. It was later decided to do a 'cheap' conversion to bring the premises up to jobcentre standards to coincide with the opening of the parent office at Sutton-in-Ashfield on 17 October 1977.

The premises in Kirkby-in-Ashfield were held on short-term lease from the local authority. They became the subject of a demolition order and though it had originally been envisaged that the Kirkby-in-Ashfield office would be rehoused in the town when a new development materialised, a more stringent attitude towards jobcentre developments in 1980 led to a decision that a new jobcentre in the town centre could not be justified. Services were available in other jobcentres within reasonable distance. It was therefore decided that the Sutton-in-Ashfield Jobcentre, three miles away, should provide services for the people of Kirkby. The office was closed on 30 September 1981.

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Hebden Bridge

Hebden Bridge Employment Office was converted to a jobcentre on 29 March 1976. It operated effectively and efficiently until 16 May 1980 when a fire in the building housing the jobcentre caused serious damage and rendered it uninhabitable. Staff and the business were transferred to Todmorden Employment Office four miles away, whose own future had been under consideration. While the reinstatement of the burned-out Hebden Bridge premises was being considered by the landlord, a suitable site became available in Todmorden for a jobcentre which would accommodate the business of the catchment area of both places, and would operate in a cost-effective way. When the landlord of the Hebden Bridge Jobcentre failed to exercise his reinstatement rights, it was decided to close the office there and proceed with the Todmorden project.

The Hebden Bridge Jobcentre was formally closed for business on 30 September 1981 and the new jobcentre site in Todmorden is currently being prepared for opening during Jan/Feb 1982.

Bransholme

The jobcentre opened in Bransholme on 12 January 1976 and it was subsequently established that a clause in the lease required the premises to open on a Saturday. For their reasons the landlords insisted in 1980 that this clause should then be enforced and MSC were compelled to vacate the premises. The service operated from Hull Jobcentre from that date. The use of the jobcentre had however confirmed the need for a separate jobcentre in Bransholme both to relieve the pressure on the already too large Hull Jobcentre and to provide an adequate service for the residents of Bransholme. Alternative premises have been secured and a jobcentre will open there during the early part of 1982.

Team Valley Trading Estate

This jobcentre opened on 18 November 1974 as a focal point for gathering vacancies from the 150 employers on the industrial estate and a central point for jobseekers looking for work there. The parent office was at Ellison Street, Gateshead. Business volumes declined markedly during the current recession and the office ceased to be cost-effective. It was decided that the trading estate could be served adequately from the parent office. The Team Valley Jobcentre was closed for business on 30 October 1981, special arrangements being made to maintain collaboration with the employers most affected.

Ashington

Ashington's main Employment Office was housed in an old purpose-built Employment Exchange and in 1974–75 was not regarded as a suitable site for a jobcentre. Self-service premises were found in the Wandsbeck Square shopping centre and were opened as a jobcentre on 27 March 1975. Because of difficulties in operating as a one-man office only a quarter mile away from the main office it was agreed in July 1980 that the self-service office should close and self-service facilities be provided at the parent office. The parent office had been brought up to jobcentre standards during 1976. The self-service office closed for business in December 1980.

Grange-over-Sands

Premises shared with the Department of Employment were given up when the lease expired. Local opposition to the potential withdrawal of employment services resulted in a jobcentre being opened on a part-time basis in June 1977. The jobcentre was not cost-effective and was closed in May 1981.

London (i) Oxford Street
(ii) Piccadilly

These jobcentres which opened in January 1977 were designed to give the Employment Service a shop window in the large Central London labour market. In both jobcentres placing performance was relatively poor and there was a steep rise in premises' costs at a rent review. Unit costs were therefore unacceptable even allowing for the above-average premises costs in Central London. The jobcentres were therefore closed in June 1978 and

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August 1980 respectively and business transferred to the new West End Jobcentre in Wardour Street. Additional factors in relation to the Oxford Street Jobcentre were that the premises were too small for MSC's required operations and a network review indicated that more promising locations were available.

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WEDNESDAY 25 NOVEMBER 1981

Members present:

Dr Jeremy Bray, in the Chair

Mr Timothy Eggar
Mr Michael English
Mr Richard Shepherd
Mr Richard Wainwright

Memorandum submitted by the Council of Civil Service Unions

EVIDENCE FROM THE COUNCIL OF CIVIL SERVICE UNIONS—PART 1

This is the main proof of evidence to be submitted by CCSU to the Enquiry. We will, however, be presenting an additional proof as an appendix[1] containing further examples from across the Service illustrating the arguments outlined in this paper, and some comment on the Departmental questionnaire replies.

Summary of Main Points

- Civil Service Unions support improved efficiency, and this is embodied in the Constitution of the National Whitley Council.
- The present drive to achieve improved efficiency in the Civil Service has to be viewed within the context of Government priorities of cutting spending and manpower.
- There has been a tendency to describe cuts in level and effectiveness of service as improvements in "efficiency". For this reason, concepts of "efficiency" and "effectiveness" must be clearly separated.
- Staff Inspection is effective in ensuring economic staffing levels. Distortion of agreed staff inspection procedures is neither an effective nor acceptable way of achieving pre-determined manpower targets.
- More honesty is needed in making manpower cuts. In pursuing manpower objectives, decisions to cut discrete functions must be made and the political and legislative problems of implementation must be faced directly.
- Supposed "efficiency savings" frequently entail loss of revenue, reduced internal controls, and actual reductions in efficiency.
- Concepts of efficiency drawn from industry and commerce are inappropriate for the Civil Service. Government has to uphold the law and pursue maximum equity in its application. Present cuts and "efficiency" measures are reducing levels of equity. "Streamlining" has entailed unapproved cuts in service in part because measurement of effectiveness and quality control is less developed in public services than in manufacturing industry.
- Privatisation and hiving-off is largely a spurious source of efficiency. Manpower reduction is the overriding concern.
- New "effectiveness-review" machinery, accountable to Parliament, must be established to measure how well functions achieve their objectives, and the effect of cuts on performance.
- Steps to improve efficiency and effectiveness will all be enfeebled in the face of present attitudes to public servants. Repeated attacks on staffing levels, promotion opportunities, pay and pensions, disregard for established consultation procedures and public denigration which the Government does little to rebut, combine to undermine the morale and efficiency of the service as a whole.

[1]See Annex, p 368.

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1. THE CONTEXT

The present drive for increased "efficiency" has to be viewed in the context of public spending cuts. Consequently sharp distinctions have to be made between notions of efficiency and effectiveness.

1.1. The present Government has placed a high priority on achieving increased efficiency and economy in the delivery of services. In general CCSU supports the contention that checks and balances aimed at maintaining efficiency are important for ensuring the proper use of public money, the effective implementation of Government policy and the well-being and satisfaction of staff.

1.2. There is a danger, however, that the question to which this Committee is presently addressing itself—whether existing techniques for achieving efficiency and effectiveness are themselves efficient and effective—will be distorted by the priorities of the political climate within which the investigation is conducted. The central priority is, of course, the policy of reducing public spending and the numbers of public servants.

1.3. It is CCSU's contention, to be developed through this paper and our subsequent submission, that such a distortion has occurred in the past and is in danger of being perpetuated by this Enquiry. CCSU is concerned that, on the basis of the evidence it has taken to date, this committee is in danger of giving over-much weight to only a limited aspect of the overall question, namely efficiency and economy, and of failing to properly assess the question of effectiveness. This paper aims to re-dress that perceived imbalance to some extent.

1.4. For the purpose of the present debate, it is our view that the concepts of efficiency and effectiveness have to be clearly separated. "Efficiency" we take to mean a measure of how little waste, in terms of money, resources or energy, is expended in providing a given output. "Effectiveness" we take to mean a measure of how well a service fits the need for which it was designed.

1.5. The assumption is so often made when reporting an apparent case of increased "efficiency" that the level of output is unchanged: that like is being compared with like. It is our experience, however, that changes of output in level or quality of service, frequently go undisclosed. The best recent example is the White Paper "Efficiency in the Civil Service" (Cmnd 8293). It is our view that proper assessments of efficiency can *only* be made when full and clear information is provided about the output side of the equation. At the present time this is so often not the case that we are forced to make a sharp distinction between changed efficiency and changed effectiveness.

1.6. We are not arguing about the merits or demerits of a changed level or quality of output. That is contained within the concept of "worthwhileness" which is a matter for political decision. Our concern is that when changes are made, any consequent effect on output should be very clearly specified.

1.7. In the context of a Government attempt to cut Civil Service staffing to an arbitrary figure by a specified date, cuts in function are made in the name of "Efficiency" which in fact have unexamined, un-reported and unapproved consequences for the effectiveness of that function. CCSU believes that the Sub-Committee will need to be rigorous in separating the two concepts, if this situation is not to be perpetuated.

1.8. The public service unions are generally opposed to Government policies of arbitrarily cutting the public sector. This is so for various reasons: our duty to protect the interests of our members and our commitment to effective public services, as well as the importance we attach to public spending as a factor in the general management of the economy.

1.9. This paper, however, is not a polemic against public spending cuts. Whilst maintaining our general opposition, our concern here is to exhort Parliament to greater honesty about the implementation of cuts policies. It is our view that if Governments embark on a course of restricting and reducing public spending, they are duty-bound to face up to the political and legislative consequences of such a decision. At present many Government operations are being debilitated by cuts made in the name of "efficiency".

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CCSU is in favour of increased efficiency, but we wholly oppose clandestine cuts in staffing and levels of service masquerading as improved efficiency.

1.10. The central thrust of this paper is that there is an urgent need to re-examine the implications of present measures designed to achieve greater "efficiency" in the Civil Service.

Attempts to import concepts and methods of achieving efficiency from manufacturing industry into public services are often inappropriate. The duties and responsibilities of Government are quite different from those of industry and commerce.

We argue here that there is an urgent need to establish machinery to assess effectiveness as defined above (1.4), and to inject a new element of honesty into discussions of so-called "increased efficiency".

By and large "efficiency savings" are cuts in level and quality of functions. A smaller Civil Service is not a more efficient organisation, it is just a smaller one. It may well, for the reasons set out, be *less* efficient.

2. THE ROLE OF COUNCIL

CCSU is committed to improving efficiency through the Whitley machinery. However, Trade Union Side views are increasingly ignored.

2.1. The Council is the Trade Union Side of the Civil Service National Whitley Council, the functions of which are defined in its Constitution as follows:

(i) Provision of the best means for utilising the ideas and experience of the staff.

(ii) Means for securing to the staff a greater share in and responsibility for the determination and observance of the conditions under which their duties are carried out.

(iii) Determination of the general principles governing conditions of service eg recruitment, hours, promotion, discipline, tenure, remuneration and superannuation.

(iv) The encouragement of the further education of civil servants and their training in higher administration and organisation.

(v) Improvement of office machinery and organisation and the provision of opportunities for the full consideration of suggestions by the staff on this subject.

(vi) Proposed legislation so far as it has a bearing upon the position of civil servants in relation to their employment.

2.2. The Council is thus committed to the improvement of the efficiency and well-being of the Civil Service at all levels of Whitleyism nationally, departmentally and locally.

2.3. Its contribution is constrained, however, by the extent to which the Official Side seeks to involve it in the policy making process. It is, for example, unfortunate that departments did not involve trade union sides in the preparation of their returns to the Sub-Committee's questionnaire.

2.4. Where the Trade Union side is invited to participate in management reviews it devotes a considerable amount of effort to the production of reasoned and constructive proposals. It is part of the normal day to day work of departmental trade union sides to prepare and submit evidence to, for example:

Management Reviews

Rayner Exercises

O&M Enquiries

Staff Inspection Teams

2.5. Unfortunately the Official Side increasingly appears to ignore the input of the Trade Union Side. Even where agreement is reached on the need for change, and the form which it should take, the full benefit of such change is often not achieved because of failure to carry through the proposals either from lack of the necessary resources or from a change of direction leading to yet another review of precisely the same area of activity.

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2.6. This not unnaturally leads to cynicism on the part of staff who are genuinely anxious to improve their contribution to the work of Departments but who tend to judge the techniques for achieving efficiency by the results they achieve and are too frequently disappointed.

3. MANPOWER AND FINANCE CONTROL MACHINERY

As one of a battery of methods for ensuring economy of staffing and finance, present Staff Inspection procedures are effective in ensuring that numbers and grades of staff are properly matched to task. However, efforts to change the role of staff inspection to implement cuts are contrary to established agreements and provoke conflict.

3.1. There is no lack of machinery for controlling numbers and expenditure. The extent of existing controls is frequently underestimated.

To take only one example: the DOE return lays great stress on the benefits the Department expects to derive from its new management information system for ministers (MINIS). It might be assumed that DOE had no previous control mechanisms. In fact, of course, MINIS has been superimposed on the various control mechanisms already existing in DOE and most other Government departments viz:

— the traditional system of vote accounting;
— the cash limit system and the determination of monetary targets through PESC;
— the manpower budget system and the determination of manpower targets;
— the management accounting systems devised to check whether the Department is getting value for the money expended;
— the trading accounts applicable to some aspects of Departments' work;
— management reviews of specific functions and tasks;
— the organisation and methods division studies;
— the work of the staff inspection teams; and
— various cost information systems.

In DOE, MINIS is in many ways a poor substitute for established machinery. Staff inspection in DOE is touched on in paragraph 3.8. Other consequences will be discussed in our supplementary proof.

3.2. In the rest of this chapter, we focus on staff inspection since this is the control mechanism of which we have most direct experience, and because it is integral to any consideration of economy of staffing.

3.3. Any large organisation requires procedures for matching the number and grading of staff to the level of work required. In the Civil Service, manpower control techniques have been developed and refined, and in our view, existing techniques are reasonably successful at ensuring a proper match between task and staff. It is also our experience, however, that attempts to make existing staff inspection machinery work towards ends other than that of achieving an objective judgment of the correct complementing and grading structure for a given task leads to hostility from staff, strained industrial relations and poorer performance.

3.4. A start point might be the evidence on manpower control submitted to the Public Accounts Committee by the C&AG Sir Douglas Henley, following his review of manpower utilisation and control systems. (HC 367–i 15 June 1981.) The main conclusion to be drawn from Sir Douglas's Memorandum is that the system of controls for ensuring that the staff inspection process is working properly, is itself quite effective.

3.5. Sir Douglas explains in some detail the apparently poor performance of staff inspection in the years 1977 and 1978. He then goes on to describe the CSD Review in 1980 and the measures introduced to improve staff inspection practice. He concludes (para 6.14):

> "Following the 1980 review and discussions with departments CSD in August 1980 promulgated measures for strengthening staff inspection. These measures, which are

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supported by Ministers, include close involvement of senior management in the planning of staff inspection programmes, in providing support to inspectors and in monitoring their performance; improving the rate and speed of implementing recommendations in staff inspection reports; annual reports to Ministers, copied to CSD, on the state of staff inspection in Departments; greater attention by inspectorates to examining the nature of work to be done and to drawing attention to the scope for wider functional or organisational studies; closer liaison between management of staff inspection and other instruments for improving efficiency, especially management services units.

Following discussions on the implementation of these measures CSD is assisting departments to strengthen staff inspection in these and other ways." (Paras 6.14 and 6.15.)

3.6. Appearing in front of the PAC on 15 June, Sir John Herbecq, Second Permanent Secretary at the CSD, said of staff inspection:

> "We think the whole thing slid away in 1978 in an unsatisfactory way, and we have made determined efforts to pull it back, and now we claim we have made very successful efforts to do so" (HC 367–i para 2459).

On one particular point of concern to the Committee—Ministerial scrutiny of results—the CSD said that following the changes in procedures, Ministers had already received the 1980 performance figures.

3.7. Some measure of the extent to which Departments have adopted the CSD's proposals for tightening staff inspection can be gleaned from replies to the questionnaire. Both DOE and C&E mention the submission of the annual staff inspection report to Ministers. The IR admits that whilst there is no single indicator of success, their programme has involved a reduction of 293 posts in 1980 representing 95 per cent of the proposals.

The C&E Board mentions in reply to question 14 that in the three years to the end of 1980, their staff inspectors "recommended a net reduction of some 7 per cent in the staffing level in respect of the posts inspected".

The IR point out the dangers of using only implementation figures to judge the efficiency of staff inspection. They say: "Staff Inspection may lead to structural or procedural changes which are different from, but stimulated by, the recommendations. There is thus no single measure of the success of staff inspection."

In his memo to the Committee (14 October 1981) Sir Ian Bancroft makes it clear, not only that staff inspection is achieving a much higher number of staff cuts but that "the further strengthening of staff inspection" is first on his list of priorities for CSD in the immediate future. (Para 30.)

3.8. None of the foregoing suggests that existing staff inspection machinery is in any way ineffectual, or that checks on its efficacy are missing. CCSU's experience is that the Official Side views of its efficacy are more than justified. Staff inspection procedures are not only effective at restricting any tendency to over-manning, but that they are now being pushed to achieve cuts over and above those suggested by an objective analysis of the staffing requirements of particular functions.

In the Department of Environment for instance, the Department insists that staff inspection is an essential adjunct to the MINIS system following the abandonment of complements. It is clear to the Trade Union Side that whilst SI reports show the changes in grading and numbers of staff considered necessary to match the workload, the reports make it clear that it is no longer proper for increases in staff to be recommended. Changing work-loads or re-deployment are now the only available tools for coping with under-staffing.

In MAFF, LCD, C&E and the Home Office it is quite apparent that staff inspectors have been required to examine the need for the grade of SEO as a whole.

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In DHSS, we have faced a situation in the last two months where intervention by the CSD at the staff inspection stage of re-complementing was viewed with such hostility by staff that non-cooperation and suspensions ensued. In that Department, the TUS told management that a CSD cuts exercise could not be conducted as an adjunct to the guidelines review, and an agreement was finally hammered out on that basis.

The Rayner Report on Inspection and Audit in MOD (October 1980) presented its first recommendations as follows:

> "*Manpower Control*
>
> (i) The prime responsibility for the economic management of human resources should rest with line management, subject to control by numbers ceilings and staff budgets. Cyclical staff inspection of complements by the Inspectorates of Establishments should be given up in favour of monitoring line managers' performance on actual numbers and grades by suitable performance indicators supplemented by selective audits on the ground." (Para 109.)

The intention that staff inspection should be more concerned with cutting "actual numbers" than with ensuring a match of numbers and grades to the task is clear.

3.9. A graphic example of the changed role of staff inspection comes from the ODA. The following are figures for staff inspection in the HQ and Development Divisions:

Inspection Period	*Posts Inspected (All Grades)*	*Net Reduction in Posts*
November 1976–October 1977	404½	0
November 1977–October 1978	355	½
November 1978–October 1979	277½	8½
November 1979–October 1980	602½	101

It would be difficult to argue that the demands of the "Soames Cuts" announced on 6 December 1979, did not play some part in the changed results of staff inspection in ODA. The great majority of the 1979–80 reductions were made in the messengerial and clerical grades in the office services area which clearly contradicted the Official Side's "explanation" that the dramatically changed figures reflected the reduction in bilateral aid programme activity.

3.10. The Trade Union Side attitude to staff inspection has been governed by the Code of Practice agreed in 1980 after several years of negotiation. The role of staff inspection is very clearly defined in Paragraph 1 and Paragraph 4a of the Appendix to the Code:

> "*The purpose of organisation of Staff Inspection*
>
> 1. Staff Inspection consists of a direct examination of work procedures and the organisational structure to ensure that the staff number and grading are correctly related to the needs of the work; and the production of a report of the findings. The practice of staff inspection as defined above and in paragraph 4a below, is both an instrument of manpower control and an aid to management efficiency.
>
> 4a. Departmental staff inspectors ensure that the number of staff is adequate, but not excessive, to carry out necessary functions, that the staff are properly graded, that the organisational structure in which the work is carried out is appropriate to it, and that essential work is not left undone;"

Nowhere in this is it proposed that staff inspection should cover the worthwhileness of activities. In his brief to the Committee (14 October)[1] Sir Ian Bancroft says "Thus we have for example concluded that staff inspectors should in future not only pay attention to the correct manning of a given task, but should sharpen their examination of the need for the task itself". This change of role is quite contrary to established practice and is a fundamental breach of the agreed Code of Practice.

[1]See p 174.

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Paragraph 4a of the Code makes it quite clear that the staff inspector's remit includes assessment of *the way in which* tasks are carried out. It does not include judgments about "the need for the task itself".

3.11. Staff inspection is completely the wrong tool for attempting to achieve predetermined staff cuts. Staff inspection machinery is vital for ensuring that functions are economically staffed with correct numbers in the right grades. It is quite wrong for managers to look to staff inspection to achieve cuts on the scale required, and it is quite unacceptable for inspectors to be constrained in their freedom to recommend increases in numbers and up-gradings as necessary.

Such attempts to distort what is presently a very valuable management tool, operating in a manner that has full trade union support, will generate ill-feeling amongst staff and lead to breakdowns of industrial relations.

4. CUTS IN FUNCTION

Manpower reductions must be achieved by cutting functions, not by manipulating staff inspection machinery.

4.1. In the previous chapter, we argued that the existing machinery for avoiding overmanning and waste is in proper working order, but that it is being stretched to breaking point by unrealistic demands to achieve savings over and above those shown up in the Inspection process.

4.2. CCSU firmly believes that if cuts are to be made, they should be achieved by identifying functions and services that are no longer considered necessary and abolishing them entirely. We do not support Government policies which determine the volume and cost of vital public services according to cash limits, arbitrary manpower targets and the nebulous concept of "what the country can afford". Nevertheless, if Government's belief is that "Public Expenditure is at the heart of Britain's present economic difficulties", and that cuts have to be made, they should be related directly to the reduction in provision of services. Constant "trimming' of numbers damages both efficiency and effectiveness.

4.3. In presenting evidence from DHSS to the Public Accounts Committee examination of manpower control, Sir Geoffrey Otten, Second Permanent Secretary, referred to the use of "efficiency" measures to achieve cuts on the scale required. He said:

> "The annual score of savings that we can expect from staff inspection in DHSS is something in the region of 200 or 300. Staff Inspection is not a weapon for enabling us to find 16,000 staff savings by 1984. We are in a much bigger business where staff inspection is really rather a marginal tool. It is important for other reasons, but it does not get at these functions. The real thrust of all of our activities is towards cutting out substantial blocks of work, which means legislation on, for instance, a new sick pay scheme, a new kind of housing benefit, possibly a simplified supplementary benefit scheme." (Para 3023 6 July, 1981.)[1]

Sir Douglas Henley concurred:

> "I do think it quite important for the committee and anyone else who is interested, to be aware of the nature and limitations of staff inspection and various complementing controls in relation to these wider approaches to the need for a particular manpower level." (Para 3030 6 July, 1981.)

4.4. We agree with these positions as expressed. The proper tool for achieving manpower efficiency is staff inspection. The way of achieving cuts is the deletion of functions.

Government has a responsibility, as we argued earlier, to present its achievements in cutting staffing in an honest and straightforward manner. To date, "efficiency saving" has been a cloak for function cuts. The effectiveness of much of the Civil Service is being impaired by perpetual "trimming" of staff. This approach to making cuts is the antithesis of what Government spokesmen have stated to be their objective. Rather than achieving "smaller Government" efficiently and effectively organised, recruitment freezes, options

[1]HC (1980–81) 367–ii.

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exercises, arbitrary manpower targets and the like produce enfeeblement of services across the board. The honest way to proceed is to identify discrete areas where the Government no longer wishes to be involved, whilst ensuring that the effectiveness of remaining operations is maximised.

4.5. In the following chapters we examine how cuts executed in the name of "efficiency" have in fact reduced efficiency and how they are beginning to pose serious questions about the duties and responsibilities of the state. In Chapters 9 and 10 we return to the problem of "efficiency savings" undermining effectiveness.

5. REDUCED EFFICIENCY, FORGOTTEN EQUITY

Apparent cost and manpower savings often lead to reduced controls, lost revenue and lower efficiency, and call into question the ability of Government to uphold law and pursue equity of treatment.

5.1. The notion that "cutting the fat" inevitably produces an "efficient, streamlined service" now underpins many arguments supporting the shedding of jobs in the public services. In very many instances, cutting numbers means cutting controls, cutting income, and cutting efficiency, in addition to reductions in effectiveness.

Here we outline just two examples, one arising from "streamlining" cuts, and the other from a Rayner Review to illustrate this point.

Customs Controls

5.2. The customs side of the C&E Department has two principal functions, to assess and collect duties on imported goods and to prevent smuggling. As part of the "streamlining" of the service over 2,000 jobs have gone in customs since 1979. On the South Coast for example, the historic home of smuggling in Britain, the number of customs officers at Falmouth has fallen from 13 in 1979 to five in August this year. At Plymouth, there are now 20 instead of 29 two years ago, and at one major port, which shall remained un-named, yacht-owners now arrive at times when they know all available customs staff will be involved in clearing passenger ferries. In themselves, these are signs of reduced effectiveness of service, but they also involve substantial loss of money. In March 1981, customs officers in Britain, Ireland and France uncovered a vast meat-trade fraud involving the shipping of prime beef labelled as offal. That one trade was estimated to have cost the EEC over £1 million. In 1980, 40 textile frauds of various kinds were discovered at London Airports alone, at an estimated value of £3–4 million. Customs cuts which enable the growth of mislabelling, re-routing, "switching", false certificates of origin as well as traditional smuggling, all cost the EEC and this country large sums of money. No-one has yet attempted to measure the costs to the country's health and social services of a situation where the "street-price" of smuggled heroin has remained substantially the same over the last three years, in the face of inflation running at 10–20 per cent.

MAFF Capital Grants Procedure

5.3. The first Rayner Scrutiny in the Ministry of Agriculture concerned the administration of capital grants to farmers. Essentially the proposals were for a single capital grant scheme combined with changes in eligibility and the ending of prior approval. It was estimated that the proposals would result in a loss of 400 jobs. The Departmental Trade Union Side's response to the consultation document covered several aspects of the proposals including the increased probability of disputes with farmers, the danger of unqualified individuals preparing plans and the risks to wildlife and the environment which were attracting substantial press attention at the time. On the subject of financial control the Departmental Staff Side said: "We really do feel that the changes that you have in mind will, at the working level, significantly reduce financial controls and even though the Commission may accept the revised scheme in principle, I cannot help wondering whether we might run into difficulty at a later stage when they find that there is a more relaxed attitude to the checking of claims." (Covering letter from MAFF DWC Staff Side to Ministry, 25 March 1980.)

Implementation of the proposals was put back from 1 August 1980 to 1 October, and on 8 August, the MAFF Official Side wrote to the Trade Union Side concerning "Selective

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Checking of Claims for Capital Grants". The letter said: "There will inevitably be less control over farmers who will assume greater responsibility for taking decisions about investment, and ensuring with less assistance from the Ministry than hitherto, that the requirements of the scheme are met. This indicates a need for a tighter system of control to safeguard public expenditure." The letter went on to sketch out a desperate, ad hoc, system for random checking coupled with new, inefficient, hole-plugging procedures:

> "Now that Ministers have decided that the provision of accountants' reports should be optional, management think it will be essential to check supporting vouchers in all cases as part of the standard check. If this element proves unreasonably onerous, it can be reviewed along with other aspects of the arrangements in the light of experience. Secondly, with the relaxation of controls implicit in the removal of prior approval, it is thought that a field inspection should always take place as part of the random sample extended check."

5.4. It is of course difficult to quantify exactly how much revenue is lost as a result of cuts in levels of service (eg customs officers) or in internal checks and controls (eg MAFF capital grants). Techniques are improving however and recent estimates of tax and duty evasion arising out of work on the black economy are highly disturbing. The initial point of note is that manpower cuts can entail major loss of revenue or mis-spent public money which may well outweigh the manpower savings achieved.

5.5. There are other hidden ways in which cuts contribute to waste. Random staff cuts and frozen posts increasingly lead to senior civil servants having to carry out tasks that should normally be performed by staff at lower levels. There is growing evidence especially from members of the Association of First Division Civil Servants that "grade drift" is now common as managers attempt (by "working down") to maintain the smooth running of particular operations that are no longer properly staffed. This is contrary to the Rayner-inspired intention of "pushing responsibility down the line". Senior Officers are being forced to do work normally the province of more lowly paid staff, and have less time for work appropriate to the level at which they are paid. This is clearly inefficient, but arises as a consequence of supposed "efficiency" measures.

5.6. A more serious consequence, in CCSU's opinion, of trying to transplant notions of efficiency from industry into the Civil Service is the lack of attention to the crucially different responsibilities of the two sectors. Rather than elaborating at inevitable length on pertinent differences a simple case-example will serve to illustrate the difficulties for Government of deciding to draw-up a balance sheet of "revenue lost" against "costs incurred".

It is, arguably, acceptable for a retail chain to make a policy decision that it is more economic to budget for a certain level of "shrinkage" (loss, pilfering etc) than to employ sufficient staff to reduce that level.

In Government such decision are, or should be, much harder to make, requiring more profound analysis and judgment. Government has to make every effort to ensure that laws are obeyed by the whole community and to strive for equity in their application.

5.7. The consequences for Government of making "retail industry" decisions to reduce customs officers, VAT control, or income tax collectors, involve changes in attitude to Government's role as guardians of law. At present, decisions are being made of necessity by the executive to reduce, for instance, the frequency of baggage and cargo checking at Heathrow Airport, or to raise "acceptable" levels for tax under-payment.

Over and above the issue of lost revenue and loss of controls, substantial decisions about the work and duties of government are being made with little consideration by Parliament.

5.8. In a recent article "The Management Aim of a Government Department" S D "Johnny" Walker, head of Management Services (Special Assignments) Division of CSD until 1977, put forward a definition of management aims appropriate to all Departments as follows:

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"To achieve and maintain the best balance between economy, efficiency and effectiveness (including equity) in the use of resources in the formation and execution of Government Policy."

["Management Services in Government" August 1980]

It is significant, we would argue, that the fourth "e"—equity—has been included. It is not a consideration for industry and commerce, but must be for government. There has been a dearth of public debate about how cuts effect equity. Examples throughout this paper point towards the conclusion that "rough justice", the gamble and the guess are playing an increasingly significant part in the implementation of Government Policy.

Like effectiveness, considerations of equity appear to have been forgotten in the desperate rush for cuts and "efficiency".

6. STAFF MORALE

Cuts, Public Denigration, and Attacks on Pay and Conditions Produce Lower Morale and Greater Dissatisfaction which, together with Reduced Promotion Opportunities, Tend to Undermine Motivation and Efficiency.

6.1. In a labour intensive organisation like the Civil Service staff morale is crucial to the improvement of efficiency. In its evidence PSA defined the conditions for good morale as follows:

(a) staff need to feel that they are doing useful work

(b) that they are performing efficiently

(c) that the value of their work is recognised

(d) that they are part of an organisation with an assured future, and

(e) that they have an assured future with that organisation.

6.2. It is impossible for the individual public servant to ignore the characterisation of being "at the heart of Britain's present economic difficulties". Over and above the effect of cuts on individual's prospects for career development, training, job satisfaction and security and the continual rumblings from the deeper recesses of Westminster about the future of the pension scheme, civil servants have been faced with a determined attack on living standards through the Government's withdrawal from the National Pay Agreement. Manpower cuts have had a particularly disastrous effect on promotion opportunities which are widely accepted as the most effective source of motivation and incentive. This situation will be exacerbated in coming years as the present retirement "bulge" passes.

6.3. There is strong circumstantial evidence that the criteria set out in 5.1 are not being met. Increased industrial militancy and a higher frequency of "leaks" are examples. The replies to question 25 of the questionnaire are unanimous in their view that Departmental effects of the cuts, service-wide issues like pay plus the sense of being a scapegoat for the country's economic situation have taken their toll.

CCSU is concerned that in their deliberations, the Committee may miss the flavour of employment in the Civil Service at the present time. It is right and important to take evidence from heads of services, Ministers and ourselves but in our view there is much to be said for adopting "Rayner philosophy" and "getting out to where the action is". Discussions with a clerk in DHSS about pay, with a valuation officer about promotion, or a wages inspector about job satisfaction are highly enlightening

6.4. We cannot provide evidence to prove conclusively that poor morale leads to reduced efficiency. Our general experience is that most staff do manage to rise above the growing frustrations and the ignorant ill-informed abuse to which civil servants are increasingly subjected, but there is no doubt also, that motivation is at risk, and without motivation, efficiency is bound to suffer. It is perhaps a hackneyed point, especially in the Civil Service, that people work for more than money. This sense of service over and above questions of personal advancement has, in our view, been one of the strengths of the British Civil Service. The Government should by now be fully aware that there is a price to be paid for fuelling public feeling against the Service. That price is an increased level of hostility and

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politicisation and a reduced sense of commitment. A reduction in resources devoted to personnel management at CSD is a further sign of reduced commitment to maintaining staff relations.

6.5. The question of civil servants' morale and dedication is, of course, central to the questions of pay determination now in the hands of the Megaw Committee. It is CCSU's view that an ordered and agreed pay system based upon the principles of fair comparisons and relativities, coupled with independent fact finding, negotiation, and unfettered access to arbitration are essential in restoring confidence. Rather than try to summarise CCSU's views on this issue, we will let the Committee have copies of our full evidence to Megaw. It is our opinion that the re-establishment of an agreed pay system is an absolute pre-requisite for orderly industrial relations and continued efficiency.

Only on the question of performance-related pay do we wish to re-iterate our position here since this has been a matter of some interest to the Committee. A full account will be found in our evidence to Megaw.

The following six points summarise the reasons for our opposition to the concept:

(i) The difficulties of finding acceptable criteria according to which "merit" could be judged.

(ii) The dangers, at senior levels, of merit being judged on a political rather than objective basis.

(iii) The outside evidence demonstrating the extent of necessary administrative procedures and costs, appeals apparatus etc.

(iv) The problems of scale over-lap for staff at or near the maxima of their scale and the consequent difficulties for ensuring openness about scale rates and grading etc.

(v) The general tendency in large organisations, public and private, towards uniformity and consistency of pay scales.

(vi) The inevitable staff hostility to introduction of a merit-pay scheme in the present industrial relations climate in the Civil Service.

The CCSU evidence to Megaw summarises these points thus:

"Our view is that the proper "reward" for performance and one which, as an incentive, may apply to all civil servants, is promotion. The Civil Service has rigorous selection procedures, and probationary periods which ensure that officers who are recruited are capable of successfully carrying out the work asked of them. These procedures ensure that, as a rule, recruits have the potential to advance to higher grades. It is the awareness of this potential which makes advancements a very real incentive to most civl servants "

7. PRIVATISATION

Privatisation Often Entails Hidden Costs, Poorer Service and Reduced Efficiency.

7.1 Privatisation and hiving-off government functions tend to be justified on two grounds. First, that it is intrinsically preferable for the private rather than the public sector to undertake functions wherever possible and second, that the private sector, through the impact of market forces, delivers higher levels of efficiency than is possible in the public domain. (More lately a third factor has been introduced—the intention to reduce current and capital deficits by the sale of public assets. Council house sales, BNOC, C&W are examples.)

7.2. For the purpose of the present discussion CCSU wishes to present evidence to show that the second premise—that the private sector inevitably generates greater efficiency in the delivery of public services—is often based on insufficient measurement and analysis of total cost and, as such, may be less efficient.

The questionnaire reply from the Property Services Agency for example demonstrates the extent to which the Agency is now charged with the task of transferring much of its work to the private sector. It says nothing about the way in which it has assessed the cost-effectiveness of such a transfer. Indeed current management control techniques provide no

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basis for doing this. Decisions have been taken in the absence of any evidence as to whether greater privatisation will in fact lead to a reduction in public expenditure and the PSA has now set up yet a further enquiry into the comparative costs of in house/out house design. The priority of achieving manpower savings is overriding all other considerations.

Contract Cleaning

7.3. Initial evidence suggested that it would be cheaper for Government establishments to be cleaned by contract firms than by directly-employed cleaners. Evidence is accumulating that apparent savings achieved by contract cleaning are illusory. It is also essential to take into account the consequences for pay and conditions of the cleaning staff employed. Despite the stated requirement that contract firms should pay at least the local authority rate, there is evidence that firms do not always adhere to this agreement. Private firms are also not required to provide any pension or shift allowances for their employees. Substantial work-load increases are also common in the private sector: whilst the recommended work-rate for a civil service cleaner is 1,350–1,450 square feet per hour, contractors have been bidding for Government contracts at figures of 2,400 square feet an hour. The job of "cleaning" includes stairs and toilets, emptying ashtrays, and wastebins, dusting and polishing furniture ledges, pipes and skirtings as well as vacuuming, sweeping or polishing floors. The inclusion of such increased work rates in tenders means that either contractors will provide a poorer service—reduced effectiveness or they will be taking advantage of the fact that cleaning staff are predominantly part-time women, difficult for trade unions to organise, and easy to exploit.

7.4. The major hidden cost to the Exchequer of contract cleaning is the lost income from national insurance contributions. If cleaning employers can manipulate their employees hours so that earnings remain below the national insurance threshold, the firm saves the 13.7 per cent of its wage bill that would otherwise have been paid in contributions. The Civil Service Union has evidence that over and above restricting the number of hours worked, firms employ the "sleeper" technique—paying salary cheques in non-existent names—in order to evade NI payment. The CSU estimates that if all Government work were handed over to private contractors, the loss of revenue would be in the order of £1 million per annum.

Another factor that must be considered is the cost to Departmental cash-limited budgets of paying 15 per cent VAT on cleaning contracts. Whilst this money theoretically returns to the Exchequer and there is no net spending, the fact is that VAT has to be accounted for within the Departmental cash limit and savings have to be found elsewhere.

Finally, privatisation may have consequences damaging to efficiency in a much broader sense. There has been increasing concern over security matters, culminating in the establishment of the Diplock investigation. CCSU have argued strongly that privatisation of functions cannot improve Departmental control of activity and information and security. The Committee will recall from recent newpaper reports that the vehicle chosen by an alleged BOSS agent to obtain access to various organisations was a contract cleaning firm!

8. NEW TECHNOLOGY

The failure of attempts to obtain a new technology agreement threatens to turn an area of great potential benefit into a field of conflict, reducing both efficiency and effectiveness.

8.1. In some areas of the Civil Service, the introduction of New Technology should bring greatly increased productivity and efficiency. The CCSU welcomes the development of systems based on New Technology providing that the objective is to improve the quality of service and to make new technology an instrument for achieving greater effectiveness as well as greater efficiency.

8.2. Since 1979 CCSU has been attempting to negotiate a national New Technology agreement embodying these aims and establishing a framework for the orderly introduction of more systems in departments. Whilst some progress has been made on issues such as provision of information and health and safety, Ministers have refused to accept the need to protect jobs by using technology to improve the quality of services and have refused to see staff benefit from new technology through the provision of a shorter working week.

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8.3. In CCSU's view, the willing cooperation of staff is a vital pre-requisite for the successful implementation of radically new working practices deriving from extended applications of new technology. The potential sources of conflict would be greatly reduced were ground-rules formalised to both sides' satisfaction in a new technology agreement. As we have argued in Chapter 6, the willing cooperation, motivation and morale of staff are essential if efficiency is to be maximised. At present, Official Side intractability on the new technology agreement is in danger of turning a potential source of increased efficiency into a field of quite unnecessary industrial strife with productivity and output at risk.

9. QUALITY AND EFFECTIVENESS

Published examples of increases in efficiency almost always conceal reductions in volume, quality and effectiveness of output.

9.1. In the foregoing, we have argued that cost and staff cutting measures, have reduced efficiency through reduced control, loss of incomes and damaged morale. We have argued that privatisation is not the harbinger of efficiency that is claimed. In this chapter we return to the issue outlined in Chapter 1: that under present circumstances questions of efficiency and effectiveness must be looked at independently. In a nutshell, our experience is that many of the cuts made in the name of increased efficiency have been simply reductions in quality and effectiveness of service.

9.2. Examples are numerous and we will be providing the Committee with more material to illustrate this point in our supplementary proof.[1] For present purposes we will examine just two instances.

DHSS Home Visiting

9.3. There is no doubt that crude "head count" methods show an increase in productivity in the delivery of benefits by the DHSS. By November 1980, the number of recipients of supplementary benefit had increased by 9 per cent on the previous year, and the overall number of people relying on SB (recipients plus dependants) had increased by 11.3 per cent. Between April 1979 and July 1981, however, the number of staff in local offices fell by 1 per cent from 64,080 to 63,428; and the number of staff in regional offices fell by 2.8 per cent from 3,543 to 3,444.

CCSU rejects the idea that it is possible to achieve a precise measure of productivity on so simple a basis in the benefit service. This takes no account of the variety of benefits and the differing needs of claimants and their families. Nevertheless we would draw two general conclusions. First, staff are working harder and faster, under greater pressure, to meet demands placed on them. Second, the quality of service has fallen, and with it, effectiveness has declined.

9.4. One of the principal losses in the benefit service has been home visiting. In their reply to the Committee's questionnaire, the DHSS says on page 4 of their discussions of invalidity benefit:

> "Many reviews have been undertaken to try and achieve the most cost effective control system possible. They have generally led to reductions in the amount of control exercised. The number of sick visitors and visits conducted have been reduced drastically over the years and preference has been given to control by means of reference to the RMS (Regional Medical Service). However there has been no increase in the available RMS resources, which in 1952 could deal with references totalling 2 per cent of the live load of claims, but currently can cope with only 1.4 per cent of the live load."

9.5. In giving evidence to the PAC on 6 July 1981, Sir Geoffrey Otten, said: "We do rather less visiting than we did, which in some respects is a matter for regret. We used to visit, for instance, pensioners on supplementary benefit every year but that is something we have had to forego for several years now."

9.6. In their evidence to the PAC the DHSS TUS said: "The reduction in home visiting has particularly serious consequences. Fewer visits and follow-up-work on the contribution

[1]See Annex, p 368.

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side means that the full revenue due is not received, and that action against defaulters is less comprehensive. The purpose of visiting supplementary claimants is to check the validity of claims, to assess entitlement, and to identify additional welfare needs. Stopping or reducing the frequency of home visits inevitably leads to increased incidence of under and over-payment, whilst urgent needs may go unattended. This type of cut reduces financial control of the service, and is a reduction in the effectiveness of benefit delivery."

9.7. Our theme of the confusion between improved efficiency and reduced effectiveness is vividly illustrated by the White Paper "Efficiency in the Civil Service" (Cmnd 8293 July 1981). Virtually every measure described is a clear cut in service of some sort. To repeat: this paper is not intended as a polemic against cuts, it is a petition that cuts should be described as such and not as efficiency measures. Some of the examples in the White Paper we have touched upon earlier: reduced customs controls and capital grants procedure in MAFF. In the White Paper "the closure of 16 skillcentres and annexes" is listed as "streamlining the service". The abolition of the need for people to register in job centres before claiming benefit is described simply as "getting down to the essential".

DE Voluntary Registration

9.8. The White Paper "Payment of Benefits to Unemployed People" is a good example of the distortions that can occur when research into efficiency and effectiveness has as a pre-ordained conclusion the need to cut staff.

The publicised results of research by the Policy Studies Institute (See eg New Society 16 April 1981) show that of the PSI's sample of 8,000 unemployed people, 83 per cent mentioned Job Centres as their main source of employment opportunities, well ahead of the second source, local papers, mentioned by just 56 per cent. The PSI research also reports evidence about the impressive success rate achieved by job centres, which is quite lacking in the White Paper. Doubt is also thrown on the estimates of potential savings. PSI argue that the Rayner sample has crucially confused measures of the unemployed "Stock" with the unemployed "flow". They conclude: "The Report says that half would fail to register. We reckon that only a quarter would and they would include many who need the service most. The vulnerable would be punished. And the idea of extra officials then being appointed to check on their availability for work, at a time of record and rising unemployment, would be a scandalous waste of public money, as well as adding insult to the very considerable injury they already experience." (NS 16 April 1981.)

9.9. Our argument is clearly summarised by S D "Johnny" Walker in the article quoted above (Chapter 5):

> "We also need to know something about the quality or accuracy with which the work is perfomed before we come to any conclusions as to the significance of the data on efficiency. In some situations, the quality of the work may in fact be much more important than the efficiency as shown by the costs of intermediate outputs ... In all situations we have therefore also to consider effectiveness."
>
> [Management Services in Government August 1980 p 133]

9.10. In the Fourth Report 1979–80, the Treasury and Civil Service Committee said "We are concerned that the inability to express the 102,000 net contraction in the size of the Civil Service in terms of tasks to be either cut or reduced represents a weakness in the Government's policy".[1]

Over a year after this observation was made, it is clear that whilst Departments are well on course to achieve their 1984 targets, there is still a reluctance to express savings "in terms of tasks to be either cut or reduced". In CCSU's view, the Committee's request for a greater degree of planning, decision and honesty about savings is being evaded, as substantial cuts are categorised as "efficiency measures".

[1]HC (1979–80) 712–I, para 14.

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10. MEASURING EFFECTIVENESS

There is a need to establish machinery for assessing the effectiveness of Government activities. Direct responsibility to MPs and independence from line management are essential components of such monitoring.

10. Our argument is that a much higher priority must be given to the measurement of effectiveness. Lacking proper checks on output, the Government's determination to import concepts of increased productivity and efficiency from private industry into the public services is causing severe distortions.

It is quite possible to measure increased efficiency in the assembly of Ford Escorts because, hopefully, there is a rigorous system of checks on the finished product. Quality control is a vital part of the manufacturing process. Our members, and the beneficiaries of their work, are faced with cuts implemented in the name of "efficiency" which are the public sector equivalent of what in car manufacture would be increasing efficiency by producing Ford Escorts without back wheels or gear-boxes.

10.2. Although rigorous quality and effectiveness control is less easy to achieve in the public sector than in manufacturing, dramatic improvements could be made. The present problem is not so much difficulty as lack of will and attention to the problem. Indeed, resources for making necessary measurements are being restricted.

10.3. One vital source of data for measurements of effectiveness—of how well services meet demand—is the Government statistical service. Following Rayner, OPCS, trade and industry, housing, planning and social statistics have all been seriously reduced. There are many arguments to be made against the reduction of statistical services, not the least of which is the extent to which Britain has fallen behind other countries in putting resources into research and information services, and the relatively small costs of such monitoring in relation to the programmes studied. In a recent article attacking the short-sightedness of the cuts in the statistical service, Professor Peter Townsend of Essex University had this to say on the more general question of measuring effectiveness:

> "Singularly little attempt is made to assess the complex functions of departments and weigh them against a resolute analysis of objectives or of social needs. Any form of management, and cost effectiveness can only be judged in relation to the purpose being served." (Guardian 15.7. 1981.)

10.4 The retention of a comprehensive statistical service is particularly important where information about the population at large is required.

Two examples from the Departmental questionnaires will illustrate this. In the MOD case of army pay, effectiveness-review would be asking "Are all soldiers being paid the right amount, in the right way, on time?" The answer to this question, from the information provided, is almost certainly "Yes". If, however, we look at the DHSS example—payment of invalidity benefit—and ask the same question "Is everyone entitled to invalidity benefit receiving the right amount, in the right way, on time?" conclusions are much more difficult to draw. In this case, the job of effectiveness-review would be to investigate the number of people who are entitled to IVB, take-up levels, overpayment, unmet needs etc.

At present, there is a dismal lack of information about quality of service in the delivery of benefits. Cuts are made in the name of "efficiency" that have a damaging effect on the lives and living standards of some of the most defenceless and relatively inarticulate groups in society. Without proper effectiveness-review machinery, there is no way of assessing the impact of these cuts.

10.5. Some of the principles which underlie existing work on improving "efficiency" would be important in establishing "effectiveness-review" machinery. The remit of an effectiveness-review team can be summarised in the question "What is the requirement that this programme is designed to serve, and how well is that requirement met by the existing output? To answer this question, effectiveness-review would, like Sir Derek Rayner's operations, have to be outside Departmental line management. The Rayner principle of "getting out to examine how and where the work is done" would also be

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important. The essential component of effectiveness-review, however, would be to look outside of tasks as presently done, and examine the extent to which the service as delivered is meeting the overall dimensions of the need for which it was established.

10.6. Another requirement, drawn from the Committee's experiences with efficiency-review would be some form of direct parliamentary scrutiny of effectiveness-reviews. Given the problems of Departmental sensitivities involved, perhaps a select committee structure would be most appropriate.

10.7. Our proposals for a properly established "effectiveness-review" machine are not intended to be as all-embracing as traditional policy-review exercises. Our concern is not so much to assess the worthwhileness of a policy, which is the remit of policy review, as to measure as closely as possible how well the *implementation* of policy matches need. Neither is our proposal a simple attempt to expose inadequacies and the effect of cuts, in the expectation that pressure will be forthcoming to plug holes in services and improve levels of provision. After six years of determined cutting of public spending, public service workers, including civil servants, are quite familiar with the tactic of starving services of resources to such a point that on examination they are found to be so ineffective as to merit complete abolition.

10.8. CCSU feels that the need for proper effectiveness-review machinery is overwhelming. In a situation as at present, when every Government service is undergoing stringent efficiency-reviews, proper quality-control is the only way of ensuring that efficiency savings are real, and not simply clandestine cuts in output, quality, fairness and effectiveness.

Examination of Witnesses

Mr P D JONES, Secretary, Council of Civil Service Unions, Mr CAMPBELL CHRISTIE, Deputy General Secretary, Society of Civil and Public Servants, Mr J A GRAHAM, Deputy General Secretary, Civil and Public Services Association, and Mr W WRIGHT, Deputy General Secretary, Institution of Professional Civil Servants, called in and examined.

Chairman

935. May I welcome you, Mr Jones, and your colleagues and thank you for your arranging to help us in our inquiry into the effectiveness and efficiency in the Civil Service. Would you introduce your team to us?

(Mr Jones) Mr Campbell Christie is here representing the old executive area of the Civil Service, the middle and managerial grades; Mr Graham represents the clerical, typing, data processing grades; and Mr Wright represents the technical, professional and scientific grades.

936. May I open the questioning on what we see as one of the major issues of the inquiry, to which you do give particular attention in your evidence, and that is the emphasis not just on efficiency but on effectiveness? This is a matter we have discussed in the context of other inquiries as well and one of the great problems is in measuring effectiveness. We have made various suggestions about this, including having fuller information in the Public Expenditure White Paper and in the Estimates themselves as to what the money is spent on and what is being achieved by the expenditure. Are there any further points you would wish to make as to what practical measures could be developed and how the Civil Service could contribute to putting them into effect?

(Mr Jones) The first point is that one needs to differentiate clearly between the two objectives of efficiency and effectiveness, and both should be part of the general management concern, At the moment the main drive is for increased efficiency, although that is not perhaps defined in the way we would like to see it defined. What we should like to see is a quite separate concern with effectiveness as well, in terms of the quality of the work done by the Civil Service, and in particular the way in which the public perceives the quality of that work. I think Mr Christie would like to add some comments on that.

(Mr Christie) I think, Chairman, what we are concerned about is that the Government's policy of making cuts and streamlining exposes, in our view, because much of it is streamlining rather than cuts in functions, the civil servants to undue pressures and

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results in a reduction in the ability to deliver effective services. For instance, in the Department of Health and Social Security, we are convinced that our members ability to provide benefit payments accurately and timeously is inhibited as a result of the cuts. In the Department of Employment, we believe the service we give to the unemployed is reduced as a result of cuts in manpower. We do not believe there is any effective machinery, any effective consideration given to the extent to which that effectiveness is a factor. What we are saying is that we should like this Committee to consider whether there should be much more comprehensive work done to monitor whether we are providing an effective service to the public in the examples I have given. That means, we would say, for instance, that there should be perhaps a Select Committee whose role it would be to go into the areas and to talk to people and to establish the extent to which an effective performance is being delivered. That is one possibility. We are not saying we have a solution today. We are saying that we believe that insufficient attention—in the drive to reduce Civil Service numbers, in the drive to do that—insufficient concern is being given to whether this is resulting in a poorer service from the Civil Service. Our point is that we would like this issue to be elevated and dealt with, and we do not think it has been properly so far.

(Mr Graham) One example I would give is in the operation of the PAYE system in the Inland Revenue. It is proven that there is a substantial error rate in dealing with codings and the operation of that system—and the error rate is not a minor but a fairly substantial thing, one in four has been mentioned—and yet only 60 staff out of the total Inland Revenue staff have been redeployed on this. There are not the additional resources to redeploy from elsewhere to deal with quality control in that particular area. Yet you will hear reports that the productivity of the Department is going up, because they are dealing with so many taxpayers with a smaller number of staff; but then, they are not dealing with the quality of service that is being given to the public. Another area is special programmes in the Manpower Services Commission, where the size of the programmes is increasing but the actual number of people and number of checks that are being made about whether those resources are being used properly or whether they are being abused are in fact going down.

937. You mentioned quality control. One of the features of quality control is the efficient use of statistical sampling and not relying on 100 per cent testing. We had evidence last year where the system of 100 per cent checking by superisors had been eliminated and replaced by a sampling system, resulting in improved quality of work by the people doing the work because they knew it would not necessarily be checked. You are not against properly designed statistical sampling are you?

(Mr Graham) Not at all. We have got a special team in the Civil Service on this question of job satisfaction. I do not represent the supervisors, but the clerical staff themselves find it pretty depressing if all their work is being checked. In fact we have been doing a fair amount of work in places like the Driver/Vehicle Licensing Centre at Swansea, to ensure that supervisors have a more man-management, or woman-management as it is these days, type of job than just checking what other people are doing.

938. So you would maintain that a properly designed quality control system can in fact increase work satisfaction and not be an obstacle to it?

(Mr Graham) Yes, providing it is related to the quality of service we are giving to the public. It is one of the grave misunderstandings about the Civil Service. People are not aware of the vast range of services we are giving to ordinary members of the public—certainly, in terms for example of not having regular indices about the turn-tound time for dealing with claims in the Department of Health and Social Security, such as you would get in nationalised industries or other areas like that, where they would have regular indices. I cannot see why they cannot be developed in some way in cooperation with the staff.

939. In terms of the quality of service, progress either administratively or in terms of justice can cost an awful lot of money. You would agree that progress is not the appropriate goal, would you?

(Mr Christie) No-one ever achieves perfection but certainly we take the view that our aim in relation to quality and equity would be to treat citizens equally. It is all very well for those at the top to talk about rough justice and to say people will have to accept a degree of rough justice but it is a very different kettle of fish if you are the person sitting behind the desk who has to tell the individual member of the public,

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"You will have to accept rough justice. It does not matter to me that someone down the road has been dealt with differently. You will just have to accept that." Our members are the people who are exposed to the delivery of inequity if there is, in fact, the concept of rough justice rather than the precision that has traditionally been the Civil Service role. So, I think we would accept that one will never have perfection but one cannot in the Civil Service simply take the private sector adage, "It is not worth spending the money"—for instance, the example in our case—"to prevent pilferages. It is better to write it into costs than to try and prevent it to some extent." We do not believe you can adopt the same sort of policy in relation to providing a public service, where you are publicly accountable and MPs will insist that you are publicly accountable. Not only that, it is right that citizens should be dealt with equitably.

940. Take, for example, the question of quality control in eligibility for benefits or justification for claims or something. Any quality control system that is not 100 per cent can be said, in effect, to have an element of rough justice in it, in that if you are in fact sampling you will check more thoroughly than if you are not. You are not saying that is improper?

(Mr Graham) I think it depends how rough the justice is. I do not think we are saying as far as sampling is concerned, "Provided you are satisfied ..." but presumably you would test the sample, the method, before you adopted it as the quality control method, but it is different from people who are saying, "You have to expect in the economic problems Britain has much rougher justice in dealing with the administration of the social security system," for example, because when somebody loses 50p or £1 a week of their benefit when they are at the very lowest level of subsistence it is not a minor matter. It may be minor to the rest of us but it is not minor as far as they are concerned. I had an individual referred to me whose husband had left her and she was seeking social security benefit and she was told by the Tooting office, "I am sorry, we are giving top priority to other particular groups and there is going to be some delay in the payment of benefits." That is the sort of rough justice that is not acceptable because of staff cuts.

941. Mr Jones, you referred, on the question of reviewing the effectiveness, to the possible role of select committees. We do, of course, have a comprehensive set of departmental select committees already. Are you suggesting that as an aspect of the activity of existing committees or a further committee?

(Mr Jones) We are not really the experts on this. The suggestion is that there is a function for this House to fulfil in this area and, of course, it is for Members of the House to decide how best to do it. If the existing panoply of select committees is sufficient that would be the best answer because it would dovetail neatly with the natural interest the committee takes in the policy of their department.

942. You did suggest the idea of effectiveness-review teams and any work that a select committee can do is obviously very much more broadly based if it is properly staffed, and we have the case of the PAC and its relationship with the Exchequer and Audit Department. How would you see the central machinery providing for effectiveness-reviews?

(Mr Jones) Our main suggestion would be that it would be an internal matter for the department, for the Permanent Secretary as the accounting officer to set up his effectiveness teams. They would then advise him and he could then answer to the select committee for the department concerned, but we think it should be an internal management matter in the first instance to satisfy itself about the quality of services being provided. Then, of course, you could question either the Permanent Secretary or the management people in the department concerned about the work they do.

943. Is it appropriate to leave it entirely to departments?

(Mr Graham) No, I am sure it is not. It is not just actual quality of effectiveness but in the current situation, where there is a lot of argument about the use of resources, it does need some outside body to do some checking. Perhaps I can give one example that has been brought home in the Inland Revenue, where taxation of short-term benefits is going to be brought in in 1982-83 and the yield is going to be in tax terms £300 million. I understand that enormous resources, something like 1,000 staff, are being used when, if we take the area of the "black economy", which could be a substantial source of additional tax revenue, only 70 tax officers higher grade have been allocated as additional resources in that

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particular area. So, there has to be some outside body, outside Government, and I think it has to be in the select committee area, to look into that.

Chairman: I think we are clear about our responsibility for the activities of select committees but in terms of the investigative work in support of the work of those select committees, would you be in favour, for example, of the extension of the role of the Exchequer and Audit Department to cover effectiveness-reviews?

Mr English

944. If they were not civil servants, of course?

(Mr Christie) I will not answer that question either, but I do not think, Chairman, we would want to say what the precise machinery should be because there are all sorts of complexities about it. What we want to say is that there would need to be some machinery which was reporting to the select committee, which would be independent of departmental control and which would get on to the ground and examine whether there was effectiveness of delivery of Government services.

945. I think most of us would agree with part of what you have said. We would all, I think, agree that there should be internal reviews inside departments. I do not think anybody would dispute that. What I think many of us, as the Chairman said, would suggest is that in addition there should be some relatively independent review, rather as one of the witnesses mentioned, not necessarily by a select committee because a select committee is only the tip of the iceberg. You cannot actually review the efficiency of a department by a select committee, or, indeed, probably a Permanent Secretary, I do not know, but certainly not a Minister. You have to have some very detailed organisation actually doing it and what three different select committees of the House have suggested is that the Exchequer and Audit Department should stop just looking to see if somebody has been pinching the cash and do this on behalf of Parliament. At the moment, of course, everybody in the Exchequer and Audit Department, except the Comptroller and Auditor General himself, is a civil servant, dismissable in the same way as a civil servant, in this case by the Comptroller and Auditor General. We would wish to make them much more independent, stop them being dismissable by the executive of the day, make them as independent as judges, as the Comptroller himself is, and make them responsible to Parliament, but not immediately dismissable by the political majority of the day or anything like that, and say, "Your job is to assess for us the efficiency of departments and report thereon." Would you object to that?

(Mr Jones) We are talking about effectiveness. I do not think there is a great deal more we can add on that because we have made the point to the Sub-Committee that we think there is a need for examination here. We have put some views forward but primarily it is a matter for this House to determine the way in which it wants to satisfy itself about this matter.

Mr Wainwright

946. Mr Christie, this Sub-Committee is frequently reminded, and accepts, that genuinely to measure effectiveness it is necessary that the responsible authority should establish precise goals which it wants to achieve. Can you assess or would you care to estimate what many of your members feel as to whether they have goals set before them with sufficient precision and are such goals communicated effectively down the line?

(Mr Christie) I think in the broadest sense Departmental staff are clear on their broad goals and objectives. I think what we would say, from our members' experience, is that ——— Well, one can only talk about the Department that one has knowledge of, such as the Department of Social Security where I worked, and I can recall, because I worked in the Department, that our goal was to deal with new claims for benefit within three working days of the benefit claim being received. We know that the aim today has been changed because it is accepted that a poorer service has to be given because of the complement reductions. So I think what our members are saying is that they have clear in their minds as managers their objectives, but they are constantly having to vary those objectives and goals because of the way the Government is seeking to achieve cuts and rather than cutting functions the tendency seems to be to streamline—"streamline" in inverted commas—which in effect means providing very often a poorer service. I think the feedback we are getting from our members is that they are concerned about the quality of public administration being reduced because of a sort of shifting target

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of goal. I am sorry if that is not the sort of area you were aiming at, but one can only answer the question from one's own experience.

947. It is particularly interesting that you mentioned changes of goal. Would you estimate that, generally speaking, when the goal is changed, as in the example you cited about dealing with claims, the new goal and the nature of the change is set out precisely for those who have to operate it, or is it set out in general terms as a relaxed objective, and so on?

(Mr Christie) I would think, from my knowledge of the position, that we seldom have precise goals stated but broad objectives, broad aims; but I would not like to go into too much detail.

(Mr Wright) It may be misleading to think in terms of setting goals. The widest goal set for the Civil Service is to provide an efficient and effective Civil Service, which is so wide as to be meaningless. Nevertheless, there are many tasks in the Civil Service for which it is difficult to set a goal. For example, in the Ministry of Defence, civil servants who work in support of the army—what is the goal they have to achieve: mobilise the army within 12 hours as an effective fighting force? What sort of goals do you set there? It is much easier for executive and standing department to set goals. In production departments goals can be set, but in policy departments and supporting departments where the civil servants have a supporting role, it is exceedingly difficult to set goals that have any meaning.

948. I accept the difficulty, especially in the example of defence that you gave, but this Committee has to search out where difficult goals can be established. What is your opinion about that?

(Mr Wright) What can be established is not so much goals as management by objectives—if the style of management is by objectives—and objectives is another expression for goals. If objectives can be set and they are relevant to the functions, then if the style of management caters for that it is possible then to ensure that those objectives are met.

949. Is it your impression that this setting of goals or objectives is in fact advancing, that more and more of the field is being covered by stated objectives?

(Mr Wright) Yes, it is increasing. The amount of setting of objectives is increasing, but there is still a substantial scope—yes.

Mr English

950. I notice that the Inland Revenue Staff Association is not here, although the Inland Revenue has been mentioned several times. However, to what extent do your unions suggest ways of simplifying the present system? It is no good saying, "We ought to have 10,000 people for this rather than 9,000 people" if "this" could be totally different.

(Mr Jones) We thought you would like to have the smaller team. We are briefed to represent other unions today. Mr Graham is specialising in the interests of the Inland Revenue staff.

951. I am sure it is true, but I am sure it is significant that they are not being represented . . .

(Mr Graham) I could add something specific about that, if you want. We are concerned in the main—and even sometimes with its impact on staffing—to get simplicity of system, and very often we will suggest ways of simplifying things; but the problem has been in a whole range of areas where the tax system is so complex. The problem has very often been the change in direction in Government after Government. That has been an enormous problem in computerisation of the PAYE system, which is not yet agreed in principle with the Inland Revenue Staff Association. Some preliminary work has been done but there is no agreement to the introduction of that system. So often the staff would welcome simplicity of system, but it normally has enormous resource implications, nor normally in terms of staff but in terms of public expenditure. This is the problem we find in dealing with questions of poverty in the DHSS in the employment area.

952. It is a bipartisan area. Successive governments have been in favour of tax reliefs that complicate the system. Eton and public schools like that do not pay rates and are not rated; agricultural land is not rated; and so all ratepayers pay more rates because of all these various concessions, and there are many other tax reliefs. Have you ever suggested how the system could be simplified if everyone simply paid on the same basis?

(Mr Graham) This is the problem. For example the rating system we have is one of the most cost-effective methods of collecting taxes.

953. If everyone paid it would be—yes.

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(Mr Graham) But the pressure is for change to a more complex system which will involve greater staff rather than keeping it to the relatively small number of staff that are employed at the moment.

954. That would be true if everyone paid. If you had to rerate agriculture and public schools of course you would need more people on the staff, but you might also be raising more money. I do not quite see the relevance of your answer to my question.

(Mr Graham) We are in favour of simplicity. The problems have been in securing it. I am sure for example in the DHSS area, where we had ———

955. Do not stray into another one. Let us stick to the one we are talking about. We were told you were responsible for the Inland Revenue answers here.

(Mr Graham) So far as the Inland Revenue is concerned, the pressure there is to have a more complex system.

956. Pressure from whom?

(Mr Graham) I just heard the Prime Minister herself make some question yesterday about changes in the rating system, which is going to involve a large number of staff, a larger number of civil servants. Changes in fact in the base rates will not dramatically increase the number of staff in the Inland Revenue.

957. I was asking about increases in the amount of revenue and simplifying the system. If everybody paid rates on the same basis, as they used to do before 1928, then the taxpayers as a whole surely would benefit instead of some of them being effectively subsidised by others. It would mean a slight increase in staff on the valuation side in the Inland Revenue because you would have to value land such as agricultural land which is not now valued. I think you have misunderstood the point of my question.

(Mr Graham) We have no objection. That is a matter of political judgment. We have made suggestions for simplification— and under a Minister in the last Labour Government.

958. Have you done so publicly?

(Mr Graham) Yes, publicly. We said so at the end of a dispute where there was enormous discontent about the pressure of work on staff having to apply a complex system of social security and complex regulations which the staff hardly ever understood. Barbara Castle was the Minister at the time and in fact under a junior Minister a working party was set up which involved a lot of union representatives, not full-time officials like myself but local officers, representatives at managerial and lower levels, and they came up with a number of changes. The problem they came up against to produce real simplification required policy changes. The policy changes very often involved a considerable increase in public cuts, which Government of the day could not face up to.

Mr Shepherd

959. Would the Council accept that one possible conclusion of an effectiveness-review might be that a programme or activity was largely useless and might or perhaps should be abandoned altogether, or certainly radically transformed?

(Mr Jones) Yes. It is quite clear from the evidence that we certainly do not make a great fuss if somebody discovers a function is not required or can be reduced in some way, and we think that is the right and more justifiable way of approaching reducing the size of the Civil Service, so that if the review led to that conclusion there would certainly be no reason for us to object to it.

960. You would expect the review vigorously to pursue that, would you?

(Mr Jones) I would hope it would be reasonably open-minded when it pursued the quality of service to the public. If it found the public did not want that service or not in the way in which it was being given, then in an open-minded way, hopefully, it would reduce it from the point of view of those who want to save public expenditure. Conversely, if it found that the service was not being given in the right way and the public was dissatisfied, one would hope that, being an even-handed kind of system, it would then put more resources into that particular service.

961. Or that it was not achieving the objective for which it was set up?

(Mr Christie) Of course, it depends on how one arrives at that. One of our complaints about what is happening at the moment is that because of alleged efficiency improvements or streamlining the quality of service can be eroded and eroded to the state where there is so much criticism of the service for people to come to the conclusion that the service should not continue to be provided. What we are concerned about is

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that if there were an effectiveness-review and there were clear conclusions that a service was no longer required, we would accept that that would be the position. What we would be concerned about is that the conclusion as to whether a service was required or not should not be judged on the fact that a poor-quality service was being provided if it had reached that stage because it had been cut and cut and cut and, therefore, had reached the stage that it could be cut out completely.

962. Have you your role in identifying such services where they do not seem to be achieving what they were originally set up to do—and that might be for historic reasons rather than any political activity at that time—that would inhibit a system or service we are continuing to supply because that is the way it has always been done, for instance, but when we come to examine it it is not achieving what its original objectives were?

(Mr Christie) If I can give an example from the Department of Health and Social Security, part of the service that used to be provided by that department was a visiting service to ensure that benefits were being paid properly, that people were getting the full entitlement and the uptake of benefit was right. Because of pressures of cutting back on the service so that it was provided so irregularly, the conclusion was eventually arrived at that it was not worth continuing the service at that level. However, what was not properly assessed was whether an effective visiting service could perform an important social function in establishing proper entitlement to benefit, and establishing proper welfare needs. It is that sort of erosion, when the service is eroded to such an extent that you are providing such an inadequate service, that it might lead you to the conclusion that you should do away with it. Whereas, in fact, when you come back to the origins I would argue, in the case I quoted, that there is a function to perform, and if the services were of proper quality it would have meaning.

Chairman

963. May I refer you to item 3 of your evidence, where you comment on MINIS in 3.1. You list the various control mechanisms that are in operation and you say the MINIS have been superimposed on these, which is, of course, true, but looking at them, none of them seems to me actually to carry out the function of MINIS, which is to inform the Minister what officials have been doing in the recent past, what they are doing and how what they have done measured up against what they said they were doing some time ago?

(Mr Wright) We think two or three of them do, in fact. As I think we say, for instance, the management accounting system is devised to check whether the department is getting value for money and we do not think MINIS does demonstrate whether the department is getting value for money. There are systems already in departments which are designed to do that. Whether they do it perfectly or imperfectly is a moot question.

964. But they do not raise the question whether, in fact, it is a job that should be done at all, do they, within the policy framework of the MINIS?

(Mr Wright) In some departments they are standing pieces of machinery. I recognise that the benefit of MINIS is that it is a standing feature that reports as a matter of practice, whereas management services have to commission specific studies.

965. So is it not rather a good idea to have a standard of reporting?

(Mr Wright) Can we be quite clear we are not opposed to the concept of MINIS. What causes us problems is the way in which MINIS has thus far been applied. It has lost a lot of credibility with members because it has been used in relation to producing cuts in staff. They have argued that those cuts in staff are not always commensurate with cuts in the service.

966. When he was giving evidence Mr Heseltine made the point that it could be used equally at a time of increasing expenditure to make sure that expenditure was kept within limits?

(Mr Wright) The big question is, is he going to be there when there is increasing expenditure.

967. Indeed, he may well not be. That is not the point. A system like this does seem to us to be a new departure which adds significantly to the reporting control systems that already exist?

(Mr Wright) Only provided it is harnessed to the existing system. One of the deficiencies of MINIS as practised in DoE is that it is practised independently from the present systems. The Secretary of State did recognise when he gave evidence to you that they had to harness this into a recog-

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nised system. I think he referred to Joubert exercise that is going on. If MINIS is harnessed with existing systems, such as the vote accounting audit you mentioned earlier, then, yes, it can be effective, but MINIS on its own is not going to be wholly effective. There are big question marks about the extent to which MINIS can be applied outside the areas in which it is presently applied. For instance, even in DoE it is only applied to the Property Services Agency.

968. Looking at MINIS documents, they seem to be well integrated with the other control mechanisms. Have you looked at them yourself?
(Mr Wright) Yes.

969. Do you not feel the constant references to the various control mechanisms suggest a degree of integration?
(Mr Wright) Yes, but the point I am making is it is not harnessed in timescale. If one takes the timescale for the provision of estimates, if there were to be a MINIS examination in sufficient time to determine what will be the objectives of the department as a result of MINIS reviews and this could be converted into the information that is put in the estimates, then that MINIS report has been harnessed to the system as is.

970. I think that is a good point. Indeed, it is evident that the three versions of MINIS so far have each carried out a different function as the system has evolved, and one would certainly look for a close relationship with the estimates procedure. I am sure that is right. But the positive feature of it, which I would have thought would be attractive to you, is that it does concentrate attention on what is actually achieved by the Civil Service and not just what it costs to achieve it?
(Mr Wright) Yes, we are saying that can be done in terms of the audit concept we were talking about earlier, that if we had some form of audit which looked more thoroughly at what the Civil Service had achieved and whether what it had achieved was cost-effective, we think that would be a preferable way of doing it rather than just leaving it to the concept of MINIS as it is being practised in DoE.
(Mr Jones) In general we would think--and this reflects the views of other witnesses who have been asked about MINIS--that there may be a better case for it in the headquarter type of department where there is quite possibly a clear ministerial involvement in the allocation of resources between different policy options, but it may well be much less relevant in operational areas and it is very significant that, as Mr Wright says, in the operational area of DoE, the PSA, MINIS has not, in fact, been put into operation.

971. Clearly in the large clerical organisations, the reporting procedures are highly developed and very thorough and based on a different principle. I entirely take the point. But, if you like, in another area, that of Government laboratories, the various Boards that exist for the planning and control of research activity set out in fairly clear form what the missions are of Government laboratories in a way which did not exist perhaps ten or 15 years ago. One could regard that as a precursor if the Boards' review activities of moneys applied to departmental records.
(Mr Wright) I am not certain that is absolutely correct. As I recollect, at the Ministry of Technology, the Ministry's research and development establishments were all given Boards with quite specific terms of reference and targets of achievement, but whether they achieved those things is an open question. But the concept of Boards' targets and objectives is certainly not new in the research and development field.

972. As you say, the question of whether they achieve them is a very important part of the overall system. May we raise the question of new technology, which you mention in paragraph 8? Can you tell us what your objectives are in your attempt to achieve a new technology agreement?
(Mr Jones) We did in fact in November 1979 suggest a draft of a framework agreement to the then Civil Service Department, which would provide for a national agreement covering all new technology in the non-industrial Civil Service. The objectives of that were first of all to secure full consultation before projects were embarked on and not just consultation in the minimal sense that is accepted now, but moving into new areas like consultation on cost-benefit appraisal and so on. We were also concerned with job losses within the Civil Service and also with the effects outside the Civil Service, because we feel that the Government cannot just sit inside its own compartment but it must have regard to the social and economic effects of changes out-

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side. We were also very concerned to secure full protection for any staff who are displaced in terms of relocation and retraining—which we expect is the easiest possible way of securing staff cooperation—if their jobs were to be directly affected. We were concerned again with health and safety aspects, and that clearly is an area which obviously in a new field requires attention. Finally and primarily, we were concerned to try and find some way within the parameters of our pay system at that time, which was based upon comparability with outside, where there is no easy way of importing elements to do with productivity, some way of sharing benefits that may accrue and the savings that may accrue between the employer and staff, which is a generally accepted concomitant of introducing new technology. In our discussions with the then Civil Service Department we found, I must say, a rather unimaginative and unconstructive approach, and as yet we have not been able to do more than make some limited progress on the aspects of prior consultation and staff relocation and health and safety. But the real full issue of job losses has yet to be tackled, and the other very important aspect, the question of benefits, has now been put into cold storage (a) by the ending of our pay agreement, and (b) by the remission of the whole question to the Megaw inquiry.

973. What are the particular obstacles in the way of agreement?

(Mr Jones) The main obstacles are securing reasonable assurances on the aspect of job losses and the relocation of staff and of securing some indication, subject to whatever the Megaw inquiry says, about the sharing of benefits between employers and staff.

974. What do you mean by "sharing benefits"?

(Mr Graham) The absence of any agreement on benefits is a major handicap. When we had the Pay Research system we used to get the benefit in the comparisons we did in outside industry of any productivity schemes they had, and we had no separate productivity bargaining ourselves. And so we accepted by having that system that we should cooperate in change, and a large amount of computerisation was introduced into the Civil Service on that basis. It was only when that system was withdrawn and you had substantial staff cuts and you had some Ministers who wanted to make the Civil Service a shop window for information technology, that we said we needed national agreement which ensures that we are going to get some share of the benefits. We would like to express that, as most trades unions would these days, in a shorter working week rather than in increased pay or increased annual leave, and in some way that is seen to deal with the problem of job losses.

Mr English

975. Do you have an agreement about anyone who loses their job as a result of this?

(Mr Jones) No.

976. This is somewhat unusual in that many multinational companies do have such an agreement. The other problem is this: when you talk about sharing the gains of productivity, are you talking about sharing them only with the people concerned or more generally?

(Mr Jones) We were concerned to have a general sharing of benefits under the system then applying, because "comparability" subsumed "productivity". We thought it was best to give all civil servants the benefits and not just those on whom the particular project homed. That would ensure a much greater acceptance of new technology, which will spread to affect all civil servants in due course, we expect.

(Mr Graham) We believe the Government are losing a valuable opportunity in this area—things like Viewdata, for example, where some preliminary work has been done—and in other areas—the Cabinet Office is doing a trial on some information technology, for example. If in fact we cannot get good will between both sides by a positive national agreement, which could be something of a lesson to the country and not just to the Civil Service, I think a valuable opportunity will be lost, certainly with some fairly major new technical projects round the corner.

977. By the sound of it some of the multinationals could give a lesson to the Civil Service management.

(Mr Christie) One of the key problems we have talked about is the question of jobs. The problem we face is that if new technology is being introduced by Government as a means simply of cutting jobs and not improving services, then of course it is not a very good deal for those who are in the industry. We are concerned that a new technology provides great scope for improv-

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ing the quality of service we can give. We would be anxious in any national new technology agreement that there would be a provision that one of the items on the agenda, and really on the agenda, would be to use technology to get rid of drudgery and routine work and redeploy resources, not to sack ourselves but into providing new services. That is how we envisage new technology, and we believe there is vast scope for improving effectiveness and efficiency in the Civil Service through office automation, provided it is entered into on the basis of using technology for the benefit of improving services and not merely as a means of cutting staff.

Mr Shepherd

978. How do you reconcile declining resources with your objective then, which is improvement of services, and no saving being effected for the public purse or the general public?

(Mr Jones) Could I suggest that, in fact, new technology creates resources, which is one way of stopping the decline of resources, that you will create new resources which can be redeployed in the way you suggested.

979. That may be a medium-term or long-term achievement of the new technology, but as I understood from the line you were taking, you see as a function of the use of the new technology the opportunity to redeploy existing resources. Did I misunderstand you?

(Mr Christie) What we are saying is that the real option when it comes to dealing with new technology—let us take the Inland Revenue system of taxation, PAYE—should be not simply to make cuts of 8,000 or 10,000 or whatever it is.

(Mr Jones) 6,000

(Mr Christie) I believe that the Inland Revenue should be prepared to use these resources released by new technology to lower the error rate in PAYE assessments or provide other services. That should be a real option in the negotiations—a possible outcome. What we are finding is an unwillingness on the part of Government to see that as properly on the agenda. They see the agenda as simply using technology as a means of achieving the targets on manpower cuts in the Civil Service. In that situation there are not great incentives.

Chairman

980. You are asking for it as a real option? You are not asking for it as a mandatory requirement?

(Mr Graham) No, I think we are asking for an opportunity to play a constructive part in the argument when it comes to discussing the financial viability of the cuts. If I can give you one example: I went on a consultation exercise with our members about a scheme called "Capital" which was going to be introduced in the Department of Employment in London, which was a highly-sophisticated job-matching scheme, one of the most advanced computer job-matching schemes around. We had a highly successful experiment and the Manpower Services Commission wanted to extend it to the rest of London. The problem I ran up against when I went to consult my members about it was that they said, "What we resent is that we know that there is an enormous problem, for example, in dealing with the long-term unemployed and dealing with the disabled, and we are not being given an opportunity from some of the staff resources thrown up to direct more attention to this area." People had a high degree of commitment to the quality of the public service they were providing and this irritated and upset them. In the end, of course, the Treasury stuck the boot in and would not provide the £10 million that was required to extend it. Could I make one final point, which is that we do have one agreement in this area. The CPSA has reached an agreement about the introduction of word processors in the Civil Service, standard only word processors for the typing staff.

Mr Wainwright

981. In Chapter 2, paragraph 5, you make the general statement that sometimes after agreement has been reached on the form which a change will take, failure to carry through the proposals for lack of resources of a change of direction sometimes frustrates a lot of the benefit of the change. Can you particularise on that?

(Mr Wright) If I can illustrate that: for instance, in the Ministry of Defence I think the Defence Select Committee has produced a wide variety of reports over the years calling for certain changes. Those have been the subject of discussions with the Trade Union Side, agreements have been reached on what should be done in the setting of the Civil Service, only then to find they are overthrown because there may be lack of resources for them to do the necessary investigatory work prior to instigating the change suggested by the Select Committee or because the services, for example, have

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decided they do not like what the Select Committee suggested. So, we find ourselves frustrated on a number of counts.

982. But am I right in thinking that is rather different from the impression given in paragraph 5, that the change is implemented but it is then somewhat aborted, the whole thing happens but the full benefits are not reaped because there is a shortage of resources or have I misunderstood?

(Mr Wright) Yes, I think there is a slight misunderstanding, but there are cases like that where that does happen, when a change is instigated and then, for instance at the present time because of the cuts, we find that the changes which have to be implemented as a result of changes in Government policy will not be able to be fully applied because we have not got the resources in terms of staff to do it.

983. Broadly the same frustration can arise on occasion because of Civil Service reluctance on the ground, at the coal face, to employ new technology involved?

(Mr Wright) Yes, it can.

Mr Shepherd

984. Can I take that a bit further? You said that you had finally reached agreement on word processors, which is a fairly small advance in office technology, by and large. Could it not be said that perhaps the attitude of the unions over that, for example, has hindered efficiency and the search for effectiveness within the Civil Service?

(Mr Graham) I do not think so. Take the word processors. When we made that agreement with management we had some major experiments throughout the Civil Service, one in the Department of Education and Science, where they were anxious not just to say that word processors are a good thing, because they were fairly generally accepted, but where they could be best used, and we came up with some extremely useful information and guidance was produced to give to management in departments on the circumstances in which they could be best used, because we do find in the technology area there is a vast difference between the claims of manufacturers and the actual achievement when they are introduced in a concrete office situation, and, therefore, we do like to do some testing. We very quickly negotiated an agreement which built in a number of safeguards and that has been introduced on a fair old scale.

(Mr Christie) It has to be said in that regard that the record of the Civil Service in adapting to change has been very good. Part of the reason why it has been very good is because the comparability system provided a feeling within the Civil Service that we did not need to bargain away the new procedures. It was part of the comparability system that we cooperated because we had in our pay reflected what others were being paid for that cooperation. When management, that is, the Government, withdrew these arrangements, then, of course, they did not just withdraw the comparability system, they put the whole question of bargaining over change in a new dimension in the Civil Service, so when we talk about, "Has the union's attitude been an inhibiting factor?", in that sense———

985. It is one side of the coin. I understand.

(Mr Christie) ———I would suggest we put the proposal for an agreement on new technology; we have cooperated over the years on new technology, but it has been the Government who have created the environment whereby that cooperation is in question by withdrawing the comparability system and there is a price for Government to pay in taking that sort of action. Certainly it will make it more difficult to see that the change is achieved in the Civil Service which we want to see achieved.

986. I understand only too well the point you were making from your earlier remarks, but I want to come back, if I may, to the word processor, because you have obviously been involved in it in some measure. How many word processors are there in the DHSS after the study?

(Mr Graham) I have no idea, but that is something in which there is a fair amount of freedom. All we can do is introduce a national agreement in this particular area. I do not think there will be any unwillingness by people to adopt them. It will be purely for management decision as to whether they think they have the right mix of work that would justify spending that amount of money. Can I say one of the reasons why our members would not be reluctant is because, of course, they want to keep marketable skills and they want to have advanced equipment provided by cooperating in this area. They can see that their interests are not being severely damaged.

987. How long did the experiment last and how long did it take to negotiate the

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agreement and get the safeguards you have talked about?

(Mr Graham) I think the experiment lasted a year to 18 months and the actual negotiation of the agreement took about two or three months.

Chairman

988. To conclude the discussion on agreements, you are not negotiating with us but we have been anxious to explore the nature of the difficulties with technology agreements. You did specifically mention a reduction in the working week and that is a part of the common claim in all collective bargaining generally, but are you including a general claim for the reduction of the working week as a part of the technology agreement?

(Mr Jones) At the moment that is *sub judice* because of the Megaw inquiry, which will obviously want to look at the relationship between direct pay and pay-based benefits, which, of course, the length of the working week is, but we did in our original proposal suggest there should be a tangible reduction in the working week in exchange for general cooperation. It looks very much as if we will have to await the outcome of Megaw to see the outcome of that.

Mr English

989. I want to take you through a couple of sentences in your conclusions at the top of page 2. You say: "Concepts of efficiency drawn from industry and commerce are inappropriate for the Civil Service." Do you mean all of them?

(Mr Christie) No, this is intended to be a summary of what we say in more detail later. What we are saying is that the "Marks and Sparks" experience may be useful———

990. I am just asking for an answer to my question. Do you mean all of them?

(Mr Christie) No, we do not mean all of them.

991. Do you therefore mean by implication that concepts drawn from other Civil Services are appropriate?

(Mr Jones) They may very well be. We certainly would have no institutional objection to them.

992. Would you have any objection to the French "*primes*" in relation to pay? What that is in effect is that the Heads of Section in a Department are given sums of money to allocate to their subordinates, in addition of course to their basic pay.

(Mr Jones) We have dealt with this in some detail in the evidence we have given you, which is in fact an extract from the evidence to Megaw, which we have not yet put in. We have not finalised our evidence to Megaw, but our views are expressed in that. We would be opposed to anything of that kind as inimical to the prevailing ethos of the Civil Service.

993. I do not disagree with that, frankly. Do you agree with the Amercian concept, which is quite different, which is that it should be possible with slightly longer scales to accelerate the promotion of people within their scales?

(Mr Jones) That is a variation of the same view, is it not? We have been used in the British Civil Service to having fixed pay scales. Everyone knows what their pay position is. The usual form of recompense for good service is promotion, and we adhere very firmly to that.

994. It is not the usual one but the minority one.

(Mr Jones) It is the way most people expect to be rewarded, that is, to gain in promotion. That fits in nicely with the ethos of the Civil Service and the way the public expects government work to be carried out.

995. Why should we not have the rate for the job then?

(Mr Jones) The rate for the job is the maximum of the scale negotiated, we would claim.

996. But that is not for the generality. Why should people be paid differently according to their location when they are doing the same job?

(Mr Jones) That is a question we will address to the Megaw inquiry. We are against the breaking up of the Civil Service pay bargaining system for administrative reasons.

997. It is already broken up. You have three scales: inner London, outer London and the rest; and "the rest" are consigned to outer darkness because they are not in London.

(Mr Christie) You have a national rating and an enhancement for people who live in inner or outer London. The rate for the job is the national rate. The enhancement is paid because———

998. Why?

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(Mr Christie) There have been plenty of enquiries into why London weighting is paid—the national survey of prices and incomes is the last—and they have articulated why London weighting allowances should be paid, and we would rest on that. We do not accept there is one rate for the job in each of the areas. There is the national rate, and then there is an enhancement to compensate for costs of travel, housing and other factors which are additional in London.

999. At a time when London housing costs are declining faster than in the rest of the country, this is a bit much! It is almost indefensible to say that because people live in the capital they should be paid more, and that is actually the present system for most of the Civil Service.

(Mr Graham) There are large numbers of employers in London and certainly in the public sector who agree there should be a cost compensatory factor for London.

1000. Which of them started it and which employers followed the others? When was this started? Do you know what date it started?

(Mr Graham) I know you are about to tell me—but, no, I do not.

1001. Would you dispute my theory that the other employers have generally followed the Crown?

(Mr Graham) Not in every respect. Presumably they do not start from a point of history and then maintain it without checking it from time to time. We have had a pay board report which thoroughly examined this and the statistical basis as to whether costs, particularly housing and transport costs, were higher in London than elsewhere. We have indices which measure the movement of these costs in London relative to the rest of the country.

1002. So you think people in London should be paid more than people in the rest of the provinces?

(Mr Graham) Well, if Ken Livingstone hangs around much longer we would be in trouble!

1003. I think Ken Livingstone would agree with you and that is the whole trouble.

(Mr Wright) If you take away the London allowance you will make a dramatic impact on the efficiency and effectiveness of the Civil Service in the reverse direction.

Mr Eggar

1004. How good do you think communications are between union representatives and management—in other words, not between your top level but run of the mill people?

(Mr Jones) I think the Whitley system as it has developed has provided a very good system of communications, probably better than the Civil Service deserves. The idea of communicating and consulting with people is built into the Civil Service managers from their very first days. We think their degree of consultation is not as good as it used to be, but if the system is used properly, it provides a means of communications at all crucial levels between management and trade unions, and is one of the best and most sophisticated forms of industrial relations machinery you can have. But it needs a perennial reminder to management that the machinery is there, and to encourage them to use it to the maximum degree possible.

1005. What facilities are in fact available to unions to have time off for staff attending to union duties, and so on?

(Mr Jones) We have an agreement which means that anyone who is an accredited representative either of the Union Side or of a Whitley Council committee can get the appropriate allocation of time from the management to carry out those duties.

1006. Have you made any estimate of how many effectively full-time people you have, or the union has employed on what you might call union work in relation to the ratio of civil servants?

(Mr Jones) I would say on union work probably nil. Most of the time is allowed for industrial relations work of a joint nature. This is the thrust of the agreement.

1007. That seems to me to be rather a semantic difference. If you prefer to use the word "staff", it would presumably be Staff Side work.

(Mr Jones) No, the legislation makes a clear distinction between industrial relations work and union work.

1008. Well, those people would presumably be involved in representing the employees rather than management.

(Mr Jones) Management needs to get the views of the employees. It is a two-way process.

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1009. I am asking how many people are actually employed on Staff Side work per number of civil servants?

(Mr Jones) It is impossible to say, because in a very large Department—and Mr Wright was only recently the Union Side chairman in the largest Department, the Ministry of Defence—in that area, in relation to 140,000 or so staff, probably not more than five or six.

(Mr Wright) That is right, yes.

(Mr Jones) Five or six in relation to 140,000 civilian staff.

1010. There has been a report very recently, has there not, which I believe has been fairly widely circulated, which gives some idea of the cost in one particular Department of the 1975 agreement?

(Mr Jones) I have not seen that. I know nothing of that.

1011. You know nothing about it at all?

(Mr Jones) We are in fact in process of renegotiating that agreement. It was due for review after four years of operation. We have in fact completed that and a revised agreement will possibly go into operation very shortly.

1012. That is the 1975 agreement which you are talking about, is it?

(Mr Jones) It is 1974 actually.

1013. So you really have no idea at all how much time off your people are given?

(Mr Jones) We have, yes. We know exactly what the arrangements are and what the use of them is, and we would say it is minimal and the example I quoted is probably typical—the Ministry of Defence.

1014. So would you not, therefore, agree with the report which indicated that, I believe, around 20 staff are employed on full-time union work within departments which total something around 16,000 employees, that some 12 staff are involved more than 50 per cent of their time and that there are an additional very large number of people who take less than 50 per cent of their time, that, in fact, the department has no way of recording exactly how many hours off are taken by staff who take less than 50 per cent of their time on union works? Would you not agree with that?

(Mr Jones) I think the short answer is we just do not know but the revised agreement will perhaps clarify the questions you are asking. I would suggest that you ask the Treasury, which has now taken over this function, to report on that.

1015. It amazes me that you have negotiated agreements which you are now in the process of renegotiating and you have no idea how many people are involved on the Staff Side and how much that costs the country.

(Mr Christie) What we have negotiated is an agreement for the effective representation of staff with management. We are satisfied that that agreement is operating in an effective way by providing good industrial relations in the Civil Service

1016. You are happy that it provides good industrial relations?

(Mr Chrisite) Yes. We have had no occasion to count heads and say that equals so much. We would certainly look at what they have said and comment about whether we thought it was accurate, but if we are talking about costs, then the other side of the coin is how much does it cost the country for the bad industrial relations that applied in the Civil Service during the recent pay dispute when proper industrial relations broke down. We would argue that the costs involved were very many times greater than the cost involved in providing the proper servicing of the collective bargaining system in the Civil Service to provide harmony and effectiveness in the Civil Service involvement through the facilities agreement.

1017. You would agree, would you not, that more often than not the Civil Service Staff Side is compared with the banks as, generally speaking, employing the same sort of people doing the same sort of function?

(Mr Christie) But paid less.

1018. You are paid less than the banks are paid?

(Mr Christie) Yes.

1019. I think I am right in saying that the bank ratio is roughly one person employed full-time per 8,000 clearing bank employees. I am told that the ratio in the Civil Service is one person per 1,000 employees.

(Mr Graham) There are different levels of trade union organisation. We do not know these things. We have not seen the report, so it is difficult for us to give the sort of quantitative figures you want, but I do not think you can compare the banks and ourselves. We are about 90 per cent organised whereas the banks—it varies very much from bank to bank what the organisation is. In some banks at least there is not

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the same sort of staff association-type arrangement, so I do not think it is possible for us to make that sort of comparison. I could go to other areas, such as nationalised industries and the rest. I do not think we have massive provision for representing our members. We have, for example, a department in the Ministry of Defence where we have 1,000 members in 16 different buildings who have to be represented with all their problems, and the branch official there has less than a 50 per cent facility to look after those 1,000 people. That, to me, is not a generous arrangement as provided for under the ACAS code of practice.

1020. Let us say a report was produced and it did give some indication of the cost of this arrangement and there was a general feeling that the cost was too high, what would your attitude be?

(Mr Graham) It depends whose judgment it would be that the costs were too high. I think at the moment any attempt to make savings in this area when morale and industrial relations in the Civil Service are under such strain would be very damaging to the public interest.

1021. But this morale and so on has happened despite the fact that you have had this very high ratio. You blame management. All right, but there are always two sides to any story.

(Mr Graham) Can I quote a clause from the 1974 agreement, which says that it should be the responsibility of both sides to keep to agreements. If, in fact, the Government kept to its side of the keeping to agreements you would not have had the cost that has been estimated, at least in the Inland Revenue, of £500 million and probably substantially higher, of the 21-week dispute. That is what good industrial relations are about and that is what the 1974 facility agreement was about.

1022. Within limits. There has to be a cost for anything and if———

(Mr Graham) It does not cost £500 million.

1023. If, in fact, you are getting better facilities than other unions in the private sector are getting, that is not unreasonable from the country's point of view?

(Mr Graham) That is an assumption I do not accept.

1024. "If you are", I said.

(Mr Graham) We would have to do a very exhaustive study of nationalised industries, public sector, banks and a whole range of areas. From talking to my collegues in other trade unions, I have no reason to believe we are privileged in this area and I think you have been misinformed on the subject.

(Mr Jones) It is a valuable and priceless thing for management to have regular contact with the people who can and do effectively represent the staff. Therefore, the management obviously recognises this as a reasonable part of overall running costs, and that is why in the past the agreements have been reached and approved by Ministers, because of the need to provide for that dialogue within the Civil Service.

Mr Shepherd

1025. Could I put one question arising out of the statement you make in your paper that: "Privatisation and hiving-off is largely a spurious source of efficiency." That is one of the conclusions in your paper, but, in fact, does not privatisation sometimes provide you with a benchmark by which you judge whether your service or provision of service is done as cost-effectively as possible? Let me take the non-contentious example, if one can find one, of dustbins being cleared in Southend. There is a claim that there is a benefit to the taxpayer or ratepayer, where, in fact, if it is true, they square the circle and the terms and conditions of the employees are better than before and there is a saving to the public to be made and the dustbins—and I am subject to correction—are emptied as efficiently as before. In a sense is that not the sort of insight we are looking at to try and get a comparative evaluation of service provision?

(Mr Wright) You are not only looking at it. The difficulty is the Government is doing it without first having looked at it. This is the burden of our complaint. It is rather similar to cutting your leg to know if it bleeds. You can make that assumption. The Government can make certain assumptions on privatising Civil Service work, but assumptions are not good enough in Government and the Civil Service, so one tries to make some measured estimates of relative costs inside and outside. For instance, the Property Services Agency conducted an experiment some time ago about the relative design costs in-house done by the Property Services Agency and the cost of similar projects done outside by private consultants, and they found it was cheaper to do it in-house, but because the concept of the Civil

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Service undertaking that sort of work is objectionable in dogmatic terms to the present Secretary of State, this work is going out, irrespective. That is why we make the complaint we do about privatisation because it s not being done on a cost-effective basis.

1026. I must say I understood certainly from discussions we have had ranging well over a year about the future of the Civil Service Department, for instance, that the purpose of privatisation was to effect savings and was not just for doctrinaire reasons, so I will stand corrected if what you say is true. I understood the purpose was to effect genuine savings and not just to reduce numbers in management in the public sector?

(Mr Wright) That is where there is a fundamental difference between us. The stated intention, I can assure you, is quite different from practice because there are cases when work can still be done more cheaply and more effectively within the Civil Service but it is still being privatised or even "quango-ised" now.

(Mr Graham) What about the heavy goods testing—that is a good example—where in fact the transport industry is absolutely united that it is not a sensible thing to privatise this area, where a fairly cheap, efficient, effective service acceptable to the industry, a private industry, is carried out by the Civil Service. I have chaired a press conference with representatives of the industry as well as the unions about this, and it was quite clear that it was purely a piece of dogma, to reduce the size of the Civil Service rather than to effect genuine savings.

1027. Central to the concept of efficiency and affectiveness is the question of its morale and how low it is in fact. Part of our study has been concerned with the strength of the centre, its relationship with the individual Departments, etcetera. I have seen published accounts of your responses to the dismantling of the CSD, but could it not be that this is a change that may be on the side of effectiveness and efficiency and therefore on the side of the morale of your members?

(Mr Jones) I think our initial response reported in the press was more on the manner of the going of the CSD rather than on the actual decision. We are considering whether to make further representations about it at the moment. I would like to say quite clearly that we never regarded the CSD as a friend of the trade unions, and if that impression has been given, we want to scotch it. We do see certain fundamental misconceptions in what has happened because there is now quite a tragic separation of pay and personnel management between the two agencies, and equally tragically and counterproductive a separation of manpower on the one hand and efficiency on the other. I think we are going to see conflicts between the two Departments which are responsible for these two areas, and possibly between the two Heads of the Service. There will be a need to reconcile these various things in one area and, to use the phrase this Committee itself coined, to have a Department with logical cohesion. That is what has been lost in the changes recently introduced, I think.

Mr English

1028. Are you, as reprensentatives of the Council of Civil Service Unions, seriously saying that you believe that a typist in Oldham or for that matter in Glasgow or Nottingham should pay more in taxes to ensure that a typist in London, doing exactly the same job, gets higher pay?

(Mr Jones) Yes.

Mr Wainwright

1029. On this vexed question of controlling effectiveness, which is referred to in your Chapter 10, in paragraph 10.2 you say that dramatic improvements in effectiveness control could be made, but the problem is lack of will and attention to the problem. Could you expand a little on that statement?

(Mr Jones) Could I draw attention to the open letter to the Chairman of the Sub-Committee in this week's "New Statesman", where I think a Member of the House has put it very well: "We know remarkably little from government sources about the effectiveness of the programme for the inner cities, industrial assistance, jobs for the young, health care, income support for the low paid and so on". That expresses it well. I do not know what the status of an open letter through the "New Statesman" is but I hope it will be taken as evidence to this Sub-Committee.

Chairman

1030. We all read everything, Mr Jones. I think that concludes our questions that we wanted to ask you.

(Mr Jones) We will be submitting an addition to our evidence which will be given

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to you very shortly[1], giving the examples we promised of various areas, and if you want us to we will also give you our evidence to the Megaw inquiry which will be ready very shortly.

Chairman: We are conscious of the pressures under which you have been to produce your evidence so quickly, and we look forward to getting the remainder of it. Thank you.

[1]See Annex.

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ANNEX

EVIDENCE FROM THE COUNCIL OF CIVIL SERVICE UNIONS—PART 2

The first part of the Council's evidence set out our main arguments.[1] In Part 2 we have drawn together more examples from across the Service to illustrate our case.

The examples are grouped under the most appropriate chapter heading from Part 1, and the chapter summary from Part 1 is reproduced for convenience.

The additional examples are as follows:

CHAPTER 5 REDUCED EFFICIENCY, FORGOTTEN EQUITY

Customs & Excise

5.1 VAT Control
5.2 Spirit Warehouse Controls
5.3 Distilleries and associated controls
5.4 Summary

DOE Central

5.5 MINIS
5.6 Cuts in Service
5.7 Messenger Service
5.8 Regional Organisation

Inland Revenue

5.9 The Black Economy
5.10 Morale
5.11 "Weeding" and income checks
5.12 Summary

CHAPTER 6 STAFF MORALE

6.1 Ministry of Defence
6.2 Property Services Agency

CHAPTER 7 PRIVATISATION

7.1 DOE Central
7.2 PSA
7.3 Contract Cleaning : MSC Moorfoot
7.4 HGV Testing Stations

CHAPTER 9 QUALITY AND EFFECTIVENESS

Department of Employment

9.1 Availability for work test
9.2 Quarterly signing
9.3 ACAS—work increases due to the recession
9.4 The wages inspectorate
9.5 Staffing in UBOs

Home Office

9.6 Nationality Division

[1]See p 337.

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5. REDUCED EFFICIENCY, FORGOTTEN EQUITY

Apparent cost and manpower savings often lead to reduced controls, lost revenue and lower efficiency, and call into question the ability of Government to uphold law and pursue equity of treatment.

Customs & Excise

In Part 1 of our evidence, the example of cuts in customs control was put forward as an indication of how arbitrary manpower targets aimed at a "slim efficient Civil Service" put large sums of Government revenue at risk. The following are also clear illustrations of how manpower cuts can work against the objective of saving public money.

5.1 VAT CONTROL

Approximately 385 posts in VAT control have been cut since May 1979. This has been done against a background of a growing black economy, an increased VAT rate, and steadily increasing success by VAT Control officers in locating VAT underpayment.

In 1978–79, the average under-declaration discovered in each control visit was £154.80. By 1980–81, the average was £426.40. This dramatic increase cannot be explained only in terms of the increase in prices, or of the hike in VAT rates. It is also due to more effective working practices and, undoubtedly, to a larger amount of attempted evasion.

In the Financial Statement and Budget Report for 1981–82, it is estimated that VAT should produce £12,650 million. The Customs and Excise Department has stated that it is denied between 1 per cent and 1½ per cent of VAT due: in other words that between £126 million and £190 million will not be collected with current resources.

One effect of the cuts has been to reduce the frequency of regular control visits. In 1979 resources allowed for traders to be visited once every four years. That frequency is now reduced to a planned visit once every eight years.

VAT traders are obliged by law to maintain their records for the previous three years. The more the visiting cycle is lengthened, therefore, the more likely the possibility of VAT due never being discovered.

Once it became widely known that regular visiting has been halved in frequency, there will inevitably be a tendency for traders to be less scrupulous in making their payments. This is intrinsically inefficient. One objective of revenue collection should be to encourage a high degree of "self-policing". Reduced attention from VAT officers will entail a reduction in the effectiveness of preventive work. The chance of discovery is lessened and individual traders are certain to take advantage.

In other words, VAT control cuts lead directly to lost revenue and to poorer preventive work which feeds through as a higher level of undeclared revenue.

Whilst the productivity of VAT officers is increasing, and the revenue at stake is so substantial, the rationale for basing staff levels on arbitrary four-year targets is illogical. Cutting staff is wasting public money.

5.2 SPIRIT WAREHOUSE CONTROLS

In the White Paper "Efficiency in the Civil Service" (Cmnd 8293), "reviewing the control procedures in wines and spirit warehouses" is put forward as an example of "simplifying the job" (Para 21).

About 330 posts are to be cut. Wet warehouses are places where spirits or wine are stored in tanks, cask or bottle *and* where some type of operation is performed on the drink, such as bottling spirit from cask. There is very high revenue duty on spirits. The total quantity of whisky produced in the UK in 1980 was 185 million proof gallons of which 107 million pg were exported. The Exchequer benefited by £2,445 million revenue from alcoholic drinks in 1980.

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At present Customs and Excise Warehouse Officers control the Wet Warehouses by

(i) maintaining security by physical presence eg patrol, supervision of operations etc.

(ii) securing warehouses under Crown locks.

(iii) keeping Crown accounts of all goods entering, remaining in, or leaving the warehouse. (Until the Civil Service pay campaign 1981 this record was maintained centrally on the Southend computer.)

(iv) making frequent stock checks.

(v) investigating any loss or deficiency; calling for the duty on genuine losses and prosecuting offenders in cases of evasion and fraud.

Besides the Government benefitting by the tax, traders benefit by the security which prevents pilfering.

The effect of the cuts will be to change from a physical security control to a supervisory control. The Trader will be responsible for his own accounts, physical security, stock taking and the investigation of losses and discrepancies. Customs will operate revenue control by inspection of the traders' accounts, occasional patrols and searches and investigation of any unexplained losses.

It is fair to assume there will be a marked increase in theft, large scale and petty fraud, and losses from warehouses. More uncustomed spirit will be available in warehouses and surrounding areas. This may lead to an increase in drunkenness and an increase in alcoholism which is already high in the spirit industry. For the trader, the cuts mean increased costs in providing security, increased pilfering and higher insurance premia. Far from benefitting the private sector, these cuts will mean an additional burden. Again, short-sighted cuts mean lost revenue and reduced quality of service.

5.3 DISTILLERIES AND ASSOCIATED WAREHOUSES

The Rayner review of distilleries covered those concerned with the production of spirit for maturing into whisky. The maturing and bottling processes take place in the associated warehouses which also store the spirit. Customs exercises strict control over all the processes and products starting with distillation, until release for home consumption or export. Each distillery has a number of Customs staff who are responsible for:

(i) Patrol and search.

(ii) Application of locks and/or seal to unattended places and to parts of plant or equipment which might be interfered with.

(iii) Maintenance of detailed revenue accounts.

(iv) Frequent checks during distillation on the quantity and strength of spirit being produced.

The beneficiaries of this arrangement are first the Exchequer, which received approximately £900 million in revenue on home produced spirits for 1979–80. Second the trade, which benefits from the security and the EEC payments on grain used as certified by Customs and third, the consumer by the control of the alcohol.

The changes being imposed will, except in one instance, remove all Customs security and severely reduce the patrolling and Customs presence. The Trader will become responsible for all security connected with the distillery and the warehouses except for those where spirits are kept in cask to mature. These warehouses will continue to be Crown-locked. Apart from this, control will be by visit to check the quantity and strength of spirits produced and promiscuous patrol and search.

The effect of the lessened Customs control will be to allow some scope for major fraud but a lot of scope for petty fraud and pilfering. In distillation it is not possible to forecast exactly what quantity of spirit will be produced and there is a lot of wastage through spillages etc. This provides a good cloak for the abstraction of small amounts of spirit. It is only by a continuous Customs presence and security that these losses can be held in check. The effect on the Exchequer will be a loss of revenue. The effects for traders will be

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the cost of providing their own security and for the general public, easier access to uncustomed, sometimes immature, spirit leading to drunkenness and alcoholism.

5.4 SUMMARY

The effects of cuts in Customs and Excise staff engaged on VAT, spirit warehouse and distillery control, as well as the Customs cuts described in Part I, all fit a very clear pattern. First, they all entail loss of revenue to the exchequer which may well exceed apparent staff-cost savings. Second, they all represent a withdrawal by the State from its duty to uphold the law and pursue equity in its application. Third, they all remove incentives to self-regulation and self-policing: the tendency amongst traders and the public to "take a chance" is increased as overt regulation and controls are diminished. Fourthly, all these cuts entail "hidden" social costs to the country: the growth of the black economy, increased alcoholism and drug trafficking and home industries being under-mined by illicit imports.

Manpower cuts and "efficiency savings" are predicated on the assumption that public money will be saved. It is the Council's view that these so-called efficiency savings arising from Rayner exercises and manpower targets are being implemented to the detriment of the country as a whole and that failure to look at overall costs and responsibilities is a crucial fault of present manpower and spending machineries.

DOE Central

5.5 MINIS

In Part 1 of the Council's evidence, we promised to go into some aspects of MINIS in more detail.

Our principal concerns about MINIS are first, that it makes virtually no contribution to the problem of measuring effectiveness and secondly that whilst it might have proved useful in the DOE, its appropriateness for other Departments is questionable.

As regards the operation of MINIS in DOE, we would make two specific criticisms.

(a) that it has been used simply as a mechanism for cutting staff numbers;

(b) that it has been superimposed on existing control mechanisms and that no attempt has been made to rationalise the various returns required for management purposes.

In the Research Establishments, for instance, MINIS clearly does not achieve what the Secretary of State claims for it. In practice a MINIS figure is handed down to the Director of a research establishment by the Manpower Division and then the Director seeks to eliminate activities in order that the following six months work, which forms the basis of his MINIS return, fits the manpower available. In doing this, no account can be taken of the advisory committee structure and thus the MINIS exercise ensures that research programmes are not fulfilled.

5.6 CUTS IN SERVICE

Over and above the *method* by which MINIS has led to savings being made, we would wish to draw the Sub-Committee's attention to some examples of the consequences of manpower savings and "efficiency measures" in DOE. The following are a selection:

Hydraulics Research Station

The work of this station is to be privatised with a loss of 249 posts. The building industry, the public and other countries all benefit from the station's work. One effect of privatisation is that important research that is not immediately profitable will cease to be carried out.

Directorate of Air, Noise and Water

This small unit employing just six staff was closed following the demands of the December 1979 "Soames" cuts, with the result that there is now no central control, guidance or initiative on the "clean air" Acts.

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Housing Controls

The loss of 275 posts in the Housing Directorate has reduced the level of control over both local authority and housing association building standards. This means there is less scrutiny of the quality of new building and rehabilitation work, and value-for-money assessments are reduced. Withdrawing central monitoring of local authority and voluntary sector spending does not necessarily promote either efficiency or effectiveness.

In the next section we look in more detail at the effect of cuts in the relatively "hidden", but nevertheless essential, support service provided by messengers.

5.7 DOE HQ—MESSENGER SERVICES

The decline in the level of messenger services in the Department of Environment Headquarters buildings is leading to delays in the transmission of paper both within and between buildings.

It appears that only immediate staff savings are taken into account when such manpower cuts in the support services are planned and that little or no account is taken of how this affects the efficiency of the Department as a whole.

Three separate factors have contributed to the decline in messenger services in the Department of Environment headquarters.

The first was an Organisation and Methods review carried out at the end of last year. This concluded that the existing service of "clears" (ie messenger calls) at approximately hourly intervals could be maintained if the number of messengers in headquarters buildings was reduced from 253 to 190; in the main Marsham Street building alone, a reduction of 42 staff, from 147 to 105, was considered feasible. The review contained a number of other recommendations, for example that those in Office Services Division responsible for organising the messenger system should be in closer contact with the messengers themselves so that they could receive a clearer impression of the kind of service being provided. This latter recommendation does not appear to have been put into effect. The staff cuts, however, were implemented. As a result, the hourly messenger service has certainly not been maintained. The norm now appears to be four clears per day, ie more like a two-hourly service. This in itself would not be so bad were it not that the staff cuts have also reduced the capacity of the system to provide cover for staff who are temporarily absent, whether sick or on annual leave and for the other duties carried out by messengers, eg doorkeeping, which always takes priority over the clearing of trays. As a result there have been a number of occasions when parts of the building were restricted to only one or two clears per day.

The second factor affecting the standard of service was the stopping on cost grounds of all overtime working by messenger staff. The chief effect of this has been to bring forward the time for the final clear of the day to 4 p.m. well before the time when the vast majority of senior staff stop work. Because of the extent to which their working life is linked to that of Ministers, most senior staff need to work much later than this, and indeed are likely to be entering the most taxing and productive phase of their day at about this time. Yet this is when they are deprived of support services and often even of the support of more junior clerical and executive staff.

Finally, the post room situated in 2 Marsham Street has been moved across the road to the Department's other building in Marsham Street—Romney House. There were good practical reasons for this move. Because of the peculiar construction of 2 Marsham Street, it was not possible for the post room to be situated on the ground floor there. As a result, all incoming and outgoing mail had to be raised or lowered vertically between post room and loading bay. In Romney House, on the other hand, a building of more orthodox construction, the post room is on the gound floor and much more conveniently situated for despatch purposes. The decision to move the post room to Romney House, therefore, was a valid one. An obvious side effect of the move, however, was to lengthen the time which it takes for mail to travel from an individual office to the post room: not only must it be collected at a central point in 2 Marsham Street but it must also be conveyed from 2 Marsham Street to Romney House before it can be sent out. No steps appear to have been

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taken to mitigate this disadvantage; and no facility exists for conveying mail from 2 Marsham Street to Romney House after 4 p.m. (in practice, there is a little more leeway than this, but 4 p.m. is the last "guaranteed" collection time). The decline in messenger services attributable to these three factors has had a number of effects on the efficiency of the Departments:

(a) *Despatch of outgoing mail* The measures outlined above have clearly increased the likelihood of outgoing mail being delayed until the following working day. In many cases, this may be of only minor importance. There are often circumstances, however, in which mail urgently needs to be despatched first class in order to reach its destination by the following day. At the moment, it is possible for staff to post such urgent items themselves after the last clear. But from next April the use of "official paid" envelopes will be abolished and all mail passed through a bulk centralised arrangement with the Post Office. The only means of posting late but urgent items then will be a franking meter to be provided at some central point in 2 Marsham Street: obviously it will be costly and inefficient in terms of staff time to take items to this point and see to their franking and despatch.

(b) *Conveyance of internal correspondence* Where there is a need for correspondence to be passed between different Divisions in the same building, there will be delay. This in itself can be important, eg when briefing is urgently required for Ministers. The delays become more serious when there is a need for correspondence with Divisions situated in other buildings, and some of DOE's Headquarter's Policy Divisions are situated as far away as Bristol. Such correspondence will be affected by all the adverse factors which have been mentioned, including the need to travel via Romney House.

(c) *Photocopying* It is undeniable that a good deal of photocopying is necessary for the efficient discharge of business. Considerable efforts have been made to reduce the pressure on over-the-counter photocopying facilities in 2 Marsham Street, and only work certified as being of a priority nature can now be copied over the counter. The normal method of obtaining photocopies is to enclose the original to be copied in a special folder which is then conveyed to and from a photocopying unit by the messenger service. Delays in transmission clearly lead to a longer delay before the copying is received back in the originating office.

(d) *Typing* It is normally only officers of the rank of Senior Principal and above who have Personal Secretaries. Principals usually have access to an allocated typist but are encouraged to send non-urgent work to the typing pools. Officers below the rank of Principal are wholly dependent on the pools. Once again it is the messenger which conveys work from individual offices to the typing pool and back again, so that a decline in the messenger service increases the time it takes to get anything typed.

These examples illustrate how a decline in the standard of messenger services directly affects the efficiency of other parts of the Department. What happens, of course, is that ways have to be found to compensate for the deficiencies in service. In other words, clerical and executive staff are sent to deliver urgent correspondence to other parts of the building or to the post room in Romney House, to get priority photocopying (which might have been dealt with on a non-priority basis if the messenger service had been more reliable), or to take typing to, and collect it from the pools. If junior staff are not available, senior officers have to carry out such tasks themselves. *It is clearly an inefficient use of staff resources for more highly paid staff, who are not short of work of their own to do, to have to spend part of their time carrying out tasks which are the proper concern of the messenger.*

5.8 REGIONAL ORGANISATION

Closure of regional offices, and withdrawal of a Departmental physical presence from parts of the country leads to reduced effectiveness of service in that area. A recent

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comment on the withdrawal of a DOE presence from Northern Region came in the September 1981 Report of the Independent Review Team into the Newcastle/Gateshead Inner City Partnership. The membership of the Review Team is:

> Marcus Bower, Director, Northern Engineering Industries Ltd. Ian Bonas, Chairman and Managing Director, Bonas Machine Co. Ltd. Peter McIlroy, Partner, W. A. Fairhurst & Partners.

Under the heading "Involvement of Government Departments and Agencies", the Team said:

> *"We feel that the full involvement of Government Departments and Agencies at local and national level is crucial to the success of the Partnership...* We would not wish to see the enlargement of current Partnership structure to introduce all these additional elements as direct participants, *but we would suggest that the function of the Department of the Environment at local level should be extended and strengthened to coordinate the total Government input into Partnership at national and regional level and to represent the views of Partnerhsip to Government at official and Ministerial level."* (Para 64)
>
> "We recognise that our proposal would impose a considerable additional burden on the Regional Director who is currently responsible for Yorkshire as well as the North East. *We would like to see the designation of a Regional Director with specific and exclusive responsibilities on a full time basis for the North East*—If necessary we would regard the additional cost of such an appointment as being a worthwhile charge to Partnership funds." (Para 66)

In other words, the industrialists in the team felt that a DOE presence is important enough to warrant spending of Partnership funds for the purpose!

5.9 INLAND REVENUE-THE BLACK ECONOMY

The black economy is widely accepted as a serious and growing problem, although definitions and estimates of size vary.

The Chairman of the Board of Inland Revenue has suggested that a figure of 7½ per cent of GDP is a plausible estimate (in evidence to the House of Commons Public Accounts Committee on 4 June 1980). This amounts to over £3 billion in tax. While not all of this sum could be recovered without massive increases in resources substantial amounts are undoubtedly within the reach of the Exchequer.

To some extent the Government has already recognised the problem. One extra Special Office has been opened and another brought up to strength. 200 extra Inspectors are to be appointed over four years. One hundred Executive grades have been *re-deployed* to check on "moonlighters" and over the next three years 300 auditors will be *re-deployed* to ensure compliance amongst employers.

But the drive to reduce the size of the Civil Service more than outweighs these extra resources. Staffing restrictions restrain the development of the Inspectorate and cuts of about 14,000 have been made at clerical and executive levels.

Employees' tax is generally gathered by PAYE, which demands that employers deduct tax correctly and forward it to the Collector, and supply information needed for the assessment of the individual taxpayer. For the Revenue this generates the type of work traditionally carried out by the clerical and executive grades: coding, assessing and repayments, filing and linking information from different sources, explaining methods of operation to employers, liaising with other tax and collection offices, making written enquiries etc.

As staff cuts mount, these vital tasks are suffering in terms of the time staff are able to devote to them.

The area of coding, assessing and repayments has come in for much criticism as the results of the Board of Inland Revenue quality control exercise have become known. (See eg. IR questionnaire reply 5.7.)

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It is established that an error rate of 27 per cent has occurred in dealing with these employee's affairs. This error rate is substantially a result of "efficiency" staff cuts. If a prompt service is to be maintained, and the error rate reduced, the arbitrary slashing of complements must be stopped.

5.10 MORALE

The dwindling number of staff employed on these duties have become disillusioned with their role and despite the present low morale being blamed on the pay dispute (B of IR 25.9) the fact is that frustration at failing to provide the service all staff wish to provide is one of the main contributory factors.

Training courses have been cut, thus reducing the technical knowledge of staff and management courses have also been drastically reduced at a time when a far greater managerial ability is required to cope with increased demand.

5.11 "WEEDING" AND INCOME CHECKS

A victim of manpower economies has been supposedly "inessential" work. There have been efforts to reduce certain functions previously undertaken by the Revenue and as stated in the first paper we accept that required savings must flow only from the removal of functions. In practice, however, not all these functional cuts end up as cost-effective savings.

The "Weeding" of files, for instance, is now regarded as an unnecessary luxury, although it is estimated that 4,000 filing cabinets and 11 miles of filing could be saved by maintaining this function, the crucial purpose of which is to enable a speedier and more effective service.

Tax Offices are sent information by banks, building societies and other savings institutions, so that they can check that taxpayers are declaring all their sources of income. For example, banks currently send tax offices details of any account which yields more than £150 interest during a tax year.

The amounts above which details of interest must be returned have recently been increased to enable staff cuts. This has reduced the flow of slips which are often the only source of information about undeclared income. But even with this reduced flow, slips are often set aside for more pressing work leading to loss of tax.

5.12 SUMMARY

The Revenue has already made a very substantial contribution to the reduction of Civil Service manpower and no doubt where genuine savings can be made by fiscal or management means it will continue to do so—but this cannot be an end in itself. In its 8th report of the 1979–80 session the Committee of Public Accounts (para 23) said: "At a time when the Government are seeking substantial reductions in public expenditure, we think it particularly important to guard as far as possible against avoidable losses of revenue"—and the leading article of 8 March 1980 in *Taxation* concurred: "At the present time pressure is being exerted to reduce the cost of Government agencies . . . This is wholly commendable but if it results in a real fall in net revenue the whole exercise is self-defeating. Where increased expenditure . . . does result in a greater yield from tax Collection commonsense must prevail at the expense of political dogma."

6. STAFF MORALE

Cuts, Public Denigration, and Attacks on Pay and Conditions Produce Lower Morale and Greater Dissatisfaction which, together with Reduced Promotion Opportunities, Tend to Undermine Motivation and Efficiency.

6.1 MINISTRY OF DEFENCE

The problems MOD is experiencing in reaching its 1.4.84 manpower target do not shine forth in its response to the Sub-Committee's questionnaire. The difficulties of achieving rigid manpower targets without having clearly thought out the implications in terms of the

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functions to be lost are having a serious impact upon the efficiency and effectiveness of the Department as a whole. One of the main problems is the slowness with which decisions are made about priorities and changes in function. The point is best demonstrated by a Notice to Directors and Heads of Divisions from the Permanent Secretary circulated in May 1981 which mentions the 1.4.81 target of 200,000 and then goes on to state that

"The achievement of this target will depend on the achievement of a significant transfer of functions from the public to the private sector as well as the giving up of less essential tasks and a reduction in numbers through greater efficiency. It is not possible to say at this stage how much privatisation will be achieved or what elements of MOD will be affected. Information will be issued on this and consultation will take place with the unions as and when plans become firmer. In the meantime provisional targets will be set to be achieved irrespective of how much privatisation occurs. They will be revised in the light of developments."

The Department's response admits that there has been a lowering of morale in MOD but under-estimates the extent of this. The impact of round upon round of manpower reduction programmes has obviously had a very damaging effect. So, too, have the continual rounds of reviews, studies and scrutinies. The admission by management that decisions on functions have not yet been taken creates enormous uncertainties for staff, and affects the keenness with which they perform their duties. One of the clearest recent demonstrations of low morale has been the number of PTOs who have been applying for voluntary premature retirement. Last year we were told that 1,600 PTOs applied for voluntary premature retirement (VPR), when in fact only about 300 VPR offers were made. This year the number of VPR offers is down to 200 and the number of VPR volunteers is just under 2,000.

6.2 PROPERTY SERVICES AGENCY

It is interesting that, in its questionnaire reply, the Department gave such a clear definition of the conditions for good staff morale—as from our experience so little of what they say applies within PSA.

This is made clear by the following:

(i) Non industrial compiements are being cut by 25 per cent between May 1979–April 1984.

(ii) Part 1 Design; Part 2 Design; Estates Work and the management of Maintenance contracts work is either being privatised or under threat of it, irrespective of the cost of implications.

(iii) The Post Office is severing its connection with PSA and British Telecomm have been encouraged to do the same (Both are important repayment clients).

(iv) Professional and Technology Officers are being forced to retire early. Two hundred and three are scheduled to retire in February/March 1982, as a result of the change in the retirement age. This is to go ahead *despite* the fact that on 1.10.81 PSA non-industrial staff had reached their 1.4.82 manpower target and therefore, rendered the change unnecessary in this financial year.

(v) One hundred and twenty-five staff have accepted voluntary redundancy; draughtsmen and Supplies staff are being redeployed into maintenance work, and compulsory redundancy cannot be ruled out for specialist and non mobile staff.

(vi) Those specialist staff that will be left face the prospect of simply liaising with consultants rather than carrying out the job they were trained to do.

Despite assurances as to the future of the Agency, staff judge the validity of such statements by what they see happening around them. Developments in PSA over the last two years coupled with failure to fill the Chief Executive post after six months generate grave concern as to the future.

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7. PRIVATISATION

Privatisation Often Entails Hidden Costs, Poorer Service and Reduced Efficiency

7.1 DOE CENTRAL

Privatisation measures currently under consideration in DOE Central include changes of status for the Hydraulics Research Station (249 staff), the Countryside Commission (102 staff), District Audit (558 staff), the Building Research Establishment (937 staff) and the Directorate of Ancient Monuments and Historic Buildings (2,250 staff). 4,096 or 44.5 per cent of the 9,207 staff in DOE Central are presently threatened with privatisation. Staff need to be able to see a continuing role for the work they do and need to be able to plan ahead if morale is to be kept up and efficiency maximised. Threats of privatisation and growing use of consultants undermine morale and damage quality of service.

One example, of this is the *Planning Inspectorate*. The Department's answer to the Committee's questionnaire purports to show the success of introducing the review of planning appeals work which, questionnaire reply 14 claims, has led to greater productivity. However, it should be noted that the use of part-time consultants at a fee of £90 per day is no less costly than the use of permanent salaried inspectors. The use of retired civil servants as part-time consultants is demonstrably less efficient when one considers that due to their lack of experience in planning appeals work, they inevitably require a greater degree of supervision by the salaried inspectors than would be the case with permanently-employed inspectors. An additional factor arising from the use of part-time inspectors could well be a loss of public confidence in the system as there is nothing to stop a part-time inspector appearing as a consultant to an appellant in one case, and sitting as the inspector in another.

The reduction in the backlog that is claimed in reply 14 is correct but it could equally have been achieved by increasing the number of salaried inspectors rather than the appointment of part-time inspectors.

A further example is the *English House Conditions Survey*. In May of this year agreement was reached with the Official Side on the use of Departmental staff (architects) to work with local authority environmental health officers in carrying out this five-yearly survey. It was intended to break this work down about equally, but this decision was overturned by the Secretary of State who insisted on private sector involvement. The survey is now to be carried out with 30 consultants from the private sector, together with 30 EHOs. Enquiries led us to be told that it was costing some £60,000. The use of architects in DOE would not have entailed additional cost.

During the *Rayner Study of Research and Development Support Services*, the Director General of Organisation and Establishments was approached by the Study Officer seeking the use of an accountant for a short period of time. He was told that no professional accountancy time was available in the Department and a contract to the value of £6,000 was placed outside.

This contrasts with the Department's statement in answer to question 16 that professional accountancy services are available. In fact the Department employs only 13 professionally qualified accountants.

7.2 PROPERTY SERVICES AGENCY

The Department's statement and questionnaire reply, concentrate on management systems in PSA, and make little attempt to discuss current policies and their implementation. In the PSA, Government policies have had the dual effect of reducing the overall programme and, of that work which remains, placing as much as possible with the private sector.

In 1981–82 as compared with 1978–79, the PSA programme has been cut as follows:

PART 1	(New Works)	50%
PART 2	(Major Maintenance)	20%
PART 3	(Minor Maintenance)	16%

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In terms of contracts let to the private sector, the figures are as follows:

1978–9	1979–80	1980–81
Value £m	Value £m	Value £m
492.4	402.1	363.3

Allowing for inflation this represents a drop of 45 per cent in contracts let.

Given PSA's role in the management and maintenance of the Estate, is enough money being spent? We understand that the PSA Advisory Board has also expressed concern on this point in relation to the Part 3 spend. The Estate is a valuable and appreciating asset, short-term savings will prove to be very expensive.

Design Work

Paragraph 16 of the Department's statement refers to the use of consultants on design work. Mention is not made, however, of the stated policy of reversing the present 63.3 per cent in house/out-house design rates with the loss of 900 jobs.

Despite (i) Evidence from the in-house computerised resource cost information system known as PATOCAP (Professional and Technical Office Cost Accounting Package)

(ii) The results of a controlled experiment held in Midland Region in the mid-late 1970s on in-house/out-house design costs

(iii) The fact that a joint review by PSA/Treasury/Civil Service Department including professionals from industry is currently looking at in-house/out-house design costs.

on 18 June 1981 the Secretary of State announced the change in the in-house/out-house ratio of design work.

There can be no excuse for taking such a decision *before* the present review team has completed its task. In response to Question 19, the Department made no mention of the "Working Group on Design Costs".

For the Sub-Committee's information, the composition of the Working Group is as follows:

A Simpel	Finance Office PSA
P Ashton	PSA Finance Division
M Baggot	PSA Director of Civil Accommodation
K Good	Civil Service Department
D Butler	Treasury
R Davis	Accountant from Cooper/Lybrand
C Sweet	Quantity Surveyor from Cyril Sweet and Partners

Estate Work

This rigid adherence to the privatisation of PSA work *at any cost* is also being pursued in the Estates field, where it is proposed that the following will be undertaken by private agents.

1) Allocation of Accommodation
2) Allocation of Service Changes
3) Oil pipeline work
4) Cartographic Services

There has been no attempt to consider the cost implications of these proposals.

Maintenance Work

Consideration is currently being given to the use of management consultants for maintenance contracts. Given that over 70 per cent of maintenance work is carried out by contractors, such a proposal has grave implications not simply in terms of cost and efficiency, but on the grounds of public accountability of monies spent.

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Management Systems

Whilst the Departmental Trade Union Side has always been willing to discuss efficiency in the Department and has played a part in developing the new In-House Costing System, recent experience has led to a good deal of cynicism.

(a) PATOCAP

In our view there is no point in having a sophisticated resource costing system if costings are not a significant factor in deciding to privatise functions.

(b) RAYNER STUDIES

PSA has been affected not only by its own Rayner Reviews, but also by those of other Departments. It appears that positive recommendations on PSA are shelved and negative reactions highlighted. For example, the 1980 study entitled "Economy in Major New Building Works for the Ministry of Defence" sank without trace. This recommended a *planned* programme of work for PSA. Bearing in mind that over half of PSA's work is in direct support of the Armed Forces, such a recommendation, if implemented, would have greatly added to the efficiency of the Agency.

7.3 CONTRACT CLEANING: MSC MOORFOOT

In Part 1, the general arguments against contract cleaning being more efficient were set out. The recent decision by the MSC not to use direct cleaning at the new Moorfoot HQ establishment in Sheffield is a vivid example of how manpower limits now over-ride cost consideration.

The Civil Service Union has proposed that the building be cleaned by directly employed labour and submitted costings to show that this could be done economically. As the following quote confirms, there was very little financially between the union's proposal and the lowest tender by a contractor. Furthermore the union had indicated a willingness to adjust its proposal so as to make direct cleaning cheaper than any tender from a contractor.

The following passage is from the MSC Corporate Services Division's "final" reply to the CSU on 12 June 1981.

> "We have given you as much information about the accepted tender as we are permitted to give and I hope you will accept that in monetary terms there was very little to choose between you and the chosen firm.
>
> It would however be misleading of me to imply that we had taken little account of the manpower repercussions. To have accepted the CSU bid would have entailed the employment of an additional 84 part time staff which under current 'rules' would have counted as 42 full time staff. We are by no means clear precisely how corporate Services Division will attain its reduced staff objective for the last year of the cuts (83–84) and we could not therefore have contemplated taking on another 42 staff since this could only have led directly to the withdrawal of equal numbers of front line staff providing services to the public. We could not even contemplate putting such a proposal to Commissioners. Had we had direct cleaning in London, no such problem would have arisen; the posts could have been 'transferred'.
>
> In summary, there was really very little financially between your bid and that of the firm we have accepted—a matter of pounds in a contract worth some £80,000 per annum.
>
> I regret having to write in these terms but I do not see that I had any choice given the constraints within which we are working."

The message is clear: the CSU's proposal may well be cheaper (as well as avoiding the "hidden" costs discussed in Part 1—loss of NI contributions, the use of "sleepers", VAT effects and poorer security, plus the increased likelihood of exploitation of contract staff) but the 1984 manpower target is paramount. Rational, cost-saving, economic decisions must be sacrificed for the sake of an arbitrary staff-in-post figure.

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7.4 HEAVY GOODS VEHICLE TESTING STATIONS

The Government issued a consultative paper in August 1980 in which it outlined its proposals to sell off to the private sector the Heavy Goods Vehicle Testing Stations. It has recently re-affirmed its intention to carry out this measure in the near future.

These stations, set up in 1968, carry out annual statutory safety checks on all goods vehicles over 30 cwt, and trailers over 20 cwt Nine hundred thousand tests a year are carried out. These are done at 91 purpose-built stations situated throughout Great Britain. A total of nearly 1,000 civil servants are employed in operating the scheme.

In addition to the above, tests on buses (and vehicles adapted to carry more than eight passengers not used for hire or reward) are carried out by Government Inspectors mainly at the operator's premises. The total number of tests at present is 70,000 a year, but these are expected to rise to 150,000 when the EEC Roadworthiness Directive comes into operation by the end of 1981.

The arrangements for the testing of goods vehicles and buses have operated successfully and without complaint, since they were introduced in 1968. They are regarded as being fair, impartial and absolutely necessary by both the general public and the transport industry. The industry itself is concerned to ensure that the safety standards of its vehicles are maintained at a high level, and that an independent body carries out the inspection processes, to counteract the "cowboy" operators.

Government Proposals—The Government's proposals seek to change all this. They put forward the idea that the 91 testing stations should be broken up into a number of chains, and that these should be offered for sale, or on long leases, to the private sector. The only reason given for this being that such a system would "introduce an element of competition between chains of centres".

As far as bus testing is concerned it is suggested that tests should still be carried out at operators' premises, but that private companies should employ mobile staff to carry out the inspections.

On costs, it is proposed that the Government would control the maximum fee, but the fee would have to cover not only the cost of testing, but "allow for a reasonable return for the testing companies".

The Department of Transport will still continue to determine the content of tests and testing procedures, but there will be no compulsion for the private companies or their employees doing the tests to attend or complete training courses in the testing procedures. There will be some checks by officials of the Department of Transport on the standard of tests, but even if they are below standard the private company will not necessarily be debarred from carrying on with its sub-standard work.

The Council condemns these proposals as being totally inadequate, potentially very dangerous, and simply an expression of the doctrinaire policies of the present Government with apparently no concern for their effects. The proposed transfer to the private sector cannot even be justified in financial terms, as currently the test centres make a profit of about £1 million a year. Therefore, it seems to be a clear case of "asset stripping" which will result in lower standards of service at a greater cost.

Opposition is not confined to the labour and trade union movement. The Road Haulage Association and the Freight Transport Association—representing the mass of the employers in transport, have both expressed their concern at the proposals. They have expressed their satisfaction and confidence in the system, which is seen to be fair, impartial and independent. They are rightly concerned about the strong possibility of reduced standards and higher costs.

Last year this Committee was given an assurance about costs and quality by the Government. In paragraph 8 of the Committee's Fourth Report it is stated "We were told that no tasks would be given to the private sector if this involved either a decrease of efficiency and reliability or an increase in cost". It is the view not only of the Council of Civil Service Unions, but also the various trade associations that the "privatisation" of HGVTS will cut across all of these principles.

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The Government is apparently a lone voice, determined to push this measure through against all opposition. It is a clear indication that what is at the heart of Government policy is not increasing the efficiency or effectiveness of the public services, but the old "numbers game". Changes are being made in the name of "efficiency" which have precisely the opposite effects. We can only echo the views of the Member for Eastleigh (Mr David Price).

"The present arrangements have been working very well—for Heaven's sake leave well alone."

9. QUALITY AND EFFECTIVENESS

Published examples of increases in efficiency almost always conceal reductions in volume, quality and effectiveness of output.

DEPARTMENT OF EMPLOYMENT

The introduction of "voluntary registration" at Job Centres, arising out of the joint DE/DHSS Rayner study of payment of benefits to the unemployed, was incorporated in Part I of our evidence. It was argued that important evidence about the value of job centres had been ignored, and that a supposed efficiency measure entailed a serious reduction in service, increasing the likelihood of many unemployed people failing to find suitable vacancies.

Two more important changes for DE arising from this Rayner study will similarly reduce quality and effectiveness.

9.1 *Availability for Work Test*

From January 1982, selected UBOs will be required to probe more deeply into aspects of fresh claimants' availability for work. In the past, availability testing has been conducted at Job Centres, against a background of wide experience of the characteristics of the local job market. Lacking important and relevant information, UBO staff will now be required to make crucial decisions about individuals' futures. Instead of skilled advice, the nature of availability testing will change to a mechanism whereby "wages required" information will become the most crucial criterion, and other considerations about actual employment opportunities will be lost.

9.2 *Quarterly Signing*

In January 1982, claimants aged over 50, or those that have been unemployed for over 12 months will only be required to sign on as unemployed every three months. With the removal of any obligation to register at a Job Centre, this step will be seen as an attempt to "write-off" two large groups of claimants. The unmistakeable message to these people is "You only need attend every three months, because, frankly, we think your chances of getting a job are almost non-existent".

One objective of an efficient unemployment service should be to maximise and maintain claimants' morale and determination to find work for themselves. This is particularly important for older people and those with a longer record of unemployment. The present concern about youth unemployment should not be allowed to obscure the problems of other groups.

The introduction of quarterly signing works directly against the objectives of encouraging people to "keep trying". It is a short-sighted measure designed to reduce pressure on UBOs enabling staff cuts to be made. It reduces the quality of service and so far as "helping people to help themselves" is an objective, it will reduce the efficiency of the employment service.

9.3 *ACAS—Work increases due to the recession*

The number of claims for unfair dismissal (UFD) arising from redundancies in the face of the recession has led to an unforeseen squeeze on resources at ACAS, where a cut in the workforce of almost a quarter is planned by 1984.

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It has been assumed that the 1980 Employment Act increase in service qualification for UFD from 26 to 52 weeks would produce a reduction in caseloads of 18–22 per cent. On this basis, a cut of 31 staff was planned. In fact, to the end of August 1980, work only declined 4 per cent on 1979 levels. In some regions, claims increased dramatically. In Wales, 1980 saw a 42 per cent increase on 1979 and a 2½ per cent increase in the South East.

Although there is to be a review of staffing by February 1982, it is clear that demand-led increases in UFD and other work related to redundancy can only be met by cutting staffing elsewhere, if the 1984 target is to be achieved. The result will be reduced effectiveness across the board.

9.4 *The Wages Inspectorate*

Approximately three million workers and their families are presently dependent on Wages Councils to determine their incomes at the very bottom end of the earnings league. Wages Council rates vary between £39 and £57.70 per week whilst the national average rate is about £120 p.w. Wages Councils cover 27 industries of which the largest are food and non-food retailing, hotels and catering and clothing.

At the beginning of this year, there were 177 Inspectors to check that the 400,000 establishments covered by Wages Councils were paying the minimum rates laid down. The Department of Employment is currently cutting the Inspectorate to 117. This means each Inspector will be responsible for about 3,500 workplaces and checks will take place only once every ten years. At present, the Inspectorate can manage a planned visit once every six years. The cuts in numbers of Wages Inspectors will only worsen the level of illegal underpayment of minimum rates. In 1980, of the 37,000 firms visited, 12,000 (35 per cent) were found to be paying below minimum rates, as against 31.5 per cent in 1979. Of those 12,000 firms that were breaking the law only nine were prosecuted. It is not that the Wages Inspectorate choose to ignore the problem, but simply that the time taken to prepare a prosecution means that even less spot checks can be made on other firms. The cuts currently taking place in the Wages Inspectorate will ensure that more and more firms ignore their legal and moral obligations under the Law—secure in the knowledge that they are less likely to be caught, let alone prosecuted. It has been estimated that a total of £28 million a year is lost to the low paid by widespread under-payment of Wages Council rates.

In Part I, we argued that new machinery must be established to assess the effectiveness of Government programmes. We argued that this was especially necessary at a time of major cuts. In the Council's opinion, there are few services more urgently requiring effectiveness review than the Wages Inspectorate.

9.5 *Staffing in Unemployment Benefit Offices*

Reference is made in the White Paper on "Civil Service Efficiency" (Cmnd 8293) under the heading "Using Better Methods" to a 6½ per cent reduction in staff from October 1980 in Unemployment Benefit Offices. It is important that the Committee understand what really happened and how little relationship this bore to efficiency and effectiveness in any objectively measured sense.

As the Department of Employment explained in their written submission there exists a fairly sophisticated scheme, based on work measurement, which is intended to relate staffing needs to the levels of unemployment (we dispute the description that staff levels are related "strictly" to levels of unemployment—DE evidence, Question 4).

During 1979 and early 1980 representatives from the Trade Union Side were involved in discussions with management on the implementation of the recommendations of the survey of "staffing Divisors". Early in 1980, the Secretary of State pre-empted these discussions by announcing (as part of the manpower cuts exercise which is continuing throughout the Civil Service) that he expected savings in the region of 600 staff as a result of the survey report. This "savings" figure later grew to 1,400 as a result of changes in the level of unemployment and revisions by the Department of Employment. In addition, complementing based on the new "divisors" was brought forward from 1.4.81 to 1.10.80.

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In discussion with the Trade Union Side, management quite unashamedly made it clear that these changes were the result of the necessity to find further cuts in staffing as a result of Government policies. No attempt was made to consult the trade unions about the change in operative date of the new divisors—it was an arbitrary decision and management accepted that the reason for it was purely and simply to meet targets in cutting public expenditure. It was clear to the Trade Union Side, that the basis of the staffing scheme had been changed from a system which was intended to match staff to the work available to a system to match staff numbers to a pre-determined ceiling.

Our point is basically a simple one: it is easy to take an axe to a Department, or parts of a Department, and claim an increase in "efficiency". It is too early to say, in this particular instance, precisely what the effect of the 6½ per cent staff cut will be on efficiency and effectiveness. Overtime has considerably increased since last year and the number of casual staff has continued to grow steadily (currently approximately 2,500 casual staff are employed) but the situation has been complicated by the effects of the Civil Service pay dispute and its aftermath. However, we question whether it is "efficient" to cut back on permanent staff and replace them with inexperienced casuals. We question whether it is "efficient" to reduce resources available for staff training in such complex areas as Unemployment Benefit Payments. We question whether the appalling conditions which exist in many inner-city UBOs and the serious accommodation problems are conducive to an efficient service.

On *effectiveness*, experiments conducted by the Department in Coventry over the last few years have clearly demonstrated that a small improvement in staffing can lead to dramatic improvements in the take-up of benefits by the unemployed and their families. But, of course, this runs counter to the central thrust of the Government's policy towards the Civil Service—to reduce numbers—with the result that any extension of the "Coventry Experiment" has been shelved indefinitely.

In summary, we are highly sceptical of trumpeted improvements in efficiency in the Department of Employment Unemployment Benefit Service. We estimate that based on pre-1980 staffing formulae the Unemployment Benefit Service is some 9–15 per cent under complement. This gap has been taken up by increased overtime, increased use of casuals and a reduction in the resources devoted to activities such as training of staff and advice to claimants. We suspect, on the basis of evidence from our membership, that both efficiency and effectiveness in the Unemployment Benefit Service have declined sharply over the last year. What we are clear about is that the 6½ per cent reduction had little to do with efficiency and nothing whatsoever to do with improved effectiveness.

9.6 *Home Office—Nationality Division*

The effect of manpower targets and restrictions in the Home Office is producing a less efficient and less effective citizenship application service as the work-load increases.

The Nationality Division in the Home Office handles applications for citizenship of the United Kingdom and Colonies. The Rayner Scrutiny Report of the Division found "the existing procedures to be necessary and operating with due regard for economy in manpower". It pointed out that the staffing complement was 217 in May 1980 and 212 in August 1980. The number of applications for citizenship had increased from 32,500 in 1977 to 50,500 in 1980 and it said that the Nationality Division was "likely to continue to face the receipt of applications at a higher level than current staff levels can absorb" and that the alternative appeared to be the provision of additional staff or the acceptance of longer delays.

The Rayner Report said: "Such arrears [of work] are bad for staff morale and bad for the image of the Department; moreover they inevitably create correspondence both from applicants and their Members of Parliament complaining about delays, requesting the return of documents, asking for assurances that the application is being processed and seeking priority. Dealing with such representations thus distracts the staff from getting on with the actual processing of the application."

Lord Belstead giving a written answer in the House of Lords on 30 July 1981 said that the number of applications had continued to rise in 1981: 37,000 in the first five months of

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the year compared with 22,500 in the corresponding period in 1980 and that it was not possible to provide additional staff.

He said:

> "We regret that for as long as the number of applications continue at its present high level and arrears increase it is unlikely that there will be any improvement in overall waiting times in the near future. Rather, the position is likely to deteriorate. The average time taken to complete consideration of an application for the naturalisation of discretionary registration of an adult is now twenty-five months. It is likely to be twenty-eight months by the end of this year, and may be three years by the end of 1982. Other applications for registration now take thirteen months and may take two years by the end of 1982."

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WEDNESDAY 2 DECEMBER 1981

Members present:
Dr Jeremy Bray, in the Chair

Mr Timothy Eggar
Mr Michael English
Mr Richard Shepherd
Mr Richard Wainwright

Memorandum submitted by the Ministry of Defence

Introduction

The Committee may find it helpful in setting the following answers to their questions in a more general context to have a short description of some of the distinctive features of the organisation and activities of the Ministry of Defence.

There is a strong international aspect to many of the Department's activities through UK membership of NATO and our major contribution to its collective defence posture. Alone among European members, the UK makes not only an independent contribution to NATO's strategic nuclear forces, but also major contributions to its land and air forces in the Central Region of Europe and to its naval and maritime air forces in the Channel and Eastern Atlantic as well as to the protection of our own home base. The need to maintain the effectiveness of the forces the UK has committed to Alliance defence, and our participation in such activities of NATO as the force planning process (described in the answer to question 4), the common infrastructure programme, and the procedures now being developed to harmonise equipment planning in the longer term—all these have a major and direct bearing on the activities and organisation of the MOD. The ultimate criterion of the effectiveness of these activities is the success of the Alliance's collective strategy of deterrence: the preservation of political independence for its members and the prevention of war in Europe for over thirty years.

A second distinctive feature of the MOD is the considerable contribution that defence spending makes to the economy as a whole. This affects the way it conducts many of its activities. For example, at Estimates prices, £5,850 million is estimated to be spent in 1981–82 on procurement (48 per cent of the Defence Budget). Of this sum £1,683 million is spent on research and development, both in our own establishments and under contract in industry and the universities. In recent years, MOD spending on R&D has represented about one-third of all UK expenditure (private and public) on R&D; and about 75 per cent of equipment expenditure has gone to national contracts with British industry, 15 per cent to our share of collaborative projects and 10 per cent to overseas purchases. The MOD buys about a fifth of the total output of the British electronics industry, more than a third of shipbuilding output, and about half of aerospace output. This expenditure was estimated to support about 230,000 jobs in direct employment in the defence industries in 1980, and about 184,000 indirectly in industry as a whole. Such factors as the industrial implications of equipment decisions and overseas sales prospects thus have a major bearing on our procurement policies. We also have to take constant account of the fact that decisions on defence equipment commit expenditure for many years into the future and represent investment both in the future effectiveness of the Armed Forces and in the long-term health of the defence industries.

A third distinctive feature is that the nature and range of MOD's activities is far greater than that of any other Government Department. It is first and foremost an executive rather than an advisory Department. As well as having the usual functions of a Department of State, it is the management authority for the Armed Forces and an operational headquarters. In implementing the Government's defence policy, it pays people—Service-men and Civilians—to do specific tasks; and it buys a great range of equipment direct from industry. In terms of numbers most of the Department's staff are engaged in

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management, execution and production, with policy work at the higher levels but practically no regulatory responsibilities. We run a large number of major industrial concerns—including the R&D establishments, the Royal Ordnance Factories, the Royal Dockyards and large Army and Royal Air Force repair and maintenance organisations. Because of the size of the Department, it is more efficient to provide some services for ourselves rather than look to central provision—for example in training and environmental health. We also provide some services to other Departments in the interests of general efficiency.

The total number of people paid for from MOD votes at 1 April 1981 was about 608,000—333,800 in the regular Armed Forces, 9,700 locally entered Service personnel overseas, 229,600 UK-based civil servants (about one-third of the Home Civil Service) and 35,300 locally engaged civilians overseas.

Over half of the total UK-based civilian staff are industrials. These represent three-quarters of all industrial civil servants and include 8,000 apprentices. Of the 113,500 UK-based non-industrial civil servants, 35,500 are in the professional and technological and Scientific grades, 32,800 specialise in other fields such as teaching, instruction, data processing, policing and communications operation, and 34,200 are clerical and secretarial staff. Only 11,000 (4.1 per cent of the total civilian strength) are administrative and executive grades. Most of these are employed on executive functions such as bill-paying, letting contracts, computer operations and project and personnel management. There are relatively few senior managers: just over 100 civilian posts at Under Secretary level and above, which is a ratio of 1:2,200 UK-based staff, compared to a ratio of 1:600 for the rest of the Civil Service. Well over half of these senior posts are filled by scientists, engineers and other specialists. A large number of the civilian staff are employed on tasks which in other NATO countries are done by National Servicemen, in order to release as many as possible of our all-regular Armed Forces for front-line duties. These jobs include those of policemen, firemen, drivers, cooks, instructors, mechanics, storemen, computer operators and clerks.

With such large numbers, the MOD is at the forefront of efforts to economise on the use of manpower wherever possible. Between 1 April 1975 and the provision for 31 March 1982, the total number of UK-based civil servants employed in the MOD (including the Royal Ordnance Factories) will reduce by 16 per cent (266,700 to 223,600). Reductions also arise in locally engaged civilians overseas, making an overall reduction of 18 per cent (316,700 to 259,000). As its contribution to the Government's overall aim of reducing the size of the Civil Service, the MOD is working towards a target of 200,000 UK-based civilians by 1984.

Throughout the Department, Service and civilian staff work closely together at all working levels. The impact of working alongside the Armed Forces, and the inherent nature of the job, call for a special degree of discipline and responsiveness from the civilian work force. There are many areas where the functions of Servicemen and civil servants are inseparable—both in the headquarters, where all are involved in the central management of the Department, and in the field, where the effectiveness of our forces depends not only on front-line Servicemen, but on the many civilians providing the essential support services. There is therefore a constant cross-fertilisation of professional skills and specialisms which pervades the structure and activities of the Department. Throughout the MOD there are many examples of multi-disciplinary teams comprising Servicemen and civil servants with different skills working together to formulate policies, execute them, and manage a wide range of operations both at home and overseas. As a result of these close working relationships, the Department needs to devote considerable effort to ensuring the compatibility of policies for its various categories of staff, uniformed and civilian—it is impracticable to administer them as if they were in watertight compartments.

The MOD has one of the largest departmental budgets to manage. The quantity and quality of the finance work done in the Department is therefore of great importance. Other distinctive features of the work of the MOD are that requirements are largely determined by the external threat, which is constantly changing and never easy to assess, but profound

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in its effects; that the classified nature of much of the work imposes a significant additional security effort; and that the programme involves substantial long-term commitments, especially on equipment and manpower.

General

The Committee may find it useful to refer to recent Annual Statements on the Defence Estimates (1980—Command 7826 and 1981—Command 8212). These provide a great deal of supplementary information on the Defence budget, both narrative (in volume 1 of each Statement) and statistical (in volume 2). Some of the answers which follow refer to specific sections of these Statements which provide the information requested. The Committee will be aware that the House of Commons Defence Committee is at present conducting an inquiry into the Ministerial Organisation of the MOD, and the organisation and management system within the Ministry, with special reference to procurement and sales.

Background

Q.1. *The Sub-Committee would like to have a broad outline of how the Department spends the money for which it is responsible. Using the 1981–82 Estimates and distinguishing in each case the largest items of expenditure, please divide total expenditure between:*

(a) manpower

(b) administrative costs

(c) grants and loans to other bodies (separately)

(d) purchases of goods and services

(e) other expenditure, mentioning significant offsetting receipts.

Answer

The 1981–82 Defence Estimates fall into the five major categories as follows

Category	*£M*
(a) Manpower	5,158.3
(b) Administrative Costs	439.2
(c) Grants and Loans to Other Bodies	48.1
(d) Purchase of Goods and Services	7,756.0
(e) Other Expenditure and Offsetting Receipts	−1,127.8
Total Defence Budget	*12,273.8*

In view of the size and complexity of the Defence Budget it is only possible to provide details of the Economic Classification codes included in each category. These are:

MANPOWER

110 Pay and pension costs of staff employed in central government departments.

120 Pay and pension costs of armed forces and directly-employed staff of other public services.

ADMINISTRATIVE COSTS

130 General administrative expenses (Central government departments only).

GRANTS AND LOANS TO OTHER BODIES

210 Subsidies.

310 Current grants to private sector.

320 Current grants abroad.

510 Capital grants to private sector—persons.

PURCHASE OF GOODS AND SERVICES

180 Other current expenditure on goods and services.

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OTHER EXPENDITURE AND OFFSETTING RECEIPTS

190 Charges.

(Charges for goods and services made to bodies outside central government.)

410 Purchase of land and existing buildings.

415 Sale of land and existing buildings.

420 Expenditure on new dwellings.

430 Expenditure on new construction other than new dwellings.

440 Purchase of vehicles, plant and machinery (net).

The above figures which form the original 1981–82 Defence Budget reconcile to the printed Estimates plus DOE staff costs; non-public expenditure—a net minus—has been added back. It should be noted that in accordance with the CSO publication "National Accounts Statistics—Sources and Methods", which conforms broadly to United Nations recommendations, nearly all expenditure on buildings and equipment for the Forces is treated as central government current expenditure—"Other CEGS".

Supplementary information on all the main areas of defence expenditure is contained in the annual Statements on the Defence Estimates (SDE).

Q.2. *How many people are employed by the Department and its agencies and on what main blocks of work? How many of these are civil servants?*

Answer

See SDE 81, Volume 2:

Table 1.2—Functional Analysis of Service Personnel

Table 5.2—Functional Analysis of Civilian Staff

Q.3. *What significant changes have there been in the functions of the Department in the past five years?*

Answer

There have been no significant changes in the functions of the MOD over the past five years, which remain the maintenance of adequately equipped and trained nuclear and conventional forces for the defence of the United Kingdom, for contributing to the NATO strategy of deterrence and defence within the area of the Alliance, and for protecting our own and more general Western interests over a wider area. There have of course been shifts in the allocation of resources which have led to reassessments of the relative priority of individual programmes within the Defence budget, but the primary functions have remained the same.

Effectiveness

Q.4. *Presumably the resources, financial and manpower, of the Department are devoted to the pursuit of objectives which are the result of political decisions. What arrangements have you got for monitoring the effect of programmes? For measuring and monitoring progress in achieving objectives? For considering alternative programmes for achieving objectives? For reviewing objectives in the light of progress made and alternative programmes considered?*

Answer

At the most fundamental level, evidence of the effectiveness of defence forces must be sought in their ability to carry out the military tasks assigned to them. The traditional straightforward criterion of whether they can defeat the enemy in war is not however applicable to forces which contribute to an alliance strategy of deterrence, the success of

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which is measured by the preservation of peace. At this level, the main measure of the effectiveness of all our efforts is the success of the NATO Alliance, to which we are a major contributor, in deterring the Warsaw Pact from aggression against any member for more than thirty years.

The MOD is probably unique in that the effectiveness of its programmes is monitored not just nationally, but also internationally, by our partners in the Alliance, through the NATO force planning process, which is described in SDE 81, Volume 1, paragraphs 311 to 314 and figure 6. This process includes the setting of defence objectives for individual member countries within the context of the total defence posture of NATO, and the critical examination of national performance by our Allies. The results are reported annually to NATO Defence Ministers, and are fed back into national planning.

Within the MOD, the annual long-term costing (LTC) provides the basic mechanism through which managers at all levels and ultimately the Secretary of State decide on relative priorities within the total resources allocated to Defence. The LTC is a complete "ground-up" costing in great detail of all the constituent elements of the Defence Programme projected over the next ten years, based on the one hand on reasonable assumptions (sometimes alternative ones) about commitments, deployments, manpower, projects etc, and on the other on the allocation of resources to Defence agreed by Ministers, as contained in successive Public Expenditure White Papers (and extrapolated for the later years of the LTC). The LTC is divided by inputs—equipment items, works, manpower etc—but there is also an analysis by outputs to show management the complete cost of all our activities and forces, such as Rhine Army, Air Force Headquarters, storage and supply etc.

The completed LTC enables the cost of the programme to be matched against the finance likely to be available. There follows an iterative process during which alternative ways of meeting objectives are examined and the implications of programme changes are assessed both in relation to HMG's ability to carry out defence commitments and in financial, industrial and other relevant terms.

This process is carried out by individual line managers, by the Ministerially-chaired Boards of the Service Departments, by the Procurement Executive Management Board, on an across-the-board basis in such forums as the Permanent Secretary's Financial Planning and Management Group, and by the Secretary of State on the basis of advice stemming from review of the programme at official level. Decisions are reflected in revised assumptions and allocations for the following year's costing, which will in turn be scrutinised in the same way.

Though the process of reassessment is continuous, circumstances will periodically call for a more radical look at priorities. One such review was recently completed and the results announced in a White Paper—"the United Kingdom Defence Programme: The Way Forward".[1]

The effectiveness of individual components of our force structure is less easily measured, though performance can be and is assessed against preset and objective critieria. For example it is an aim, so far always achieved, for the strategic nuclear deterrent to maintain at least one ballistic missile submarine on patrol, undetected, as far as can be known, by a potential enemy. The state of readiness and standard of training of conventional forces are tested in regular small and large scale exercises, both national and NATO, and also by thorough on-site evaluations conducted under the aegis of NATO commanders, where, for example, RAF Germany achieve consistently high ratings in NATO Tactical Evaluation exercises. The ability to mobilise reservists and reinforce the mainland of Europe, command and control arrangements and other aspects of our defence posture are also tested, both during live exercises and by means of separate purely procedural ones.

Another measure of the readiness and flexibility of the Armed Forces is their ability to respond rapidly and effectively when required to assist the civil community. Details of these activities, which include assistance in maintaining law and order in Northern Ireland,

[1]Cmnd 8288.

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military aid to the civil community and to civil ministries, bomb disposal, the protection of offshore resources and search and rescue operations, are given in SDE 81, Volume 1, Chapter 5. The Services are also tested through the need to respond to overseas requests for both military and civil assistance, including disaster relief. These are described in SDE 81, Volume 1, Chapter 4.

Within individual programmes, there are, where possible, procedures for reviewing progress in achieving objectives. For example, the procedures for procuring major new equipment provide for a review of progress at different stages in the course of development. Projects are first reviewed on completion of the initial Feasibility Study and again after the next phase of development—Project Definition—during which possible solutions are investigated (including collaboration or purchase from abroad, if appropriate) until one can be selected by Ministers. As weapons systems grow more expensive and interactions more complex, there is an increasing requirement to use Operational Analysis techniques to assist in this process.

Expenditure on particular support functions, such as training, is also kept under review through specific studies or annual scrutiny. In addition to limitations in measuring output, there can be problems in calculating resource inputs with precision where these affect a variety of votes and objectives.

Q.5. *What problems are there in devising satisfactory measures of progress? Please give examples of progress reviews.*

Answer

LTCs assist in the regular monitoring of the overall match between programmes and budgets and the need for corrective action. The major problems are that, whereas the LTCs look ten years ahead, public expenditure decisions are only available for the first few year and are only firm for the first year. Furthermore, programmes and cost estimates are inevitably more speculative in the later years of a costing than in the earlier years.

Progress reviews are a regular feature of the equipment procurement process. It is the normal practice for projects of any consequence to have a steering committee, chaired at an appropriate level, representing interested parties within the Department, to assist the project manager in fulfilling his objectives. There are regular reviews of progress by the appropriate equipment committee. The largest projects, which are considered by the Departments' central equipment committees, are reviewed whenever they reach a significant development milestone or if costs increase by 20 per cent in real terms over the previous estimate. These reviews cover progress so far, problems which may lie ahead and possible solutions.

The various reviews are concerned not only with the success of individual projects in meeting the requirement and their cost-effectiveness. Wider issues, such as industrial capacity, the needs of partners in collaborative projects, and financial profiles are also taken into account.

Q.6. *Are reviews restricted to programmes that consume, directly or indirectly, large quantities of resources and/or where the outputs can easily be expressed in quantitative terms? How do you evaluate the effectiveness of, say, regulatory activities or inspectorates?*

Answer

In the main, central reviews in the MOD do concentrate on programmes which consume large quantities of resources, for the the obvious reason that it is with these programmes that the greatest benefits can be expected from such reviews. For the reasons given earlier, these are frequently programmes where the output cannot easily be expressed in quantitative terms. However line managers at various levels are expected to review from time to time all these programmes and activities in their charge.

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Q.7. *Which individuals, staffs or units in the Department are responsible for programme evaluation and effectiveness? To whom do they report?*

Answer

It is one of the normal responsibilities of line management to concern themselves with programme evaluation and effectiveness. Under the Defence Council, the Service Boards (the Admiralty, Army and Air Force Boards) and the Procurement Executive Management Board are the main permanent bodies responsible for programmes review and management and are the focal point for line managers via the Board members for whom they work.

The unified Directorate General of Management Audit which has recently been established (see reply to question 11) to group together internal audit, staff inspection and central management services divisions has as one of its main objectives a more coordinated approach to the audit of resources in the widest sense. DGMA reports to the Principal Finance and Establishment Officers.

It is also one of the tasks of the Chief Scientific Adviser (who is a member of the Defence Council) and his staff, which includes the Defence Operational Analysis Establishment, to provide impartial evaluations of the effectiveness of programmes and projects.

Q.8. *How do you monitor the effectiveness of new or experimental programmes?*

Answer

Such programmes are reviewed on a stage-by-stage basis, in the first instance usually at the end of Feasibility Study. In addition to the important contribution made by industry and the R&D establishments, Operational Analysis has a major part to play in assessing the cost-effectiveness of these programmes. (See the section on Operational Analysis in SDE 81 (Vol 1) page 50.)

Efficiency

Q.9. *What individuals, staffs or units in the Department are responsible for efficiency in the sense of maximising the outputs from programmes and minimising the inputs to them? To whom do they report?*

Answer

Responsibility for the efficient use of the resources allocated to them rests squarely on line managers reporting in most cases, as described in the answer to question 7, to their respective Service Board or the Procurement Executive Management Board. The Permanent Secretary, as Permanent Head of the Department, has an overall responsibility for ensuring that it is efficiently and economically run. The organisations described in the following paragraphs both assist line managers to discharge their responsibilities and support the Permanent Secretary by monitoring progress and carrying out reviews on his behalf.

Staff Inspection

Q.10. *(i) To whom are staff inspectors responsible?*

(ii) Does staff inspection cover the whole Department and all of the associated public bodies for which it is responsible (excluding those whose income is not primarily from the taxpayer)?

(iii) Do staff inspectors cover the whole Department every three years?

(iv) What are the arrangements for ensuring that staff inspectors' recommendations are carried out?

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(v) To what extent are staffing formulae used for routine operations?

(vi) How do you measure whether staff inspections are successful?

Answer

(i) For manpower control purposes the MOD is divided into five main areas, namely the Central Staffs, the three Single Service Departments and the Procurement Executive. The authority to vary civilian complements delegated by the CSD is vested in the Principal Establishment Officer (PEO), who is also responsible for complementing Service-manned posts in MOD Headquarters and certain establishments elsewhere. The control of most Service-manned posts is the responsibility of the three Single Service Boards. The PEO has delegated most of his responsibilities to a DUS in each of the main management areas and to the Managing Director Royal Ordance Factories. He retains responsibility for Central Staff complementing, and for complementing standards and manpower audit practices throughout the Department, working through the Director General of Management Audit to whom each of the inspectorates is responsible for these aspects of their work. Thus the staff inspectors are responsible ultimately to both the PEO and the Service Boards/Procurement Executive Management Boards.

(ii) Staff inspectors have the right of entry into any part of the Department. In practice however on-site examination of all work would be wasteful of our resources because in certain areas work is readily measurable and in others units may be discharging identical duties. In these areas sampling may be used or scaling applied (see (v) below) without recourse to detailed inspection of every single area affected.

(iii) The Department used to undertake a programme of cyclical inspections with the aim of covering the whole Department every three years although in practice the cycle varied between three and five years. With the increasing use of strict manpower ceilings coupled with cash limits to control and reduce civil service numbers, cyclical inspection is no longer considered to be the most effective and efficient approach. Instead the Department has been moving progressively towards a more selective approach to staff inspection concentrating on those areas in which staff inspectors are likely to make the greatest contribution to the efficiency of the Department.

(iv) Staff Inspectors' recommendations are not mandatory but to the extent that they represent an element of financial and manpower control they are normally expected to be implemented within two to three months of issue or sound reasons given for delaying them or setting them aside. Senior management monitors implementation and intervenes to enforce implementation or adjudicate as necessary.

(v) The Department uses staffing formulae, or scales, for any readily measurable work activity which is undertaken at a number of different locations. These are used extensively, particularly in the Service Departments, providing a guide and common standard for like functions. Thus scales are used for complementing for example messes, hospitals, ships, field force units, aircraft crews and so on.

(vi) As the original Treasury circular setting up staff inspection stated, "inspection so directed should produce manpower economies, indeed, that is a prime objective—but it will do so as a by-product of greater efficiency and not directly as a result of 'body-snatching'. It has never therefore been the practice to measure the success or otherwise of staff inspection simply in terms of increases or decreases but rather the extent to which they have been able to optimise staff numbers, gradings and organisational structure so that the maximum number of essential tasks are carried out with the minimum of manpower. Within the Ministry of Defence increasing emphasis is being placed on the responsibility of line managers to ensure that only essential tasks are performed using the minimum amount of manpower, and very tight manpower ceilings are being imposed to encourage economy. It is not therefore, as was the case in the past, primarily a staff inspection role to match the level of manpower to a laid-down absolute task. Under the concept which we are at present developing the staff inspector will both work together with line managers to assist them in bringing tasks into line with available manpower, and act

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on behalf of the Accounting Officer to audit line managers' performance in the use of manpower. It will be even less appropriate then to measure staff inspectors' performance solely on the basis of the extent to which manpower numbers increase or decrease since the main drive in this area will be provided by the application of strict ceilings. Instead we shall need to look at a number of indications including how total numbers change, the validity of grading standards and the effectiveness of organisational structures. Appropriate measures of performance are under review.

Management services

Q.11. (i) To whom are management services responsible?

(ii) Do they work by invitation of managers or is there a systematic programme for reviewing the organisation and methods used in the Department?

(iii) What are the arrangements for ensuring that the recommendations of management services studies are carried out?

(iv) How do you measure whether your management services are effective?

Answer

(i) Following a Rayner review of Staff Inspection, Management Services and Internal Audit, a new Directorate General of Management Audit has been established, headed by an Under Secretary, reporting to the PEO and PFO, with a professional accountant as his Deputy. The main purposes of the new organisation are to bring together staff inspection, management services and internal audit functions, whose objectives and techniques are tending increasingly to converge, and to assist the Accounting Officers to develop a more coherent and systematic, and at the same time selective, approach to the improvement and review of efficiency and effectiveness in the Department. As part of the new arrangements a Management Audit Board is to be established, under the chairmanship of the Permanent Secretary.

In addition to the central management services division, each of the Services has its own managment services division and there are other management services/work study teams attached to particular line management areas.

(ii) The central management services division operates both at the invitation of line managers and also at the direction of senior management. Increasingly, the division's effort has been devoted to the latter. Following the Rayner scrutiny, it has been agreed that the division, although in general continuing to operate on a consultancy basis, should also have a formal right of access. Consideration is being given to how this should be exercised and how the information flow to the division can be improved to ensure that its efforts continue to be directed to where they are most needed.

(iii) Implementation is the responsibility, in the first instance, of the sponsor line manager, assisted by management services, as required. But in addition, where the sponsor is below Deputy Secretary level, the appropriate Deputy Secretary is held responsible for ensuring the speedy and effective implementation of central management services reports.

(iv) Records are kept of the value of savings recommended against the cost of the division's activity and the progress of line managers in implementing recommendations. But, as the Rayner scrutiny concluded, there is no simple and ready measure of the cost-effectiveness of a management services division, not least since solving organisation problems may be of value but not yield directly quantifiable savings. In such cases the views of customers and senior management may be the only measure of effectiveness.

Q.12. *(i) What is the organisation within the Department for:*

(a) seeking economical uses for machines—including computers and other electrical and electronic devices—within the Department?

(b) introducing and operating them?

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(c) assessing the cost-benefit of other investment opportunities affecting the running of the Department?

(ii) How is the contribution of machines to efficiency measured?

(iii) Are there any obstacles to their use within the Department wherever they would be economical?

Answer

There are separate organisations within the Department which deal with administrative computers and office machinery. These are described below.

For administrative computers, at the highest level the Defence ADP Steering Committee, chaired by the 2nd Permanent Under Secretary, maintains a general oversight of policy matters. Below this are two other committees which provide the means of coordinating policies across the Department and developing policies and plans and appraising individual computer projects.

The Defence Administrative Computers Division is organised on a functional basis. It is controlled by an Executive Director who is in direct touch with teams investigating new systems and also with established computer installations through assignment officers; it participates in the evaluation of proposals, taking account of benefits expected to be gained, and is actively involved in the procurement of facilities (hardware and software) on repayment terms through the Central Computer and Telecommunications Agency. Financial control, including vote management functions, is exercised by DACD, which also provides a focal point for policy and planning matters.

Requirements in the Navy, Army and Air Force Departments are also subject to control by coordinating directorates who have responsibilities for the preparation of single Service plans, including the formulation of Estimates and Long-Term Costings and for the evaluation of individual proposals for procurement. At a lower level, individual line managers have responsibilities for assessing their future needs for computer-based systems and for initiating proposals for their introduction, including investment appraisal considerations, and for the efficient operation of installed equipment.

Requirements for computers in non-administrative areas, ie in support of operational requirements in the field or at Headquarters or for training or scientific research purposes are assessed by the appropriate MOD staffs.

The contribution to be made by computerisation is generally assessed in terms of reduced costs (using DCF techniques) including changes in the numbers of staff required. Justification is sometimes based on the provision of an improved service by the same staff or an improvement in operational effectiveness, but in such cases the benefits may be more difficult to quantify.

Post-implementation reviews of computer systems are undertaken to determine whether forecasts benefits have been realised. Additionally, during inspections by internal audit, establishments and management services staff, close attention is paid to the efficiency of automated systems.

There is currently a shortage of experienced staff able to undertake studies of potential small computer applications. Continuing pressure on the Defence Budget and staff numbers will delay the implementation of lower priority applications.

Office machinery is dealt with by two branches of the Common Services Division—CS(OM)—responsible for the O&M investigation of requirements for office machines and systems for the MOD and the Services; and the procurement, maintenance, accounting and disposal of such office machinery. The aim of CS(OM) is to ensure that all branches of MOD and Service organisations at home and abroad are adequately equipped with the office machinery necessary to carry out their duties in the most efficient and cost effective manner. This involves keeping abreast of technological developments in office machinery and giving advice to the MOD and Services accordingly.

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O&M investigation forms part of the duties of all Executive grade staff. The Branches comprise sections responsible for particular equipments either on an across-the-board basis or for individual Services. When considering requirements for the supply of additional or replacement office machinery due regard is given to relative factors such as:

(a) Substantiating the need for the work/machinery.

(b) Present methods/machinery.

(c) Possibility of utilising existing facilities elsewhere to undertake the work.

(d) Prospect of prolonging machine life by overhaul/repair action.

(e) Alternative methods/machinery with a view to financial and/or staff savings.

(f) Rental of machines instead of purchase, or vice versa.

(g) Increasing productivity by installation of faster more versatile machines plus the possibility of making staff savings or more effective use of staff time.

(h) Simplifying and speeding up handling methods.

(i) Elimination of irksome tasks.

(j) Safety and security considerations.

All office machinery is purchased for the MOD by HMSO, except for some special items of fittings and furniture which are supplied by the PSA. HMSO and PSA do not hold stocks of equipment but buy competitively from the commercial market.

The main obstacle to increased use of office machinery is the availability of finance. In certain circumstances security considerations can give rise to problems. A delaying factor, rather than an obstacle, is the need to obtain CCTA authority if the capital cost of initial supply or replacement for a system is likely to be £25,000 or over, or the annual hiring charges £7,500 or more. The question of departments having greater discretion in this matter is currently under review in CSD. (See also the answer to question 24 on Trade Union attitudes.)

Q.13. *What are the arrangements for maximising the efficiency of programmes which are not manpower intensive but consume significant financial resources?*

Answer

As is shown in Chapter 8 of SDE 81, 40 per cent of the budget is spent on forces pay, allowances and pensions and civilian pay, while 60 per cent is spent on equipment (including research and development), buildings and miscellaneous stores and services. The mix of personnel and equipment within individual programmes varies a great deal. In each case the aim is to find the most efficient mix of personnel and equipment. The arrangements for maximising the effectiveness and efficiency of programmes described earlier, and in Chapter 8 of SDE 81, apply generally.

Q.14. *Please give examples of significant improvements in efficiency achieved in the last five years, explaining the nature of the improvement and also how the improvement was instigated, ie distinguishing improvements flowing from staff inspection, the use of machines or other capital investment, the Rayner exercise and other sources.*

Answer

Discussions of a number of improvements in efficiency are given in successive SDEs, notably SDE 1980 and SDE 1981—see especially pages 68 to 70 of SDE 81. These cover the six major studies undertaken to reduce the size of the Civil Service—contract cleaning and catering, bill-paying, quality assurance, R&D establishments, the Royal Dockyards and supply management—the six 1980 Rayner studies on children's secondary education overseas, inspection and audit, and MOD Claims Commission, assisted travel schemes, the Defence Statistical Services, and economy in major new building works, and other reviews and studies on such subjects as the Defence estate, overheads, reprographic and printing services, telephones and official mail.

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In addition to those covered in SDE 81, the 1979 pilot Rayner study on food supply for the Armed Forces identified areas in which stockholding levels could be reduced without prejudicing operational considerations; savings are estimated at £3.5 million, of which about two-thirds have already been achieved.

Centralised MOD systems have been set up for accounting, bill-paying, invoicing, and paying civilian staff. These systems, using modern computer installations, have led to savings of about 1,000 staff in the last five years.

Q.15. *Please describe how you measure your outputs and whether there are any unresolved difficulties in doing so?*

Answer

In the national income accounts the output of Government Departments is measured by the CSO as the cost of the inputs—wages and salaries of employees, expenses of accommodation etc. This convention is adopted because there are no prices, objectively determined by markets, available for valuing most Governmental work.

Ouput measured by this convention is not suitable for such management purposes as comparisons of increments of cost with associated increments of output, in order to determine the most profitable level of expenditure. For such purposes it is necessary to compare differences in marginal output and marginal cost, whereas the convention implies that they are always the same.

The necessary functions of the Departments are, however, prescribed by Ministers. The Department then seeks to achieve this output in the most cost-effective way.

For some decisions, eg the choice between weapons which have broadly equivalent performance, the expected alternative costs can be fairly precisely assessed. For other decisions, eg the most appropriate staffing in the organisation of defence procurement by, say, accountants, professional scientists, and administrators, it is not possible readily to compare quantitatively and objectively the efficiency of alternative mixes of staff and other inputs. As in many large commercial organisations the most cost-effective mix has to be sought by trial and error, and to depend largely on informed judgment. This involves a constant watch by line managers on the match between their duties and their resources, and continual re-arrangement of resources in the light of any perceived deficiencies or opportunities of improvement.

While we therefore cannot measure final defence inputs, we do make many attempts with intermediate outputs, via the functional analysis, management accounts such as the ABC System (see the answer to question 20), and costings of various kinds, with considerable success, despite problems of definition and data capture.

Q.16. *Have you any internal audit section? Is it headed by a professional accountant? Are internal audit arrangements concerned with effectiveness and efficiency?*

Answer

The new post of Deputy Director General of Management Audit (see answer to question 11) is filled by a professional accountant. Internal Audit staff are basically occupied in maintaining a continuous examination of the systems whereby the Department administers its voted funds and other resources with a view to assuring the Accounting Officers that these systems are proof against impropriety and irregularity. In this process, attention is given to the effectiveness and efficiency of such management systems, and avoidable waste and extravagance identified.

Q.17. *How many staff, and what grades, are employed on:*

—staff inspection

—management services

—extending the use of labour saving machines

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—internal audit

—other work of reviewing efficiency and effectiveness?

Answer

The following table gives the information requested in respect of the first four categories. Many other staff are engaged, either permanently or on an ad-hoc basis, in reviewing efficiency and effectiveness within their area of responsibility. Because of the difficulty of quantifying the effort devoted to this separately from their other activities, it is not possible to provide a detailed breakdown of the total effort.

Grade	*Staff inspection(1)*	*Central management services(2)*	*Internal audit*	*Extending use of labour saving machines(3)*
(1) CIVILIAN				
Ass't Secretary	5	1	2	
Senior Principal	1	1	2	1
Asst Director Accountant	—	—	1	—
Principal	15	5	5	3
Principal Professional and Technology Officer	2	—	—	—
Chief Accountant	—	—	2	—
Senior Executive Officer/Senior Accountant	43	13	34	20
Professional and Technology Officer I	4	—	—	—
Higher Executive Officer/Accountant	77	3	65	28
Professional and Technology Officer II	3	—	—	—
Executive Officer	36	2	83	17
Clerical Grades/locally engaged civilians	56½	5	28	10
Typists/Secretaries/ Messengers	7	2	4	3
(2) MILITARY				
Brigadier and equivalent	1	—	—	—
Colonel "	6	—	—	—
Lieutenant Colonel "	20	2	—	—
Major "	19	1	—	—
Captain "	1	—	—	—
Other ranks	19	—	—	—
Totals	315½	35	226	82

Notes

(1) These are the total numbers employed in the Inspectorates of Establishments, about 75 per cent of whose effort is devoted to staff inspection and complementing; other responsibilities include monitoring civilian numbers control and voteholding responsibilities for civilian numbers. The figures for each division which are totalled here are not all of the same date, but none is less recent than 1 April 1981.

(2) These figures are only for the central Management Services division; there are also over 300 staff carrying out various organisation and methods studies and work study assignments for line managers.

(3) These figures are only for the staff in central HQ divisions. A number of staff in line management areas are also engaged wholly or partly on work of this type.

Q.18. *What members of professional institutes or other specialists with professional qualifications directly relevant to the Department's functions are employed in the Department? In what sort of jobs are they employed? How many of such professionally qualified people are employed in non-specialist jobs? How do they contribute to reviewing either efficiency or effectiveness?*

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Answer

The MOD relies heavily on a large number of specialists and professionally qualified staff, reflecting the diversity of its activities. The Armed Forces as a whole represent a wide range of professional skills. Many Servicemen either have external professional qualifications or have undergone long and intensive training in their specialisation to reach a high standard of professionalism. They are employed in their units, at Command headquarters and within the MOD itself, and provide large pools of expertise in all areas and at all levels of the Department's activities.

Among the civilian staff, there are many with Scientific, engineering, statistics, teaching, medical, police and other professional qualifications. An analysis of the strengths of occupational groups and classes of MOD civilian non-industrial staff will be found in SDE 81, Volume 2, table 5.6. Within the senior management of the Departments, over half of the posts at Under Secretary level and above are filled by professional specialists, many of whom are the senior representatives of professional groups and corps some thousands strong. At present there are just under 10,000 staff in the Scientist grades, of whom about 5,500 work in the research and development establishments, about 800 in the three Systems Controllerates, about 2,200 in the Meteorological Office and the rest in the Royal Ordnance Factories, the Service Departments and other areas. The professional and technological group, about 25,000 strong, are also employed in many areas of the Department—research and development, the Royal Dockyards and other repair and maintenance establishments, quality assurance etc.

In terms of professionally qualified managers the MOD employs over half of all the accountants in government service—369 out of under 700. One hundred and fifty-seven of these belong to the Professional Accountant Class and 212[1] are members of the Institute of Cost and Management Accountancy (ICMA)—most of whom have received their training at the RAPC Training Centre at Worthy Down. In addition some 922 staff are recorded as having professional qualifications awarded by such bodies as the British Computer Society, the Institute of Personnel Management, the Institute of Purchasing and Supply, the Institute of Chartered Secretaries and Administrators, the British Institute of Management and the Institute of Management Services. The figure of 922 probably understates the actual position.

The Department has taken positive steps to increase the element of specialisation in career development and to encourage and assist staff to study for relevant professional and other qualifications. For example, in September 1981 50 administration group staff began studies externally for qualifications from the professional bodies mentioned above, and more than 50 names have been forwarded to the Civil Service Department for the scheme run by them for ADP qualifications.

In sum there is a high proportion of both Service and civilian staff with professional qualifications and skills employed throughout the Department. They are employed both in areas where their qualifications, professional experience and training are of direct relevance, and more broadly in management. In the same way as non-specialist staff they contribute to reviewing efficiency and effectiveness as individuals and as managers.

Q.19. *What use does the Department make and in what circumstances of outside consultants or researchers in reviewing effectiveness or in related activities eg devising output measures? How useful have such outside contributions been?*

Answer

Management consultants are used from time to time where the department lacks the specialist skills and expertise required for a particular task. Since 1979, consultants have

[1]Eighty-seven of these 212 are staff who have passed all the required examinations for ACMA, but either have not completed the three years' professional experience also required, or have done so but have not formally applied for the qualification. Not included are a further 44 staff who, although without a professional qualification, have had very long experience in the area of cost and management accounting.

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continued work begun earlier on a stores-issuing system at one of our ordnance depots, and have carried out studies into long-term storage requirements in the Portsmouth area, and hazard and safety audit at two Royal Ordnance Factories.

Their most significant contribution has been the design and introduction of incentive bonus schemes at two Naval Supply depots, and preliminary work on a major bonus scheme at the Clyde Submarine Base. Both the intangible benefits of improved industrial relations during a difficult period and the estimated financial savings (which are much greater than the fees) means that these consultancies have been very useful.

On the scientific side, a wide range of outside consultants and researchers are used from time to time—for example, those coopted via the Defence Scientific Advisory Council, who are able to advise the Department on new scientific techniques and methodologies.

Q.20. *Who is responsible under the Permanent Secretary for producing management information including management accounts? Does the management information meet the present needs of managers? If not, what more could be done to fill the gaps?*

Answer

Management information takes very many forms—financial and statistical—and its production is not the responsibility of any one part of the MOD. Managers arrange to be provided with the necessary information for control and monitoring from a variety of sources, including specialist statistical, finance and accounting branches.

As regards management accountancy, the Director General of Defence Accounts has a central role (excluding only areas operating under Trading Fund arrangements) which includes the development of new and existing systems, though their day-to-day operation is generally undertaken by management accountants working for line managers.

At present cost and management accounting systems cover a very wide range of MOD activity. In those areas of the MOD where no formal management accounting systems exist, special studies are undertaken for the same purpose. Where the value of repayment business indicates the need, memorandum trading accounts are produced. The development of existing and new systems is a continuing process as accountants respond to the changing needs of management. For example, a framework has been agreed and is now being developed for management accounting information, to reflect the costs of acquiring, holding and consuming MOD resources. This is the "ABC System" (Acquisition, Buffer stocks and Consumption). The objective is to provide financial presentations which link responsibilities for acquiring and consuming Defence resources with output achieved. It will not displace but supplement existing management accounting systems. Its output is intended primarily for senior management, and will be of sufficient detail to enable them to assess whether the level of spending in any one area measures up to that area's contribution to the total defence effort. Where this appears not to be the case, further analysis would be based on existing management accounting systems, or the ABC supporting data, or if necessary special studies.

Q.21. *What information is provided by the Department to Ministers on questions of effectiveness and efficiency?*

Answer

The entire context within which Ministers work is a continuous review of the programme against available resources (see the answer to question 4). Their decisions are therefore taken in an atmosphere of constant striving for cost-effectiveness and efficiency. Ministers exercise their responsibility for management in the light of all the information available, for example through the Long-Term Costing exercise. Ministers receive a great deal of information through their membership of the Defence Council and of the Service Boards. They also receive the results of the annual review of Departmental overheads, in which they take a keen interest. This Rayner-inspired exercise has led to several initiatives to reduce overheads and has been a further spur to the development of our management

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information systems (such as the ABC system) to see what extra information can and should be brought to the attention of Ministers. Minister of State (Defence Procurement) receives copies of all reports of the Defence Operational Analysis Establishment, which often contain important conclusions on the cost-effectiveness of equipment options and alternative strategies.

Q.22. *What role have the Treasury, CSD, E&A Department, the Rayner team and any other central agencies had in promoting effectiveness and efficiency within the Department? How would you assess their contribution in relation to your own?*

Answer

These central agencies assist in setting the framework within which the Ministry's own staff and procedures operate to improve effectiveness and efficiency. The central control on finance and personnel through strict cash limits and civilian staff reduction targets have been a major impetus behind the search for economies. The studies and exercises inspired by Sir Derek Rayner have contributed, as well as the specific results of individual reviews, to the creation of a greater awareness within the Department of the importance of constantly seeking to improve efficiency, and therefore to the improvement of the atmosphere within which our own inspection, audit and management services divisions operate and a greater receptiveness to their advice.

Q.23. *What incentives are there to encourage individual civil servants to improve effectiveness and efficiency?*

Answer

For non-industrial civil servants, only limited use is made of potential incentives to secure better performance. Performance-related cash incentives on lines that are common in industry could have a part to play, although their introduction would require special care.

The Ministry of Defence is the largest Civil Service employer of industrial labour—on 1 January 1981 there were about 116,700 UK-based industrial staff, engaged in Dockyards, Royal Ordnance Factories, Stores, Engineering, R&D and other establishments engaged primarily in serving the Armed Forces. Given such numbers, it has always been vital for MOD to ensure the efficiency of its industrial establishments. As part of the continuing search for economy and efficiency we have for many years encouraged the development of productivity schemes to ensure the most effective use of our work force. Almost every MOD establishment with industrial employees today operates some kind of productivity agreement—related to flexible working practices and reduction of manpower needed for a given task. With the exception of much of the work of the Royal Ordnance Factories the industrial work undertaken is generally not of a repetitive nature and it is difficult to measure. Nevertheless we have developed over the years a large number of work-measurement-based productivity schemes and these currently operate in all the Royal Ordnance Factories, the Dockyards, larger Depots of the Royal Naval Supply and Transport Service, Royal Naval Aircraft Yards, REME Central and Command Workshops, the larger RAOC Stores and the Engineering and Stores Depots of RAF Support Command. In all in 1980 there were about 30,000 industrial employees on work-measured schemes and the proportion of the work force on such schemes is increasing steadily. The aim of these schemes is to improve output per man and to achieve a greater throughput of work with the same work force or the same output with a reduction in manpower. Schemes are in general designed to produce a 50 per cent share of net savings for management, and include provision for auditing and monitoring performance.

In addition, technical and non-technical suggestion schemes are in operation, and awards made under the schemes are publicised throughout the Department as an encouragement to others.

Financial or other incentives are not the only means of encouraging civil servants to improve efficiency and effectiveness. The emphasis on the need for efficiency and

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effectiveness through training, guidance and the example set by managers at all levels is also important as is the motivation which comes from a sense of duty and from job satisfaction.

Line managers are fully aware of their responsibilities in promoting efficiency and effectiveness, and their performance in this as in their other tasks will be reflected in the assessments made in their annual staff reports and when considering suitability for promotion.

Q.24. *What influence do trade unions have on (i) manning levels, (ii) the introduction of labour-saving machinery and (iii) new ways of organising work?*

Answer

At Departmental level, the Trade Unions are informed about manpower allocations within the main management areas, and the Whitley machinery gives them the opportunity for discussion. Decisions rest with management, but Trade Union views are taken into account. The Whitley machinery also provides a forum for discussions with the Trade Unions on major issues such as unit closures, relocations, reorganisation, contracting out of functions and so on.

In the case of staff inspections they are given the opportunity to put forward proposals before the inspections begin, are normally provided with copies of the final report, and are given 28 days to comment on them. They are normally provided with copies of management services reports on request.

MOD works closely with the Trade Unions on the introduction of administrative computers through the ADP Committee of the MOD Whitley Council. Over the last 18 months, in parallel with national level discussions on a new technology agreement (which has not yet been concluded), this committee has prepared an interim consultation procedure, expected to be agreed and published soon, for the introduction of new computer systems and equipment in administrative areas.

There has been no significant delay to any new administrative computer project as a direct result of Trade Union influence. Some delay was experienced in the introduction of word processors until a recent agreement was concluded at National level between the CSD and the CPSA.

Q.25. *How do you assess the state of morale in your Department? What are the principal contributing factors? What is the present state of morale?*

Answer

The assessment of morale is one of the tasks of managers and commanders at all levels. Evidence of the morale of civil servants is also derived through the Whitley machinery.

The principal contributory factors are pay and conditions of service, Ministerial, Parliamentary, press and public attitudes towards defence, the Armed Forces and the civil service, and the leadership and example of managers throughout the Department. It should be said thsat other factors besides morale influence the level of performance and efficiency of individual Servicemen and civil servants. Basic loyalty, pride in doing a job well, and belief in the importance of defence to the nation are more durable factors than temporary fluctuations in the state of morale.

In a department employing about 600,000 people, and with a wide range of functions, the state of morale inevitably varies between different groups of staff. Speaking generally, the continuous changes to defence roles and tasks over the last ten years or so have affected morale in the Department, particularly given the inevitable periods of uncertainty which there have been for many staff while changes are being debated and implemented.

As far as the Armed Forces are concerned, the present Government's fulfilment of its pledge to restore pay comparability and its commitment to maintain it, coupled with clear

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statements of its belief in the importance of the role of the Services, have contributed to a marked improvement in morale, which has undoubtedly been a factor, though not the only one, in increased recruitment and retention rates.

Morale among civil servants is currently less good. While the staff are ready to implement the changes, the Government's plans for the Civil Service have given rise to an unfortunate misperception in some areas that the work of the Service is not valued by the community as a whole. The uncertainties created for individuals by the plans for manpower reductions and changes in the status of various parts of the Defence Organisation have had a particularly direct impact.

Q.26. *Do you satisfy yourself that the grants and loans you make to other bodies are efficiently and effectively spent, and if so, how?*

Answer

Grants-in-Aid as such represent a tiny proportion of the Defence budget (about £1 million out of £12,138 million—1981 Supply Estimates, Class IIK). These are all very small grants to service museums for the purchase of exhibits, to Service Sports Control Boards and other bodies. Including grants to NATO and other international subscriptions (£30.5 million) the total is about ¼ of 1 per cent of the budget. In the case of NATO, which receives £26 million of this, the Organisation has its own procedures for ensuring efficiency and effectiveness. We take an active part in the procedures through our membership of the Civil and Military Budget Committees of NATO.

Q.27. *Have you any arrangements for the systematic retrospective review of the management of programmes in relation to outcomes, so as to identify lessons learned which might be applied to analogous programmes in future?*

Answer

As mentioned earlier, there is no outcome short of war for assessing our final outputs, but for intermediate ones such as the procurement of weapons systems, training etc, some form of review is possible and is usually applied by line management. The monitoring and reviewing arrangements described in earlier answers provide a continuous review of programmes. Whilst there is no complete and consistent financial basis for such reviews throughout the Department at present, the spread of management accounting systems (see the answer to question 20) should contribute towards this.

Many Defence programmes are of such a character that their particular circumstances may not be repeated, since they reflect responses to criteria such as developments in the threat to the NATO Alliance or rapid changes in technology. However, as far as possible the lessons learned are applied to similar aspects of future programmes.

Q.28. *Please specify expenditures on services bought in from the private sector which could have been bought from government trading services such as HMSO.*

Answer

Since HMSO became a trading fund last year, the MOD has continued to rely on it for the services which it provided previously. A number of studies have been carried out on the possible buying in of certain services direct from the private sector, within the guidelines provided by the Civil Service Department on how such comparisons should be done, but so far no changes have resulted. The only area in which we no longer use HMSO—and this was the result not of a study but of an agreement when the trading fund was set up—is the purchase of commercially-published books and periodicals, which are now bought in direct. The annual value of these purchases in 1979–80, which was the last year in which HMSO was used, was about £0.9 million.

Q.29. *How are complaints from the public fed through into improvements in efficiency and effectiveness?*

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Answer

The MOD does not have the same relationship with the public as those Government Departments providing direct services to the public. We do not therefore receive many complaints which have a direct bearing on efficiency and effectiveness. Indeed a number of the complaints we do receive could be argued to be the *result* of our efforts to improve efficiency or effectiveness—for example, complaints about night or low flying, the use of training areas and so on.

All complaints and suggestions from the public are of course carefully considered by the appropriate staff to see if anything can be learned from them.

A Specific Example

Q.30. *The Sub-Committee hopes that the answers given to the foregoing questions will provide it with a general picture of the procedures and machinery used in the Department to promote efficiency and effectiveness. However, the Sub-Committee believes it would be helpful also if the Department could illustrate its general approach by reference to one specific example. In the case of the Ministry of Defence the Sub-Committee asks that this should be army pay.*

The Department is invited to submit examples of measures of performance and actual documents and procedures used in reviewing efficiency and effectiveness in this area of activity, down to the lowest level. The Department is asked to indicate the relevant management units in which the relevant management information needed is brought together.

Answer

METHOD OF ASSESSING ARMED FORCES PAY

Pay for all three Services is determined by the Government in the light of recommendations made by the Armed Forces Pay Review Body (AFPRB), and by the Top Salaries Review Body (TSRB) for officers of the rank of major general and equivalent and above. The Review Bodies are serviced by a staff of officials known as the Office of Manpower Economics (OME), who progress the review programme, call for the necessary evidence, suggest lines of investigation for the Review Bodies and draft their eventual report. Liaison between AFPRB (OME) and MOD is effected through the Chief Staff Officer (Pay) (CSO(Pay)) and Defence Secretariat 14 (DS14). They represent MOD on the Armed Forces Pay Coordinating Committee, an OME-MOD-CSD Committee under the Chairmanship of the Director of OME which meets from time to time to plan the timetable for the pay review and to monitor progress.

Evidence for the AFPRB is of two kinds. First is the basic job evaluation and pay survey data. The AFPRB works on the principle that Service pay should be broadly comparable with pay for jobs of similar size in other walks of life. The raw data on which the AFPRB base their judgments are obtained for them by CSO(Pay), partly through the Joint Services Job Evaluation Team (JSJET), of which he is the Director, and partly from management consultants. In this respect, CSO(Pay) acts as the agent of the AFPRB and reports directly to OME without wider consultation within MOD. It is for the AFPRB to make its independent judgment of the rates of Service pay which these comparisons would justify.

The second kind of evidence consists of written papers on a variety of topics—on particular subjects which the Review Body may wish to examine or on which the MOD may wish to submit evidence. If a Government pay policy happens to be in force the AFPRB may call for a paper describing the policy and its implications for the review. All evidence to the Review Bodies must first be shown to the Civil Service Department (CSD), who are entitled to comment and whose comments must be appended to the evidence. Other Government Departments, in particular the Department of Employment and the Treasury, may be involved from the pay policy or public expenditure point of view.

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EFFECTIVENESS OF ARMED FORCES PAY IN MAINTAINING MANPOWER

The methods of determining military salaries described above have now been in effect for 11 years and have proved to be valuable in restoring and maintaining confidence in the Armed Forces as a career. To the extent that Government public sector pay policy has intervened, and it has not been possible to pay fully comparable rates of pay, there has been a marked effect on recruiting and retention, especially on certain skills and employments. This cannot be quantified with precision, because of the importance of other factors such as the relative attraction of a Service career as against opportunities outside.

ARMY PAY—EFFICIENCY OF THE MECHANICS OF PAYMENT

General

The mechanics of payment of Army personnel (Regular, Territorial Army, Cadet Forces and Reserves) is one of the responsibilities of the Paymaster-in-Chief and Inspector of Army Pay Services. He is the professional head of the Royal Army Pay Corps (RAPC) and as such reports on the efficiency of his Service to the Adjutant General, though he is also responsible to the Accounting Officer on financial matters. The RAPC is a small administrative Corps of officers and soldiers, many of whom have civilian qualifications in the accountancy, secretarial, computer and management fields. They are to be found in most units of the Army worldwide, engaged on pay and other financial duties, in HQ Staffs and in specialist financial appointments, as well as in RAPC base installations in UK and overseas.

THE PRODUCTION OF PAY DATA

The information from which the pay data of military personnel are derived is generally produced at unit level, ie in the regiment/battalion. The rules of entitlement and the rate of both pay and allowances are set out comprehensively in regulations such as the Pay Warrant and Regulation for Army Allowances and Charges, both of which are produced by MOD civilian finance staffs and have their equivalents in the Royal Navy and Royal Air Force, and in various MOD directives. The procedures to be followed by units when implementing these rules are largely determined by the Paymaster-in-Chief's staff and are also clearly defined in administrative instructions such as the Documentation Manual, the Manual of Army Pay Duties and the like.

Entitlements to pay for officers are the main exception to the general rule that pay data derive from unit information. They are normally published in the "London Gazette", though in certain special circumstances other Orders are used. Pay entitlements for soldiers follow the normal rule and are published in a document known as a Unit Part 2 or Part 3 Order.

Entitlements to allowances and authorities for deductions from pay for both officers and soldiers may stem from either a unit Part 2/3 Order publication, or from a specific claim or charge form completed in the unit, according to the requirements of a given allowance or charge item.

THE PROCESSING OF PAY DATA

Entitlements to non-recurring allowances, or recoveries of non-recurring charges are paid or recovered locally through unit imprest accounts wherever possible. Pay data from units worldwide and from other sources such as the "London Gazette", HM Inspector of Taxes and DHSS, which relate to recurring entitlements to emoluments, or to recurring deductions from pay, are passed to one of six input centres situated in UK (see Annex A). There they are encoded in a form acceptable to the IBM computer system and transmitted by dedicated telephone lines to the RAPC Computer Centre located at Worthy Down near Winchester, where a pay record in computer form is maintained for each officer and soldier. Data from the input centres update these records as appropriate and the output which is thus generated is passed back to the originating input centres, where permanent records of officers' and soldiers' accounts are held, and to the soldiers' units. Output in respect of officers' accounts is passed direct to the officers concerned. Details of these processes are at Annex B.[1]

[1]Not printed.

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METHODS OF PAYMENT

All regular officers, and soldiers of the rank of sergeant and above, are required to operate bank accounts, and payments arising from the computer processing are passed to these accounts direct from Worthy Down, using the Bankers' Automated Clearing System (BACS). Junior ranks have the option of opening a bank account and being paid in the same manner, but a minority are still paid in cash and in their units from the data provided by the Computer Centre, on a fortnightly basis. Statistics relating to the number of bank-paid soldiers are at Annex B1. Plans are well advanced for an extension of the Regular Army payment system to the Territorial Army and ultimately to the Cadet Forces, with the emphasis on the use of banking facilities as far as possible.

Payments to soldiers' dependents may be made by the Computer Centre in the form of GIRO drafts, where only a limited number of payments is to be made, or by means of Army Payment Order Books, encashable at Post Offices, where recurring payments are required. However, as with the servicemen, every encouragement is now given to dependents to accept their emoluments into bank accounts and this is becoming an increasingly acceptable method of payment.

MONITORING OF INTERNAL PERFORMANCE AND EFFICIENCY OF ARMY PAY SERVICES

The performance and efficiency of Army Pay Services at all levels is under continual examination both by the RAPC's own inspectoral staff and by the staffs of the Inspector of Establishments(A)(IE(A)), the Director of Internal Audit (Services) (DIA(S)) and the Exchequer and Audit Department (E&AD). There is close and constant liaison between the Paymaster-in-Chief's and DIA(S)'s staffs and the Comptroller and Auditor General has a resident E&AD audit team at the RAPC Computer Centre.

(a) *Unit Pay Staffs.* The lowest level of Army Pay Service operations is at the unit. RAPC personnel were first introduced into units in the 1950s to relieve regimental officers and soldiers of administrative work of an increasingly complex nature, so freeing them for their primary duties. In a major unit (Lt Col's command) a pay team will normally consist of a Paymaster (Major/Capt) and a small number of soldiers, whilst representation in a minor unit is generally limited to a Warrant Officer or Senior NCO. These personnel are required to carry out normal military duties within their units in addition to their administrative roles. All unit pay staff worldwide are subject to "on the spot" technical inspections some three or four times a year by senior RAPC staff from the Headquarters of the District or Formation in which their units are serving. Every aspect of their involvement in unit financial administration is examined and not simply their duties in the military pay and allowances field. Reports on these visits form the basis of subsequent follow-up action at both Headquarters and MOD levels. Where consistent unit queries or errors highlight inadequacies in pay or allowances rules, or in procedural instructions, the facts are reported by the appropriate Headquarters either to the Director of Personal Services (Army) or to the Paymaster-in-Chief, as necessary, for possible changes to be considered and promulgated. DIA(S) staffs also carry out systems audit at unit level and report any apparent shortcomings at the appropriate management level for investigation and correction.

(b) *RAPC Input Centres (Annex A).* When ADP techniques were first used by Army Pay Services in 1960 there were 15 such Centres handling soldiers' accounts and one for officers' accounts. Today the number is six in all—five for soldiers' accounts and one for officers' accounts. Three main factors have brought about this very significant reduction in numbers with its attendant large staff savings:

(1) The colocation of the Regimental Pay Officers with their associated Manning and Records Offices on five sites. It is planned to reduce the number of colocated sites still further in 1984, when Regimental Pay Office Brighton is to disband and its accounts and the records from the associated Manning and Records Offices are to be moved to either Chester or Leicester.

(2) Continuous enhancement of techniques throughout the Army pay system since the advent of ADP.

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(3) A reduction in the numbers of Regular Army personnel over the past two decades by approximately 20 per cent.

The day-to-day efficiency of the Input Centres is monitored internally by a Management Services Cell which has been set up in each office. This issues technical direction within the office, highlights problem areas and acts as a "trouble shooter" for the Regimental Paymaster. The Input Centre are subject to regular and detailed technical inspection by the Inspectoral Staff of the Paymaster-in-Chief's Directorate. The DIA(S) also subjects the Input Centres to audit and reports any inadequacies at the appropriate management level.

AUTOMATIC DATA PROCESSING

In the late 1950s it was foreseen that the ending of National Service and the greatly reduced manpower pool available to the RAPC would create severe administrative problems if the old largely manual system for handling the pay of Army personnel was retained. For this reason, as well as the obvious need to move with the times, it was decided to investigate the possibilities of using computers for the task. At that time the only commercial data processing machines capable of meeting such a large and complex requirement were produced by IBM. Trials proved satisfactory and the new system, using IBM 705 computers, came into being in 1960, placing the RAPC in the very forefront of large scale computer users in the Government service. The current configuration consists of IBM 370/158 and 3031 mainframe computers, 32 IBM and 18 Memorey disk drives, 12 IBM magnetic tape units and six IBM line printers. The configuration also hosts an extensive teleprocessing network using Ferranti Visual Display Units (VDUs) and Controllers. By September 1982 there will be a total of 230 VDUs located at RPOs, M&ROs, the Army Officers' Documentation Office, Military Secretary's and Adjutant General's branches and other MOD branches.

Future Planning. The Paymaster-in-Chief conducts periodic reviews of the Army Manning and Pay ADP systems. A strategic planning exercise was conducted in 1979 which identified the weaknesses of the present system and recommended a detailed study into the whole ADP system from the unit to the Computer Centre. This study has recently been completed and has recommended the optimum system to be adopted during the next ten years to take full advantage of advances in computer technology, without jeopardising the current investment in programs and software, and to achieve staff savings. The report is being considered in MOD and may lead to a further study into the detailed hardware replacements required in 1984 at the RAPC Computer Centre and Input Centres.

Assessment of Pay. An ADP record is held for every officer and soldier of the Regular and Reserve Armies on magnetic disk at the RAPC Computer Centre. These pay records are updated four times a week by batches of data submitted from RAPC Input Centres. Thus the pay status of each officer and soldier is always maintained up to date and a monthly run is processed which calculates his entitlement to pay in the month; ie Credit of Pay. His monthly entitlement is either paid direct to his bank account or is available for him to draw in cash at his unit. During the month a number of supplementary payment runs are processed to take account of retrospective changes in rates of pay or the late reporting of occurrences which affect his pay.

Control of Programs. The application programs required to update an officer's or soldier's record and assess his pay have been developed over the years and incorporate comprehensive validity checks, eg an occurrence will be checked to ensure that it is compatible with the record it seeks to update. The provisions of current Government regulations and Army Regulations etc are also incorporated so that the correct rates of tax, ERNIC and food and accommodation charges etc are deducted. All changes to the programs are first authorised by the Paymaster-in-Chief's Directorate and detailed specifications are drawn up and agreed with the Directorate. The program changes are thoroughly tested before being passed for operational use.

CONCLUSION

The current Army Pay System is subject to rigorous scrutiny ranging from members of the P-in-C's own staff through to the staff of Comptroller and Auditor General. The

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system as a whole is under continuous review with a view to achieving economies—which are, and will be, forthcoming through the use of ADP.

October 1981

ANNEX A

RAPC INPUT CENTRES IN THE UNITED KINGDOM

1. The six input centres in the United Kingdom are:

(a) *Army Pay Office (Officers' Accounts) Ashton-under-Lyne.* Responsible for the pay records of *all* Regular, TA, RAR and Cadet Force officers.

(b) *Regimental Pay Office, Brighton.* Responsible for the pay records of Regular, TA and RAR soldiers of the Corps of Royal Engineers and Royal Corps of Transport.

(c) *Regimental Pay Office, Chester.* Responsible for the pay records of Regular, TA and RAR soldiers of the Household Cavalry Regiments, Regiments comprising the Royal Armoured Corps, the Royal Army Medical Corps, Royal Army Dental Corps, Queen Alexandra's Royal Army Nursing Corps and Women's Royal Army Corps.

(d) *Regimental Pay Office, Leicester.* Responsible for the pay records of Regular, TA and RAR soldiers of the Royal Army Ordnance Corps and the Corps of Royal Electrical and Mechanical Engineers.

(e) *Regimental Pay Office, Taunton.* Responsible for the pay records of Regular, TA and RAR soldiers of Infantry regiments comprising the Queen's Division, the Light Division and the Parachute Regiment, the Royal Corps of Signals, the Special Air Service Regiment, the Army Air Corps, the Corps of Royal Military Police, Royal Army Pay Corps, Royal Army Veterinary Corps, Cadets and Band of RMA Sandhurst, Small Arms School Corps, Military Provost Staff Corps, Intelligence Corps, Army Physical Training Corps, Army Catering Corps and Officer Training Corps.

(f) *Regimental Pay Office, York.* Responsible for the pay records of Regular, TA and RAR soldiers of the Royal Regiment of Artillery, Infantry Regiments of the Guards Division, the Scottish Division, the King's Division and the Prince of Wales's Division and the Ulster Defence Regiment.

2. The five Regimental Pay Offices are colocated with Manning and Records Offices of the Regiments/Corps for which pay accounts are held.

ANNEX B1

ANALYSIS OF BANKING SERVICEMEN

	Juniors	*Pte*	*LCpl*	*Cpl*	*Sgt*	*SSgt*	*WO2*	*WO1*
Strength	6,625	63,926	23,692	23,328	15,257	7,507	5,824	2,155
Banking	1,364	40,422	21,481	22,432	15,163	7,469	5,788	2,144
Percentage	21%	63%	91%	96%	99%	99%	99%	99%

Average banking of all junior ranks 73 per cent.

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2 *December* 1981] Sir FRANK COOPER, GCB, CMG, Mr E BROADBENT, CB, CMG, Mr J F MAYNE, Major-General O J KINAHAN, CB and Mr N WATSON [*Continued*

Examination of Witnesses

Sir FRANK COOPER, GCB, CMG, Permanent Under-Secretary of State, Mr E BROADBENT, CB, CMG, Deputy Under-Secretary of State, Civilian Management, Mr J F MAYNE, Director General of Management Audit, Major-General O J KINAHAN, CB, Paymaster-in-Chief of the Army and Mr N WATSON, Director of Accounts (Costs), Ministry of Defence, called in and examined.

Chairman

1031. We are grateful to you for helping us in this enquiry into methods of reviewing effectiveness and efficiency in the civil service. You will appreciate we are not in any way attempting to assess the effectiveness and efficiency of your Department but to see what are the methods of reviewing and what lessons can be learned as between departments centrally. One interesting development in the evidence which you let us have was the description of the new Director General of Management Audit bringing together staff inspection, management services and internal audit functions and I understand that Mr Mayne is your Director General?

(Sir Frank Cooper) Yes.

1032. What were your thoughts in creating this form of organisation?

(Sir Frank Cooper) This arose out of a Rayner study done by one of the young principals in management services. We had been thinking for quite some considerable time bringing together the management services, the staff inspection area and the manpower area and internal audit would have a great deal to commend it. So, we set up a study to have a look at this and it came out very clearly with the view that we should have a Director General of Management Audit. The next question really following from that is, do we believe this to be a sensible and rational idea? The first point that struck us very strongly was that these areas are very closely related one to another, secondly, that they do deploy related skills but in some ways the skills differ, and that on occasion it would make a great deal of sense to have them deployed together. Part of it would be, I think, to give us the facility to have one person and one organisation looking over the whole of the management audit field. I am bound to say it is very early days to say how it is going to work but I think we have all got confidence that it is an improvement and that it will work although it will take sometime before we know exactly how to make the best use of it. Perhaps the DGMA himself might say a word or two because he is in charge of it, perhaps it is right he should say how things are going for himself.

(Mr Mayne) I think as Sir Frank has said it is very early days indeed; I was only appointed on 1 September. There are clearly a number of arguments which favour bringing these rather related activities together and a number of other arguments, like the classic one that internal audit should be quite separate from all other functions of the Department, arguing that they should be kept apart. We think that the advantages of the former outweigh the advantages of the latter. I think this follows from the nature of the Ministry of Defence, which is a very large, complex and sophisticated organisation where the staff inspection is an inspection of very large groups of staff, where the internal audit is an audit of accounts amounting to £12¼ billion a year; and those accounts are run according to systems which are extremely complex and very sophisticated. Management services, the third part of my Directorate General is increasingly being concerned with the organisational structure of very large groups of staff doing extremely complicated things. Our experience of this is that when you are examining, inspecting and auditing such organisations, such a large organisation and the bits of that organisation, you are in fact asking yourself quite difficult analytical questions about their staffing, about their structure and about how they operate systems of financial and management control. It was for these reasons that we felt that, at the top of the management, you need good, analytical minds and you need to try to bring to bear the different disciplines of those people onto the difficult problems of structure and organisation.

1033. Could I ask you a little more about the detail of the component parts? The staff inspection in the Ministry of Defence is, I think, both larger and it goes up to more senior ranks than in a number of other departments. You have an Assistant Secretary head of staff inspection whereas the Inland Revenue, for example, has a Senior Principal and I believe the same is true in

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the case of the DHSS. What is the reason for that?

(Sir Frank Cooper) Basically the size and disparity of work within the Ministry of Defence. I cannot stress this too strongly, that we are very large and very scattered and we have a multiplicity of functions both within the three services and within the Ministry of Defence and its civilian organisation. We have the meteorological office, the hydrographer, research and development establishment, etcetera,—I could go on listing them for quite some time. We have very large numbers of people, altogether if we count the services as well as the civilians, 600,000 people and it is quite clear we do need very able people in this area and very senior people if they are going to have an impact and run an organisation that is going to have some punch and effectiveness behind it.

1034. It is very large but it is not 16 times as large as the Inland Revenue. There does seem to be a higher ratio of staff inspectors.

(Sir Frank Cooper) It is terribly difficult to compare us with the Inland Revenue, which is a fairly tidy organisation, if I can put it that way. It is divided up into headquarters and basically tax offices which then relate to the number of people it is collecting taxes from. It bears no comparison I can think of with anything we do other than our pay functions, quite frankly. Those are the nearest things.*

1035. You have experience in other departments, Sir Frank. Would you argue from your experience in the Ministry of Defence that perhaps other departments might treat staff inspection as a more important field than they do?

(Sir Frank Cooper) I must confess—and I am not sure my own people agree with me on this—I am less of an enthusiast for staff inspection than I think some of my colleagues both inside and outside are. I am not denying for a moment it is an important and necessary function but my own view and the way we want to develop over a period of time is to thrust more and more responsibility on to line managers, to give them the information whereby they cost and count their staff, and that is the direction we are now heading very firmly towards. We have done a great deal already in the manpower fields in this area and I see that there is a terrible problem which we have inside ourselves of the relationship between the centre of the Ministry of Defence and all our outlying parts. We have to get this right and it is very difficult to get right but the first thing we have to do is to have an effective centre and decide exactly what it is going to do and then progressively put more and more responsibility on line managers and delegate and decentralise. This is just as true in the straight management area which forms by far the overwhelming part of my own work as it is of any of the other activities we undertake.

1036. We will come on to that in a moment but if we may stick with the management audit function for the moment and then go on to the second element on it, namely the management services. The central management service is a very small group by comparison, only 35 people. Is it simply that element that comes under the Director General?

(Mr Mayne) That element of management services comes under me, yes. There are 345 other management services people who are actually set out in the three service departments.

1037. What exactly do they cover? What does management services mean in the Ministry of Defence?

(Mr Mayne) It means everything from organisation and methods up to major Rayner scrutinies and major management service organisation reviews, of which we produce a number—management organisation studies of quite sophisticated bits of the Ministry of Defence where we work with line managers to undertake reviews of organisations and the way business is done.

1038. It does not include the operations research establishment?

(Mr Mayne) No.

1039. Nor the computer operators?

(Mr Mayne) No.

1040. Nor the systems analysts?

(Mr Mayne) No.

1041. Then the third element is the internal audit and that is a field which the Government generally has been wanting to give greater emphasis to. Is there any

**Note by witness:* As is explained in footnote 1 of the table in the answer to Question 17 of the Sub-Committee's questionnaire the numbers of staff shown under "Staff Inspection" are the total numbers employed in the Inspectorate of Establishment, about 75 per cent of whose effort is devoted to staff inspection and complementing.

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change that you anticipate in the work of the internal audit?

(Mr Mayne) Yes, I think one has to put internal audit in the Ministry of Defence into its historical context a little. In 1972, before systems audit was introduced, it was some 664 strong and it is now 226 strong. The Rayner scrutiny which we are now implementing suggests that even at that level of internal audit there is too much cyclical audit of a low level—looking at accounts and making sure that they are proper and well constructed; that not enough advantage is being taken of the concept of systems audit related to the sort of systems of financial and management control which the Ministry of Defence has to have. The thrust of the argument in the Rayner scrutiny report was that you could in fact, if you did internal audit in a much more sophisticated and high grade way, cut the number of people, do far less recurrent audit and concentrate on major systems and value for money. I think we are trying to discover at the moment how far we can go down that road. The Rayner scrutiny said we ought to be able to cut our inspection and audit staff by 30 per cent. We have taken the decision to cut them by 10 per cent by 1 April of next year and we shall do that; but we want to pause before we go any further to see to what extent we should continue recurrent audit, which I think has to be done,—I think one has to go around and look at accounts frequently. But, one must not, by concentrating only on recurrent audit, ignore the big problems that auditors can turn up and which require a much greater degree of concentration of audit effort if we are going to put a system, which may have gone wrong, right.

1042. Having outlined the component parts of the Directorate General, can you give us an example of where this energy is going to come from?

(Mr Mayne) Where this ———?

1043. The mutual reinforcement, benefit of combining them into a single organisation is going to come from ———?

(Mr Mayne) I think it could come from

1044. I asked for an example.

(Mr Mayne) We are already trying in a very small way to look at the way we are organised to run small computer systems. There are two divisions which deal with small computer systems in the Ministry of Defence, the one basically dealing with the CCTA types of computers and the other dealing with the HMSO types of office machinery and micro-processors. We were needing in any case to staff inspect them to see that the levels of staff were right. We then rather suspected that there might be some organisational problems here, the split might not be appropriate for the new generation of micro-computers; and we were also worried about sending staff inspectors in and then perhaps a month later, or two months later, sending in internal auditors. We are experimenting in that area with management audit. I do not know what we shall find.

1045. It is clearly too early in the day to expect you to be reaching conclusions about the success of the idea of combining these three functions in the Ministry of Defence, but on the basis of your experience elsewhere in the civil service, Sir Frank, do you think that it is possibly an idea which other departments might think about?

(Sir Frank Cooper) Yes, I think it is an idea that other departments should look at. One cannot generalise about this because we have unique problems, in my view, because of the spread of our tasks and a lot of other government departments do not have the same kind of problems that we have and we do not have the same kind of problems that they have. I think the body of evidence that has been growing within the Ministry of Defence for sometime does believe quite strongly that this is the right way to go. I think we shall have to try and prove what is the best way to take this forward by a process of trial and error but we shall get benefits—as many as we can—and use it in areas where we get the largest return.

1046. You mention the ABC system, acquisition, buffer stocks and consumption. This sounds like good, old fashioned stock control. Why was it not done a long time ago?

(Sir Frank Cooper) Could I say a word or two about our general system because I think that is important and ask the Director of Accounts (Costs) to say a word about the ABC system itself. Our basic planning system in the Ministry of Defence is one we adapted in 1963–64 from McNamara's PPBS system in the Pentagon and essentially it is a system which looks ahead ten years and we cost the whole of the programme each year looking ten years ahead. This has meant a mechanism of control on

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what goes into the programme because we are basically a doing department, we are not a regulatory department, the Secretary of State hardly produces any legislation etcetera, and this system is really designed as a planning and control mechanism. We have adapted it over the years but it is the central feature in which all parts of the Department participate and it deals with things, with people and with money. What it does not do is act as a mechanism for what one might call local control or area control except in terms of major equipment projects where it does certainly do it. So what we have been working on for sometime is a means whereby we can improve control of the real resources that are being consumed by one major management area. This is really where the ABC system comes into its own. We are trying now, with I think some success, to identify the areas where we shall see most profit and then try and install it in those areas. It will then give the line manager of that area a picture which he has not got in a number of cases, which is the picture of the whole of the resources which he is acquiring which is, (a), the acquisition, the kind of stocks, the ins and outs as it were in each area, and, (b), the consumption that he is using. The vote system does not do that at all, it is quite useless in that context, but it is the object of ABC to give the line manager the necessary data whereby he can really manage much more effectively the resources which he has, which he acquires and which he consumes. That is the basic philosophy behind it and perhaps I could explain ——

1047. It applies at the level of complete weapon systems?

(Sir Frank Cooper) It will cover the whole activity in a management area. When we are dealing with a weapon system, a new weapon system, we use a project management system. If the procurement executive is buying, for example, a new aircraft that is dealt with, managed and brought into service on a project management basis. We are dealing in ABC with a situation covering something that we have actually got in service or is coming into service, so after we have bought this aircraft, for example, it is then taken into an RAF station and it has all the spares with it, all the men with it, the running costs etcetera, the ABC system will cope with it when we have actually got it.

1048. When does the project turn into an ABC system?

(Sir Frank Cooper) When it is acquired.

1049. When it is acquired, not when it is consumed?

(Sir Frank Cooper) Yes, when it is consumed as well. It is when it is acquired it comes into the ABC system and it may also come in as part of the stock.

1050. Take, for example, a nuclear submarine programme. You have very long lead orders for reactors and shells there. Are those handled as a project or ABC system?

(Sir Frank Cooper) Those would be handled as a project, a new submarine would be handled as a project.

1051. A submarine in operation would

(Sir Frank Cooper) ——— eventually be part of the ABC system. What we do not know, because it is going to take quite a number of years to apply this, is how far we do want to apply it and we have not come to a final view on that. How far down the line we want to go is a question we have not irrevocably made a decision about.

(Mr Watson) To supplement Sir Frank's statement, the objective of the system is to provide financial information to the higher levels of MOD management, that is about the two star under-secretary level. We have looked at the logistic areas initially and we have made a fair degree of progress in these support areas. We can cover in terms of value something like £1,600 million-worth of defence acitivity and we are conducting trials in other areas which will cover something like eventually £4,000 million-worth of defence activity. These are rather initial trials which we are conducting at the present time.

1052. Would you suggest that the ABC system is applicable, let us say, in the PSA, Property Services Agency, of the Department of the Environment?

(Mr Watson) I do not know that I can answer that. It is really geared to the MOD's own requirements because we have a particular problem of determining the cost of our outputs and we have the problem of linking financial resources required with those outputs and this is what the ABC aims to do.

1053. So it is specifically conceived for Ministry of Defence purposes. You have not

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had thoughts about this being a general system?

(Mr Watson) No.

Mr Wainwright

1054. I have a question about your Department in relation to NATO, which I think really means, if you will, expanding on your answer to our question 4. On page 10 of the Defence Estimates it speaks of the "... growing need to ensure that the contributions made by each ally individually fit into a sensible pattern of defence effort by the Alliance ..." and it goes on to speak of the need that "... the Alliance obtains full value for the resources it spends on defence." Could you enlarge on how your Department works within NATO to try and achieve those objectives?

(Sir Frank Cooper) There is within NATO a regular, annual planning process. It is a cycle which goes on year after year and eventually goes to the NATO defence ministers meeting in ministerial session who then make decisions about the programme that goes in front of them. The programme works roughly like this: that each major NATO commander makes an input into NATO as to the kind of plans he would like to see developed by the various member countries. In other words, he says how he sees the kind of response he should be able to make in a military sense against the threat as he perceives it. It is then argued through within NATO in Brussels and guidance is issued from NATO, again ministerially approved, as to the kind of thrust that NATO would like to see countries make and the kind of equipment and the number of items, the kind of stocks, etcetera, it would like to see countries produce. Each country then does its own work in its national capital and then goes back to Brussels and makes an input which is then again argued over and put together and it forms the basis of a report. This is then stringently looked at by the international staff within NATO who address questions to each member country and put them through quite a severe hoop as to what they are doing, why they are doing it, what are they falling down on, are they late on this, can't they do more about that. This again is a two way process which takes place in a very strict atmosphere and, again, with an imput from the major NATO military commanders as well. We, as the Ministry of Defence, are severely questioned by NATO as to what we are doing, why we are doing it, how are we doing it and whether we are doing it quickly enough. That is the process, in outline. I should say it is supported by a number of other measures, for example one of the problems in military output is the only real test is war and, thank heavens, that is something we do not have to undertake. Obviously there are major NATO exercises which are very astutely refereed and judged. There are surprise inspections, there are regular inspections, there are various competitions and so forth, all of which are a very good test of how well we perform nationally. We do very well.

1055. You have spoken just now of the international staff questioning your Department but can you give us some idea or illustration of the extent to which your Department is able to question NATO?

(Sir Frank Cooper) As part of the process I have described we would put quite a considerable imput into NATO as to whether we thought they were putting the right thrust and the right emphasis both in terms of policy and in terms of equipment; also in terms of numbers of men, where they are and, indeed, at certain times the kind of policy that is being followed. There is a continual two-way process.

1056. Is it sometimes the experience of your Department that NATO is much more interested in speed and results than in the cost to the individual country that is being examined?

(Sir Frank Cooper) I think NATO would always like to see all member nations devoting more resources to defence, I do not think there is any doubt about that. Indeed, one of the aims of the dialogue with NATO, from the NATO point of view, is to press countries to do as much as they possibly can. The major difficulty, I think, that the dialogue has is the degree to which you can move policies very quickly. Although it is a free, democratic alliance where everybody has if not an equal voice in practice at least an equal voice in theory, I think change is sometimes quite difficult to bring about. The real place to bring about change is actually within the national programmes which have to be framed within the knowledge of the NATO attitude.

1057. Do you find the international staff at times question costs within your Department or challenge estimates that you give of the cost of coming up to their requirements?

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(Sir Frank Cooper) No and I do not think they could seriously do it. I do not believe they are equipped to do it. What I think they would do is to give an indication, in military terms, that they prefer we do X of this to Y of that: they might say that X is cheaper and therefore they would rather we do more of the cheaper thing than we would of the more expensive thing. My view is that they are not basically, and I hope I am not maligning them, equipped to carry on the kind of dialogue you are talking of. They will give you a very severe questioning about where you are spending your money and what is coming out of it. Yes, they will do that.

1058. My other question relates to comparative costs, if such are at any rate sometimes available. I realise each NATO member's forces are in many ways limited but nevertheless—not I realise now through the international staff but through other NATO channels—are there at least the beginnings of some international comparisons within NATO of various defence costs?

(Sir Frank Cooper) There is more comparison, I think, on an international basis of the output of the various NATO nations and their performance in terms of their total cost of defence and where they are spending it. For example, we have, I think, the best record in NATO for the highest proportion of our spend being in the equipment field; and curiously enough our personnel spend is very similar to the Germans'. There are those kind of comparisons. When you get into the field of cost comparisons in equipment, which is the real area where the question that you have asked me bites hardest, the answer is yes and no. Some countries are very jealous about not revealing their costs for commercial reasons because they hope to sell to other people. But the answer is that we have a jolly good idea of most other countries' weaponry costs, a lot of it is public and we publish a good deal of information now about our own equipment costs. You then get into a much wider problem altogether. We look very keenly at what a Dutch frigate, for example, might cost when we look at a frigate of our own, but there are a lot of influences which come to bear very heavily on this, there is the impact on your own industry and on your own employment. Some of these costs may look quite cheap but if you pull away one or two skins of the onion, the repair costs and spares costs and the fact you are going into a system for sometimes 10, 15, 20 years and it might be difficult to get out of it, you are dealing with a very complicated subject. Just as I think we would always want to see within our own industry as much competition as we possibly can get it is obviously limited because some of the things are so large there is no way you can have serious competition except on an international scale. The whole of this area is a total subject in its own right.

1059. I am sure, but what you said just now about repairs, apart from the capital cost of, say, the frigate, there is not the same scope for international comparisons within NATO on operational costs?

(Sir Frank Cooper) There is and you have to start right at the beginning on this because the important thing is to have interoperability as far as you possibly can within the various NATO countries so you can use the same equipment—if you have an aircraft you can fuel it from the same bowser, the more commonality of spares and spares support so much the better. Within NATO there are some very, very successful shared facilities. Our own Tornado at RAF Cottesmore, which is an RAF station where the whole of the RAF pilots and crews are trained; and all the German Air Force and crews are trained there; and the Italians too. In my view that is an outstanding success and I know the Germans take the same view. We use, for example, ranges in not only Germany but in Sardinia and Crete which are provided on a multi-nation basis. So far it is in these areas where there is scope for sharing facilities and there is, of course, a wide range between all the member countries of bilateral arrangements, which are not necessarily centrally formed by NATO, on infrastructure and things of that kind.

1060. Sharing facilities means some degree of mutual standards?

(Sir Frank Cooper) Yes.

1061. That means accepting one country's system and forgetting another's?

(Sir Frank Cooper) Yes.

1062. To what extent is that process done on the basis of comparative costs of the two countries' systems?

(Sir Frank Cooper) You would compare the costs of a system of that kind very carefully indeed. There are equations. For example, if you have an airfield available which has a large number of facilities which

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you could develop at relatively low cost, you have to weigh that against the amount of good flying weather you have because of where it is positioned. The answer is that costs are studied very carefully indeed. Equally in the equipment field we would study very carefully whether to develop, let us say, a new helicopter on a unilateral basis or with one or more other countries, whether to buy it from one country; or do a deal with another country, which I think personally is the most efficient way on the bases that if we build a helicopter of this kind, another country builds another helicopter of another kind and we arrange to have as much commonality in the spare parts and engines as makes sense. There is no project we would go into of any major kind without conducting the kind of exercise I have just described.

1063. In addition to these cost figures being considered very carefully, are you happy that the costs provided by the other members of NATO as well as by ourselves are themselves satisfactory and well based and comparable?

(Sir Frank Cooper) it would be an illusion to say there is not a degree of international bargaining.

1064. Is the situation improving, from an accountant's point of view, in that respect?

(Sir Frank Cooper) I think I can say pretty clearly by the time we come to a decision we are reasonably satisfied about the veracity of our own costs and the international ones.

Chairman

1065. Are the other countries equally satisfied?

(Sir Frank Cooper) I think to the same degree the answer is probably yes.

1066. Are they satisfied about the same figures or satisfied about different figures?

(Sir Frank Cooper) I think it depends again what you are doing, frankly. Where you are undertaking something such as the tri-service accommodation at Cottesmore everyone will have the same data on that, they must do because I do not believe that somebody is going to commit themselves without it. In other areas you are partly in a competitive situation and partly in a co-operative situation and you move towards determining which of those two situations you are going to end up in and it is quite a difficult and protracted process. I do not think any country will make a decision in any of these areas without any adequate cost data.

Mr Eggar

1067. Could I first of all pick up an answer you gave to a question when you were considering the ABC system. Does it actually cover administrative costs or does it deal purely with all costs?

(Sir Frank Cooper) It covers administrative costs.

1068. It was developed mainly for assessing administrative costs?

(Sir Frank Cooper) No.

(Mr Watson) It was designed to coordinate the costings we had done for a long time on logistic support.

(Sir Frank Cooper) Which is really, if I may say so, where we want it. Let me take a typical example: we would like either, let us say, a major-general or an under-secretary who had command of an area, not merely to have, as they do have in many areas, the kind of cost accounts, which was referred to a few moments ago—some of which we publish, for example the dockyards—but to give that line manager a full survey of the whole area he is actually really in control of, which he has not, in my view, had to the extent he ought to have had. This is really the whole basis of the approach which ABC forms and which we shall be following up in various other areas which I am very happy to talk about, if you wish.

1069. Yes. Have you in that general area—you are presumably aware of the MINIS system?

(Sir Frank Cooper) Yes.

1070. What do you think of that system?

(Sir Frank Cooper) I think, from what we have heard about it, read about it and listened to about it, it is obviously very relevant to the DOE situation. It is applied, of course, in DOE to about, as I understand it, 11,000 staff, and 11,000 staff is actually smaller than one of our dockyards. That is the scale of the problem. Our real problem, I think, is basically different from that of the DOE. Because we are a doing department, we want a system which is really concerned with controlling resources and effecting proper control by the line manager of those resources. In many ways the DOE system, the MINIS system, in its original form, when it related primarily to manpower, is something which we have had working in a different way, but I suggest

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from our records in the manpower field just as effectively, over a period of time. This, again, is related to the way we are trying to develop ABC, in that we set targets centrally from the top of the Ministry of Defence, parcel them down to our main management areas leaving those management areas the task of parcelling them further down to the end of the chain. I think this has worked very successfully. Then, over the top of that, or at the side of that, in a sense, we have had the priority manning arrangement which I think the DUS(CM) would like to expand on.

(Mr Broadbent) I think we have to go back a few years to see how manpower has been handled in the Ministry. If one goes back to the 1975 Defence Review, at that time we had about 275,000 civilians, leaving aside locally engaged civilians abroad, and there were decisions taken and changes of policy and there were other pressures which all drove us to cut our manpower and by 1979 we had come down to 250,000-odd, mostly by changes in function, redeployment back from overseas and so on. Then from 1979 through 1980 there was a different type of pressure on our manpower which was really to squeeze it against proposed targets although we were doing certain major studies in certain areas such as dockyards, R&D establishments, quality assurance, bill paying and so on and these studies were in turn enabling us to reduce our manpower. But the targets that we were set were still greater than were going to be brought about by these studies and we felt we had to impose on line managers what one might term arbitrary targets. If we were going to impose them staff inspection was not going to solve that problem, because roles were not going to change. We felt we had to have a system which had both tight control on the line manager and allowed him some sensible degree of flexibility. We devised a system of priority manning whereby we set major groups of the Ministry manpower targets and said "Within that target you yourself can do certain pluses and minuses, it is up to you to make your own judgments." That system has worked quite successfully in the last two years and we have still achieved our targets. We have come down from 247,000 in civilian terms in May 1979, to now round about 224,000. We think that priority manning has made the line manager more conscious of his manpower and more responsible for it; it has enabled him to make the best of the limited resources.

1071. So in that particular case you are identifying one resource, ie manpower, and on the ABC side you are trying to identify groups of specific costs. Would you say you have nothing to learn from the Joubert system developed by the DOE?

(Sir Frank Cooper) I would not say we have nothing to learn, one can always learn by looking at everybody else's systems. We actually have tended in the recent past and in the long-distant past to look at the way other countries have worked. We feel much closer to the ministries of defence in other countries than we often do to our sister departments in Whitehall frankly. We look very closely at what the Americans, Germans and French are doing and this is terribly important. What I would say is I believe the systems we are developing are right for the Ministry of Defence. If one looks at the ministerial level we have got full ministerial involvement not merely in policy decisions but in our management decisions because we have the Ministry of Defence basically split into four major management section, one for each of the three services, and one for the procurement executive; the junior ministers actually work this system and meet with each other to discuss it. Then above them the Defence Council tying the whole thing together with the Secretary of State, Chief of Defence Staff and myself.* We have this kind of system. The Secretary of State gets every month, and has had for a long time, a report on his manpower, he gets regular reports of our forecasts about expenditure and so forth. I would not want to change course from the way we are going at the moment, I think that is the easiest answer to your question.

1072. This is all very fine and splendid and clearly you are making a lot of progress but why has it taken so long?

(Sir Frank Cooper) I think the true answer is it has taken longer than we thought. The War Office started to try it in

**Note by witness:* The full membership of the Defence Council is the Secretary of State; Ministers and Parliamentary Under-Secretary of State; Permanent Under Secretary; Chief of the Defence Staff; Chiefs of the Naval, General and Air Staffs; Vice-Chief of the Defence Staff (Personnel and Logistics); Chief Scientific Adviser; and Chief of Defence Procurement.

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the 1920s and gave it up because it was too costly in staff terms. The real answer to the question is that it has only become possible by the use of computers, we have so much information and so much data that until we got virtually the whole of it computerised the cost in staff terms would have been very large indeed. That is really the truthful answer.

1073. It was a calculated sort of cost benefit analysis on your side, you were always looking at it and immediately you could become computerised you said "That is how to do it"?

(Sir Frank Cooper) Yes.

1074. Do you accept that analysis? In other words there has been someone in your position, someone else in the MOD applying for new computer hardware and the moment you have been able to achieve these tremendous staff savings because of the new computer applications you have gone ahead? Is that what has happened?

(Sir Frank Cooper) I would not certainly wish to describe it in those terms, it sounds rather like an article from "Management Today".

1075. Are you being critical of your own staff or of "Management Today"?

(Sir Frank Cooper) What I would say is this: I think we have been conscious for a very long period of time we wanted to move in this area. We also are terribly conscious of the fact that it was very costly in staff and we were also very conscious that a lot of our major expenditure decisions are decided centrally, for example, we decide and we can only decide how many ships, tanks, soldiers, sailors, airmen we are going to have in toto, we have to decide how many hours they are going to fly or how much utilisation to get out of each tank; that has to be decided centrally. So those resources are allocated centrally, so those are in fact our big expenditure decisions. What we have wanted to improve on is our management down, not at the coal face although obviously that is important, but in our middle areas and that was where we had not been able to do it until we got all the information and we have still a few blanks in the computer areas today. I believe the ABC system has been in gestation for four years.

(Mr Watson) Two years we have been building up.

(Sir Frank Cooper) The decision to go for it was taken in 1979.

1076. Most other senior officials have stressed the importance of ministerial involvement and the role the Minister played in having it. The MOD is almost unique in those who have given evidence so far. Do you not need to have a prod of this kind? Is it all related to technical advances in the computer world? Has ministerial involvement been so minimal it is not worth mentioning?

(Sir Frank Cooper) I think first of all we are a doing department and we are concerned with management. Most of our people are managers in one shape or another and we have a very large professional staff. This is where we are unique, more than half our open structure are in fact professionally qualified people. I think we are quite different from the rest of Whitehall in that sense. Yes, we do need prodding by Ministers, prodding by everybody, and I get tired of prodding my own people and they get tired of prodding people down the line. But the real problem is that we have got over 50 per cent of the government computer power and we were very early into the computer business. When I was Director of Accounts in 1960 I had the job then of getting one of our first pay computers into action at that time and a somewhat painful experience it was I may say. I think this does actually come much more naturally and easily to us now and behind us we have the horrible problem of escalating defence costs in the equipment field. We have a bonus in that, because we have a block budget we are bound to look for efficiency the whole time and so maximise our output. That is a real incentive. The best figures that I can quote are the extent to which we have been able to transfer the money over to the equipment field from personnel and other fields over the years. In 1974–75 equipment as a percentage of the defence budget was 31.3 per cent and in 1981–82 it was 43.6 per cent. That is the major incentive that we have.

1077. What is the manpower reduction over that period?

(Mr Broadbent) In civilians over that period it is over 50,000 and in service personnel it is somewhat less, probably around 30,000.

(Sir Frank Cooper) The reduction in our headquarters is 19.1 per cent.

1078. Could I move to another area and that is—I do not know whether you have seen the evidence that was given to us last

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week by the unions but in that evidence they said it was only five or six full-time people involved on the staff side working in the whole of the Ministry of Defence amongst the 140,000 civilian staff. Is that right?

(Mr Broadbent) I think this is probably right in the sense of full-time staff from each of the unions paid for out of their own resources. Of course, in addition to that, there is a practice which spreads right across government called the facilities agreement and our own staff, as opposed to union staff, are employed on industrial relations activities which can vary from 10 per cent of their time to perhaps even 70 or 80 per cent of their time. The number of people who are working in that way is in the thousands rather than six. We have a very elaborate Whitley machinery which works at headquarters level and there are several functional Whitleys in the ordnance factories, in the dockyards and in the RAF commands. Also each station and unit has a pretty active Whitley run by the uniformed officer commanding the unit or by the scientist or engineer in the dockyards and R&D establishments. On those Whitleys there are union representatives but at that level they are part-time. The full-time ones are at headquarters and deal with Sir Frank and my staff.

1079. Could you give us some idea of how many people in the MOD spend more than 50 per cent of their time on union activities?

(Mr Broadbent) I would hazard a guess that it is probably in the scores, not more than that.

1080. You would not therefore agree with the assessment that I have received that approximately the ratio of people involved very nearly full-time on union work is one per 1,000 employees?

(Mr Broadbent) 240? There probably is. I was thinking scores in relation to the non-industrials. Of course, with the industrial unions, primarily concentrated in dockyards, ordnance factories, there will be quite an elaborate shop steward system.

1081. I was thinking non-industrials actually.

(Mr Broadbent) I would need to check but I think scores, 100 to 200, not far out.

1082. I would be interested to know what the figures are.[1]

(Mr Broadbent) Certainly.

[1]See Appendix 16.

1083. Do you think that kind of superstructure, if that is the right word to use, is justified either in industrial relations terms or in cost terms? Could you improve on it and, if so, how?

(Mr Broadbent) I think it is justified. I think on the whole we have good industrial relations. We have temporary difficulties from time to time but I think there is very active industrial relations work on the ground at the unit level as well as headquarters level. I think it is most important that we have good industrial relations because many of our units are mixed-manned units and you have a mixture of civilian and uniformed staff in command on these units. It is very important that the commander understands the different perceptions of each group of different staff. It is particularly important at the uniformed establishments, where there are civilian staff with their Whitleys, for them to understand the requirements of the staff. I think it has stood the test of time and I would not want to go back where industrial relations were dealt with only centrally through the Ministry.

Chairman

1084. When you replied to Mr Eggar about MINIS and you described the working of Defence Council and the very elaborate systems you have, it was rather like the occasion of the visitor to the fleet for the first time who goes on a frigate and on the bridge and finds there is not a wheel there and there does not seem to be any way of moving the ship one way or another. The purpose of MINIS is to give the Secretary of State a clear description of what is being done, what is being achieved, what the people are trying to achieve in the next six months and therefore give him some basis of shifting policy and the implementation of it. Would you agree that is a desirable objective?

(Sir Frank Cooper) Yes.

1085. Would you think one has to think very carefully as to whether the systems being installed in fact do allow effective political control?

(Sir Frank Cooper) Yes, I would accept that. I think I would go further than that, my own view is that you have got to have a system of implementation in all departments which not merely gives effective political control but also gives a proper facility to enable the Secretary of State to drive the

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work in that department. I do not think I would have any reservations whatsoever about that. Where I think I would have some reservations is whether the same system in every department is the right way to go. I do not think MINIS is terribly appropriate for our own Department. The system that we have, the long- term costing which is looking where the Department is trying to go not merely next year but over a period of years ahead, is terribly important and I actually spent two hours with the Secretary of State this afternoon with a lot of senior service and civilian colleagues going through part of this in very, very considerable detail. We break our system down because our first principle is that each service should have a board with ministers on it which runs and manages that service and that, we think, is absolutely fundamental. That is a management area. Just as the Secretary of State himself gets a report as Chairman of the Defence Council and in his own Ministerial role, with information coming up to him on a regular basis, just as we have a structured system for taking decisions about investment.

1086. In a report which I understand is a Ministry of Defence report which is in the Library of the Royal Institute of Public Administration, entitled "Professionalism in the Administration Group in the Ministry of Defence" you yourselves say. "... the majority of staff rely for their effectiveness on rather broader experience supplemented by sporadic training and a knack for quickly learning the (often familiar) ropes on the job. This last arrangement is one that Whitehall at large would find familiar; it would be less readily recognised by other civil services and by our own Armed Forces; and it would baffle the commercial world." I gather you have fairly strong views on the training of administrators. Would you like to elaborate?

(Sir Frank Cooper) I have got fairly strong views on this and again I am not sure whether everyone totally agrees with them. That report, of which we were rather proud, is now actually producing some benefits and the DGMA might like to expand on that. My own view is that in a Department like ours our administration group has to become more professional and is becoming more professional and has to be encouraged and driven along to be encouraged and driven along to be even more professional than it is at the moment. I have no doubt or reservations about that whatsoever. The problem is how to do this and one of the schemes that we have worked out and is now beginning to come into operation is first of all to specialise within functional groups within the Ministry of Defence, and, secondly, to encourage people to acquire professional qualifications of one kind or another and help them to do this. In our case the obvious ones tend to be in the accountancy field because we are a large spending department; there are others, such as law, which is highly relevant in the contract field and as we place 70,000 contracts a year I would be happier if we had more legally qualified people; languages are particularly important because of our international contacts, and personnel management. All those areas are ones which we see of great importance and we want to encourage and cajole staff to go and get them and we will help them to do it. The reverse side of that, which is terribly important, is that we then use those staff properly and adequately and they see that they are getting some benefit from having qualified, which is quite hard work and extra work. One of the things we have found with training our own accountants, which is being done brilliantly for us by the Paymaster-in-Chief at Worthy Down, is that the success rate is many times the national average.* We have to convince people going to Worthy Down, or anywhere else, is a real benefit to them. It is interesting that the new Deputy Director of Management Audit will be a professional accountant. We have got a number of professional accountants working now in wider posts. This is going to take time but I do strongly believe that people have got to be better qualifed than simply having a very good general education or whatever it may be. What I will say is that we must not lower the basic calibre of the person concerned, we do not want a lot of people with a lot of qualifications who are not very bright, we want very, very bright people with very, very good qualifications.

1087. Do you think the service experience at the staff college courses have anything to offer on administration, say, at the under-secretary level where a person is

**Note by witness:* The latest figures show the national average pass rate for all parts of the examinations for ACMA to be 38.7 per cent; the average pass rate at Worthy Down is 89 per cent.

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possibly going to move on as a deputy and eventually permanent secretary but who could do with an up-dating of what is going on in other departments, on new techniques, on policy problems rather intensively for perhaps a few months? Do you think there is scope for that kind of development in the British civil service?

(Sir Frank Cooper) We do send civil servants on nearly all the staff college courses up to and including the Royal College of Defence Studies but the problem is rather a different one because the great majority of service personnel have been trained in a profession, ie, the carriage of arms, and have been practising that profession and what they need is staff training. The difficulty with the civil service is in the most part they are actually engaged in staff work for a very long period of time and what they want is rather more professional training. I think really the services are coming at it from one end and the civil service is coming at it from the other end. I think we do get a benefit from sending our civilians on service staff college courses. The biggest benefits are threefold: one, I think it does give people a change of air and change of atmosphere, secondly, they get a much greater understanding of the service, and, thirdly, they get to know service people very much better which is very valuable to them in the future.

1088. I am not talking about the content or the field the course is attempting to cover being necessarily appropriate for wider use, but over government policy generally, I recall one deputy secretary who was responsible for moving many thousands of miners from one part of the country to another who did not have any conception of local housing functions; it was simply a hole in his background, which no Member of Parliament would suffer from. Is that widening of experience and also the up-dating of technique, because there is a very rapid development of technique in management arising from information, technological developments, done? Is that not something which professional men, be they accountants or be they administrators, need up-dating on at about under-secretary level before they go on to top levels of responsibility?

(Sir Frank Cooper) I think I would go further than that. I would like to see the up-date before that stage and I think we are doing something in this area, probably not enough, by exchange with industry and exchange with other departments and people going on a variety of external courses. The important part is before you get to under-secretary level, probably just before you get there, I think where you are leading me is that there ought to be something like ENA and my answer is yes, I do. I believe there is room for a very elitist course for the very best people and I am quite unashamedly saying it should be restricted to the very best people. I think it ought to include people not merely from various government departments but some from the services and some from outside, from industry and other professions as well.

1089. In the very early days of the civil service staff college I heard it said you cannot train assistant secretaries but you must try and it is not even worth trying to train under-secretaries. From what you have said this training of the elite core could probably be pitching at around the under-secretary level?

(Sir Frank Cooper) I suspect that is actually a little too late. I would pitch it at the assistant secretary level for people who you know are going to become under-secretaries. That is the time to do it. When you become an under-secretary you then really have quite a command over a fairly large piece of policy or management area and you have a good deal of influence. I think it is really before you do that it is terribly important to have a change of atmosphere and to really up-date yourself.

1090. That can mean that it is 20 years since a permanent secretary attended a course like this, can it not?

(Sir Frank Cooper) Yes. I think in a curious way a permanent secretary has very much wider contacts than most of his staff do. You do actually meet a lot more people inside and outside and, again, this varies in departments. If you take, let us say, our accounts people who live and work in Liverpool, they have a tremendous dialogue with industry and they have to be up with industry. You get this really going on the whole time and they are up with ideas like putting bills on wire with big companies and this kind of thing. You get this tremendous interface and we are very determined in that sense. What I am very worried about is the man who becomes under-secretary and has a much wider field of responsibility and he is barely up with the people beneath him. That is where you need improvement.

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1091. We did ask you in your evidence to cover one particular area about effectiveness and efficiency and we chose army pay and you gave us a very interesting and up-to-date account of development areas. Could I ask your Paymaster-in-Chief when the strategic planning exercise was conducted in 1979 which identified weaknesses in the present system what those weaknesses were?

(Major General Kinahan) The first weakness is that we have a monolithic computer based at Worthy Down and for a start we believed it was vulnerable. Secondly, we could see that the variety of tasks being required of the computer were steadily increasing and the study in fact recommended that a further study be made with the basic objective of putting mini-computers on the pay, manning and record office sites and in turn there might perhaps be micro-computers established in infantry battalions with the objective of saving individuals and ensuring that the system as a whole held together and worked efficiently.

1092. Is that the broad line of what is now being implemented?

(Major General Kinahan) Yes. The current situation is that the main computer at Worthy Down would be due for replacement about 1984–85. The mini-computer study is being made to prove that the thing really is viable as we believe it will be. The micro-computer for the infantry battalion: I believe we can say the case has already been made for that and we are going to attempt in the autumn of next year to introduce a micro-computer into ten selective units to prove what we believe to be the case. We can say immediately that there will be a saving of at least one man, that is a manpower saving, and in fact also we think we may see there will be a saving in cost as well.

1093. At what level did you say that was?

(Major General Kinahan) September next year.

1094. One man at what level?

(Major General Kinahan) Junior NCO, I am talking about a battalion now. That is one we believe quite clearly in but in fact there will be spin offs from that when one works the system back down the line.

1095. Could I ask, in a very important area like army pay and with the kind of reviews that the Paymaster-in-Chief has referred to, what about the major strategic questions, the idea of having a pay corps? Presumably it dates back to the day when units were out in the field and troops had to be paid and the people who paid them had to be soldiers. That is not necessarily the case today where presumably you start from scratch? Is that sort of issue considered? And how?

(Sir Frank Cooper) These are terribly difficult questions to answer because what we have got to provide for, when we look right down to the end of the telescope, is three fighting services which may have to go and fight somewhere or move off at short notice very quickly as they frequently have to do, for example in Northern Ireland or Belize. They have to get up and go. You have, in my view, to have a military component which is able to do this. This applies not merely in the pay area, there are similar problems about the repairs of aircraft engines and so forth when we may have to move RAF units out with some people who can manage to repair engines wherever they go. Could they all be civilians? You have to make very difficult judgments here. They are not ones where you can readily apply some rule of thumb. You have to try and argue them out.

1096. But do you accept that you have made decisions where civilians are often required to be mobile?

(Sir Frank Cooper) This is a continuing, on-going situation and it will vary, it has varied and it will vary again. It varies in both directions.

1097. Have you considered the civilianisation of pay?

(Sir Frank Cooper) Yes, we have.

1098. When?

(Sir Frank Cooper) Four or five years ago was the last time.

1099. The conclusion was against?

(Sir Frank Cooper) Yes.

1100. For the sort of reasons you have outlined.

(Sir Frank Cooper) Yes.

Chairman: Unless my colleagues have any questions to ask, thank you very much for helping us this afternoon.

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ANNEX

Memorandum by the Ministry of Defence

RESOURCE CONTROL AND THE ABC SYSTEM IN THE MINISTRY OF DEFENCE

Nature of the MOD

1. The MOD is a large and complex organisation, over 600,000 strong, engaged in a wide range of different activities. Such an organisation cannot be effectively and efficiently managed from the centre. In the MOD, unlike other departments whose functions are mainly regulatory or advisory, it is the large management and executive areas—not the headquarters—that consume the largest amounts of resources; and on which we concentrate most of our management accounting effort.

Delegation of Responsibility

2. While the central organisation, and ultimately the Secretary of State, exercise overall control of finance and manpower and adjudicate on their allocation between the various activities of MOD, as much responsibility as possible is devolved to the natural line management units—the Service Boards and the Procurement Executive Management Board. Line managers are fully aware of their responsibility not just for effectiveness but also for efficiency—for minimising their consumption of all the resources allocated to them (current financial provision, manpower, capital assets and stocks) to fulfil their objectives.

Ministerial Involvement

3. There is constant Ministerial involvement in the management of the Department. One of the main aims of the new Ministerial structure is to strengthen this: the scope for the Secretary of State to delegate functional responsibilities to the Ministers and Under-Secretaries of State has been increased; and the Minister of State (Armed Forces) now normally chairs all three Service Boards. This provides greater continuity and consistency between the Service departments.

Objectives

4. The primary statement of the objectives of the Defence programme is the annual Statement on the Defence Estimates, which reflects the total allocation of resources to defence, the Government's broad defence objectives, and the guidance agreed every two years by NATO Defence Ministers. These annual reassessments are supplemented, when necessary, by further scrutinies of priorities such as the recent White Paper—"The United Kingdom Defence Programme—The Way Forward" (Cmnd 8288).

The Long-Term Costing

5. The annual Long-Term Costing (LTC) process provides the means whereby objectives are translated into fully costed, detailed programmes, matching objectives and resources over the next ten years. Because it is broken down in functional terms as well as in input terms, the LTC also allows us to measure how resources are being allocated to military capabilities and to monitor the various kinds of output that are being achieved; a summary is attached at Annexes A, B and C. Through the LTC, through scrutiny and processing of operational requirements, through project management and through other control systems we are able continuously to monitor our achievement of defence objectives. These essentially iterative processes, involving Ministers, the central staffs and the main management units, ensure that there is regular review and adjustment of objectives and our means of achieving them, to take account of changes in the military threat, the availability of funds and manpower and the degree of progress achieved.

Measuring Defence Outputs

6. Because of the difficulty of measuring the final output of the three Services, except in the very broad terms of the success of deterrence, we have to use surrogate measures for final output, such as performance in emergencies and on limited operations such as in

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Northern Ireland, NATO evaluations of operational efficiency, the effectiveness of plant such as buildings and equipment, the performance of administrative systems within fighting units, and the morale of Servicemen. All these measures provide evidence, some quantitative but mainly qualitative, of the effectiveness of the final output of military units. In addition, we try as far as possible to assess the effectiveness and efficiency of intermediate outputs, such as production, repair and spares support of equipment, training and R & D—which are themselves the final outputs for logistic and support organisations.

Resource Management

7. The management of resources is primarily the responsibility of line management, working under the direction of Ministers and within a framework of central controls of policy and programmes, of the total level of financial and manpower resources and of their allocation between areas. These central controls enable the Secretary of State to exercise his overall responsibility for the direction and management of the Department. They also safeguard the position of the Accounting Officers.[1]

8. The Service Boards and the Procurement Executive Management Board are each allocated a Target Heading as their proportion of the total defence budget. The appropriate Deputy Secretary is designated the Target Heading Manager and has the duties of collating LTC, Estimates and other budgetary data and presenting them to his Board with recommendations for the financial management of the underlying activities and programmes, including additions or reductions to match the resources available, both for the current and for future years.

9. Headquarters personnel costs, which represent only a small proportion (less than 3 per cent) of total defence expenditure, are adequately controlled by means of major scrutinies such as the Management Review in 1975–76, by tight manpower ceilings, which have resulted in a 19.3 per cent reduction in numbers (3,581 posts) between 1 April 1974 and 1 October 1981, and through close scrutiny of general administrative expenses.

Manpower Control

10. Overall Service manpower numbers are controlled through the LTC process and the Estimates. There have been substantial reductions since 1964—about 111,000 (24 per cent)—and there will be further reductions in the next few years following the decisions announced in Cmnd 8288. For Service manpower in headquarters, and for civilian manpower generally, ceilings have been imposed on each management area. These ceilings are further subdivided by line management progressively down the line through the Priority Manning System. Under this system line managers at each level have to set their priorities, cutting down or eliminating less important tasks in order to make the most effective use of the manpower made available to them by their senior line managers. Between April 1979 and October 1981, the number of UK-based civilian staff fell by about 23,000 (9¼ per cent) to about 224,700, which is on target for the reduction to 200,000 by 1 April 1984 given that certain policy decisions, particularly the closure of Chatham and the rundown of Portsmouth, are still being implemented.

Budgets

11. The extent of the delegation to line managers of responsibility for the resources they control will be further increased by the planned development of staff budgets and travel budgets, which will give them an overall limit within which they can make adjustments (for example, of numbers and grades of staff) to reflect their priorities, and which will also allow monitoring by the centre of performance against targets. We shall also be considering giving line managers "responsibility budgets". A major study of Financial Accountability (involving outside chartered accountants) is currently nearing completion. One idea being explored is to use the ABC system (paragraphs 16–18 below) as the basis for giving line

[1]MOD has four Accounting Officers: the Permanent Secretary for Vote 1 (Forces and civilian pay, stores, supplies and miscellaneous services) and Vote 3 (Forces pensions); the Chief of Defence Procurement for Vote 2 (Procurement); the Chief of Fleet Support for Vote 5 (Dockyards) and the Managing Director of the Royal Ordnance Factories for the ROF Trading Fund. (The Chief Executive of the Property Services Agency is Accounting Officer for Vote 4 (Works)).

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managers "responsibility budgets" for those activities which they control. This is one of a number of possible developments to strengthen the role of line managers in promoting efficiency.

Management Audit

12. Work is in hand on the further development of new approaches to inspection and audit, and of management information and accounts, which will complement this increased delegation. The role of the new management audit organisation will be to monitor the efficiency of the Department as a whole, and the performance of line managers in this respect, by a more coordinated and selective scrutiny of areas and functions.

Management Accounting

13. The MOD policy is to introduce cost and management accounts wherever they can be of use to line managers and others concerned with the cost of activities. Many systems have been developed and are reviewed as the accountants respond to the changing needs of management. Existing systems cover, at varying levels of sophistication, such diverse activities as manufacture, repair, supply, Service training, Service hospitals, Service children's schools, R & D Establishments. A complete list is attached at Annex D. In aggregate the costs monitored by these systems are about £4,400 million per annum, to which can be added the ROF Trading Fund activities of £300 million.

14. The MOD employs over half (369) the accountants in the Government Accountancy Service (662), concentrating most of their efforts on the areas using the largest amounts of resources. The Sub-Committee has already been advised of the 212 qualified cost and management accountants, and of a further 44 who have had very long experience, whose task it is to develop and operate our cost and management accounts systems, including those of the ROFs. There are also some 200 accounting technicians who provide support, and 55 or so military personnel engaged in cost and management accounting activities. Management accounting staff work directly for the line manager whose activities are being monitored, except where this would be uneconomical.

15. Apart from the Trading Fund area, management accounting policy is determined centrally by:

(a) a Steering Committee chaired by the Principal Finance Officer;

(b) a Coordinating Committee chaired by Director General Defence Accounts;

(c) DGDA through his cost and management accounting staff.

The ABC System

16. The systems have been developed over many years, to meet needs as they arise and mainly to serve the working level. Few have provided for the presentation of summary information to senior management, nor have all of them related costs directly to the supply of money through the Vote. To meet these points, and to provide a strategy for the future, a decision was taken in 1979 to develop a system which would extend the coverage of costs information, bring present and future systems within a common framework, and show how cash provided through the Vote relates to manpower and materiel resources used to meet particular Defence objectives. The system was given the acronym ABC because it is concerned with how funds Voted for the Acquisition (A) of personnel and materiel resources can be related, after allowing for the fact that stores and equipment may be taken into stock (Buffer = B), to their use (Consumption = C) in meeting Defence objectives. The ABC system is designed to provide operating accounts for all the costs of the larger blocks of MOD activity and for the presentation of such accounts to managers at senior level.

17. Development of the system was planned to take place over a 10 year period, starting in 1979. It was not intended that all MOD activities would be covered in detail, since summary statements serve adequately for some of them.

18. Attached, at Annexes E to J, by way of illustration, are summary statements in ABC form for two large areas of MOD activity, viz Fleet Support (for financial year

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1979–80) and Research and Development (for financial year 1980–81). Both are supported by detailed accounts for the activities covered (not reproduced) and are therefore the top level of a hierarchy of management accounting information. Though the accounts are of a comparable structure there are differences in accounting methods and content which reflect the early stage of ABC development. Both, however, show how the cost of an activity can be tracked from (A) the acquisition in the year of resources by a manager using the cash allotted to him under the Vote system via (B) the buffer or assets needed for his organisation (some of which are paid for by other managers) to (C) his consumption in the year or earlier). (C) can then be analysed to show the contribution he makes to Defence functions. Statements of this kind are of value not only because they show the costs of activities but also because they enable one to see in cost terms the network of relationships among managers in providing the goods and services needed. The Vote system (reflected in the (A)) does neither.

Ministry of Defence

January 1982

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ANNEX A

TABLE 2.4
FINANCE AND TRADE
Functional analysis of the Defence budget[1]

£ million

	1976–77	*1977–78*	*1978–79*	*1979–80*	*1980–81*	*1981–82*
Total expenditure	5,632	6,329	6,919	8,558	10,785	12,274
Nuclear strategic force	78	96	93	126	165	269
Navy general purpose combat forces	726	843	1,017	1,131	1,461	1,663
Submarines	112	130	155	197	253	339
Aircraft and ASW carriers	14	15	26	23	23	26
Amphibious forces	30	29	28	36	44	52
Cruisers	45	63	92	89	98	95
Destroyers and frigates	280	319	402	418	537	594
Mine counter-measures vessels	29	41	52	50	75	90
Other vessels	109	116	126	159	206	210
Aircraft	68	92	102	108	158	175
Fleet headquarters	3	5	6	13	18	23
Overseas shore establishments	36	33	28	38	49	59
European theatre ground forces	985	1,091	1,251	1,496	1,746	1,881
British Army of the Rhine	700	779	905	1,079	1,227	1,302
Berlin	18	22	18	20	27	27
Home forces	267	290	328	397	492	552
Other Army combat forces	64	70	74	81	105	44
Mediterranean	39	44	43	50	64	56
Hong Kong and other Far East	20	18	20	17	19	-35
Other areas	5	8	11	14	22	23
Air Force general purpose forces	906	1,034	1,107	1,462	1,865	2,240
Air defence	112	160	128	145	199	287
Offensive support	51	52	61	63	68	76
Strike/attack/reconnaissance	234	280	335	458	620	785
Maritime aircraft	48	50	50	64	85	108
Transport aircraft	69	65	82	135	168	168
Tanker aircraft	19	17	15	26	32	43
Civil charter	9	5	7	11	13	14
Other aircraft	39	65	69	101	104	100
Operational stations	135	148	158	221	268	279
Headquarters	29	30	33	41	50	57
General support	161	162	169	197	258	323
Reserve and Auxiliary formations	91	105	122	148	213	253
Navy	5	6	6	8	14	12
Army	78	91	107	130	182	222
Air Force	8	8	9	10	17	19
Research and development[2]	699	823	872	1,151	1,479	1,676
Ship construction and underwater warfare	73	79	81	149	209	298
Ordnance and other Army	58	62	67	92	120	150
Military aircraft	258	319	332	439	509	498
Guided weapons	74	98	105	124	183	223
Other electronics	97	107	126	163	231	259
Other research and development	139	158	161	184	227	248
Training	484	565	604	777	975	1,097
Service colleges	34	38	38	48	71	78
Navy	151	170	183	249	311	358
Army	186	236	263	312	377	429
Air force	113	121	120	168	216	232
Repair and associated facilities in UK	409	447	449	590	705	814
Royal Dockyards	73	87	87	91	108	114
Other repair and maintenance	114	122	115	177	218	257
Storage and supply	163	179	188	247	289	337
Quality assurance	59	59	59	75	90	106
War and contingency stocks	116	108	178	160	224	326
Navy	33	39	44	56	73	94
Army	56	29	79	61	88	145
Air Force	27	40	55	43	63	87
Other support functions	1,067	1,139	1,255	1,481	1,820	2,081
Whitehall organisations	108	111	103	130	164	195
Local administration communications etc in UK	368	394	452	535	666	812
Meteorological services[2]	22	21	24	29	36	34
Family and personnel services in UK	137	122	125	163	197	229
Service pensions	299	345	397	458	554	603
Other support services	133	146	154	166	203	208
Miscellaneous expenditure and receipts	7	8	-103	-45	27	-70

[1]The figures given in this table reflect the price levels of the Estimates for the years in question.
[2]Meteorological research and development is included under Meteorological services.

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ANNEX B

TABLE 1.2

THE ARMED FORCES

Functional analysis of Service personnel[1] average strengths provided for in the Estimates

Thousands

	1976–77	*1977–78*	*1978–79*	*1979–80*	*1980–81*	*1981–82*
Total service manpower	340.4	337.1	332.5	330.0	330.2	340.6
Nuclear strategic force	2.8	2.8	2.8	2.5	2.5	2.4
Navy general purpose combat forces	32.7	32.7	32.4	32.2	30.4	30.1
Submarines	2.5	2.6	2.5	2.5	2.7	2.7
Aircraft and ASW carriers	1.7	1.7	2.5	2.8	1.9	1.5
Amphibious forces	4.8	4.4	3.9	5.0	4.6	4.8
Cruisers	1.4	1.4	1.4	1.3	1.0	0.7
Destroyers and frigates	15.1	15.1	14.9	14.0	13.0	13.0
Mine counter-measure vessels	1.0	1.1	1.1	1.1	1.1	1.1
Other vessels	1.6	1.8	1.7	1.7	1.8	1.7
Aircraft	2.3	2.4	2.5	1.9	2.2	2.4
Fleet headquarters	0.7	0.7	0.7	0.9	1.1	1.1
Overseas shore establishments	1.6	1.5	1.2	1.0	1.0	1.1
European theatre ground forces	103.1	102.6	101.8	98.4	95.2	97.3
British Army of the Rhine	54.7	55.8	57.0	58.0	55.0	56.8
Berlin	3.1	3.1	3.1	3.1	3.1	3.0
Home forces	45.3	43.7	41.7	37.3	37.1	37.5
Other Army combat forces	14.2	14.1	14.1	14.4	14.9	15.0
Mediterranean	4.3	4.1	4.1	4.1	4.2	4.2
Hong Kong and other Far East	9.3	9.2	8.8	8.8	9.0	9.2
Other areas	0.6	0.8	1.2	1.5	1.7	1.6
Air Force general purpose forces	56.6	54.7	53.7	53.8	54.6	58.6
Air defence	3.7	3.6	3.8	3.6	3.9	4.4
Offensive support	1.1	1.2	1.3	1.1	1.1	1.1
Strike/attack/reconnaissance	4.9	4.8	4.8	4.8	5.1	5.3
Maritime aircraft	1.8	1.7	1.5	1.5	1.6	1.6
Transport aircraft	3.3	2.9	2.9	2.9	3.3	3.4
Tanker aircraft	0.6	0.4	0.4	0.4	0.4	0.5
Other aircraft	2.5	2.6	2.8	3.0	3.3	3.8
Operational stations	18.8	18.2	17.9	18.8	18.1	19.9
Headquarters	2.8	2.8	2.7	2.7	2.7	2.8
General support	17.1	16.5	15.6	15.0	15.1	15.8
Reserve and Auxiliary formations	2.6	2.6	2.5	2.5	2.8	2.9
Navy	0.3	0.3	0.3	0.3	0.3	0.3
Army	2.0	2.0	1.9	1.9	2.2	2.3
Air Force	0.3	0.3	0.3	0.3	0.3	0.3
Research and development	1.4	1.3	1.3	1.3	1.4	1.5
Ship construction and underwater warfare	0.2	0.1	0.1	0.1	0.1	0.1
Ordnance and other Army	0.3	0.3	0.3	0.3	0.3	0.3
Military aircraft	0.3	0.3	0.3	0.3	0.2	0.3
Guided weapons	0.1	0.1	0.1	0.1	0.1	0.1
Other Electronics	0.1	0.1	0.1	0.1	0.1	0.1
Other research and development	0.4	0.4	0.4	0.4	0.6	0.6
Training	72.6	73.8	71.6	76.2	78.8	81.5
Service Colleges	4.2	4.3	4.1	3.9	4.3	4.7
Navy	22.8	22.9	22.8	23.2	22.3	24.0
Army	31.7	32.6	30.6	31.9	34.2	35.2
Air Force	13.9	14.0	14.1	17.2	18.0	17.6
Repair and associated facilities in UK	9.5	9.6	9.9	9.7	9.8	10.3
Royal Dockyards	0.1	0.1	0.1	0.1	0.1	0.1
Other repair and maintenance	5.8	5.9	6.2	6.3	6.5	6.9
Storage and supply	3.3	3.3	3.3	3.1	3.0	3.1
Quality assurance	0.3	0.3	0.3	0.2	0.2	0.2
Other support functions	44.9	42.9	42.4	39.0	39.8	41.0
Whitehall organisation	2.8	2.7	2.6	2.8	2.7	2.8
Local administration communications etc in UK	18.6	17.8	18.1	16.9	18.0	19.5
Family and personnel services in UK	7.4	6.9	6.7	6.4	6.6	6.6
Other support services	16.1	15.5	15.0	12.9	12.5	12.1

[1]Comprising regular forces and locally entered personnel.

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ANNEX C

TABLE 5.2
CIVILIAN STAFF
Functional analysis of civilian staff

Thousands

	1976–77	*1977–78*	*1978–79*	*1979–80*	*1980–81*	*1981–82*
Total civilian staff[1]	289.4	278.8	266.8	263.3	255.5	242.3
Nuclear strategic force	4.1	4.2	4.1	4.4	4.5	4.4
Navy general purpose combat forces	9.9	9.3	8.4	8.2	8.1	7.7
Amphibious forces	0.3	0.2	—	—	—	—
Other vessels	5.9	5.5	5.5	5.5	5.4	5.1
Aircraft	0.1	0.1	0.1	0.1	0.1	0.1
Fleet headquarters	0.1	0.1	0.1	0.2	0.2	0.2
Overseas shore establishments	3.5	3.4	2.7	2.4	2.4	2.3
European theatre ground forces (British Army of the Rhine)	30.1	29.2	28.2	27.7	26.9	25.2
Other Army combat forces	7.4	7.2	6.9	6.8	6.6	6.9
Mediterranean	3.3	3.4	3.1	2.9	2.6	2.7
Hong Kong and other Far East	4.0	3.7	3.7	3.7	3.8	4.0
Other areas	0.1	0.1	0.1	0.2	0.2	0.2
Air Force general purpose forces	12.7	12.1	11.6	11.4	11.0	10.2
Air defence	0.2	0.1	0.1	0.1	0.1	0.1
Other aircraft	0.3	0.2	0.3	0.3	0.3	0.3
Operational stations	5.4	5.2	5.1	5.1	4.9	4.6
Headquarters	1.0	1.0	1.1	1.0	0.9	0.9
General support	5.8	5.6	5.0	4.9	4.8	4.3
Reserve and Auxiliary formations	3.6	3.6	3.6	3.5	3.3	3.2
Navy	0.2	0.2	0.2	0.2	0.2	0.2
Army	2.9	2.9	2.9	2.8	2.6	2.5
Air Force	0.5	0.5	0.5	0.5	0.5	0.5
Research and Development	36.7	35.2	33.7	33.2	32.0	31.0
Ship construction and underwater warfare	3.3	3.0	3.1	3.5	3.4	3.5
Ordnance and other army	5.4	5.2	5.0	4.8	3.9	3.7
Military aircraft	7.1	7.0	6.8	6.5	6.5	7.5
Guided weapons	3.1	3.1	3.0	2.5	2.9	2.6
Other electronics	4.4	4.0	3.7	4.3	4.7	3.7
Other research and development	13.4	12.9	12.1	11.6	10.6	10.0
Training	21.6	21.1	20.5	21.0	20.8	19.7
Service colleges	3.5	3.5	3.3	3.3	3.3	3.0
Navy	4.1	4.0	3.9	4.0	3.8	3.6
Army	11.0	10.6	10.5	10.9	10.9	10.4
Air Force	3.0	3.0	2.8	2.8	2.8	2.7
Repair and associated facilities in UK	97.5	93.5	88.3	87.2	84.9	78.9
Royal dockyards	34.6	34.5	34.2	33.8	32.8	31.0
Other repair and maintenance	18.6	17.3	15.6	15.7	15.8	15.1
Storage and supply	32.6	31.1	28.9	28.3	27.2	24.7
Quality assurance	11.7	10.6	9.6	9.4	9.1	8.1
Other support functions	65.8	63.4	61.5	59.9	57.4	55.1
Whitehall organisations	14.0	13.0	12.2	12.4	11.6	11.1
Local administration communications etc in UK	30.7	30.4	30.2	29.0	28.1	27.1
Meteorological services	3.5	3.4	3.3	3.2	3.1	2.9
Family and personnel services in UK	11.6	11.2	10.6	10.5	9.8	9.3
Service and pensions	0.2	0.2	0.2	0.2	0.2	0.2
Other support services	5.8	5.2	5.0	4.6	4.6	4.5

[1]These figures are the average strengths of industrial and non-industrial staff provided for in the Estimates and include locally engaged staff. Civilians employed in the Royal Ordnance Factories and Department of Environment staff directly employed on Defence work are excluded, figures for such staff are as follows:

	1976–77	*1977–78*	*1978–79*	*1979–80*	*1980–81*	*1981–82*
Royal Ordnance Factories	22.0	23.0	23.5	23.5	21.9	20.9
Department of Environment civilians engaged on Defence work	22.0	28.0	28.0	26.0	24.7	23.3

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ANNEX D

MOD Cost and Management Accounting Systems in use are listed below, together with an order of cost for the activity monitored. The coverage and the detail of information gathered varies from system to system.

				Order of Cost 1980–81	
A.	**NAVY**				
	1. CINCNAVHOME and FONAC			£361m	(incl £277m for Service training)
	2. Dockyards			£492m	
	3. NARO			£ 45m	
	4. Supply and Transport	(Note 1)		£315m	
	5. Hospitals			£ 23m	
	6. Hydrographer			£ 44m	
	7. Marine Services			£ 91m	
B.	**ARMY**				
	1. Training			£430m	
	2. REME Workshops			£104m	
	3. Engineer Resources			£ 7m	
	4. Main Storage Depots	(Note 1)		£114m	
	5. Hospitals			£ 17m	
	6. Children's Schools			£ 18m	
C.	**AIRFORCE**				
	1. Commands			£1,950m	
	(including in more detail)	Training	£256m		
		Hospitals	£ 36m		
		Engineering	£125m		
		Storage Depots	£ 60m (Note 1)		
		ATS	£ 27m		
	2. Met Office			£ 50m	
D.	**PE**				
	1. R&D Establishments			£474m	
	2. Other			£ 45m	
			TOTAL		£4,580m (Note 2)

Note 1 Excludes interest on stocks held

Note 2 Includes double counting of approx £146m being the value of goods and services provided by one area to another

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ANNEX E

MOD (NAVY) FLEET SUPPORT DEPARTMENTS—ABC ACCOUNTS FOR 1979–80

Item	*Description*	*Estimate*	*Total*	*Dockyards*	*Naval Stores & Transport Depots*	*Marine Services*	*Naval Aircraft Repair Establishments*
		£m	£m	£m	£m	£m	£m
	SECTION A—ACQUISITION DURING YEAR (£million)						
A01	Pay etc of Civilian Personnel	317.67	315.20	180.79	103.99	22.21	8.21
02	Miscellaneous current goods and services	61.29	58.36	20.82	36.57	0.82	0.15
03	Stores	392.89	393.80	—	392.47	—	1.33
04	Plant and Machinery	13.87	11.99	11.99	--	—	—
05	Cash allowances for Military Personnel	9.16	8.93	—	8.93	—	—
06	Total (Gross)	794.88	788.28	213.60	541.96	23.03	9.69
07	Less receipts appropriated in aid	79.43	83.22	1.31	80.03	1.40	0.48
08	Total (Net)	715.45	705.06	212.29	461.93	21.63	9.21
	SECTION B—BUFFER—ASSETS AT END OF YEAR (£million)						
	FIXED ASSETS (depreciated book value)						
B01	Land		35.56	4.90	39.66	N/A	N/A
02	Buildings etc		100.32	71.70	22.33	2.98	3.31
03	Plant and Machinery		104.54	87.01	11.53	1.39	4.61
04	Motor Transport Vehicles						
05	Vessels		143.54	—	93.94	49.60	—
06	Sub-total Fixed Assets		383,96	163.61	158.46	53.97	7.92
07	Stores (Current basic material prices)		2,374.69	—	2,374.69	—	—
08	Total Fixed Assets and Stores		2,758.65	163.61	2,533.15	53.97	7.92
09	Total Fixed Assets and Stores (CCA Book Value)		3,245.92	325.95	2,760.84	135.15	23.98

Note: N/A—Not yet available.

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Item	Description	Total	Dockyards	Naval Stores & Transport Depots	Marine Services	Naval Aircraft Repair Establish-ments
		£m	£m	£m	£m	£m
	SECTION C—CONSUMPTION DURING YEAR (£million)					
C01	Direct Acquisitions from Section A	393.62	193.56	168.69	23.02	8.35
	Goods and Services by other MOD Departments					
02	Naval Stores and Transport	135.29	120.57	—	9.37	5.35
03	Dockyards	41.12	—	19.21	21.33	0.58
04	Marine Services	16.16	7.49	8.67	—	—
05	Ships and Weapons Departments (Equipment Maintenance)	4.06	3.61	0.37	0.08	—
06	Air Force Department Stores	13.13	—	—	—	13.13
07	MOD Constabulary	8.52	2.49	5.66	0.13	0.24
08	Accounting Services	5.85	3.72	0.99	1.11	0.03
09	Procurement Executive Support, Computers and other	28.21	2.53	19.72	2.31	3.65
10	Sub Total	252.34	140.41	54.62	34.33	22.98
11	Buildings etc Maintenance by PSA	18.91	7.23	9.76	0.44	1.48
	Supporting Services from other Government Departments					
12	Civil Superannuation (Paymaster General)	42.58	22.38	16.91	2.14	1.13
13	Rates on Government Property (Treasury)	6.42	2.03	3.89	0.25	0.25
14	Stationery and Printing (HMSO)	3.13	2.14	0.80	0.04	0.15
15	Sub Total	52.13	26.55	21.60	2.43	1.55
	Notional Costs					
16	Insurance	4.18	0.14	3.92	0.11	0.01
17	Depreciation } of Fixed Assets at	28.65	15.31	9.82	2.88	0.64
18	Additional Depreciation } Section B	19.87	10.12	4.10	5.19	0.46
19	Interest on Capital	321.23	23.17	286.78	8.81	2.47
20	Sub Total	373.93	48.74	304.62	16.99	3.58
21	Total	1,090.93	416.49	559.29	77.21	37.94
22	Less: Internal Transactions between Fleet Support Departments:					
	Services provided by Marine Services	16.16				
	Overhead on Naval Stores issues, transport services	67.29				
	Work done by Dockyards	39.32				
23	Net Consumption of Resources by Fleet Support Depts	968.16				

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ANNEX H

STATEMENT 1

SUMMARY ACCOUNT OF CONTROLLER, R & D ESTABLISHMENTS & RESEARCH (CER) OPERATING COSTS AND FIXED ASSETS: 1980–81

1. INPUT OF RESOURCES

	1980–81		*1979–80*	
	Final Cash Limit	*Outturn*	*Outturn*	*(Inflated*) (Outturn)*
a. *Vote 2*	£M	£M	£M	(£M)
(i) Establishment Salaries, Wages, NHI etc	196.2	195.0	159.0	(199.0)
(ii) Stores and Services	107.0	96.8	88.8	(105.0)
b. *Non Vote 2*				
(i) Pay	NA †	12.6	10.8	(13.3)
(ii) Stores and Services	NA †	40.0	35.1	(41.8)
Attributable Cash Cost		344.4	293.7	(359.1)
Non Attributable Cost		129.8	104.4	(127.6)
INTRA MURAL TOTAL		474.2	398.1	(486.7)
EXTRA MURAL TOTAL	NA †	99.0	81.2	(91.8)
TOTAL CER OPERATING COSTS		573.2	479.3	(578.5)

2. ASSETS AT 31 MARCH

	31.3.81	*31.3.80*
	£M	£M
Land	9.7	9.7
Buildings	196.0	181.6
Plant and Machinery	252.8	222.8
Stock	25.0	21.0
TOTAL	483.5	435.1

3. FUNCTIONAL ANALYSIS OF OUTPUT

	1980–81		*1979–80*	
	Outturn		*Outturn*	*(Inflated*) (outturn)*
	£M	%	£M	£M
Research—Intra mural	162.7	29	136.0	(166.1)
Extra mural	99.0	17	81.2	(91.8)
TOTAL RESEARCH	261.7	46	217.2	(257.9)
Development	147.2	26	118.2	(144.5)
Services Provided	145.7	25	122.2	(149.6)
Miscellaneous Activities	18.6	3	21.7	(26.5)
TOTAL CER OPERATING COSTS	573.2	100	479.3	(578.5)

* This column is 1979–80 data revalued to 1980–81 price levels
† NA = Not available

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A MEMORANDUM OPERATING ACCOUNT IN RESPECT OF MOD(PE) R & D ESTABLISHMENTS FOR THE YEAR ENDED 31 MARCH 1981

Expenditure	*Total* £k	*Prior Year** £k
1. a. VOTE 2		
(1) *Salaries and Wages*		
a. Non-Industrials	110,871	114,316
b. Industrials	65,682	65,936
c. National Insurance, FSSU	18,473	18,710
(2) *Stores and Services*		
a. Petrol, Oil & Lubricants	7,870	5,970
b. Vehicles	1,905	1,605
c. Other Stores & Services	60,769	72,197
d. Electricity, Gas & Water	14,352	13,045
e. Postage, Telephone & Telex	4,930	3,801
f. Assisted Travel	551	582
g. Travel and Subsistence	6,446	7,834
b. NON-VOTE 2		
(1) *Pay*		
a. MOD Police	5,587	6,426
b. Service Personnel	6,718	6,735
c. Other Civilians	285	145
(2) *Stores and Services*		
a. Other MOD Votes	23,167	21,447
b. PSA Current Expenditure	16,896	20,328
ATTRIBUTABLE CASH COST	344,502	359,077
2. OTHER CURRENT AND NOTIONAL EXPENDITURE		
a. Depreciation	16,676	16,877
b. HQ Admin Charges	15,006	15,803
c. Postage and Stationery	1,975	2,191
d. Superannuation	28,485	28,355
e. Insurance	415	450
f. Interest on Capital	27,114	26,128
g. Rates	4,834	4,919
h. Rental of Aircraft, Fighting Vehicles and Ships	35,654	32,687
i. Miscellaneous Expenditure	122	222
Less: Misc Receipts	(509)	—
NON-ATTRIBUTABLE COST	129,772	127,632
TOTAL ATTRIBUTABLE AND NON-ATTRIBUTABLE COSTS	474,274	486,709

*This column is 1979–80 data revalued to 1980–81 price levels.

	Total £k	*Prior Year** £k
3. COST OF WORK FOR CUSTOMERS		
a. Research Work for CER	162,715	166,105
b. Development Work for C of N	32,870	34,700
Development Work for MGO	32,059	32,058
Development Work for CA	82,286	77,748
c. Services for DOI	17,918	21,809
Services for CAA	111	41
Services for Other R & D Establishments	6,709	6,983
Services for other MOD Units	90,614	91,579
Services for Other Repayment Services	17,214	15,770
Services for Lodger Units	13,173	13,418
d. Manufacture & Installation of Fixed Assets	6,143	7,692
e. Empire Test Pilots' School	7,307	6,906
f. Miscellaneous	4,151	8,661
g. Under (Over) Absorption of Expenses	1,004	3,239
TOTAL COST OF WORK FOR CUSTOMERS	474,274	486,709

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WEDNESDAY 9 DECEMBER 1981

Members Present:

Dr Jeremy Bray, in the Chair

Mr Anthony Beaumont-Dark
Mr Michael English
Mr Richard Shepherd
Mr Richard Wainwright

Examination of Witnesses

The Rt Hon THE BARONESS YOUNG, Chancellor of the Duchy of Lancaster, a Member of the House of Lords, attending by leave of that House, examined; Mr BARNEY HAYHOE, Minister of State HM Treasury, a Member of the House, examined; Mr J S CASSELS, CB, Second Permanent Secretary, Management and Personnel Office, and Mr R W L WILDING, CB, Deputy Secretary, at HM Treasury, called in and examined.

Chairman

1101. Lady Young, may we welcome you, and you Mr Hayhoe, and thank you for coming to give evidence to us this afternoon with regard to our inquiry into the effectiveness and efficiency in the Civil Service. I understand, Lady Young, that you would like to make a statement at the beginning of your evidence?

(Lady Young) Thank you, Mr Chairman. I would like an opportunity of making a statement. I am glad of the opportunity to meet you this afternoon. As the Prime Minister herself recently made clear, we in the Government are grateful for the valuable work that you have done. It was with this in mind that I thought it right for you to be first to hear of two policy decisions we have just reached. Both of them are, I believe, directly relevant to your current enquiry, and both affect the way in which we shall be pursuing effectiveness and efficiency in the future. With your permission, Mr Chairman, I should like to tell you about them and to set them in their context. Since the Sub-Committee began its inquiry the Prime Minister has announced a major change in the machinery of government. As a result, the new Management and Personnel Office now has responsibility for the organisation, management and overall efficiency of the Home Civil Service, and for other personnel management matters. Our task in the MPO is to do our utmost to see that the work of government is done well and at the least cost to the taxpayer, and that departments employ the right people for the job and make full use of their ability. But we need to state this task in terms of action, and fairly soon. I shall of course be very interested in the Sub-Committee's views, but I have already decided that early in the New Year I shall publish an action document that sets out what we intend to achieve and how we intend to achieve it in 1982–83. I hope the Sub-Committee will welcome this decision. I shall want in the next few weeks to review with my officials the tasks lying ahead and the resources we have to deal with them. I cannot now say exactly what we shall decide, or where we shall emerge, but I can tell you something of how our thoughts are already developing.

Efficiency is at the centre of our task. Three things stand out as needing attention. First, creating the right climate for managers to manage in terms of procedures, systems, methods of work and attitudes which lay stress on cost effectiveness and encourage the pursuit of value for money. Secondly, identifying and bringing on successful managers. Thirdly, pursuing personnel and other policies that develop the capacities of staff at all levels and encourage them to use them. Of course, it is individual departments and their Ministers that are responsible for the work of government. In the end, it is the way line managers and their staff in departments do their work that counts. We shall therefore collaborate with departments, and where necessary participate in their efforts to raise efficiency. We shall be seeking to help departments to carry out efficiency reviews and studies; to apply the lessons from such work more widely by disseminating best practice; to help each department to develop, in the way appropriate to it, the kind of practices which any well-managed operation should have; and to audit selected operations as a means of testing the overall efficiency of the work of government.

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In all that we do we shall work particularly closely with the Treasury, which is now responsible both for the financing of departmental programmes and for manpower in departments. It will be right to maintain a bracing regime as regards overall resource totals both of money and manpower. The Treasury, too, will contribute to improving financial responsibility and accountability in line management in Whitehall departments. If the MPO is to carry weight with departments, the quality of its staff will be decisive, and so will the way we draw on the experience of others. I have already got to know many of the staff of the MPO and I am impressed. We have inherited excellent people from the CSD. A great deal of very good work has gone on, but it has gone largely unnoticed. We shall build on their expertise to create a relatively small, high quality cadre of staff whose professionalism, knowledge, experience and approach qualify them to speak and act with authority. This is partly a matter of training and of secondments to and from other departments, and partly a matter of ensuring that we remain open to fresh ideas wherever they originate, within Whitehall or beyond.

The second thing that I want tell you about for the first time is the Government's practical programme of efficiency work for 1982. In consultation with Sir Derek Rayner and the Treasury I have secured the agreement of my ministerial colleagues to a programme for the coming year which will keep up the momentum and deepen the impact of our work. What I am announcing is, if you like, our efficiency strategy for 1982. It is made up of four main elements. Firstly, further departmental scrutinies (for example, one of the general employment service of the Manpower Services Commission); some of these scrutinies will be used to continue the drive to simplify schemes which will affect the individual citizen, where we have already made good progress, for example in the administration of grants, benefits and taxes. Secondly a coordinated programme of what we have termed "Resource control reviews". There will be six or seven departmental reviews of the use and control of resources in important executive operations of government, including reviews in two or three defence areas, in PSA districts, and work in the prison service to help get the very best value from the increased resources which it is to have. Thirdly a similar number of projects to improve systems for estimating, monitoring and controlling the running cost of departments. Their aim will be to ensure each department has the tools necessary to keep its running costs under proper control; the departments taking part include the Foreign and Commonwealth Office, the Departments of Education, Employment and Trade, and my own. Fourthly, a close look at different aspects of personnel work in about eight departments to examine both its quality, which we want to maintain and raise, and how economically it can be carried out. Many thousands of civil servants are engaged in this kind of work and I regard it as vital for the motivation of staff and hence efficiency; the departments taking part will include Revenue, Customs, the Employment Group, Health and Social Security, Agriculture, the Scottish Office, the Lord Chancellor's Department and the Home Office.

Departments themselves initiate and carry out this work, but a measure of central oversight and coordination is required to provide specialist support, to ensure that the relevant techniques are used, and to draw out general lessons of wider application. I, and my officials in the MPO, will be providing this with assistance from the Treasury and elsewhere. Thus, my Second Permanent Secretary, Mr Cassels, will exercise general direction over the reviews of resource control, running costs, and personnel work, and will report on them to the central Ministers, including the Prime Minister. Sir Derek Rayner will be associated with these reviews and will provide overall leadership for the departmental scrutiny programme.

The work I have described is likely to provide short-term savings to add to the aggregate of over £60 million already identified from exercises conducted in 1981. In the longer run, our 1982 strategy will also help the introduction of better arrangements for efficient management. But none of this will have any lasting value unless we promote efficiency in the fullest sense. We need to ensure that we have the right people in departments to adopt and develop the systems, techniques and procedures which an efficient management needs. After all, it is people who make systems work. I attach as much importance to the work of my department in recruiting the right people and in encouraging and helping staff to do good work as I do to improving methods and systems.

I hope that the inquiry under Sir John Megaw will lead to agreed arrangements

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for settling pay in the Civil Service. To that we shall want to add good career management and high quality training. We also owe decent standards in the working environment to staff and, in offices where they serve the public face to face, to them also. We have to keep up with the use of modern office machines and new technology. In short, we recognise that there is more to efficiency than merely cutting costs. Our action document will reflect this balance. I hope that what I have had to say about the preparation and publication of MPO's action document and our strategy for efficiency work in 1982 will contribute to your inquiry into efficiency and effectiveness. May I say now that I look forward to reading the conclusions you reach.

1102. Normally, as you know, we like to receive any substantial statements from Ministers on documents in advance and we have not had the opportunity to read what you have said, but we shall do so with interest. Am I right in saying that, as you observed yourself, there was a lot of work going on in the Civil Service already, and that the programme which you have outlined is in fact a continuation of very much what was already happening?

(Lady Young) Could I say, Mr Chairman, that I appreciate very much that I could read this statement for the first time because I am sure you would appreciate I have been a very short time in this job and I felt the most helpful thing to do for you was to set out in writing how I see the work of the Department going. We have been working very much against the clock. I hoped we would be able to tell the Committee before, in fact, telling anyone else and you would find that was useful.

1103. I understand the position.

(Lady Young) I also, in doing this, think it important, because this is a new office, to say that we are building on work that has been going on in the former Civil Service Department, but, of course, we shall be doing other work as well. I wished, at the same time as putting out this statement indicating what would be our strategy document and what is our efficiency programme for next year, to indicate that there has been good work going on and we are building on that as well as advancing it.

Mr English

1104. I know Lady Young has not been long in this job and I appreciate that, but perhaps she does know the difference between the management reviews that departments carried out before Sir Derek Rayner came, which were mainly controlled by the Departments themselves, and the old nineteenth century Treasury committees (not committees of this character but committees of civil servants in the Treasury) that reviewed other departments, with some effect one understands. By saying as you do in the first paragraph at page 3 of your document that the departments themselves initiate and carry out this work, what you are really saying is that there is going to be no change in the twentieth century system, we are not going back to the nineteenth century and having an objective review of departments' activities, it is all subjective. That is really what you are saying. I realise you may not realise this yourself. I am trying to tell you, if you like, that in the nineteenth century they did have objective reviews of departments' activities by outside people—a sort of institutionalised Derek Rayner, if you like. Now, if departments are going to review their own efficiency, that is fine; it is something I would have thought you should be doing every day anyway. But what objective review of departments' activities is there going to be?

(Lady Young) Perhaps it would be helpful if I said that we shall be building on in this matter techniques that have been developed by Sir Derek Rayner and which will be incorporated into my Department because I think they have been found to be very valuable indeed. What I think we are all looking for, and what I think is the point of your question, and certainly what was looked for in the nineteenth century and is looked for in the twentieth century, is this sense of getting good value for money and being efficient. The question is, how does one achieve that? What I think we have done over the last few years has been this: I think there has been a real change in the climate of opinion. People are looking now to be more efficient and I think how this is done varies. In some instances Ministers take a very close interest in what happens; in others the officials take it. But the important thing is that somebody should be making sure it does happen and should be measuring this.

1105. I think it is not just "somebody", Mr Chairman. Let us give a very obvious example. If you asked the Foreign Office to review itself, then it would offer up cuts in the BBC. That is the practical result and

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has happened on several occasions. There is a certain distrust, I do not think only in Parliament but in the public at large, about departments reviewing their own efficiency. There is a feeling—this came up in the Debate on audit to which we may come later when another Member wishes to ask a few questions—that there should be rather more objective supervision of departments than merely supervision by themselves of themselves.

(Lady Young) I think we are talking about two slightly different things. I thought you were talking about the management of resources. I see now that you are talking about the functions of the department with the example you gave of the Foreign Office.

1106. I do not think they are separate functions. Efficiency cannot be separated because one way of securing better efficiency might be to abolish a function. You cannot separate them.

(Lady Young) I recognise that if you go to make economies you might decide you would not, in fact, have one particular function, but on this matter—a matter of whether or not you are going to continue some particular function—that must be, I would have thought, a ministerial decision or government decision as to whether or not it is going to continue to do X that must ultimately be decided. What I was talking about was much more looking at the use of the resources within a department to carry out different functions, the functions having been agreed, and you question whether or not this should be done objectively. What I am saying is I think it is important that it should be done and should be seen to be done, and I think when you have got financial constraints there is great pressure on the Minister to make quite sure that these are done, and I think we must encourage the most efficient way of seeing that they are carried out.

1107. If I agreed with you and you agreed with me, we should all be happy, and the Civil Service would be more efficient. Could I briefly ask if at some time as a note (it cannot be done off the cuff) as Mr Cassels has mentioned the staff of your Department, you could send us a note of their qualifications in some reasonably summarised form?[1]

(Lady Young) Yes, indeed.

[1]See Annex 3, p 465.

1108. You know, the criticism has often been made that the people responsible for, say, financial efficiency have not been accountants but arts graduates and things of that kind. We have had a summary in the past in relation to the CSD. I think if we could have an up-date of that in relation to the new organisation, it would be helpful.

(Lady Young) Indeed, we would be glad to.

Chairman

1109. In commenting on the new organisation of government departments at the centre, Sir Patrick Nairne, in *The Times* of November 17, said that it remained to be seen whether better control can be exercised when organisation is divided into manpower and personnel management and pay and allowances. Would you and Mr Hayhoe care to comment on that?

(Lady Young) I think we all read with great interest all the correspondence in *The Times* and indeed all the Press comment on it; but in a sense some of the letters in *The Times* cancel out other letters in *The Times,* do they not, and these are different views you could have upon this subject. I think, looking at all the letters, Sir Patrick Nairne quite properly put his point of view and, for example, Lord Crowther-Hunt took a different point of view and put that.

1110. I am asking you to comment specifically on the question of dividing organisation into manpower and personnel management and pay and allowances.

(Lady Young) I think the purpose of the reorganisation, which took place after a lot of discussion and a lot of thought, and of course the report of Sir Derek Rayner, was that there was a great deal of advantage in putting finance and manpower together in the Treasury and that was the basic decision that was taken. At the same time, the Manpower and Personnel Office has a very real role to play, particularly I think in the field of efficiency and effectiveness in government. Because it is linked with the Cabinet Office, it becomes very much a central department, and I think it has got the opportunity to develop a most important role in this field. One of the things which I think we have seen is the effectiveness of a relatively small unit such as Sir Derek Rayner's, and what it has achieved. I think what everyone would like to see would be something in the Civil Service which will build on its good traditions and build on what there was in the Civil Service Depart-

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ment before, but we will be looking quite specifically at these areas of efficiency and organisation and personnel management, all of which are very important parts of the Civil Service and which I think justify a department of their own.

1111. May I ask Mr Hayhoe to comment on how he sees himself able to oversee pay and numbers with no responsibility for organisation and personnel management?

(Mr Hayhoe) I think the balance of judgment, and it must be that as this Committee knows only too well because it has gone over the ground and had all sorts of different propositions put to it, the balance of advantage the Prime Minister saw was of bracketing together the control of public expenditure with the control of manpower and the manpower linked across, obviously, with the pay and pay-related expenditure. Getting that within one department certainly has a logic attached to it. One only needs to look at some of the literature on this to see that lines can be drawn in different places, and I think one can argue the advantage of one scheme against the other. The Prime Minister saw, I imagine, the overriding need, in the judgment that she made, of putting together the manpower and the financial controls, and then putting together the other functions which Lady Young has described. I think that within the Treasury what now will be happening is that the pay group, that came from the Civil Service Department, will be reporting to the Permanent Secretary and clearly then direct to the Chancellor, and the manpower control group, if one could so describe Richard Wilding and his colleagues, will be reporting to the Second Permanent Secretary, with the Chief Secretary taking a particular interest and overseeing that in the control of public expenditure, control of the budget in essence. It makes a logic. We are just starting. I think normally if you have a reorganisation there does tend to be a period where there is a great deal of "ruffle and fuzz" going on. I think this reorganisation has had very little of that indeed, and we seem already to be working well together, even though we are not yet physically co-located with our colleagues in the Treasury. That will take a bit of time, as I know the Sub-Committee recognises from the work it did last year.

1112. But the arrangements you have just described seem to lose the advantages you are seeking, that within the Treasury you have at once separated the responsibility for pay and numbers right up to the Permanent Secretary level, and indeed to ministerial level too.

(Mr Hayhoe) I think there is in fact a quite separate judgment. What are the right levels of pay, remuneration, pensions and things of that kind—that is a major piece of work where the Government is the employer, and as the employer is determining these matters in negotiation with the unions and using whatever other help may come and flow from the Megaw Inquiry, and then the control overall, on the other side, of Government spending. Of course there is an inter-relationship, I accept that, but it is then between the public expenditure plans by the Expenditure Committee and the manpower plans which carry with them the finance which flows from the pay decisions that are made.

1113. Will the manpower control functions be merged with the public expenditure divisions?

(Mr Hayhoe) They will be linked with the public expenditure divisions within the Treasury, yes.

1114. On a departmental basis or an area basis—I mean, groups of departments basis?

(Mr Hayhoe) This integration and how it will develop has yet to be determined. At the moment one is running along the same lines as we were before in that the manpower divisions have not altered in shape or detailed content, as a result of now being transferred into the Treasury. Undoubtedly these matters are being looked at and changes may flow.

(Mr Wilding) The Sub-Committee will remember that the report which was made last year by Mr Moore and Mr Hawtin discussed two possible options if the manpower function was to be put into the Treasury: one of separate manpower divisions working alongside the expenditure divisions; the other of a deeper integration of the manpower function into the various expenditure divisions dealing with the different departments. We have just started a study of whether we should go in for that deeper integration and on what scale and in what way, and that is being examined now.

1115. Lady Young, Sir Ian Bancroft, in his memorandum to us, said that a memorandum on Ministers' responsibilities was being prepared and that specifically further

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work was in hand to define the ministerial roles of Ministers and Permanent Secretaries with responsibility and accountability of Ministers through the Permanent Secretary. It can be argued that the reorganisation that has taken place has been to bring nearer to the Prime Minister responsibility for questions of efficiency within the Civil Service, and that is intended in some way to reinforce the interests of ministers in management. Can we look forward to receiving that paper?

(Lady Young) Yes, I think that paper will be coming. It is still being worked on.

1116. We have papers redefining the role of the accounting officer and the principal finance officer and the establishment officer, but not ministers, which seems to me to be the fount and origin of responsibility for efficiency.

(Mr Hayhoe) The work is in hand and will be coming.

1117. Do you see with the arrangement that has been set up now putting all the ministerial responsibility for efficiency either in the hands of the Prime Minister herself or in the hands of another minister very close to the centre some undermining or difficulties in relations between ministers as to who is responsible, and can you see a Cabinet Minister getting his or her powder wet by questioning the efficiency of the administration in another Cabinet Minister's department?

(Lady Young) The question that you are raising is, in effect, how prescriptive should the new MPO be and how far should we attempt to tell other people what they should be doing, and how they should do it? I think the important thing in a sense is this question that I was asked at the beginning. The essential thing is, how do you get the efficient use of resources and which way will it be done? Clearly in establishing these efficiency studies to which I have referred in my opening remarks I have to get agreement with my colleagues that these should be carried out. Once this has been agreed, there is a responsibility on them to see that they are carried out. They will, of course, be discussed afterwards. It seems to me that what is essential in this is that a minister should be satisfied that they are carried out. He may, as some ministers will, take a direct interest in doing this. In other cases it may well be that the permanent secretary or some other official may take an interest in seeing that they are carried out. The important thing is that they are carried out, and there are, of course, many ways in which the MPO can work to disseminate the best practice and to encourage the spread of good practice where it identifies something which has been very successful indeed. But at the end of the day it must depend on the agreement of ministers that something is going to happen. I think we are in a situation in which the climate of opinion is such that there is a will to make it happen.

1118. Interest is one thing, responsibility is another. Are ministers responsible for management in departments?

(Lady Young) I think, yes, they are responsible and they must be seen to be responsible. It depends very much on how much detailed responsibility they themselves take. If they do not take it, they must see that somebody else is taking it. But at the end of the day they must be responsible.

1119. Is that to be a purely formal responsibility or is it to be specifically defined? For example, is the Foreign Secretary to take responsibility for the management of the Diplomatic Service or the Chancellor for the administration of the Inland Revenue?

(Lady Young) I think again in these matters, when you talk about formal responsibility, a minister is responsible for his department, and there will be some ministers who will take a great deal of personal interest in management and in efficiency. I think Mr Heseltine is an example of this. There will be other ministers who will still have responsibility but will not take that same amount of detailed interest. The important thing is that it should be done and that the principles that have been established for finding and seeking out ways of being more efficient should be carried out.

Mr English

1120. Could I go back to an earlier question of yours, Mr Chairman? I am not quite clear about this. After some considerable effort we prised out of the old CSD that they were ultimately responsible for the efficiency of central government. Obviously each department is responsible for its own efficiency but beyond that it was the old CSD. Who is it now? Is it the Treasury or the MPO?

(Lady Young) The responsibility for efficiency?

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1121. The ultimate responsibility for efficiency—where does it lie?

(Lady Young) One of the functions of the MPO is obviously efficiency and I have indicated on the efficiency strategy we obviously take an overview, but it is done as a result of discussion with one's colleagues. That is to say, I cannot go round telling people what they should do. But I hope—and I am quite certain—people get, and indeed we have got, agreement with their colleagues about certain areas of work that need to be undertaken, and they will then be undertaken. The running is made by the MPO.

1122. That is all normal and sensible practice and would happen in any competently managed organisation. All I am concerned with in this question is where the buck stops.

(Mr Hayhoe) Could I add a point which might help on that? As I understand it, though there is no statutory duty on the Prime Minister as Minister for the Civil Service for the efficiency of the Civil Service as a whole, that is clearly a matter with which she is very particularly concerned. She has made it clear in her public statements on the reorganisation that she is going to give day-to-day responsibility for discharging that responsibility to Lady Young and so where the buck stops is, I think, with the Prime Minister and there can be no getting away from that, though, of course, that must be harmonised with the fact that constitutionally individual ministers are in charge of their own departments and, as one knows, they have a statutory responsibility there which cannot be changed except by this place.

1123. You do not need a statutory duty when there is, of course, a common law duty on the Prime Minister and her Government efficiently to conduct the business of the Crown. You have led me nicely, however, into my other question. Just as an example of efficiency (and I am not talking about pay) you will recollect that the old CSD was giving evidence to us, the full Committee, about a 17 per cent pay rise in the first year of this administration when one Member of our Committee worked out that it was actually 26 per cent; it was in three different batches. We understand the Minister who preceded Lady Young was then in Rhodesia. It apparently was not given by Mr Hayhoe's predecessor. Presumably the authorisation was actually given by the Prime Minister on three separate occasions without her realising the total was 26 per cent. Certainly obviously the departmental officials did not realise it was 26 per cent because they were saying to us it was 17 per cent at the time. This does not strike us as an example of efficiency. In other words, I worry when I am told the Prime Minister is ultimately responsible for anything, not because I have anything against the Prime Minister but because I think prime ministers are rather busy people.

(Mr Hayhoe) Although I recall the report on this, this was not at a time when I was in the Department, and certainly not at a time when Lady Young was there. I do not think I can really answer and comment upon what happened there. I hope now, whatever problems there might have been over figures in the past, now that we are brigaded together with the Treasury we will get our figures right.

1124. I hope so too. This is really what worried me. The worry I have is that the manpower bit, I would have thought, might possibly have been rather better with the management services bit that is under Lady Young.

(Mr Hayhoe) As I say, it is possible, and I would respect the views of anyone on this issue, particularly your views, Mr English, because I know with what care you have studied this subject over such a long time; but the Prime Minister took the view that her priority and her balance of considered judgment was that the national interest would be better served by bringing together into the Treasury in public expenditure the control over finance with the control of manpower.

Mr English: Like you, I do not think anybody is necessarily right on the details.

Mr Shepherd

1125. Following on from Mr Hayhoe's last comment, could you say something about the background to the organisational change that is just beginning? Can you tell us, for instance, if many other options were canvassed or examined?

(Lady Young) As you know, as background to this, there was a suggestion that the whole of what was formerly the Civil Service Department should be amalgamated with the Treasury. I think that was one of the options.

1126. One of the options.

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(Lady Young) That was clearly canvassed last spring. This has been a matter which has been under discussion for some time, but I think, as the Prime Minister made clear in her statement, she believed that this was the right division of responsibility between the Treasury and the Manpower and Personnel Office.

1127. I was trying to look at the concept of effectiveness in government, and there was not any guile in the question; but last year, I think, Sir Ian Bancroft in addressing us advised the Committee that in fact the CSD in conjunction with the other Departments was not examining options at all, and subsequently Sir Derek Rayner also advised us that when he put in his suggestions about change he had not considered alternative methods of trying to solve the problem of the lack of "oomph" or "pzzaz", or whatever the word was that was used by Sir Ian Bancroft in revitalising the centre.

(Lady Young) I do not think I have anything to add to what I said earlier.

1128. But I do not get out of that that there was a serious consideration of options such as whether there should be another form of organisational arrangement. Was this under consideration?

(Lady Young) No, the considerations are as I have said: the one that was considered last spring of amalgamating the whole of the CSD with the Treasury, which has been considered, and then there was the consideration that was given to this alternative now.

1129. So there was no overall review of the centre—say, the Office of the Budget, the role of the Treasury and the Civil Service Department and which would be the most effective way of solving that problem in terms of organisation?

(Lady Young) Clearly in the course of all this process there was a lot of detailed discussion about precisely how the split would come, but at the end of the day the Prime Minister decided that the appropriate form would be the one that we had now.

1130. You see, in the review that we did of the options open, or the discussion of the future of the Civil Service Department, four options were canvassed. There are, of course, many more than that.

(Lady Young) Yes.

1131. What I was trying to get at is, were those options reviewed—because some of the witnesses who came before us this time last year and through to January said that other options were not particularly being canvassed or examined because their department was directed to this particular set of alternatives. Would that be fair?

(Lady Young) I think, as the Prime Minister said in her statement to the House when she informed the House of the changes, she had of course taken account of what the Select Committee had said.

1132. Could you now say a little bit more of what you understand by "effectiveness" as opposed to "efficiency"? I notice your statement says quite a bit about efficiency and nothing about effectiveness.

(Lady Young) What I think is very important is that when one is carrying out the work of government, not only should one make quite sure that one is getting good value for money and being efficient, but at the end of the day the work of the Civil Service is seen to be effective in what it is attempting to do. Of course, the more one looks at the subject the greater the range of activities there are that are carried out by the Civil Service, and whereas I think the public at large often think, or perhaps people here think, that what we are just talking about is Whitehall, of course most civil servants are not in London but are out all over the country in different departments dealing in many cases every day with members of the public. I think there is a whole dimension about getting the most effective use both in relation to the public and of course in advice to ministers and the way this is achieved. So I think this is a very important dimension to the whole argument.

1133. Do you think it is possible to discuss effectiveness sensibly without looking systematically at the relationships between the use of resources and objectives?

(Lady Young) Clearly this is part of it, is it not, because a minister must look at what he wishes to achieve and then he is going to look at how he is going to achieve it. I think this is particularly true when, as is the case at the moment, we have a contracting number of people able to carry it out. Therefore, it is very important to look at both sides of this.

1134. May I return therefore, after your comments on that, to my earlier question of the consideration of the options in organisational terms. I understand that there was

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no consideration given to the Office of the Budget, let us say, in terms of trying to strengthen the centre and give us a realignment within the Civil Service, or, say, of the Civil Service Department's relationship with the other departments of government? How do you relate what you are saying in answer to my question now to that organisational redistribution which has just taken place, if you have not canvassed or considered fully all the options?

(Mr Hayhoe) Do you mean you, as the Sub-Committee, or us, as representing government?

1135. Obviously, you as the Government.

(Mr Hayhoe) As I thought I said a moment ago, the Prime Minister, who made these decisions, will clearly have looked at the options that she thought were within her command and she came to this decision that this was the right balance to draw. It is not for me to speak for her, but I do not think anyone who has studied it would ever say that the Laws of the Medes and Persians apply and there is some absolute certainty that any particular balance is the right one. We have seen over the years changes made, and I think it would be a fairly rash person who would say that the balance or the lines that have now been drawn are going to last through into the next century. Experience would tend to flow against such a view.

1136. Mr Hayhoe, you will appreciate my nervousness in presumptions about the way governments go about their business, but I was trying to get an acknowledgement that this had been properly reviewed, and then I wanted to ask what the administrative arrangements were for such a review.

(Mr Hayhoe) I was certainly not involved in it.

1137. As the Minister for the Civil Service you were not involved in it?

(Mr Hayhoe) No, the Minister for the Civil Service is the Prime Minister. I was then the Minister of State at the Civil Service Department and I would not have expected———This is very much a matter which is within the Prime Minister's determination, as indeed past practice has shown. If you remember, when she was asked this question in the House as to whether consultations had taken place with outside bodies, unions and others, she replied that in coming to her judgment she had gone through the normal practice of coming to a view about it and then coming first to the House of Commons to announce it. You may recall this was one of those decisions surprisingly taken within government which did not appear to be trailed for some days or weeks beforehand and only appeared in quite late editions of papers on the preceding day, which must be nearly a record.

1138. Forgive me for pursuing it a bit more, but I think in your answers and in my questions we are looking at the very heart of the way in which government regards the pursuit of effectiveness—and it is of interest to this Committee—and the administrative arrangements of how we arrive at the organisation of the centre of government. It seems disturbing that the ministers concerned with the daily operation of the former Civil Service Department were unaware of the process of government to determine what was the most effective way of setting out their own departmental responsibilities.

(Mr Hayhoe) I do not think I am in tune with the question. In that sense, as I have said, the determination of the machinery of government has always been a matter for the Prime Minister and, as far as I know, the Prime Minister has not made a practice in the past of discussing with junior ministers what changes they would make unless the prime minister of the day decided that that would be a valuable thing to do. I imagine that sometimes it will have happened and sometimes it will not have happened. I saw nothing unusual in what did occur, if that is the question.

1139. That is what worries me, that it is not unusual. We come to decisions without the machinery being there for establishing what the inter-relationship is, what is the most effective and efficient way of achieving an object. That is the question I was asking Lady Young. I have not got sight yet of the machinery that enabled us to come to a decision about how we may best establish the most efficient organisation to achieve the most effective objectives or to achieve our objectives most effectively.

(Mr Hayhoe) I do not think I could help any more.

Chairman

1140. Could we take you on to a specific aspect of that then, Mr Hayhoe. Sir Anthony Rawlinson from the Treasury told us that the Government were reviewing measures of output as the basis of testing the efficiency questions Mr Shepherd has

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been putting to you and said they hoped to cover over half public expenditure by the end of 1982. When we got a mere three-page paper saying what had been done it appeared that, in fact, it was areas reviewed for making output measures and not actually making output measures over those areas. It said in that paper[1] that the areas selected for examination are those where the Treasury considered that there is scope for further development of output measures and the reviews provided an opportunity for the Treasury departments to assess the arrangements for departmental scrutiny of expenditure. Here is the Treasury, presumably in the Public Expenditure Division, looking at questions of effectiveness whereas the bit of CSD that has gone to the Treasury is not concerned with effectiveness, it is in the MPO which is in the Cabinet Office. Now, how is your contribution to the propagation of the technique of measuring output, for example, which is a very fundamental aspect of effectiveness, to be made?

(Mr Hayhoe) At the moment I think the paper you are referring to is the one sent on 20 November———

1141. The 19 November.

(Mr Hayhoe) ———this year, and that was, as you say, reflecting the work that was going on in the areas of the Treasury for which Sir Anthony Rawlinson has particular responsibility. I must admit quite frankly to the Sub-Committee my ignorance of those areas as yet. I think as my feet get under the Treasury table I will better understand and know what is going on, but I would certainly think all I could offer is to get a further note in explanation. As I understand it—and I have obviously read the paper that went to you—it did indicate the review that was taking place within the Treasury in this whole question of measuring output and, of course, having followed the debate in the House on the 30th one knows that the Comptroller and Auditor General is getting involved and there was a desire within the House that there should be a greater involvement in auditing effectiveness. A certain amount of auditing effectiveness has gone on and I think within the departments themselves, for example, as I understand the MINIS system in the Department of the Environment, ministers will be enabled better to check and test effectiveness and worthwhileness of functions that are taking place within their own departments. Something is going on all the time, but I am perfectly sure we need refined work better to measure the output. So, as has been said I think both by you, Mr Chairman, and by Mr Shepherd, this is a very important way of testing the overall efficiency of government as well.

1142. But, Lady Young, in your statement you said efficiency is at the centre of our task and the question of effectiveness seems to have got lost. It was partly a responsibility of the Treasury already, it was presumably partly a responsibility of the VPRS. Why is not effectiveness the keystone of the organisation—the achievement of results, not merely the minimisation of resources in doing so?

(Lady Young) As I indicated in my answer to Mr Shepherd earlier on, I think we are really getting into very much of a philosophical argument over these two words. One is more effective if one is more efficient as a general rule, and I think what we are aiming to do———

1143. The converse does not necessarily apply, does it?

(Lady Young) I did not say the converse. I think the important thing is to be efficient, to which we attach great importance. It does mean that because one is looking at the most efficient ways of doing a number of things the object of the exercise is to make for more effective government. That is what we are all looking for, a better use of our resources leading to a more effective output both by officials and by ministers, and by government generally.

1144. No one has yet mentioned the CPRS in this pattern. I wonder whether either you or Mr Cassels would like to say how they fit into the picture, because I might have expected you to say that questions of effectiveness over large areas are the responsibility of the CPRS rather than the MPO.

(Mr Cassels) Could I just say this: I really cannot answer for the CPRS but I am sure they do look, of course, at policies to see whether they are effective in reaching their objectives, but I would like to refer to Rayner scrutinies and point out that they are very much concerned not simply with efficiency but also with effectiveness and a scrutineer who is carrying out a scrutiny under the Rayner programme is encouraged not only to look for value for money but to ask the question whether the activity which

[1] See Appendix 9.

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he is being asked to scrutinise ought to be carried out at all; in order to answer that question he has to ask himself, is this an effective policy, is it producing the results which ministers want? So I think that in the statement there is put lots of emphasis on efficiency but I do not think it would be quite right to deduce from that that effectiveness is not also there. It is a question of where you put the emphasis.

1145. Where would you put the emphasis?

(Mr Cassels) I would say that the MPO has got a great deal of work to do to improve efficiency and that the priority had gone on efficiency, and rightly, increasingly in recent years. If one can run an activity which delivers the product which people want, for example, the issue of drivers' vehicle licences or whatever subject it may be, and by and large government programmes do provide, they do deliver what they are there to deliver, increasingly emphasis is going on getting that delivered at the least cost. That is why there is so much emphasis, in my mind at any rate, on using audit mechanisms of one kind or another (and the Rayner scrutiny is one kind of audit mechanism) to see if there are more efficient ways of effecting delivery.

Chairman: You make a very sweeping statement when you say governments do deliver what they undertake to deliver. Do the police deliver law and order, and does regional development deliver full employment?

Mr English

1146. Can I supplement that so that Mr Cassels can answer them together? Just what are the enormous amounts we are spending on subsidy to local authority housing and on subsidy to mortgage interest tax relief delivering at the present time? Very little in terms of housing.

(Mr Cassels) I was a bit sweeping and I had better go into retreat. I had in mind things like the payment of benefits to people who are qualified to receive those benefits. I had in mind the kind of things the Manpower Services Commission does, because that is where I have just come from, where there are fairly clear outputs, and one is talking about the delivery of fairly clear outputs and getting those outputs delivered as cheaply as you can deliver them.

Mr Wainwright

1147. Am I correct in thinking one concern of the Management and Personnel Office must be to see that tasks laid on the Civil Service are fair and that the Civil Service is given proper understanding of what it is being required to do in any particular task? This is a general principle for those who are in charge of the morale of the Civil Service, is that so?

(Lady Young) I personally think that it is extremely important that you should explain to people what it is you are asking them to do and they should understand what it is they are being asked to do.

1148. In that connection are you satisfied that even in a majority of establishments of government the Civil Service is in fact given a clear statement of the precise and full objectives which ministers want to see?

(Lady Young) I would never like to say that everybody has the clearest explanation throughout all the Civil Service of what it is that they are expected to do. I think that would be, in an imperfect world, asking a great deal.

1149. I did say in the majority of cases.

(Lady Young) I think this is the sort of area which, in personnel management and particularly on the management side, we would be looking at to make quite sure that we have got the chain of command, and that people know precisely, or very clearly, what it is that they should be doing in order that they can explain to others. I am sure that ideally they would do this and one of our tasks must be to make quite sure we are seeing that this does happen wherever it should.

1150. Do you feel that the Management and Personnel Office now divorced from pay and manpower is going to have enough clout to achieve this difficult objective, which has been elusive in British Government up to now?

(Lady Young) I would hope that it will be successful in that I think it has a very clear role to play and some very important tasks to carry out. You ask me whether we shall be able to carry those out. I think one needs a commitment to it. I think one needs the ability to carry one's colleagues with one in carrying that out. I think it is very important that we should carry the civil servants themselves with us in this understanding. I see one of my tasks as indeed

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helping to bring about this thinking in these ways. I believe that this should be possible, and I think it is very important for the efficient running of the Civil Service that we should carry this out.

1151. But in assessing this task to which you obviously, and I believe rightly, attach great importance, do you feel you have a long way to go as you start?
(Lady Young) I always think at the beginning of any job that there is a long way to go, and I think, having had this job for about four weeks, it is very difficult to say just how it will end up. What I think is important is to know that in working with the Civil Service one is working, I think, with a service that has very good people in it wanting to do a good job and very much this professional feeling comes across. This is very fortunate and we must build on this. I think it is very difficult for a contracting Service to face the very real problems of contraction and the human problems that that involves at a time when we are looking at functions of government as well. Therefore I do think it is very important that this should be explained to everyone and that the object of all these exercises is to get effective government and in fact a more effective but smaller Civil Service. I think it is very important that these things should be explained to people.

Mr Shepherd

1152. I did want to ask Mr Cassels, arising out of his remarks on the Rayner programme, if the Rayner scrutineer asks whether the activity could be done better. Is that part of his framework of reference?
(Mr Cassels) Yes, it is part of his framework of reference. Yes, he looks at that as well. His main remit is to see if it can be done more efficiently and he asks deeper questions like that, and he is asking about the quality of the operation which he is looking at. In fact I think it is true to say that the quality of some of the operations of government which have been scrutinised have been improved as a result.

1153. Finally, I was asking Lady Young about the relationship between the use of resources and objectives. Would the departments, if left to themselves, carry out that examination of the use of resources in terms of objectives?
(Lady Young) I think that they would, particularly in the present climate of opinion, but I think what is important is that we should be able to work with departments and that we should be able to encourage departments to do not only what you and what I would wish on resources but also that we should from the centre be able in a number of ways to encourage good practice and so on by saying what have proved to be effective ways of getting better use of resources and so on.

1154. What evidence do you have to support your answer, Lady Young?
(Lady Young) What, that departments would carry out these scrutinies and so on? I think we have the evidence since———

1155. No, that they would look systematically at the relationship between resources and objectives.
(Lady Young) I only have the evidence of what has been happening over the last two-and-half years or perhaps longer than that, because I think this is not something which has suddenly started. I suspect that if you looked back over the last ten years to what was the prevailing climate of opinion ten years ago, certainly 15 years ago, it was quite a different one. It was an expanding Civil Service with increased functions of government and so on. We are now in a very different world where we have a contracting Civil Service and we have to look at the functions of government and question whether we should be doing them or not. In these circumstances I think any minister is inevitably going to look at what he is doing and how much it is all going to cost. Some will look more effectively than others. You asked what evidence I have about this. Clearly some departments have looked very effectively at what they are doing and how they should do it. I think it is the job of the MPO to spread this good practice and encourage a systematic look across the departments at all these different operations.
(Mr Hayhoe) There is a point on the manpower side which is very important to this, though it is only part of the whole story, and that is, if we look at the contracting size of the Civil Service, the targets which have been set and accepted now by departments and by the Cabinet and the government as a whole are not just targets which the department itself has offered; they have resulted from the interaction of the central departments with the ministers and management of the specific department concerned in working all together, and with a considerable pressure coming from the

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centre, to get to targets. That is why, when one looks at the whole range, there is a variation, I think, in the targets for the 1 April 1984 compared with the state of play at the beginning of this government, one department increasing its staff by, I think, 4 per cent and what used to be known as the Chancellor of the Duchy's group of departments having a target in the last published report of a reduction of nearly 30 per cent. So these are things which have come as a result of pressure from the centre, but I think equally from the departments themselves and their ministers and their management wanting to run the show more effectively and more efficiently.

Mr Beaumont-Dark

1156. Can I correct one thing that Mr Michael English said, when he said that it was through inefficiency that we found out the wage increase was 26 per cent. I do not think it was any inefficiency at all. I think it was read as it was meant to be read. It was only by digging that one found that 17 plus 9 made 26. It was not inefficiency. I thought it was very well written. But can I get to this point about the Civil Service being specifically there for all of us. We are all in politics and we are all very conscious of the work done by the Civil Service. But is there not basically some great myth in believing that somehow or other there are enormous savings to be made? I do not know if you have had a chance to see it yet but if you look through the report of the Council of Civil Service Unions, they have understandably written a kind of East Lynn thriller about the problems that their members face and these great savings that the DoE is supposed to have made. If you can believe some of the figures in the Civil Service Union's document—and I do not believe they are all fictitious—you see what some of the savings in people have really cost; like the English House Condition Survey, where they say that yes, a lot of people have been saved and they have gone on to outside consultants, which is good for them, but it has cost another £60,000. So my point is this: are we really involved in a genuine efficiency exercise or is it really a matter of shoving it all out to private people, which may cost more but makes the numbers game look so much better?

(Lady Young) I have not myself had the advantage of reading that document.

1157. I do recommend it.

(Mr Hayhoe) It has not been released yet.

(Lady Young) I myself have not yet read it, so I cannot comment on what is in it. I do believe there are genuine savings. I cannot comment on the precise instance that you quote, but I have not the slightest doubt that a number of the Rayner scrutinies have shown up quite specific savings and more efficient ways of doing things. I also think that these various management techniques that have been used do, in fact, ultimately produce savings, or at least produce much better information on which to make a judgment about what function should be carried out and how many people should be used. I think it would be quite wrong to think there had been no real savings as a result of all this activity.

1158. I did not say there had not been any. I am saying I think, as we are all in the public game of thinking that somehow or other because the bureaucracy of this country is huge—for god's sake, it is monolithic—and I am putting forward this philosophy, that if we as politicians keep on promising people—and we all do it—that this service will be done and that service will be done, and if you send in an inquiry you ought to get an answer within a week, one is really saying in a socialised world that that must mean many hundreds of thousands of people. My point is, can you really hope to make enormous savings on running the bureaucracy of this country while we as politicians go on promising people that we can give them the answers tomorrow, leave alone today?

(Mr Hayhoe) In regard to the numbers, getting it into perspective the Civil Service has come down by 52,000 from the size we inherited it at, 732,000, and is on target to come down to 630,000 by April 1984, this despite the fact that some of the tasks that the Civil Service has to carry out, particularly in relation to—let me choose two areas—unemployment (there is much more to be done there now, alas, than two years ago and more people required to do it) or the prison service—there are more people employed in the prison service, and I think it would be the wish of the community at large that this should be so. Despite that, nevertheless reduction has taken place. In real terms I think already it is estimated that the saving by a reduction of 52,000 probably amounts to the order of £55 mil-

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lion.[1] Could I make one point? I have not seen the union evidence but I have been involved myself when I was Departmental Minister at the Ministry of Defence in discussions with unions on these very matters and I know that they do take a different view. But the judgment which is made within the Civil Service in determining whether to privatise some particular operation is based on the fact that privatisation must be cost-effective and also there must be sound management reasons for doing this.

1159. I do agree. May I say I would like to cut the Civil Service and the bureaucracy of this country down, but I think that cost-effectiveness is terribly important because it is no good just switching from one to the other, one really wants to know about it. You could say, I suppose, in theory if you put all the work of the Revenue out to private accountants you would have no Inland Revenue Department so you were getting your money without any people.

(Mr Hayhoe) If you paid more for the service as a result, it would not be cost-effective and, as far as I am aware, in all the cases I have looked at—and I looked at quite a number of these personally in the Ministry of Defence—I did find that the case being made by the unions did not stand up to rigorous examination. Now, I have not seen those cases and it would be wrong for me to prejudge, but I am sure when that evidence is available it would be right that we should go through it in detail and, if you would wish, submit a note[2] to you because it is obviously a matter of very considerable moment. As I understand it, the early evidence of the Council of Civil Service Trade Unions has been received; the later evidence they have recently given you has not yet been released.

Mr English: I think a copy was sent to Lady Young.

Mr Beaumont-Dark

1160. Bearing in mind that this is important, one cannot dismiss it all as people just protecting their jobs. There are things in this report which I would have thought this House would like to see answered by various departments. So I think if we are going to get the whole truth as to efficiency of government in the round in this country it can only be done by having proper answers and not just cosmetic ones. I think you would agree with that.

(Lady Young) I would entirely support what you are saying. As I say, I have not got the advantage of having seen that. I am sure I shall see it. If you would like a considered reply to the points that have been raised, I will certainly see that as far as my Department is concerned we will do it jointly.

Mr English

1161. You mentioned some Civil Service numbers. Since the definition is so artificial, could we have similar numbers sent to us for public sector employees in the non-industrial public sector?

(Mr Hayhoe) I can certainly try to find the figures for you.[1] You are quite right, I think sometimes there is confusion.

1162. The Manpower Services Commission was a classic case. It disappeared from the statistics, minus 20,000 people; when it became a Civil Service body again it suddenly reappeared having grown bigger.

(Mr Hayhoe) I think you are right in making the differentiation between the public service, which has grown very sharply in recent years and the pay bill for which has risen very sharply indeed, and the Civil Service which over quite a span has not changed all that much in size and, of course, in the last two years has been coming down and is now smaller than at any time, I think, for fourteen years.

Mr Beaumont-Dark

1163. The last point I wanted to cover was to do with the Comptroller and Auditor General. To me it seems logical that you can only have a truly efficient use of public funds which are dished out by the Civil Service on behalf of the people, and you can only have control of that public money which goes into things that are not under direct government control, if you can trace that money through, would you not say so? In other words, if you lend money or give money, which is possibly the correct term—but lend or give—whether to BL, BSC, I do not care, or the little chap down the road under the new schemes that I may say I fully support where we are putting forward public money into small businesses, do you not think, if they are large sums of public

[1] See Annex 1, p 455.
[2] *Note by witness:* The correct figure should read £360 million.

[1] See Annex 2, p 463.

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money, or small sums for that matter, there should be some way whereby the state then has a right to say "We would like to see how you have spent this £50,000 or £500 million"?

(Mr Hayhoe) I have read the debate that took place on 30 November I think—the Monday before last—and noted the very powerful contributions that were made in that debate from all parts of the House and also noted the comment by my colleague the Financial Secretary to the Treasury who did say that he would be taking account of the views expressed. I do know that both he and the Chancellor of the Exchequer are now giving urgent consideration to what was then said and to the criticisms that were then made of the Government's reaction in the White Paper which was one of the items being discussed, and I do not really think that I can say more than that. This is an area, I know, which has been under consideration for a very long time. I remember again on the Estimates Sub-Committee of 1978 the report there. I even dared go back and look at what I said about it in the debate we held in this House in January 1979, and I think I would perhaps rest personally on what I then said and ministerially at the moment on the fact that the matter is being looked at very urgently in the light of the important debate of 30 November, and I hope my colleagues will be making some further statements on behalf of the Government soon.

1164. Let us put it another way then: what would you see as the proper task of the Comptroller and Auditor General's Department in the Civil Service life of this country?

(Mr Hayhoe) I think I would rest on what I just said, in that it would be better, I think, and more helpful perhaps to the Sub-Committee if they awaited the considered reflections of the Chancellor and the Financial Secretary which were ———

1165. Is that because the C&AG is controlled by the Treasury then?

(Mr Hayhoe) No, it is because I do not think I am able today to give considered answers to the points, as I see it very important points, that were raised in all parts of the House in the debate on the 30 November.

1166. Who laid down the parts, the functions of the Comptroller and Auditor General? Is that a fair question, or is it an embarrassing one?

(Mr Hayhoe) I do not think it is a fair question for me at the moment. The matter was worked over fairly well in the debates and in the PAC report and in many reports before it. I would not rely on my memory here. I would refer Mr Beaumont-Dark to the very extensive literature here. As I understand it the point at issue at the moment is the government's reaction to the recommendations made by the PAC.

Chairman

1167. But, Mr Hayhoe, there is a particular point here in that you have read that debate and you will be aware that in the course of our current inquiry we cannot avoid looking at the C&AG and the Exchequer and Audit Department, which reports to committees other than the PAC. Now if other Select Committees initiate reviews of efficiency or effectiveness in departments, clearly it would be of very great value to the House to know how this might relate to the kind of reviews being initiated by the MPO.

(Mr Hayhoe) Absolutely, this is one of the points, if I remember rightly, that you made with great force on the floor of the House on the Monday before last.

1168. But I do not think we have had a very clear definition from you as to what you are doing so that we can know what properly relates to it and supports it.

(Mr Hayhoe) Perhaps I have not made myself clear. I think all I can say to you today, and I appreciate you would like something further, is to reiterate in effect what my colleague the Financial Secretary said at the beginning of the debate, that he was going to listen to it and that minds had not been made up—some phrase of that kind, and then at the end of the debate he made it clear that that was so. I can merely confirm that the points made in the debate, including that point, are now under consideration and some announcement giving the Government's view will be made soon. When that view is available, I am sure, if you would wish a Treasury minister or indeed any other minister to come along and talk about this, that would be proper.

Mr English

1169. The real problem that puzzles us is not that ministers are taking their time to consider the matter—it is true that ministers of successive administrations have

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taken many years over such things. The last time the Act for the Exchequer and Audit was revised was 60 years ago, and that was to increase the powers of the Treasury. Why is it, in your view—and I carefully distinguish between the Government and the Treasury—that the Treasury is so against an independent audit of the finances for which it is responsible.

(Mr Hayhoe) I will merely repeat again that I do not think I can add to what has been said in the Government's report, and again indicate to the Committee that all these points which were raised during that important debate are under urgent consideration and something will be brought out soon.

1170. They are not under urgent consideration. No-one believes the urgency. It was first said in 1977 and it has been said before that by Dr Normanton ... and so on.

(Mr Hayhoe) With respect, all I am trying to do—I will say it again, it was a highly significant debate in the way in which the views were expressed from all parts of the House, and I have sat through these things and I can judge them—is say that note is being taken of these views, and I would have hoped that people would recognise that I am in no position today to pre-judge or trail what either the Financial Secretary or the Chancellor will say.

Chairman: I think we understand that position, Mr Hayhoe.

Mr Wainwright

1171. In your opening statement, Lady Young, you said, and I quote, "we remain open to fresh ideas wherever they originate, within Whitehall or beyond". In addition to that passive posture, does the Office take active steps to discover what is going on beyond Whitehall and to see whether it is relevant, and if so what can be done about it?

(Lady Young) I think that the particular point that I was making when I said this is, of course, quite particularly looking to see whether we can get outside advice on matters from other people. Clearly this is an issue which you, as a Sub-Committee, have regard to, and others have regarded it too as an important issue. I think again it is something that we do need to look at.

1172. But where in your Office is this series of enquiries located? At what level in your Office does this search for new ideas go on? You say that you remain open, but is that the end of it? Is it simply a passive posture, that if ideas blow in they will not be swatted. If so, could you tell me whether in your department someone goes out looking for fresh ideas, presumably in organisations that have proved successful?

(Lady Young) I think that in so far as receiving ideas is concerned, these must come at all sorts of levels. No doubt ministers often have ideas put to them from other people. So far as the actual management of the Office is concerned, I think it would be more appropriate for me to ask Mr Cassels to comment on that. If you are asking what precise person to refer to that is another matter, but it would, I think, come under the whole question of personnel, which, as I said in my opening statement, is a very important part of this whole discussion of efficiency and effectiveness and of getting the best people to do these jobs.

1173. Yes, I would be grateful to hear from Mr Cassels.

(Lady Young) Could you comment on that question, Mr Cassels?

(Mr Cassels) Certainly. One of the things that the MPO will be doing is to participate in Rayner's scrutinies and to participate and coordinate the reviews to which Lady Young referred in her statement. Now a lot of ideas come up in individual departments or individual units within the departments, which are valuable and ought to be taken on board at once and spread elsewhere, and it is the function of the MPO to do just that. We have our people round and about and there are quite a lot of people who are not at desks in the old Admiralty building but are out and about helping with reviews and scrutinies of various kinds and finding out what the facts are, and as new approaches come to light we become aware of them and ought to disseminate them widely throughout Whitehall. Very good work has been done, for example, in terms of transport economy by people in what used to be the CSD who are now in the MPO. Good work has been done in improving the efficiency of messagerial services—which may sound humble but quite large numbers of people are concerned. Whenever good ideas for doing that kind of thing are found, we want to make sure they are made as widely known as possible within Whitehall.

1174. But Lady Young's statement did say "in Whitehall and beyond" and I am

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really rather concerned to know at what level in your department there is an active search for methods and ideas from beyond Whitehall, and how far beyond.

(Mr Cassels) I think that partly the statement refers to secondments, and I think there is the question of whether the MPO ought to second people more than perhaps has always been done in the past to enable people to get experience of working in other organisations outside Whitehall and get the experience from that which will help them to be more effective in their working within Whitehall. So there is the question of stepping that up. It already happens, but is enough being done? And there is the question of whether we make enough use of consultants. Should consultants be used where they have a distinctive expertise and where they have something to offer, and will that enable us to take fresh steps forward? I think there are a lot of possibilities there which need to be exploited in a sensible way.

1175. Where in the office is overseas experience especially of countries with systems of governments broadly similar to our own? I am thinking of Canada on which we have already had a very helpful note as to their very active and ingenious search for effectiveness checks. Is there some level in your office that reviews overseas experience?

(Mr Cassels) We are interested in overseas experience and there are people in what is called our central division who have information about what is going on overseas. I do not think that is necessarily the only or best way of finding out the best of overseas experience. I would like to think we would send people abroad on specific missions when there were specific subjects in which we were interested to see how they are tackled in other countries. I am aware of the Canadian approach. They have, I gather, an arrangement not unlike the newly established MPO in Canada and we have some information about that which Sir Robert Armstrong has brought back from talking to his Canadian opposite number. So we get information at various levels.

1176. Trying to broaden this same field out to the influence that your Department and indeed the new set-up in the Treasury which is represented here today have on better practice throughout the Service, what is the attitude of both sections of the old CSD to stimulating interest in international comparisons, especially with Northern European countries and former Commonwealth countries where comparison is relatively easy to obtain?

(Mr Cassels) I cannot say that we have developed anything in relation to international comparisons in the last four weeks. I think I would need to ask Mr Wilding what he may have done in the past when he was concerned with these things.

1177. I was concerned with what you have inherited.

(Mr Wilding) Certainly we have tried to keep in touch with developments abroad. I think it is fair to say more with the ways in which they tackle this or that, whether it is a problem in the manpower field or the computer field, taking subjects that have now gone to the Treasury, or questions of training and personnel management that have gone to the MPO, in that sort of thing rather than in trying to make direct comparisons between the efficiency of similar operation in the one country and the other. The impression we have had, rightly or wrongly, is that there is so much work involved in sorting out the differences and trying to give a weight to those in the way in which things are done in different countries, that we have in the past not felt that that would be worth a great investment of resources.

(Mr Hayhoe) Could I say a word on computers and new technology which are very much in the area of which Mr Wainwright is talking? I think we have had our good 'uns and our bad 'uns. I think if one looks back over the experience the bad 'uns are remembered and the good 'uns are taken for granted. But we are a very major user of computers. There is the Central Computer and Telecommunications Agency which I think is now accepted within the high technology industry as combining within itself very high expertise while being well respected outside. It does act as a centre within the Government now of great expertise and advice to departments who wish to install new equipment. We have managed to have an agreement with the trade unions so far as stand-alone word processors are concerned. These are coming in—never perhaps as fast as some would wish, but we are installing them I think perhaps with a better awareness of their limitations as well as their advantages than sometimes has occurred outside where they have been put into firms and offices perhaps sometimes more as status symbols; the

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report on their use has been well received outside and in a variety of ways, therefore, in this area I think that we obviously do build on experience abroad very much—the whole world of computers is an international scene and I think in this area we are doing well. We obviously will have to do better because it is a very, very fast-moving technology and sometimes one pays a heavy price for having gone into it early, as those who bought pocket calculators some years ago will know. They now get a very, very much more efficient thing for perhaps a tenth of the price.

1178. Can I just put to you and to Lady Young as well that business for years has been in absolutely no doubt in many cases that to obtain international cost comparisons is well worth the extra work involved in, as Mr Wilding said, making the necessary adjustments so that the comparison is valid. We have ascertained from questioning two departments of state that where they are obliged, where it is not really in their remit to let it go, to come to grips with international cost comparisons, for instance, in NATO and to a lesser extent in the World Health Organisation, with an effort they do it, and we were assured that they assure themselves, for instance, that the Dutch cost of operating a frigate in certain circumstances are checked and validated and laid alongside the Royal Navy's costs of operating a frigate in identical circumstances; but those appear as far as we can tell so far only to be done when the circumstances from outside oblige our departments to do it. The question I wish to pursue—and I do not know whether you have any observations on it—is whether as part of your propagation of best practice you are concerned to stimulate this international approach to costs, of course starting with those countries in Northern Europe and the Commonwealth where comparisons are obviously relatively easy.

(Lady Young) I think you are addressing that question to me. If I may, I would say two things. I think it is clearly something that one needs to look at, but one has to make quite sure what one is looking for precisely because it will be clearly quite an expensive exercise. If there is some comparison which is worth doing, then I think we should certainly go and do it. If it is something quite specific—and, as Mr Cassels said, there are particular instances from which we have something to learn—then I think certainly we should look at it. I think in a sense it begs the second question which is, what do you do when you find something else is much cheaper? How do you make quite sure that it is used, because unless it is, you have gone through the whole exercise and have not actually got the results. So you have to have a commitment at the end that what you are proceeding to do will be used. I think it is a rather more complicated process than might at first appear.

Chairman: We have not in this inquiry gone in detail into personnel training, but there are some aspects of it which are very central to matters of efficiency and effectiveness which we should like to pursue now.

Mr English

1179. Lady Young, you are new to this, as are your colleagues, but I think many parliamentarians and many permanent secretaries take the view that by a series of unfortunate accidents you have never yet adequately considered the possibility of having a British version of the Ecole Nationale d'Administration or the Armed Services Staff College as a proper mode of training of top civil servants, if you like. Cost is not a main point in this because ENA only has four full-time staff, and I think even in these days of stringency of public expenditure four people could conceivably be afforded. The real point at issue is the devotion of time by people to train their successors; I think that is one of the principal points at issue. I am not asking for a straight yes or no sort of answer now, but I wonder whether—we have been bedevilled by heads of the Civil Service leaving, heads of the Civil Service coming, heads of the Civil Service falling ill and so on—in this new set-up you would try to ensure that adequate consideration is devoted to the training of the top 2,000 or fewer people in the Civil Service.

(Lady Young) I am quite sure that we would all agree that adequate and good training is essential in the Civil Service, as it is anywhere else. I have, of course, heard that the Sub-Committee has been interested in the whole question as to whether the ENA system would be suitable for the British Civil Service or not. I think that this is something that one has to look at very carefully in the context of the British Civil Service system as a whole, and if one is looking at anything to remember what the strengths of the British training system are that we already have got.

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1180. We have not got one.

(Lady Young) I think that, if I may say so, is a rather sweeping statement.

1181. It is fairly accurate. I will not be able to develop that in the short time we have available to us, but I think if you ask around you will find that most people would agree. We are only talking of the top people.

(Lady Young) We are talking about people that come into Whitehall, you mean?

Chairman: Specifically at Assistant Secretary level—high fliers who might expect to be promoted above the Under Secretary level.

Mr English

1182. That is what we are talking about. We have not got a training scheme. There is in the armed services. There is in France. There is not here.

(Lady Young) There is training for civil servants when they come in and there is a great deal of mid-career training and training as it were, on site and in the job.

1183. But the Civil Service College's great concentration is on lower level courses. There is no equivalent to the Defence Staff College.

(Mr Cassels) Perhaps I could add something, Chairman? As I understand it the French go in for what, in the jargon, is called front-end loading, that is to say, people get two-and-a-half years at the ENA at an early point in their careers and then that is it, so far as their training goes. Now we do not go in for front end loading to that extent, although we do have what I think is considerably improved arrangements for training administration trainees, and so on, and making sure that they get the kinds of training that are relevant to them. The question is whether we—and this the French do not, as I understand it—ought to have some mid-career training for people at Assistant Secretary level, say, before they get into the open structure. Now, we are doing some work in this area in the sense that it has become clear that financial training has not been keeping up with modern requirements and a lot of work is now going on into improving financial training, and that will be relevant not only to people who are going to become Principal Finance Officers, although it will be very important for them, but also to line managers as well. It is important that the should have a decent grounding in financial management. So in a rather British way we have been following a slightly pragmatic line. The possibility of something more ambitious has been looked at in the past and the decision was taken, because of resource shortage, not to go on with it at that time. I suppose this is the kind of thing that is never finally settled and it may be that at some point it would be worth reopening the question whether it is right to think of something more complete or more rounded, if you like, by way of a mid-career training opportunity. I would add that it remains a fact that that is not the only kind of way of approaching people's training in mid-career. There are people released from time to time to go to business colleges and there are people who spend a period on secondment in industry, and for some people these are very valuable, formative experiences which are very relevant to their later careers.

1184. I do not think we can go into this at this stage, Mr Chairman, as it is getting late and I would like to touch on the topic of pay. Three things are, I think, matters of concern in relation to pay. The first is, could we have some form of incentive? It is sometimes known as merit pay, but I do not think I mean the French system of *primes* but more like the American sysem of enabling people to move within their scales.

(Mr Hayhoe) Responding quickly to this, this has been looked at in government and it is one of the issues that we have asked the Megaw Inquiry to look at, in the issues paper that we have already given to them. We are, within the Treasury, preparing a paper on this to submit to the inquiry and perhaps it would be for everyone's convenience if a copy of that paper could come to the Sub-Committee. I hope we would do this fairly early in the New Year. Would that be of assistance?

1185. That would be most helpful. The next point may be covered in the same paper, that is, the five-sixths of the people not in London about whom five-sixths of the House of Commons are very concerned. We have in the evidence a statement by the Deputy Secretary of the CPSA made at our last meeting saying that he actually believed that a typist in London in the Civil Service should be paid more for her job than a typist in Oldham. To the rest of the country this seems grossly unfair. There is no rate for the job nationally and the differential is purely in favour of the capital.

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(Mr Hayhoe) Yes, at the moment we have a system of London-weighting which applies to Members of this House, too. As a London Member living in London I get London-weighting whereas perhaps other Members sitting around the table and living away would not.

1186. No, but we get an allowance for living away.

(Mr Hayhoe) That is right, and it is rather larger than the London-weighting allowance. Putting that on one side, the London-weighting system has been running in the Civil Service for many years and it followed a system where there was provincial differentiation. There was a London rate and two other tiers, intermediate and provincial. That was changed twenty or so years ago and we have moved to a straight flat rate addition for inner and outer London, and that very much is in tune with the practice followed by many other larger employers with people all over the country, though some have more gradations Again, this is quite right—it is a matter which the Megaw Inquiry, I think, will be looking into and if there is a document available giving some information on this, I would gladly arrange that it comes to the Sub-Committee.[1]

1187. My last point, and I hope you are putting this to the Inquiry, is this: given the almost overwhelming one-way traffic of Permanent Secretaries into business—which I do not mind but it is almost always one-way for a very good reason: no-one in business would come into the Civil Service because they cannot pay them enough; we could not get a C&AG from outside the Service because the C&AG, even though paid as a judge, is underpaid by the standards of the accountancy profession in the City. I hope you are going to say that something should be done to increase the pay of a small segment at the top of the Civil Service, which is very important to its management.

(Mr Hayhoe) I think the present position on that is that the Top Salary Review body, will be making recommendations. If I remember rightly, last year it really left matters without detailed consideration, merely saying that it thought that an earlier recommendation ought to be implemented in full, and on that basis it was going to be looking at matters very carefully for the report it makes in 1982. As you know, this will happen and then the Government will have to make up its mind on the basis of that report and the circumstances of the time.

1188. There is just one other small point. The trade unions raised with us the question of the new technology agreement. I imagine you know about this. How is it getting on?

(Mr Hayhoe) There were discussions going on which were suspended during the period of the dispute earlier in the year. I hope we will be able to arrive at an agreement with the Civil Service unions on new technology, as I say, based and building on the useful agreement we made for stand-alone word processors that we made with the CPSA earlier this year; but these negotiations in any meaningful sense have yet to start.

Mr Shepherd

1189. As regards interministerial relations, one of the problems we have come up against time and time again, especially talking with officials, is that in a system of Cabinet government a Minister is responsible for his department and there is only so much that the centre can do to try and ensure practices of good business method or efficiency or whatever. Do you accept that line of argument or would you comment on it?

(Mr Hayhoe) If I start on this I think that the prime responsibility must, as I think, be accepted by the Minister in charge of the department. The amount of effectiveness that can flow from central departments is a product of the weight and clout attached to that. There are certainly those who have commented upon the organisation who believe that the end result of it, both in terms of the Treasury and in terms of the MPO, will be that there is greater weight and clout and that at the end of the day this will be shown to be more effective but, as someone said, time will tell on this.

(Lady Young) Could I just add to something I said earlier. I think it is a question of understanding how the procedures will work. Where there are scrutinies or investigations into efficiency, there will be real measure, an accurate measure, because it is based on finding out the facts, finding out the precise costs of something. Once you have got a precise measure you can say to a department, "This is, in fact, what it costs

[1] See *Civil Service Pay : Factual Background Memorandum on the Non-Industrial Home Civil Service,* pp 47–9: Civil Service Department. HMSO 1981.

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for your messenger service", or the way they organise this piece of work, or whatever it may be you are measuring; and in this way you have got (and I think perhaps this is an answer to Mr English who asked the question earlier on: "How much outside measurement?") an objective measure of the cost and efficiency for doing something which has in many instances, not in all but in a number of instances, an application throughout all departments. Then, of course, it is for the minister to see that, having got the measure, it is used.

Mr English

1190. Then, as the Fulton Committee said, you need many, many more accountants, which the Civil Service has always been reluctant to have. You have something under 400 accountants in the Civil Service; there are thousands in industry and local government.

(Mr Hayhoe) We have actually just over a thousand in post at the moment. We are recruiting, I think, 25, which is not high, but we are training in-house an awful lot of people, and we use the Army Pay Corps school at Worthy Down, which again I have seen, which is very, very good, and the pass rate of the civil servants there is approaching 90 per cent whereas I think the accountancy exams have a very high failure rate outside, so we are doing more. Of course, we need many more accountants and we are improving the way in which they are used within the service.

1191. I suspect, since they are civil servants, you are counting the C&AG's accountants in that. If you deleted them, then you would get back to the other figure which is much lower.

(Mr Hayhoe) We do not see the C&AG's people as enemies; we are all on the same side surely.

Mr English: I am just pointing out that they are civil servants.

Chairman

1192. Lady Young, Mr Hayhoe, we are most grateful to you for the evidence you have given us this afternoon. We appreciate it is very early in the day for your organisation and that you have in a sense been speaking of aspirations and plans rather than of what you have yet actually been able to achieve, but we would like to wish you well in that and to asure you that in the work we do in this Committee we are seeking the same objectives as yourselves.

(Lady Young) Thank you very much.

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ANNEX 1

Note by HM Treasury

COMMENTARY ON PART 2 OF THE CCSU'S EVIDENCE[1] TO THE TCSC SUB-COMMITTEE ON EFFICIENCY AND EFFECTIVENESS

The following notes summarise the comments of the Departments to which the CCSU refer in Part 2 of their evidence to the Sub-Committee.

CUSTOMS AND EXCISE

Para 5.1: VAT Control

1. The policy objective for the control of VAT is to maintain an adequate level of control at an acceptable cost within available resources. This involves striking a balance between the need to make each visit cost effective and the need to maintain an adequate preventive and deterrent effect. It is achieved by varying the control of the 1.3 million registered traders according to the perceived risk to the revenue so that, high revenue risk traders may be visited at intervals of a few months; it is only traders of low revenue risk (not all as the CCSU suggest) who may be visited once every eight years.

2. The programme of control visits takes into account factors such as the results of operational research, turnover, complexity of business activities and the record of compliance with revenue requirements. The Department considers that increasing effectiveness (through the use of operational research) has enabled VAT control to take its share of recent staffing economies without apparent undue detriment to the tax yield.

Paras 5.2 and 5.3: Spirits Warehouse Controls and Distilleries and Associated Warehouses

3. These proposals involve a continuation of the move to less restrictive excise controls in the distillery and warehouse fields. Many warehouses are already controlled under an "open" system and are not therefore under Crown locks as suggested by the CCSU.

4. Under the new systems, traders will be expected to introduce and maintain satisfactory security and accounting systems. Departmental resources will be used to monitor and check these systems mainly by visiting staff. The control procedures will be flexible and better able than at present to identify and deal with specific risks at individual locations. By these means the dangers referred to by the CCSU should be covered.

5. It is true that the changes will impose greater responsibilities and, in some cases, costs, on traders. These are responsibilities and costs, however, which in other areas of the Department's work are the concern of the trader. In future the trader will bear this responsibility for security systems, with revenue control being exercised by official checking and monitoring as in other fields of taxation.

6. Greater detail on the subject of control of duty on spirits, including the monitoring of efficiency, is contained in the reply to Question 30 of the Select Committee's questionnaire.

DOE CENTRAL

Para 5.5: MINIS

7. DOE does not accept the CCSU's criticisms of MINIS. The problem of measuring effectiveness and the application of MINIS to other departments were fully covered in the Secretary of State's oral evidence and the Department's written evidence. The system has not been used simply to cut staff numbers although it has enabled savings to be made in the most effective way—by eliminating unnecessary functions, reducing work in low priority areas and bringing about more efficient organisational structures and methods of working. In some areas, staff resources have increased as a result of MINIS, eg inner city initiatives, local government finance, listing of historic buildings.

[1]Evidence, p 369.

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8. MINIS has not just been superimposed on existing control mechanisms, nor does the manpower budgetting process work in the manner indicated by the CCSU. Manpower budget forms are prepared against a provision budget to illustrate the consequences of particular staffing levels. The budget is then varied as necessary in discussion between the Secretary of State and directors, taking account of all available information, including competing pressures for staff and other resources, the result of management service and other reviews, the views of advisory committees, Rayner studies etc.

Para 5.6: Cuts in Service

9. *Hydraulics Research Establishment:* the CCSU statement indicates a misconception of the proposed privatisation. It is the Station which is to be privatised. This will enable the new organisation to have greater freedom to respond to clients' requirements and thereby improve efficiency. Government departments will continue to place contracts to meet their longer term research requirements. The Department expects that the majority of the existing staff will join the new company.

10. *Directorate of Air Noise and Wastes (Not Water):* the directorate is not a small unit; nor was there such a unit within the directorate. The whole directorate was reduced by six staff following the abolition of the Clean Air Council and reduction of other functions. DOE does not accept that there is now no control, guidance or initiative on the Clean Air Acts. These activities continue to be an important function of the directorate.

11. *Housing Controls:* The total reduction in the Housing directorates up to April 1982 is expected to be around 60, not 275 posts. Much of the housing control work is appropriate to the Regional Offices, where there are to be some 50 staff reductions. The introduction of a new project control system requires less detailed scrutiny by Central Government and gives local authorities greater freedom and responsibility to take decisions about housing schemes, thus making them more directly accountable. It does not necessarily follow that this will have an adverse effect on the quality of housing building. On renovation work, the majority of authorities are probably submitting more schemes for consideration now than previously. It is not strictly correct to suggest that Central Government has withdrawn from monitoring of spending. Authorities requiring borrowing approval for the construction of new dwellings or renovation work must submit certain cost data and information about the scheme; DOE carries out sample monitoring.

12. *Messenger Services:* There has been no decline in the level of messenger service. The number of messengers recommended following the O & M review was based on providing an hourly delivery/collection service for the movement of routine papers. A "by hand" service is available to deal with urgent papers. Staff responsible for the messenger service maintain close contact with their messengers. The bringing forward to 4.00 pm as the time of the final clear for items for the Post Office service was done to prepare the way for the introduction of public postal methods in 1982, and the extra tasks involved. This meant that the Department could afford to cut some, but not all, overtime by messengerial staff. The move of the Post and Despatch rooms to Romney House has had no deleterious affect on the speed and efficiency with which mail is handled. Mail has always been collected at a central point. If anything the time taken under the present system is less than previously. There is no evidence of undue delay in the despatch of out-going mail, conveyance of internal correspondence, or the transmission of photocopying and typing.

Para 5.8: Regional Organisation

13. Although the Department has not yet made its formal response to the Independent Review Team report it already takes the lead role on behalf of Government. DOE do not think it either feasible or desirable to attempt to act on behalf of all other Departments whose full involvement in the machinery is seen as crucial to Partnership's success. Nor does it accept the case for a full-time regional director for the North East although it is intended to strengthen the senior management engaged on Inner City Work.

Para 7.1: Privatisation

14. Of the organisations quoted by the CCSU, only the Hydraulics Research Station (HRS) proposals which envisage the setting up of a private company, can accurately be

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described as privatisation. The Countryside Commission, Audit Commission and Ancient Monuments and Historic Buildings Agency proposals all involve the hiving off of parts of the Department to non-departmental public bodies. These are all self-contained blocks of work which could be more effectively done outside the Civil Service. In practice, all staff working in these areas will be offered jobs with the new organisations, and there will be no break in the work on which they are at present engaged. Conditions for staff, taken as a whole, will be no less favourable than at present. No decisions have yet been taken about the future status of the Building Research Establishment. Certain staff figures quoted by the CCSU are incorrect. That for the Directorate of Ancient Monuments and Historic Buildings should be 1,000 as only part of the directorate is included in the proposals. For DOE Central it was 9781 at 1 December 1981. Thus, 2.5 per cent rather than the 44.5 per cent of DOE (Central) staff are at present involved in privatisation schemes, and 29 per cent involved in all change-of-status proposals.

15. *Planning Inspectorate:* DOE does not accept that the use of part-time Inspectors is no less costly than salaried Inspectors and that their use is less efficient. The majority of part-time Inspectors are retired people (eg civil servants or local government officers) and only a small number are private planning consultants employed on an experimental basis. They are employed at the lower and simple end of the case work range. For this, less training and supervision is generally required. The fee is currently £55 per day, and not £90 as quoted. Because part-time Inspectors are employed on a case-by-case basis, when there is a lot of work to be handled, they are cheaper than maintaining a higher level of permanent staff just to cope with peaks. Also, there are not the usual continuing expenses such as paid holidays and superannuation. As to the alleged "loss of public confidence", the Department is aware of this potential criticism. Thus the employment of consultants remains on an experimental basis. It is now consulting interested bodies, including the DOE (Central) Trade Union Side and Ministers are awaiting the views of all parties before making a decision on the future use of consultants.

16. *English House Condition Survey:* DOE do not accept that an agreement was reached and later broken on the use of department staff to man the survey. In response to a request from the DOE (Central) Trade Union Side, the possibilities of doing so were re-examined and it was suggested that perhaps a sixth of the staff required might be drawn from within the Department, if Ministers agreed. In the event Ministers decided that the physical inspection could best be conducted by staff drawn equally from local authorities and private practice. The additional cost of not using the suggested proportion of departmental staff was £25,000 and not £60,000.

17. *Rayner Study of Research and Development Support Services:* DOE's statement about professional accountancy advice being available was made in relation to internal audit activities. The Rayner study requirement was for the full-time services of an accountant, albeit for a comparatively short period. At that time, that capacity could not be made available at short notice, but since then the professional accountancy capacity in the Department has been strengthened.

INLAND REVENUE

18. *Para 5.9*

General: The number of staff in the Inland Revenue has fallen by 11,000 (13½ per cent)—not by 14,000—since April 1979. For the most part this reduction simply reflects reduced workloads resulting from cuts in function, eg the ending of the lower rate band in 1980 and improvements in efficiency in the way the work is done. Therefore it does not follow, as CCSU suggest, that a reduction in staff reduces the yield.

Black Economy: While an increase in staff engaged on counter evasion work would increase tax yield, the real point at issue is how any given amount of staff resources can be employed most effectively and how much of its resources the Inland Revenue can effectively devote to countering evasion.

The evidence instead of suggesting that the staff cuts have adversely affected existing work against the Black Economy, shows that the number of cases which were examined in depth was greater in 1981 than in 1980; the yield increased by some 25 per cent in 1980,

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and probably at a similar rate in 1981. Steps are being taken to increase the network of Special Offices proved to be highly cost-effective. The Department will monitor carefully the results of the recent decision to redeploy an additional 400 staff units to Black Economy work over the next three years.

19. *Quality of work on PAYE:* The relationship claimed by the Unions between the quality of work on PAYE and staff cuts is not accepted. The quality control survey carried out in the year 1980–81 covered three aspects of Tax Office work—coding, returns examination and assessments—as they affect Schedule E taxpayers. Work on repayments was not included. The 27 per cent error rate refers only to work on assessments; only one in seven taxpayers receive an assessment. On coding, the survey showed an initial error rate of 10 per cent. Most of the errors were for relatively trivial amounts of tax, and a substantial proportion were subsequently picked up and corrected by the Tax Office. Furthermore there is no evidence that the error rates were substantially the result of staff cuts since April 1979.

20. *Para 5.10*

Morale: While staff cuts may have affected morale, particularly where they have resulted in promotion blockages, there is nothing to suggest that they are a major factor, nor that the standard of service has declined.

Training: There have been some reductions in the amount of training in terms of man weeks, but these have been selective. Redundant courses have been dropped and management courses are now offered only to those who have immediate need for the knowledge. Some rationalisation of the technical courses means that the content is now more job-related. In some cases instruction is now given at local level rather than in the Training Centres.

21. *Para 5.11*

Weeding: There has been no change in the procedures for retention of papers, weeding, and subsequent disposal, though at times of pressure this work receives low priority. When circumstances permit, extra resources have been made available on a temporary basis to undertake particular weeding or clearing jobs, or even to overtake arrears of such work.

Income checks: The limits above which details of income are returned to the Revenue were reviewed in early 1980, as part of an exercise to find function cuts to match staff savings. This showed that more information was being sought than could be used cost-effectively, with the result that many Districts found it increasingly difficult to handle the ever-increasing volume of information slips. A balance has to be struck, and as yet there is no evidence to suggest that the cutback on information slips has impeded the investigation work in Districts.

22. *Para 5.12*

The extract quoted from the Committee of Public Accounts, 8th Report, of the 1979–80 Session is being borne in mind when considering the areas in which manpower savings should be made.

MINISTRY OF DEFENCE (Paragraph 6.1)

23. MOD accepts that achievement of the target reduction of some 48,000 or 19 per cent in UK-based civilian numbers by April 1984 represents a substantial challenge to management and staff alike. The savings so far achieved reflect the efforts of line managers at every level to eliminate inessential work, question standards and seek different methods of work.

24. In June 1981, the Secretary of State for Defence announced changes in Defence priorities which will result in lost functions, particularly in support of the surface fleet, leading to the closure of Chatham Dockyard and a number of naval stores and fuel depots, and the rundown of Portsmouth Dockyard. These measures alone will result in a reduction of a further 15,000 to 20,000 UK-based civilian jobs. Benefits will include not only greater economy in the support area but also the ability to redirect the money saved to improving the effectiveness of the defence programme as a whole. The Department recognises that

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the uncertainties created have had a particular direct impact on staff morale, but stands by its general assessment of the position.

25. On Professional and Technological Officers (PTOs), these staff were invited to notify their interest, without commitment in a Voluntary Premature Retirement (VPR) scheme. Of the 1,500 who responded in 1980–81 about 200 VPRs were granted; in 1981–82 about 2,700 staff (many at the Chatham and Portsmouth Dockyards) have expressed interest and a similar number of VPRs is expected to be granted. It is likely that many of the staff registering interest would not have accepted a formal offer of VPR had one been made to them. But the PTO grades may not be typical of the Department as a whole, since they have been particularly affected by plans for major reductions in certain areas.

PROPERTY SERVICES AGENCY

26. *Para 6.2*

Negotiations with British Telecom (BT) have recently resulted in agreement that PSA will (i) undertake 40 per cent of BT's new works programme in 1982–83, and (ii) continue to carry out the bulk of their minor new works, maintenance and Estates work. BT are also arranging an experiment in two Telephone Areas in which they will carry out all maintenance and minor new works for two years to assess the kind of resources required if they were to assume responsibility for all such work.

27. *Para 7.2*

The figures quoted by the CCSU are for the civil (Office and General) programme only, and exclude work for the Armed Forces and repayment clients. In terms of actual expenditure the correct figures (at 1980–81 prices) are: Part I (major new works)—59 per cent; Part II (minor new works)—5 per cent; Part III (maintenance)—17 per cent. As stated, the composition of the Working Group on Design Costs is not entirely accurate. On estates work, experimental commissions are being let to assess the implications in terms of cost and performance of using private sector agents, particularly where there is a need to supplement PSA's own professional resources. The results of these experiments will be taken into account, and discussed with the trade unions before decisions are taken about the wider use of private sector agents. On Management Systems, the Rayner Study on Economy in Major New Building Works for the Ministry of Defence has not "sunk without trace". Forty-five of the 52 detailed recommendations—mainly concerned with improving works planning procedures—have been accepted by MOD and PSA in whole or in part and are being implemented.

28. More generally, the Secretary of State has reaffirmed the PSA's crucial role in support of the Armed Forces and the operations of government. He wants the Agency to make full use of the resources of the private sector, but has emphasised its continuing functions in the management and maintenance of the Government estate and in the management of the Government's building programmes. The Chief Executive is very concerned that the CCSU is spreading unnecessary alarm and uncertainty among the Agency's staff, and causing concern to its clients.

DEPARTMENT OF TRANSPORT

Para 7.4: Heavy Goods and Vehicle Testing Stations

29. The basic argument for privatisation is that the Government should not be involved in activities which the private sector could undertake just as well. The Government are also looking for practical benefits for the industry, including the introduction of competition which will improve the service given to operators through the comparison of costs and efficiency which the different chains will provide. Privatisation will bring other benefits: private companies are better able to meet the practical needs of vehicle operators, by establishing more flexible working arrangements and also by providing minor repair and spare-part facilities. Small operators in particular would save money by reducing the amount of time which vehicles spend off the road and out of productive use. Although the testing fee will need to allow for a reasonable return for the private sector testing companies, there is no need to suppose that the service as a whole will not be more economical and provide better value to the industry.

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30. Ministers have said that they will take great care in choosing the companies which take on testing, and that there will be a thorough system of controls to ensure that standards are maintained. It is likely that all staff will be required successfully to complete an approved training course. Checks will of course be made at test stations, and withdrawal of authorisation is a sanction which will be used if necessary. There will be full consultation on arrangements for supervision and control, with a Vehicle Operators' Advisory Panel advising the Secretary of State on these issues. The new consultative arrangements go a long way to meet the concerns which the vehicle operators have expressed in the past, and the operators' associations are now prepared to work positively with the Department to ensure the success of the private sector system.

31. The aim in setting fees for HGV and PSV testing is to cover costs, not to make a profit. In the year ending March 1980 the testing scheme showed a surplus of £1 million, but in six of the last eleven years it has recorded a deficit. Privatisation should bring in an initial capital sum from the proceeds of disposal and in the long run the effect on the Exchequer is expected to be broadly neutral.

DEPARTMENT OF EMPLOYMENT

Para 9.1—Availability for Work Test

32. The Government has accepted a recommendation from a scrutiny that unemployed people should no longer be compelled to register at a Jobcentre as a condition for receipt of unemployment benefit. The Government considers that unemployed people should have to comply only with such rules as are clearly necessary in relation to receiving their benefits and, in other respects, should have as much freedom of choice as possible. The attention of unemployed people will still be drawn to the services available to help them in Jobcentres and the public employment service will have the advantage of being able to concentrate its efforts on people who have come to it voluntarily to seek jobs. This should remove a considerable amount of wasted effort and enable the employment service to become more efficient in filling vacancies and helping job seekers.

33. Following the introduction of voluntary registration for employment by unemployed people in October 1982 testing availability for work will become the responsibility of the UBS. From that date claimants will be required to answer an additional question on the unemployment benefit claim form about the nature of the work they are prepared to take and if their reply gives rise to doubt they will be required to complete a detailed form about the sort of work they are available for, which will enable decisions (if necessary by the independent adjudicating authority) to be taken about their availability. A pilot scheme is being run in twenty offices early in the New Year and precise arrangements will be drawn up after the scheme has been completed.

34. There is no question of asking UBO staff to make crucial decisions about a claimant's future having the relevant information. The responsibility for disallowing any claim to benefit will remain solely with the independent adjudicating authority as at present. All claimants will be advised to make use of the skilled advice and assistance which can be provided at the Jobcentre. The more detailed questionnaire which will be issued to claimants where there are doubts about availability will include questions about wages required, the nature of the job the claimant is willing to take, the hours of work etc.

Para 9.2—Quarterly Signing

35. This option has been available since 1973 to those in the older age groups who have been unemployed for a lengthy period. Changes have been made at intervals, and as from January 1982 it is proposed to offer this option to all claimants over the age of fifty who have been unemployed for more than twelve months. This is being done to save claimants the inconvenience and expense of travelling to the UBO every two weeks to sign on, and to relieve some of the pressure on UBO premises and permit some economy in staff, while increasing the efficiency of the service. There is no intention of writing off this category of claimants. All the facilities will still be available to them and they will be encouraged to maintain regular contact with the Jobcentre.

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Para 9.3—ACAS

36. No comments offered.

Para 9.4—The Wages Inspectorate

37. The latest estimate of workers covered by wages councils is 2¾ million. The CCSU overstates their function in suggesting that councils "determine" incomes. Whilst council orders provide statutory underpinning, many employers pay above the minimum rates set. The "national average rate" of about £120 per week quoted is probably a reference to the *average earnings* of male workers in 1980. Comparable voluntary *basic rates* would be much lower, although it is true that they are generally above the wages councils' minima.

38. *Inspection and Enforcement:* The CCSU's statement that the number of wages inspectors is being reduced from 177 to 117 is substantially correct, though the level was set at 177 only in 1978. This was done in order to pursue a 6-year, rather than a 10-year, cycle of contact with employers (though the 6-year cycle was never achieved). The current reductions in the Inspectorate's strength, designed to reduce public spending are intended to restore the level of contact to the pre-1979 level. The wider use of written enquiries of employers to check what rates they are paying should mean that a 10-year cycle can be secured with a lower ratio of inspectors to establishments visited. The Government would not accept that there is evidence that employers are more likely to escape their obligations than they were prior to the 1979 expansion. Apparent increases in the rate of infringements cannot be related simply to the size of the Inspectorate. Work is increasingly being concentrated on establishments where infractions are thought most likely to occur. The percentages of workers found to be underpaid and of establishments found to be underpaying cannot (as the CCSU figure of £28m implies) be grossed up to provide estimates of non-compliance for all workers or establishments covered by wages councils. Methods of increasing the Inspectorate's effectiveness are constantly under consideration and ways are being found to use inspectors' time more effectively; a special review is not considered necessary.

39. *Prosecution:* The Department's long-standing policy is to seek compliance with Councils' orders wherever possible without recourse to criminal proceedings. Prosecution is not considered without clear evidence of a deliberate or repeated offence, and the decision to prosecute or not will depend on the nature and circumstances of the offence. It is not influenced by the staff time involved in the preparation of the case. The number of cases subject to criminal proceedings has changed little over many years.

Para 9.5—Staffing in UBOs

40. It is true that savings to be expected from the review of staffing allowances in the UBS were announced by the Secretary of State before discussions with the trade unions were completed. This was mainly because of union pressure for an explanation as to how the 630,000 manpower exercise would affect DE. The review of allowances was, however, in train before the 630,000 exercise was announced and savings from the review would have been implemented as part of DE's policy of efficient and effective administration. The original target date for implementation of savings from the review of staffing allowances was brought forward to October 1980 from April 1981 because of the need to meet staff reductions targets under the 630,000 exercise.

41. *Adequacy of Current Allowances:* The allowances implemented in October 1981 were, in the main, determined by work measurement techniques, with adjustments in some areas to allow for extra work arising from the change to fortnightly attendance. These adjustments were assessed by officials experienced in the work and in staff estimating, and although the trade unions were not satisfied that sufficient time was allowed, management is convinced that the additional allowances are adequate to cover the additional work.

42. *Use of Casuals:* There is no question of replacing permanent staff by casuals. Indeed, recruitment of permanent staff has been a top priority during the past year and the aim is to engage casual staff to cover short-term peaks of work only. However, more casuals have had to be employed to meet short-term needs because sufficient permanent

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staff could not be recruited in time. During 1981 the number of casuals, as a proportion of total staff in the UBS, fell to 5 per cent.

43. *Overtime Working:* Overtime working increased considerably over the year mainly because of the aftermath of industrial action when it was clearly more effective to have experienced staff working overtime rather than employ inexperienced casuals. But even with the high levels of overtime being worked, this represented on average less than one hour per week per member of the staff.

44. *Training Resources:* Average resources devoted to staff training have increased significantly from 3.5 per cent of total resources in 1980 to over 6 per cent in 1981. Furthermore, the complement of area training officers was increased over the same period from 114 to 218.

45. *Advice to Claimants:* DE have no reason to believe that there has been any reduction in this work.

HOME OFFICE

Para 9.6: Nationality Division

46. The CCSU's evidence quotes correctly from the Rayner report on citizenship applications.

47. Answers given to Parliamentary questions have set out the position in the Nationality Division. There has been a considerable upsurge in the number of citizenship applications and, despite improvements and simplifications in procedures, additional staff are required if delays are not to increase. Financial and manpower constraints have, however, meant that it has not been possible to provide extra staff until savings had been made elsewhere in the Department.

48. On the CCSU's reference to the staffing complement in May and August 1980, reductions during that period were effected throughout the Department's non-prison areas to enable the 1980 Civil Service pay settlement to be accommodated within agreed cash limits. Subsequently, in November 1980, the complement of the Nationality Division was increased to 222 in view of work arising from the British Nationality Bill. It is intended shortly to increase staffing levels by a further 22 posts, and it is hoped that additional resources can be made available during 1982–83, subject to the overriding need to contain public expenditure within the agreed provision.

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ANNEX 2

Note by HM Treasury

PUBLIC SECTOR MANPOWER (OTHER THAN THE CIVIL SERVICE)

1. An article drawing together the available information on public and private sector manpower is regularly published in Economic Trends.[1] This gives the most coherent comparison of trends in the numbers employed in the various parts of the public sector.

Civilian, Non industrial Public Sector employees

2. The non industrial public sector civil employees other than the civil service are those employed by the local authorities and the NHS. The numbers employed over the past seven years are shown in the attached table (derived from p 94 December 1981 issue of Economic Trends). The government does not directly control the number of such employees. Although pay scales and conditioned hours are agreed nationally (but only in the case of the NHS with the government) and allowances for increases in pay rates included in the public expenditure plans for the NHS and the local authorities, the actual numbers employed are at the discretion of local management. The numbers employed for a given level of cash expenditure depends upon the grade of employee, overtime working and special allowances, which are determined by local conditions. A further complication is that the manpower figures for the local authorities include those employed on trading activities such as housing or municipal transport and expenditure on the wages and salaries of these employees is not included in the public expenditure plans which include only any subsidy to the trading accounts. There are thus no projections for local authority or NHS manpower which have the same force as the targets for the Civil Service.

Armed Forces

The following information on armed forces manpower excludes figures for locally enlisted personnel. It is based on calculations made last July/August and represents Ministry of Defence's best current estimate:

	(Thousands Whole-time equivalents)
1977–78	326
1978–79	318
1979–80	318
1980–81	322
1981–82	321
1982–83	316
1983–84	312

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[1]Employment in the Public and Private Sectors 1975 to 1981, *Economic Trends* December 1981.

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TABLE 1 to ANNEX 2

Extract from the December 1981 issue of Economic Trends

APPENDIX 1

UK public sector employment 1975–1981 by major categories[1]

Thousands

	General government														
	Central government				*Local authorities*							*Public corporations*			
Mid-year	*HM Forces and women's services*	*National health service*[2]	*Other central government*	*Total central government*	*Education*	*Health and social services*	*Construction*	*Police (incl. civilians)*	*Other local authorities*	*Total local authorities*	*Total*	*Nationalised industries (incl. Post Office)*	*Other public corporations*	*Total public corporations*	*Total public sector*
1975	336	1,093	822[7]	2,251[3]	1,554	309	164	181	766	2,974	5,225	1,751	284[3]	2,035[3]	7,260
1976	336	1,146	832[3]	2,314[3]	1,568	319	165	187	777	3,016	5,330	1,690	290[3]	1,980[3]	7,310
1977	327	1,155	823	2,305	1,556	322	155	184	767	2,984	5,289	1,803[4]	286	2,089[4]	7,378[4]
1978	318	1,175	814	2,307	1,563	334	155	183	762	2,997	5,304	1,774	287	2,061	7,365
1979	314	1,197	808	2,319	1,587	344	156	189	784	3,060	5,379	1,777	288	2,065	7,444
1980	323	1,228	776[6]	2,327[6]	1,556	346	152	195	778	3,027	5,354	1,744	292	2,036	7,390
1981[5]	334	1,264	759	2,357	1,511	349	152	199	760	2,971	5,328	—	—	—	—

[1]Appendix 2 gives details of the definitions and coverage of the sectors and sources of the statistics and major changes in them between 1975 and 1981.
[2]Because of the effects of the reorganisation of the National Health Service in Great Britain on 1 April 1974 the figures for 1975 are subject to some undercounting and may not be fully compatible with those for later years.
[3]The Royal Mint, and Property Services Agency (Supplies Division) were reclassified to public corporations from 1975 and 1976 respectively.
[4]Most of the aerospace and shipbuilding industries were nationalised in 1977, resulting in the transfer of about 150,000 from the private sector.
[5]Preliminary estimates based upon data covering nearly 95 per cent of the general government sector which should not be regarded as accurate to the last digit shown. Comparable estimates for public corporations are not yet available.
[6]The establishment of HMSO from 1 April 1980 as a trading body implies the transfer of about 6,000 to public corporations.

Note: Components may not add to totals because of rounding.

[Continued

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ANNEX 3

Note by the Management and Personnel Office (MPO)

THE QUALIFICATIONS OF MPO STAFF

This note describes the degrees and other formal qualifications of MPO staff. Formal qualification describes only one source of professional expertise. The staff in all departments bring to their work many years of experience in handling the subjects for which they are responsible. In this respect MPO is no different from other departments of government. The wide range of practical knowledge and the in-house training at the Civil Service College and elsewhere which does not lead to formal qualifications must therefore go largely unrecorded in this note.

Annexes I and II give details of the degrees held by MPO staff. Annex I covers all MPO staff, except for members of the Civil Service Medical Advisory Service who are dealt with separately below. It will be seen that all officials in the Open Structure have degrees, and 84 first degrees are held by the 204 staff at Principal level and above (ie 41 per cent). A very broad range of disciplines and levels of qualification are represented. Of all degrees 40 are in economics and there are 21 doctorates. Annexes III and IV give details of the professional certificates and diplomas held by MPO staff, and the professional bodies to which they belong. These too exclude the Medical Advisory Service. The figures are all based on the information supplied by individuals to their personnel managers, and may for that reason not include all formal qualifications held in the Office.

Of more importance than the qualifications themselves is the way in which they are applied to the work of the Office. The following paragraphs demonstrate how this is done in various parts of the Office.

Psychologists

The MPO has 15 staff in the professional psychologist class. Eight of them hold post-graduate degrees in psychology and occupational psychology. MPO's psychologists work in the Functions and Programmes (FP), Personnel Management (PM) and recruitment fields. In FP they apply the insights and lessons of the behavioural sciences to the pursuit of efficiency. The research side of PM is staffed by psychologists, whose work is directed at the human factor, both occupational and organisational. The results of their work have been published in a series of studies of career management, career planning and performance appraisal systems. The psychologists at the Civil Service Selection Board and the Recruitment Research Unit are concerned with selection and with devising, validating and monitoring new and improved selection procedures. They are all members of the British Psychology Society Division of Occupational Psychology (the appropriate professional arm of the BPS) or of the BPS Occupational Psychology Section.

Doctors

The MAS, which is engaged on the prevention of ill health attributable to work in the Civil Service, has eleven qualified doctors, of whom five are variously fellows or members of the Royal College of General Practitioners, two are fellows of the Royal College of Physicians and six have specialist qualifications in occupational medicine. They possess a wide range of other medical qualifications. Apart from the general medical experience implicit in their formal qualifications, MAS staff have particular expertise in the fields of occupational medicine (including alcoholism and absenteeism), epidemiology, community medicine, neurology, occupational psychology, occupational nursing, and computer science applied to medicine. They regularly contribute to the professional literature on occupational and clinical medicine and on epidemiological subjects.

Academic Staff

Almost 100 of the 270 staff at the Civil Service College are engaged in teaching or research, or are senior support staff. These posts are specialist ones, filled competitively. The normal practice is to invite applications throughout the Civil Service from those with

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appropriate qualifications and experience and to select the best qualified. If no one in the Civil Service is suitable then outside applications are invited. As a result the College has a mixture of people with very varied backgrounds. Forty per cent of teaching staff at Principal level have academic teaching experience. Some have experience in industry and commerce. For instance three of the 26 teaching staff in the Directorate of Systems Training came *direct* to the College from private industry or consultancy (one other came from a university and the others from a wide variety of government departments). Many of the teaching staff have undertaken academic research work and have publications to their credit. In addition to the formal degrees covered by Table II, a number of staff have other diplomas and certificates and are members or associates of professional bodies. Because, as teachers, they have to be up-to-date in their specialisms they have wide outside contacts in their subjects and devote time to refreshing their knowledge. Many College staff also have a wealth of practical experience of their subjects. For example, the Director of Systems Training and his deputy together have over 40 years' experience of computers and management services work. All their teaching staff also have several years' practical experience in departments or elsewhere.

Management Services and Similar Specialists

FP is concerned with the promotion of efficiency in government departments by co-ordinating work within departments and by promulgating good practice identified by participation in detailed studies with departments. Members of FP groups are qualified accordingly in the various disciplines which contribute to management practice, including management accountancy, organisation and methods study, automatic data processing, and the behavioural sciences. Of the 32 officers providing specialist advice in management services and automatic data processing 29 have received training at the Civil Service College and three have formal qualifications. Four of those giving specialist consultancy advice have formal qualifications (three in behavioural sciences, one in personnel management) and they have all received training at the Civil Service College. Three of the four with expertise in management accountancy have professional accountancy qualifications and a further four have received training in financial management and planning.

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TABLE 1 to ANNEX 3

Degrees held by the MPO staff (excluding MAS)

		By Grade Level			*By Age*	
	Total	*Open Structure*	*Principal Level and Above (not including Open Structure)*	*Below Principal Level*	*Below 40*	*40 and Over*
First Degrees	154	11	73 *(2)	70 *(1)	86 *(3)	68
Post-Graduate Degrees	67	2	43 *(1)	22 *(1)	38 *(2)	29
Total staff in each category at EO level and above	529	11	193	325	272	257

*(n) denotes n officials holding two degrees.

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TABLE 2 to ANNEX 3

Degrees held by Civil Service College Staff

		By Grade Level					*By Age*	
		Administration Group						
	Total	*Principal Level and above*	*Below Principal Level*	*Economist*	*Statistician*	*Other Specialist Groups*	*Below 40*	*40 and Over*
First Degrees	62	14	5	8 *(1)	7	28 *(1)	34 *(2)	28
Post-Graduate Degrees	36	4	0	4	6	22 *(2)	25 *(2)	11
Staff in Category at EO level and above	126	26	56	7	7	30	75	51

*(n) denotes officials holding two degrees.

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Table 3 to Annex 3

MEMBERSHIP OF PROFESSIONAL BODIES

Body	*Numbers*
British Computer Society	16
British Psychology Society	14
Institute of Personnel Management	8
British Institute of Management	7
Institute of Cost and Management Accountants	5
Library Association	4
Institute of Chartered Accountants	3
Royal Statistics Society	3
Association of Certified Accountants	2
Organisation and Method Society	1
Institute of Work Study Practitioners	1
Royal Institute of International Affairs	1
Institute of Mathematics and Applied Mathematics	1
Institute of Statistics	1
Operational Research Society	1
Institute of Work Study	1
Royal Institute of Public Administration	1

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Table 4 to Annex 3

DIPLOMAS AND CERTIFICATES

	Numbers
Diploma in Management Studies	6
Diploma, Computer Systems Analysis and Design	6
NCC Basic Certificate in Systems Analysis	2
Higher National Diploma, Institute of Management	1
Diploma, British Institute of Management Studies	1
Diploma, Chartered Institute of Secretaries	1
Diploma in Government Administration	1
Diploma in Management Science	1
Diploma in Library Training	1
Teaching Diploma in the Theory and Practice of Audio	1
Diploma, Institute of Cost and Management Accountants	1
Diploma in Photography	1
Diploma in Illustration	1
Higher National Certificate, Computer Studies	1
Diploma, Social Theory and Structure	1
Diploma, European Studies	1
Diploma, Government Administration	1
Diploma, Institute of Linguistics	1
Certificate in Administration Management	1
Diploma, Business Studies	1
Diploma, Institute of Cost and Management Accountants	1
Diploma, Organisational Psychology	1

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WEDNESDAY 16 DECEMBER 1981

Members present:

Dr Jeremy Bray, in the Chair

Mr Anthony Beaumont-Dark
Mr Timothy Eggar
Mr Michael English
Mr Richard Shepherd

Examination of Witnesses

Sir ROBERT ARMSTRONG, KCB, CVO, Secretary of the Cabinet and Permanent Secretary, Management and Personnel Office, called in and examined.

Mr J S CASSELS, CB, Second Permanent Secretary, Management and Personnel Office, called in and further examined.

Chairman

1193. Sir Robert and Mr Cassels, may we thank you for coming to give evidence in our inquiry into effectiveness and efficiency in the Civil Service, Mr Cassels for the second time. Sir Robert, when Sir Ian Bancroft submitted a memorandum to us as Head of the Civil Service, he said: "Further work is in hand to define the managerial roles of Ministers and Permanent Secretaries and the responsibility and accountability of officials to Ministers through the Permanant Secretary," and he gave us an interim statement of what Ministers' responsibilities for management were at that time. Is that statement likely to be available soon?

(Sir Robert Armstrong) I hope before long but I do not think before Christmas.

1194. We understand this is, in fact, a result of the Rayner scrutiny?

(Sir Robert Armstrong) It follows on work done in that area, yes.

1195. But it will become the standing statement on responsibilities of Ministers, replacing former statements, will it?

(Sir Robert Armstrong) Yes, that is the intention.

1196. And, therefore, will be made by the Prime Minister?

(Sir Robert Armstrong) I do not know that it is decided what form it will come out in, whether it will be in the form of a statement or a White Paper.

1197. May I remind you of the statement as it stood when Sir Ian gave it to us in Annex A of his paper. It reads: "The Minister in charge of a department is responsible, subject to collective Ministerial agreement and with a few specified exceptions, for the totality of its activities. He is thus responsible, and accountable to Parliament, for the effectiveness of his department's policies and the efficient and economical use of the resources allocated to it. It is part of that responsibility to ensure that his department has the systems, procedures, organisation and staffing necessary to promote efficient management." Those are fairly strong and sweeping responsibilities, are they not?

(Sir Robert Armstrong) Yes.

1198. Are all Ministers equipped to carry them out?

(Sir Robert Armstrong) I think that is a difficult judgment to ask an official to make.

1199. You are a very special sort of official, Sir Robert.

(Sir Robert Armstrong) Not really, Mr Chairman. I think that the interest that Ministers have in the management of their departments varies from one Minister to another and no doubt the background which they bring to their offices will also vary. Some will have more experience in this kind of business than others. I think it would be true as a generalisation that they have become increasingly aware of the importance of their responsibilities in this regard, as, indeed, I think others have as well in the public service, in the Government service, partly as a result of the constraints placed upon them in terms of expenditure and manpower. These constraints behove everybody to make very sure that they are making the best use of the resources they have. It is a powerful incentive to try to improve your efficiency or effectiveness if you know that you are under those constraints.

1200. When Sir Anthony Rawlinson gave evidence to us I asked him would it

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not be the case that if Ministers gave more attention to management in fact senior civil servants would do so, too, and he replied: "Yes, it probably would." Do you agree that if Ministers gave more attention to management then senior officials would, too?

(Sir Robert Armstrong) I think that is true.

1201. It is a question of reinforcement, not of trespassing on other people's responsibilities?

(Sir Robert Armstrong) Again these are wild generalisations but my impression is that senior civil servants have themselves become more conscious of their responsibilities for management and of the need to exercise them properly. Clearly they will be able to do so the more effectively in their departments if the Minister in charge of the department displays an interest and a concern for these problems. If there were to be a Minister who said, "Well, I do not know anything about that sort of thing. You had better do that while I look after the policy" or the politics or whatever, then that Permanent Secretary and his senior civil servants would not have that support and their task would be the less easy. There is no doubt that if the department knows its Minister is interested and actively involved, that powerfully strengthens the hand of his senior civil servants.

1202. It has become the practice nowadays for the Prime Minister, in the appointing of all Ministers other than the Head of the department, the Minister in charge of the department, often to assign specific responsibilities to other Ministers, whether Ministers of State or even Parliamentary Secretaries. There are departments and there are Ministers where active responsibility for management is not perhaps a realistic thing to expect of, let us say, the Foreign Secretary. In cases like that would you think it reasonable for the Prime Minister specifically to assign a Ministerial element of responsibility for management to another Minister in the department to make it absolutely clear within the department and publicly where the responsibility lies?

(Sir Robert Armstrong) I would not think it right for the Prime Minister to assign that responsibility to somebody who was not the Minister in charge of the department because I think that would put both the Minister in charge of the department and his senior civil servants, and, indeed, his junior Ministers, into a false and difficult position.

Mr English

1203. And even himself?

(Sir Robert Armstrong) Yes, indeed, the Minister himself. I do not think a Minister can shuffle off the ultimate responsibility for these matters. How he delegates it is up to him. If he were to delegate it less I think both you and I would be well content. If he feels the need to delegate it, for whatever reason—whether it is because he is constantly travelling—if he is the Foreign Secretary or something like that—then I think it is up to him to decide whether he wants to assign a particular responsibility in the field of management to one of his junior Ministers, how far he wants to delegate that, and the junior Minister should be answerable to him. I do not think in the last analysis he can abdicate from the responsibilities even if he may delegate them.

Chairman

1204. That is so, of course, with all responsibilities with other Ministers anyway. It is the Head of the department who is still responsible and other Ministers are responsible to him for delegated responsibilities, but would you distinguish between it being perfectly proper for the Prime Minister to announce the assignment of other types of responsibility, let us say for regional policy in the Department of Industry or something like that, but not actually for management?

(Sir Robert Armstrong) Yes, I would. If, for instance, you identify a Minister for the Arts in the Department of Education and Science or a Minister for Information Technology in the Department of Industry, you are saying that one Minister will have a special responsibility under the Secretary of State in that particular area of the department's work. When you come to talk about management you are coming to talk about the whole department and that seems to me to be different in kind.

1205. Where, then, would you argue that it is for the Minister to make such arrangements, if he is not himself directly going to spend a substantial mount of his time on that particular responsibility himself? Do you think he should make clear where the assignment of responsibility lies?

(Sir Robert Armstrong) I think he could well say, "I have asked the Minister of

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State to advise me on these matters," or be responsible for these matters, and then it would be up to him and the Minister of State to decide to what extent the Minister of State was free to act, as it were, with the Secretary of State's authority and to what extent he had to consult the Secretary of State. I would be surprised if he simply were ever to say, "I cannot be bothered with all that stuff. You do it." That would seem to me to be a bad state of affairs. I think it would be very unlikely to happen.

1206. He might not put it like that?
(Sir Robert Armstrong) He might not put it like that.

1207. Can we come on to the Permanent Secretary, then, and the Minister's relationship with him. Clearly a great deal will fall upon or does rest with the Permanent Secretary and it is necessary for the Minister to be satisfied with his working arrangements with his Permanent Secretary in these matters?
(Sir Robert Armstrong) Certainly.

1208. The appointment procedure for Permanent Secretaries is, we understand, that there is an official committee chaired by yourself which considers names for Permanent and Deputy Secretary appointments, names are submitted to the Prime Minister, the departmental Minister is consulted and the Prime Minister makes the appointment?
(Sir Robert Armstrong) The form is that the Prime Minister will approve the appointment and the announcement is made from No. 10. I should think, strictly speaking, the appointment is made by the Minister, but the way it is announced is always "The Prime Minister has approved the appointment of Mr X to be . . ."

1209. But the procedure other than that is as I have described it?
(Sir Robert Armstrong) The procedure broadly is as you have described it.

1210. That means that once a Minister is in office, if a vacancy for a Permanent Secretary arises a Permanent Secretary would not be appointed who was unacceptable to the Minister in office?
(Sir Robert Armstrong) That is right.

1211. A Minister newly appointed to an office is in a different position in that there is very often a Permanent Secretary already in post. Would you think it reasonable that towards the beginning of his tenure of office a Minister might have a properly understood opportunity to find a Permanent Secretary with whom he could work satisfactorily?
(Sir Robert Armstrong) If there were a really serious breakdown in the relationship between the Minister and his Permanent Secretary one would obviously have to look at it. Equally, I would hope that those occasions would arise extremely seldom and that a Permanent Secretary who was worthy of his salt and, if I may say so, a Minister who was worthy of his salt, would find that they could work together.

Mr Eggar

1212. In your memory, how often does that happen?
(Sir Robert Armstrong) I cannot remember any cases where there has actually been an early change but that may be the weakness of my memory. I can remember cases where the question has arisen but it has not been answered in the form of a change.

Mr English

1213. Transport in the former Labour Government?
(Sir Robert Armstrong) I was not going to quote particular examples, if you will forgive me.

Chairman

1214. If the position is left as you described it, does that not have the effect of any such change being inevitably somewhat traumatic, whereas if it was a matter of understood routine in the way that, let us say, it is with the Prime Minister's Private Secretary, the working relationship would be easier?
(Sir Robert Armstrong) It would be traumatic certainly. I would have to dispute what you say about the Prime Minister's Private Secretary in the sense that the tradition has been that the Private Secretary did stay from one Prime Minister to the next and there have been relatively few departures from that.

1215. But there has often been a change towards the beginning?
(Sir Robert Armstrong) After a year or something like that, yes.

1216. So, there is a chance ———
(Sir Robert Armstrong) This, as you say, becomes routine.

1217. Yes, but if there were not a similar perhaps transitional period but then, never-

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theless, the right of the Minister to find a Permanent Secretary with whom he could work, would it not have avoided some rather highly discussed particular cases of difficulty that there have been?

(Sir Robert Armstrong) If there had been some recognised drill for this, you mean?

1218. Yes?

(Sir Robert Armstrong) I have not thought deeply about that and it is a hypothetical question. I can suppose that it might lead to other problems but clearly there would be less trauma if it was a regular drill. Whether that would be preferable to the arrangement that exists, as I say, I would like to think rather more about that.

Chairman: Can we move on to the responsibilities of other levels of officials, particularly in the context of the information systems the Minister has in the department.

Mr Eggar

1219. Sir Robert, it struck us quite forcibly that the Secretary of State for the Environment came and gave very powerful evidence indicating that not only did he regard MINIS as being essential in his own department but that he would like to bring in a very similar system in any other department he happened to be appointed to, yet we have had a series of officials coming along from other departments and giving a large number of reasons as to why MINIS did not happen to suit their particular department and claiming that their particular information system was as good, if not better. What is your view on that?

(Sir Robert Armstrong) I think the MINIS system has been very important in that department. This obviously suited the circumstances of the department with its very wide spread of directorates and the personal bent of the Secretary of State. I do not think it follows that exactly the same system would necessarily be the best way of providing that kind of management information in a department in different circumstances. I believe you have heard evidence from Sir Frank Cooper in a much bigger department about how he does it, and I would be prepared to accept his judgment that MINIS as she is known in the Department of the Environment would not suit the circumstances of the Ministry of Defence, though they would need some other system. Equally, I am not sure it would suit the circumstances of a small department like the Management and Personnel Office, where we are dealing with a very much smaller and much less wide-ranging affair. I do not think one should necessarily take the MINIS system and say, even if one could say, you must apply that in every department. I think that might be worse. I think you can say that there are certain principles in this system which are very well worth looking at if you are managing a thing like a Government department and everybody ought to look at it and see how best to apply those principles in their own circumstances.

1220. That is rather vague, is it not? Do you not think the centre should be able to impose information systems and management accounting systems on various departments?

(Sir Robert Armstrong) I do not think they should be able to impose systems. I think they should be able to stimulate departments to improve their management information systems but I do not think in the end the centre can impose it because I do not think that in the end something which is imposed on a department, which it itself does not voluntarily espouse, will work.

1221. But was not at least one of the lessons of the rise and demise of the CSD that, in fact, it simply did not have any power and, therefore, it could not almost by definition achieve what it set out to achieve?

(Sir Robert Armstrong) I do not think that power is or ought to be the name of the game in this business. Ministers are responsible themselves and their Permanent Secretaries and they have their own responsibilities for the management and for the efficiency of their departments, and in the end I do not think you can force on them from the centre something which they do not believe in. You have to persuade them.

1222. Yes, but one certainly has the impression that until very recently, with the possible exception of the Ministry of Defence, and even there within the last three years, there has been very little attempt within the departments to develop the kind of information and management accounting systems which it is now universally agreed are necessary within central government. Something in the past has clearly been wrong. Whether this has lain with the priorities of Ministers or the prior-

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ities of the senior civil servants is not yet clear but what has gone wrong in the past? Why has there not been the impetus?

(Sir Robert Armstrong) I suspect the Committee knows more than I do about the answer to that question. I would suspect that the answer to it lies in considerable measure in the fact that the constraints under which departments have been in recent years in terms of money and manpower have been even more fierce and continuous than in the past and that the combination of those constraints with the arrival of a Government very much set on the improvement of management has affected that transformation in this sort of period.

Mr English

1223. Could I go back to one answer that Sir Robert gave a moment ago. You seem to imply that only one person is responsible for efficiency. I would have thought that everybody is responsible for the efficiency of that part of the organisation which is subordinate to him, including Ministers in departments, but somebody ultimately ought to be responsible for the Government machine as a whole. That was the CSD. I am not quite sure who it is now.

(Sir Robert Armstrong) If I implied that one person was responsible for efficiency in any organisation I would not wish that to be thought. Indeed, I think the opposite. I think that the concern with efficiency must be one that is widely spread and disseminated within departments.

1224. Who is responsible for that?

(Sir Robert Armstrong) In a department?

1225. No, for disseminating the idea?

(Sir Robert Armstrong) Now it is the Management and Personnel Office.

Chairman: Perhaps you could allow Mr Eggar to resume.

Mr Eggar

1226. Historically in a department which has had a Minister who is not particularly interested in management, as I think the majority of Ministers probably are not, how has the responsibility for management actually been carried on by senior officials? It has sometimes been said, I think, that Permanent Secretaries have paid rather too much attention to policy advisory work and too little to management. Is that a fair comment and, if so, who has been managing?

(Sir Robert Armstrong) I think it is probably true that as a generalisation civil servants have tended to find policy work more glamorous and more interesting than management work and if there has been a Permanent Secretary who felt like that, then presumably the management responsibility has fallen on his Principal Establishment Officer under him. I think if that attitude ever were so—and again it is one of these broad generalisations which one tends to believe but would be hard-pressed to find evidence for—that has changed a good deal and my impression of my Permanent Secretary colleagues now is that they do not hold that view of the priorities as between policies and management, if they ever did, in anything like that form. They are much more conscious of the need to manage departments, much more interested in doing so, and finding, I think, that it is not the second-class boring kind of work that they thought, but actually extremely interesting and productive of results.

1227. Let us be slightly hypothetical, if you do not mind. Let us assume that we have a department which has a Minister in charge who is not particularly keen on management despite the Prime Minister's known determination to improve matters in that area, and a Permanent Secretary who, not being spurred on by his Minister, also does not have a particular interest and the centre knows that, you know it. What happens?

(Sir Robert Armstrong) I have only been in this job for four weeks and I have not faced that situation.

Mr English

1228. Nothing has happened yet?

(Sir Robert Armstrong) Not as yet. What would I do? I think I would start by wanting to have a talk with the Permanent Secretary and find out how the land lay and whether he thought there was more he could and should be doing about management. If he became deeply uncomfortable at the prospect of doing that, then I suppose one would have to have other thoughts.

Mr Eggar

1229. Which would be?

(Sir Robert Armstrong) A transfer to somewhere perhaps, where his own personal

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views in the matter were easier to accommodate.

1230. Sir Robert, how often have Permanent Secretaries of departments been transferred in situations similar to that?

(Sir Robert Armstrong) Again I do not know the answer. As I say I have only been in this job for a month. Moves of Permanent Secretaries do happen.

Chairman

1231. You said, Sir Robert, words to the effect that the principles of MINIS should be achieved in some way appropriate for the department. Could I ask you about some specific principles which seem to be embodied in the MINIS system: first, a published organisation chart, the definition of the objectives of different parts of the organisation specified over a timescale, staff numbers involved, the costs involved, retrospective review of whether those objectives have been achieved within the time originally prescribed and the whole lot published. Would you think that a reasonable resume of principles which should be applied in other departments?

(Sir Robert Armstrong) The whole lot published? Certainly put in the hands of the Minister and the Permanent Secretary, yes. Published . . .

1232. That scope of information?

(Sir Robert Armstrong) I would not rule out publication at all.

1233. But first of all can we deal with the scope. You think that the scope of information should be available to Ministers on a regular basis?

(Sir Robert Armstrong) I think it should be available to management on a regular basis and to the Minister if he desires to have it.

1234. And what about the question of publication?

(Sir Robert Armstrong) I would not exclude that at all. There may be information in it which could not be disclosed for some good reason, in which case one would have to look at that, but I do not start from a position of principle that that information is unpublishable .

1235. In the case of the Department of the Environment it has been of interest to the Committees of the House, it has been of interest to local authorities and things like this who have a very large client group and, indeed, that is true of other departments, too. Would you not think broadly the work programme of Government departments should be declared in that way?

(Sir Robert Armstrong) I would be all for it. When you say "published", it will not mean it necessarily has to be printed and published by HM Stationery Office and sold for £20, but made available to the public or interested parties in one way or another.

1236. The MINIS documents are very detailed things and the proposal is they should be made available.

(Sir Robert Armstrong) Placed in the Library of the House or made available to the press or interested parties in local government or whatever.

Mr Eggar

1237. Given the shift that has occurred, the change from the CSD and the splitting of the CSD's responsibilities, do you feel that as a result the power of the centre will be strengthened?

(Sir Robert Armstrong) I do not think the power of the centre is strengthened because the same functions are being carried out broadly. They have been distributed slightly differently from the way in which they were distributed before. The fact is that changes of this kind sometimes do release energies and remove constraints on people and if the MPO defines its job well and does it well, then I think and I hope that we shall do a good job. Whether you call that increasing our power is another matter, but I think the system should enable those concerned, particularly the Management and Personnel Office, to do effective work in influencing, stimulating and monitoring Government departments in the way which has been described to you in previous sessions.

1238. What were the constraints?

Sir Robert Armstrong) I do not really know. I was not in the Civil Service Department.

1239. Come, Sir Robert.

(Sir Robert Armstrong) I am not trying to cover up on you. I am simply saying that a change of this kind does sometimes liberate people, release energies. I am seeing it happen. I do not know why but it is happening.

1240. You know it is happening but you cannot analyse why it had not happened before?

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(Sir Robert Armstrong) It appears not to have happened before.

Mr Eggar: and you can give no reasons as to why it had not happened before?

Mr English: Mr Chairman, really——

Chairman: Carry on.

Mr Eggar

1241. Any reasons?

(Sir Robert Armstrong) They would be speculative and I do not really feel I can put my finger on it. I do not know if Mr Cassels, who is closer to the department, would like to supplement that.

(Mr Cassels) It is speculative but I think a change of this kind puts people in a new position just because it is a change and gives them a chance to think out afresh what their job is, what it ought to be and what things might be done, and that is a thing which is very stimulating to good people who have been doing good work already who find themselves in a new situation where there are new opportunities opened up. I think the process which Sir Robert has talked about is happening now. You are aware of the process that we are going through in the MPO at the moment of producing just such a document as was being talked of earlier and which the Chancellor of the Duchy of Lancaster has told you she is going to publish sometime in the New Year. The work of doing that and clarifying what we are about and how we might pursue it and how we should define what things we should try to achieve, all that is very stimulating and it is brought about by being put in a new situation. I think this is a part of it, together with having a rather more closely focused job compared with that of the CSD. We are fairly closely focused on efficiency and the human side of affairs and that enables one to concentrate energies in a way which was perhaps more difficult before.

Mr English

1242. Sir Robert, I think you probably realise I personally, and I think many other Members of my former Committee, welcome your and Sir Douglas's appointments as Heads of the Civil Service. What do you think is your prime responsibility?

(Sir Robert Armstrong) There are certain specific duties attached to that job, about which you know. It is a novelty to have joint Heads of the Civil Service. Both Sir Douglas and I have felt that it was important for the Civil Service that they should feel that both he and I accepted the responsibilities that went with the title of seeing the interests of the Civil Service at large. I think that the meaning of the title has changed over time. I suppose that in capital letters it dates from about 1919 and Sir Warren Fisher's designation as the Head of the Civil Service shortly after he became Secretary of the Treasury. At that time that was part of his plan for establishing the primacy and the centrality of the Treasury in the management of the business of Government. With the passage of time that has rather passed. I do not myself think that you can regard it as being like—what shall we say—the CGS of the Army or the Commissioner of Police, because you are in that very special position where you are both the head of the service but also responsible for advising Ministers. That puts constraints about which a professional head of a professional service might feel less strongly. Nonetheless, I believe that the Civil Service as a whole has come to feel that it is desirable that there should be someone, some person or persons, who accepts the responsibilities that go with that in terms of the interests of the Service as a whole, even though perhaps the occupant of that post is to some degree inhibited as compared with, say, the head of the professional service.

1243. How high up amongst your priorities would you put the training of, say, the top 2,000 people in the Civil Service?

(Sir Robert Armstrong) Among my own priorities?

1244. Yes?

(Sir Robert Armstrong) I think it is very important. I do not think I can put it in a hierarchy of priorities but I think it is very important.

1245. Without wishing to suggest we want to be identical to France, how good do you think our training of top civil servants is by comparison with those of other reputable countries, shall we say?

(Sir Robert Armstrong) Clearly we do not have an ENA of the kind that the French have. The ENA course, as I understand it, is about two-and-a-half years but a year of that is actually spent in a *Prefecture* or, as it were, in job experience.

1246. Or an embassy?

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(Sir Robert Armstrong) Or an embassy, and a further period may be spent out in industry or elsewhere, so that, as it were, the in-house part of the course is not as long as that two-and-a-half years would seem to suggest and we have traditionally put more emphasis on training on the job. If resources permit I would like to do more in-house training. I think we could usefully do more. I know you have a special interest in mid-career training. I certainly would like to look at that again. Again there are resource problems about it. I have only come to it fairly recently. I happen to think that good career planning in the Civil Service would enable people to move around rather less often and rather less widely than perhaps they do at present. I am very interested in what Sir Frank Cooper is doing in the Ministry of Defence to create functional areas within which he expects people to stay. That seems to me to be a development very much on the right lines, particularly in a department as big as that. In another department I believe that there is more scope for consciously bringing people back at successive phases in their career to a particular functional area so that though they obtain fairly wide experience in the course of their careers they spend the largest proportion of their time in a particular area experiencing the work at particular levels, so that while they have at least some of the breadth of the generalist, they also have some of the experience and particular knowledge of the specialist. Of course, the further you go in that direction then the greater will be the need for those who are going to go all the way to the top or nearly to the top for some kind of experience in the middle of their careers which broadens them out. I have a fairly open mind about how you provide that. When I say I have an open mind, I mean I do not know. One possibility clearly is some kind of training course. The other is some kind of secondment outside, which will do some of that.

1247. I think there are two aspects of the French (for the sake of example) system. You mentioned resources. I am sure you are aware and Mr Cassels and I think most Members of this Committee that in terms of direct costs it would cost very little. I think ENA has four full-time staff, for example.

(Sir Robert Armstrong) If you will forgive me for interrupting, it may be true that ENA has four senior top people directly involved but my understanding is there are many people below that, assistant directors and what have you, and, of course, a large number of part-time lecturers. The four full-time staff is some way short of the full cost of ENA.

1248. Yes. Nevertheless, it is quite small in direct cost as compared with—which I was going on to—a certain burden on the time of what we would call Ministers and Permanent Secretaries. To take an example, they once had a course on agriculture in the Common Market, so they called back M Deniau, the Ambassador in Madrid, in order that he could take it on because he was the best man in France to do it. That was a resource cost, not actual cash—in terms of actual cash nothing at all but it costs a great deal in terms of time.

(Sir Robert Armstrong) It presumably cost whatever it cost them to replace M Deniau in Madrid for the time being.

1249. They did not. They left the Charge d'Affaires to look after the Embassy in Madrid. You do see the point I am trying to make?

(Sir Robert Armstrong) Yes.

1250. The point I am trying to make is how far do you think your 40-odd Permanent Secretary colleagues devote their time to the training of their successors? Do they do enough in this regard?

(Sir Robert Armstrong) I do not suppose they do. I do not know what is enough and that is one of the things that I hope to learn. They do themselves give of their time to go to the Civil Service College, for instance, to talk to courses. I hope they give of their time to the development of training possibilities in their departments. Whether it is enough I just do not know.

1251. In France unless you have gone through ENA you are not likely to get promoted. It is linked to promotion, in effect. In this country the man who really wants to become a Permanent Secretary tries to stop going on training courses as much as possible so that he stays within the central core of his favourite department. Is that not right?

(Sir Robert Armstrong) If it is so, I am sorry. I think it is a rather broad generalisation.

1252. I think it is a generalisation but I do not think it is utterly inaccurate, is it?

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(Sir Robert Armstrong) To the extent that it is accurate we must try to change that, I think.

Mr English: I would be glad if you would think about it in the course of your tenure of office.

Chairman

1253. This is a part of succession planning, thinking about mid-career training. Do you think it is useful in developing succession planning in mid-career training and so on to include within the area of consideration certainly the major nationalised industries that offer appointments in these?

(Sir Robert Armstrong) Can I understand the question? Do you mean that you would like to see more secondments from the Civil Service into those jobs or do you mean we ought to try to plan succession planning for the public sector as a whole?

1254. It has been believed, rightly or wrongly, that there have been difficulties in appointing the top levels of nationalised industries and, whether there is a pay question or not, any healthy organisation should have an ample supply of people available to fill the top posts in that organisation and there is perhaps a personnel policy problem there. The top-level appointments in the nationalised industries are made, in fact, by Ministers, often with the advice and certainly the knowledge of senior officials and, therefore, they are part of the appointments, the career planning, the training, the widening of experience which we have been discussing. Would it be helpful if there were some fresh thoughts about a sort of personnel policy for the top levels of the nationalised industries as well?

(Sir Robert Armstrong) You take me into areas which I know very little about but I would certainly think that in the nationalised industries they ought to have their own career planning. Whether one should have a generalised career planning service for all the nationalised industries and the Civil Service together I would frankly doubt because I think the skills and experience required are very different. There may well be civil servants who would make good chairmen of nationalised industries but I am not sure that as a generality one would say they would do so, nor would I think it is right to say as a generality that people who are employed in nationalised industries would necessarily make good civil servants. I would like to see interchange between the Civil Service and the nationalised industries and, indeed, with local government. We do a certain amount of it. I think we could probably do more, though there are resource costs in that. I think I would hesitate to go as far as a kind of unified career planning.

1255. In the session we had with Sir Kenneth Barnes and Sir Richard O'Brien I asked Sir Richard: "Does the status that you have, both as an accounting officer and by the rules under which you operate, allow you any significantly greater freedom of manoeuvre than if you were a government department?" Sir Richard replied: "Yes, I think it does, because we have set out to run the Commission, in particular, like a large, private-sector organisation. We sought to manage our affairs, to define priorities, to deliver programmes and to make management accountable for achieving results, in accordance with the priorities and the targets laid down. We have developed a system of planning (what we call corporate planning) and the monitoring of performance against the plan, which I think goes beyond normal accounting officer responsibilities." Do you not think that is rather a sad comment on the view that he has of how government departments function? Is not that kind of concept applicable in government departments as well?

(Sir Robert Armstrong) I am going to ask Mr Cassels to comment on this because he does have very much greater experience of the Manpower Services Commission than I have.

1256. It is the view of the government departments I am asking about. If that is the way it works in the Manpower Services Commission, why is that description not applicable to more government departments?

(Sir Robert Armstrong) I am still going to ask Mr Cassels to comment first.

(Mr Cassels) The approach adopted by the Manpower Services Commission was very appropriate to its position. When I say that, there were a number of effects that applied there. One was that the task of the Commission is a fairly clearcut one with some fairly recognisable things to be delivered. I am not saying it is all that easy to define them, but nevertheless, on the whole perhaps rather easier than in most government departments. So that, for example, if you are running the employment service

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there are some fairly good interim measures as to whether you are providing a good employment service. It is a very vast management task to do it well and, therefore, it is entirely appropriate to apply to it the best management techniques and the best management approach you have. There was another very powerful incentive noted from experience there and that was that there was a suspicion in some quarters that the Manpower Services Commission might be hard to get at. It was not itself run by a Minister and, therefore, it might be hard to get information about it. We quite deliberately set out there to be very sure that information was easy to get about the Commission, to publish its plans, to publish a report about its doings very quickly afterwards so that people could see. If one transfers that to a government department I think one has to say, first of all, that government departments have quite often very much harder objectives to pin down clearly in that way, much less of a management task and more of a policy task, and, therefore, one to which slightly different approaches may be necessary, and certainly tasks where it is much more difficult to say, "Here is a definite output which we are aiming to achieve in the current year and you can tell whether we have done it or not at the end of the year by seeing what the figures are." So, I think it is not easy to transfer that holus-bolus to a government department and say, "Why do you not do it like the Manpower Services Commission?" That said, going back to what was said earlier about whether an organisation should have an organisation chart which is available, definite objectives, timescale for achievement, that the staff devoted are known and that the costs devoted are known. I do not think you can possibly say those are irrelevant things for a government department to clarify and to do.

Mr Shepherd

1257. Could I ask for clarification on the point about the management training. Could Sir Robert perhaps tell us to what extent he feels that should be left to the departments or managed perhaps centrally or imposed from the centre?

(Sir Robert Armstrong) I think that the full answer to that question would be a long one because there might be different answers for different specialties. I think that the primary function of the centre is to offer a good central training where a central training is appropriate. I would go further than that and I would want to lean on departments to make use of it. What other question would you want to put about it?

1258. My problem is that it seems an extraordinarily amateurish approach to lean on departments; I think you said to my colleague here having a word with the Permanent Secretary and maybe moving him out of there. I would have expected a response with more central thrust to it perhaps. It seems to me the training of some of the senior civil servants we have come across has been fairly randomly managed and surely we are searching for something that is more cohesive and more controlled in career management or career development within the higher reaches of the Civil Service?

(Sir Robert Armstrong) I understand that and I would certainly want what the MPO does in the field of training to be positive.

1259. But "lean on departments"?

(Sir Robert Armstrong) Where I think I am in difficulty with the concept is that it is not easy to make things mandatory across the Civil Service as a whole. I think I would rather as an objective make the service that we offer one which people want because they see the value of it, and if we can do that, then the requirement for compulsion begins to look a little less active.

1260. But it implies that training and preparation for skills is an optional course, that a man may or may not decide to sup at that particular dish, and it seems, certainly to me, an extraordinary way to manage something as important as the Civil Service on a discretionary basis?

(Mr Cassels) May I say something about it. After all, some departments have a very specialised job to do and if they are not all that specialised they have jobs to do for which they want their staff to be well-trained. To take things within my own experience, when you recruit people to run Job Centres you want to give them a jolly good training so that they know what they are doing in that and nobody can do that better than the people who are responsible for the employment service of the Manpower Services Commission. That is true if you look at tax inspectors or customs people round the clock. The department is going to be very highly motivated to do good training there. You then come to two other questions, it seems to me. One of these is audit training. There are people in MPO whose

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job it is to keep in touch with what is being done in the training field by departments round the clock and they know which things are going well and when they feel something should be given a push, there are various means open to them to do it, but they are not, as it were, pushing against a department which is blankly opposed to training these people. They would be, for example, bringing to the notice of the Principal Establishments Officer there that the training programme of the department really did not look very adequate from some points of view. The question which I think perhaps you are most interested in, if I have understood you properly, is should there be something rather more mandatory about people who are going to get to the very top of the service. There is a certain mandatory element in the training of young entrants to the Civil Service for ATs and so on and that is followed throughout the service and there is no problem about getting acceptance of that. I would imagine that if it is felt that mid-career training is becoming of increasing importance that would be something that would need to be looked at in great depth and once a view had been reached about it and a policy agreed upon there would not really be much difficulty at all about getting it applied by departments. Another instance which is of some importance at the moment is training in financial skills, on which the Civil Service in the eyes of many has been rather slow in getting going. That is a good example of something which is of wide application, where there is a strong impulse coming from the centre at the moment, particularly from the Treasury with MPO participation, and where undoubtedly we are looking for more training in financial skills, but again the problem really is not against blank resistance from the departments as of seeing what the sensible way to go is and then getting ahead with it.

Mr Beaumont-Dark

1261. Were you part of the decision-making process when this new "schemozzle" was thought up or, if you were not, what did you think when you heard that you had inherited another kingdom?

(Sir Robert Armstrong) The Prime Minister was good enough to tell me what she had in mind and to ask whether I thought that it was a sensible way of doing business and something which I could manage to take on, so I suppose in that sense, yes, I was part of the decision-making process.

1262. If there is one thing politicians do understand it is patronage and leverage—usually the wrong side if you are a backbencher—but given the fact that you will now have on top of your already exalted position more leverage and patronage because you will have a say in who does what even more, is there not a danger that is about all it will mean because you must be pretty fully occupied, I would have thought, with the Cabinet at the moment? Do you really have the time? Does it really mean it is only going to be a very nominal responsibility and is there not a danger in its being a nominal responsibility that it will be caught in the middle of nowhere?

(Sir Robert Armstrong) I do not mean it to be and I hope it will not be. Clearly I thought about this when I was asked to consider the proposition. I would not want to take it on on that basis. I have already reviewed the traditional job that I have as Secretary of the Cabinet and have considered ways in which I can delegate some of what has hitherto been done by me or by my predecessors in order to enable me personally to find more time and energy and so on for the business of senior appointments and for the work of the Management and Personnel Office. Mr Cassels will really be closer to the day-to-day work of the department than I am. There is no way of escaping that, but I do not intend my own role in it to be purely nominal.

1263. Bearing in mind that anybody who gets to your senior position has to be almost a "workoholic" does it not really mean you have split your day up even more or does it not work like that? You must understand we do not know how the Civil Service works. I do not know if you do, but will you now in your new function split it up into two hours here and two hours there or what? I should be fascinated to know now that you have got this new job?

(Sir Robert Armstrong) I think it would be fair to say that the job of the Secretary of the Cabinet is already a fairly split up one in the sense that you find yourself dealing with a great range of different things and it is an essential ingredient of performance in the job that you should be able to hold things in your mind and to switch from one thing to another without a perceptible change of gear. I had developed that technique in previous parts of my

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career and I found that the experience that I had was more relevant when I came to be Secretary of the Cabinet and, yes, of course, I am doing that to a greater extent now. It is early days as yet and so I do not want to make any final claims about it. I do actually think that I have got very good people in the Cabinet Office and I do not know that I was delegating enough to them before I took on the new work. I know they enjoy the Prime Minister's confidence and the confidence of her colleagues, which is very important, and that enables me to switch some of my own time into this new work. I believe it can work, I believe it will work given health and good sense on my part and I believe there is a positive advantage in these things being done together.

1264. Would you agree with me that one of the important things when you are busy is not to summon people to come and see you but for you to go and see them?

(Sir Robert Armstrong) I would agree with that.

1265. That is part of your process as well?

(Sir Robert Armstrong) I do not suppose I shall get out as much as I should or as I should like but I would like to get out, I do not want to sit there all the time. I want to get out. Particularly when one comes to think of the work of senior appointments I would like to go and see the people in their own departments. If I may waste your time for 30 seconds, I learnt this in the Home Office when I was dealing with the affairs of the police. Of course, chief constables came up to the Home Office and came to see the head of the Police Department, but I learnt much more about the police, about chief constables and about their immediate colleagues by going out to see them in their headquarters and their divisional offices around the country and I have never forgotten that.

Mr Beaumont-Dark: I am much encouraged.

Mr Shepherd

1266. I wanted to come back to Mr Beaumont-Dark's first question. Obviously, we are very interested in the decision-making process and with particular reference to the demise of the Civil Service Department. It emerged from our exchanges last week with the two departmental Ministers that they were in fact not part of the consultative process—if that is wrong please correct me but I understood from the evidence they gave to us they were not party to that process of decision-making. I wanted, therefore, to know what are the institutional arrangements, if there are any institutional arrangements, for forming a judgment on the efficacy or effectiveness of structures and organisations; how in this instance that decision was arrived at?

(Sir Robert Armstrong) Mr Cassels will correct me but I think Mr Hayhoe said he had not been consulted. I did not get that impression of what Lady Young said, but that is detail.

1267. I understood she was informed of the decision.

(Sir Robert Armstrong) She was informed of the decision at a stage when that information was something like consultation.

Mr Eggar

1268. What does "something like" mean?

(Sir Robert Armstrong) The decision could have been revoked.

Mr Shepherd

1269. I wanted to hear about the institutional arrangements.

(Sir Robert Armstrong) For the particular business of changes in the organisation of government?

1270. And with particular reference to this change.

(Sir Robert Armstrong) Let us take the general thing first. If there is a proposal for a transfer of functions of this kind it may emerge that one or other of the ministers concerned has them and wants to lose them or a minister has not got them and wants to get them, or it may emerge from a view of the Prime Minister, as for instance when the big departments were set up in 1970—those ideas were very much ideas of the then Prime Minister who came into office. Ministers do and obviously will make their own representations to the Prime Minister and the Prime Minister will look to me now but formerly to the Permanent Secretary of the Civil Service Department for official advice and I am supported by a division of people in the MPO, just as Sir Ian Bancroft had a division in the CSD to assist him to discharge that responsibility in advising the Prime Minister. They are part of this decision-making. You know that the options for

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dealing with the group of functions at the centre which we are talking about have been under discussion for a long time?

1271. Four options?

(Sir Robert Armstrong) There are more in fact but I remember coming to give evidence, I think, to this sub-Committee during the course of 1980 and describing four options which included a kind of *status quo* option and there are more. So, there has been a great deal of discussion on these matters over quite a long time and work has gone into a study of them. At the point when the Prime Minister decided she wanted to go in the direction of a particular option she looked to the head of the Civil Service and to the people who supported him in this to advise her on the practicability of it, on the pros and cons and on the actual means of doing it.

Mr English

1272. I wonder if I could ask some more general questions on this reorganisation? The first: I think there has to be a transfer of functions order for the approval of the House of Commons, is that right?

(Sir Robert Armstrong) Yes.

1273. Where is it?

(Sir Robert Armstrong) Where is it? I understand it has been laid and has been prayed against.

1274. I do not mean prayed against, it is in an affirmative order. That was the Leader of the House's mistake which you are falling into. He thought it did not necessarily have to have time, whereas I understand ———

(Sir Robert Armstrong) Transfer of functions orders fall into two kinds for this purpose and my understanding, which I hesitate to place against yours, is that this is of the negative resolution kind.

1275. My understanding was that it was not and after Francis Pym said what you just said it was checked, as I understand it, by his office and it was found out it was the positive sort.

(Sir Robert Armstrong) May I take notice of that ———

1276. That is the last information I have.

(Sir Robert Armstrong) ——— and let you have a note on it?[1]

1277. It would be helpful.

[1]See Annex, p 490.

(Sir Robert Armstrong) I am not going to abandon my guns.

1278. Nor I, Sir Robert.

(Sir Robert Armstrong) I still think I am right but I may very well be wrong and I will let you know. I am sure the Leader of the Opposition has put down a motion praying against it.

Mr English: I think you will agree that it is possible that all these people are wrong?

Mr Eggar: And you are right?

Chairman: It is a matter which can be very easily checked.

Mr English

1279. On a more important point: as you know I am not averse to some change and a former Committee in the last Parliament made some suggestions. One thing which puzzles me about this division of function is that pay and staff complements are with the Treasury, so the manpower division in other words is with the Treasury, and that means a great deal in what is commonly termed "clout", but efficiency is with you. Is not a large part of efficiency how you distribute your resources in the terms of pay and people?

(Sir Robert Armstrong) Efficiency is certainly about the distribution of resources. It is also about motivation of people. I think that you are drawing a distinction between the Treasury and the Management and Personnel Office into which I would not really want to follow you. We are clearly going to have to work extremely closely together in this area of efficiency. They have the responsibility, as you say, for manpower, for the use of resources. We have these responsibilities for efficiency. As Mr Cassels said, that gives us in some sense a narrow, more closely-focused responsibility than the old Civil Service Department had, but, of course, we shall work very closely with the Treasury. I hope that it does not have to come to clout in that sense but if it did come to clout in that sense it would be perfectly open to me to say to Sir Douglas Wass or Lady Young or to say to the Chancellor of the Exchequer, "Look here, we think you ought to be restricting the manpower in that department a bit because we think there is scope for efficiency which they are not realising." As I say, I hope it does not come to that but the arrangements for cooperation between us are such that if we want to do that we can.

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1280. I think that one possible one, as I imagine you would agree, is that your new department or office or whatever we call it is located very near to the people in the Treasury responsible for these similar functions. Are you hoping to use the part of the Treasury building not used by the Treasury for that purpose?

(Sir Robert Armstrong) I think it would be idle for me to conceal from you that that is included in my wishes. Whether I shall pull it off is another matter. It will involve displacing some people and there will be problems about that. Seriously, the other tenants of that building are the Foreign Office, the Northern Ireland Office and the Central Statistical Office. The Foreign Office people, of course, are nice and close to the people in the old public offices where the rest of the Foreign Office is. The Northern Ireland Office is really well settled in there and the Central Statistical Office likes to be close to the Treasury and vice-versa; they share a computer. I am not saying that the CSO could not manage—and I speak with an interest both ways because the CSO is part of the Cabinet Office—and discharge its functions in another building, but I have been left in no doubt that neither the Treasury nor the CSO would be very cheerful about it, so there is going to be some sort of balance we shall have to work out. We have not concluded that process yet.

1281. The Admiralty building is very nice.

(Sir Robert Armstrong) And it is not very far across the Horseguards Parade!

Chairman

1282. Sir Robert, the Cabinet Office, being a sensitive department which has a high degree of security clearance for people who are actually members of staff, would that same degree of security clearance be required of the MPO?

(Sir Robert Armstrong) I think not.

1283. One bit of the jigsaw puzzle we have not covered in the central functions is the CPRS. Does the definition of its responsibilities, dating back to the White Paper "The Re-Organisation of Central Government" in 1970, still stand?

(Sir Robert Armstrong) Broadly speaking, yes. Within the general definition it has changed its emphasis over time, but yes, broadly speaking, it does.

1284. So it is still considered to have the capability at the centre for assessments and policies and projections in relation to objectives?

(Sir Robert Armstrong) Yes.

1285. That would seem to be a fairly key responsibility because we have had some difficulty in getting from witnesses generally a clear definition of how effectiveness is pursued and managed and measured and so on, and here is a body which is specifically charged with specific objectives and projections. Has it a key role?

(Sir Robert Armstrong) As it now works, it does have a duty of advising on policy matters, which involves it in considering the effectiveness of particular policies and programmes. It is doing less of the kind of overall assessment of effectiveness than it has done in some previous phases of its career.

1286. Is anybody else taking up the running?

(Sir Robert Armstrong) Not in the way it was done then, no, not that particular running.

1287. Is that a gap?

(Sir Robert Armstrong) I would like to see them do more than they are but it is very much a question of the way in which the Prime Minister of the day wants to use it.

1288. We have been concerned in the main Committee in our examination of the new forms of the estimates in that they do not have any adequate measures of outputs attached to particular votes or to programmes. We have also had a paper from the Treasury on output measurement which is remarkably thin in terms of the work that is actually going on now, and we also have the disappearance of PAR. The overall impression is that Government has ceased to be very much interested in achieving results and is simply interested in cutting down the resources used? Is that fair?

(Sir Robert Armstrong) I do not think it is quite fair, though you take me into areas far beyond my normal remit.

1289. But in terms of the dispositions made at the centre for looking at effectiveness, it is very difficult to avoid that impression. We are looking just at the administrative arrangements. We are not looking at the contents of policies.

(Sir Robert Armstrong) I think I would start from the point once again that for a particular department's programmes and

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policies that department should itself be responsible for assessing their effectiveness. There is a question of how much you put into some kind of overall measurement of effectiveness, which is very difficult to do, over Government policy as a whole. There is also a question of how much monitoring of a department you do in the assessment of the effectiveness of its policies and programmes. As I say, the CPRS has some role in relation to the latter and might have some role in relation to the former. In relation to the overall programme of the department as a whole it is not at the moment doing as much as it has done in the previous phases of its work under former Prime Ministers.

1290. There are two major areas where the Government has recently taken initiatives, supporting with measures—and effectiveness cannot be excluded from the source of Government—the inner city problems arising—Brixton, Toxteth, the Scarman Report and so on—and the new training initiative that was announced yesterday. Do these not suggest that, in fact, problems could be better anticipated and the arrangements made better organised if there were greater concern with effectiveness in the administrative arrangements at the centre?

(Sir Robert Armstrong) Are you asking me to say that we could have anticipated Brixton and Toxteth———

1291. Exactly. They were anticipated.

(Sir Robert Armstrong)———by having some kind of unit at the centre of Government which was monitoring the effectiveness of the policies of the Home Office?

Chairman: And sufficiently closely placed for it to have the political clout to command the attention of the Cabinet. There are ample well-documented warnings which have been much publicised.

Mr English

1292. Could I supplement that? In about 1964 there was an Act of Parliament passed which deprived the elected representatives and appointed magistrates of their powers in relation to police affairs and generally acted in a more centralising way. At the time this was encouraged by the Home Office, I think before you were Permanent Secretary, but nevertheless it was encouraged by the Home Office. In the light of subsequent events do you think it was a good thing?

(Sir Robert Armstrong) I believe that the police service would have coped less well with what happened at Brixton and Toxteth and elsewhere if they had still been as sub-divided into individual forces as they were before that Act was passed.

1293. In the case of Brixton that always was the case, they were never under the control of a police committee or watch committee.

(Sir Robert Armstrong) I think that applies primarily to Toxteth. It is also true of London in the sense that the amalgamations have produced forces outside it which can more readily come to the help of London if they are needed to do so.

Chairman

1294. Moving on from the CPRS and the Government's own concern with reviews, warnings, studies and so on, there is the question of the role of Parliament and we have recently had a debate about the role of the Comptroller and Auditor General and the possible expansion of the responsibilities of the Exchequer and Audit Department into looking at questions of effectiveness and efficiency, working in conjunction with Select Committees other than the Public Accounts Committee. Do you see any problems in the broad area of development of Parliamentary review?

(Sir Robert Armstrong) I really am not expert enough to comment on it. I know there was a debate and I know, as I think Mr Hayhoe told you, the Government now, particularly the Treasury, are looking very carefully at that. I do not think I have anything to add to what was said last week on that.

1295. Do you see any difficulties arising from your responsibility for a great deal of the effort in government departments at the centre for administrative review?

(Sir Robert Armstrong) Great difficulty if the role of the Comptroller and Auditor General was extended?

1296. If Parliament was able to call for detail reviews of effectiveness and efficiency in particular departments at the behest of other Select Committees, for example.

(Sir Robert Armstrong) I can see problems of resources for meeting the demands placed upon departments, but not difficulties of principle.

1297. Taking precisely that question of resources, would it not be a natural devel-

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opment if Parliament did wish to pursue this direction for the civil service to take advantage of it and use such enquiries constructively to match in with efforts that the departments were themselves making?

(Sir Robert Armstrong) That sounds very sensible.

1298. This is a type of development which we can obviously consider constructively both from the administration and from Parliament?

(Sir Robert Armstrong) I would certainly want to consider it constructively.

(Mr Cassels) Would it not be true to say that some Select Committees are in fact doing that with the departments which they look at? My impression is that some of the work of the Committee I know best, which is the Employment Committee, is very much concerned with the development of policy and the way things are going in the employment field and also the efficiency with which the MSC discharges its functions, so therefore this is already happening to some extent.

Chairman: Yes, indeed other Select Committees and, I hope, ourselves are doing work of this kind but we do not at present have the right to call upon the Exchequer and Audit Department to carry out reviews and use access to files and so on, of the kind that they have begun to use for the Public Accounts Committee.

Mr Eggar

1299. Could I just follow up on one answer you gave on the MSC role? It seems to me in many ways a group such as the DHSS, social security benefit offices, Department of Employment benefit, all have systems remarkably similar to the work that the MSC does certainly at the job centre level. Do you really not think it is appropriate that where there are similarities, exactly the same systems or very similar, systems should be put into those departments similar to the ones you have in the MSC?

(Mr Cassels) Yes, there was nothing particularly special about the systems we put into the MSC and I would have thought in principle those systems are applicable to any large body of management work.

1300. You will, therefore, presumably in your new role be pressing those departments to put in similar systems?

(Mr Cassels) I do think it is quite important, if I may say so, to emphasise that each department has to take the road which is suitable to it. I have read the very interesting information which has been provided for this Committee about overseas experience and it reminds one how fashions move in these things, how the PPBS is all the rage at one time and then management by objectives and then it is PAR, and it makes one very wary of concluding that any particular approach or technique is what all departments must then adopt. I think what we are concerned with in the MPO is helping departments and stimulating them to move towards being what you might call well managed operations and our job is to see whether they are well managed operations by the various criteria you might apply and to help them on the road to becoming better managed.

1301. I must say that one's impression very strongly is that because this policy has been followed in the past that departments have been able, to a certain extent, to wallow in their own inefficiency and there has not been any driving force from within those departments or indeed from the centre. One must say that something has to change. I have certainly personally got the impression there is not enough incentive still from within the departments and one has to look to the centre to provide that incentive. I am surprised you are not more positive.

(Mr Cassels) I think my answer to that is this: any operation functions in a context. If you take a small private firm it functions in a context provided by the market which brings very sharp stimuli to bear on the management. I would agree with you that a government department is immune from some of the stimuli which are present in private enterprise and you need to create other forms of stimulus which ensure that they are paying the attention they should be to effectiveness and efficiency. What are those kind of stimuli? First of all, there is I think something that has been very important in the last two or three years which has been referred to earlier in this session and that is the constraints which now press in on departments. There has been what might be called a pressing regime so far as manpower is concerned and there has been a pressing regime so far as finance is concerned. Those, as it were, substitute for some of the forces which bear in on an organisation if it is functioning in the private sector. I think it is also true to say that the Treasury and MPO have duties to

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supply other stimuli and to monitor and to stimulate so as to ensure that departments take as seriously as they must take the need for efficiency and effectiveness. It is certainly my belief that the MPO must be vigorous about the carrying out of that role. I also think that there is detectable quite a change over the last two or three years and in the efficiency programme which Lady Young announced in this Committee last week I think there is detectable a pattern emerging of a really rather brisker approach to stimulating good management and obtaining money for value. It is really following that approach and making sure it sticks which is very important indeed to the job of the MPO.

(Sir Robert Armstrong) Could I add one thing to that. I think that in making the senior appointments we have already begun to pay increasing regard to proven ability and willingness to manage and to promote efficiency in the choices made of Permanent Secretaries, and certainly as I see the duties I am now taking on that will loom large. I shall be looking for people particularly in the very large departments who have proved their capacity, have had the necessary training, have shown they can do it and so on, to manage a large department, and over time, maybe longer time than one might want but over time, if people see that that particular aspect of their skills and experiences is being more highly valued when it comes to considering questions of promotion, then one can expect, I think, the balance to change against what I think one Member of the Committee was saying earlier about the tendency of civil servants to prefer policy work to management.

1302. I must say I am delighted to hear that. It is a very important statement. Could I briefly, Mr Cassels, ask about the facilities agreement which is being renegotiated at the moment, is it not?

(Mr Cassels) Yes.

1303. Has a study been done into the cost of the existing facilities agreement?

(Mr Cassels) Some work has been done which throws light on it but I am not aware of a study which says what the total cost of it is. If that is simply a gap in my knowledge I would be happy to send a note to the Committee about it.

Mr Eggar: It would be very helpful if we could have a note about any investigations that have been done about the cost and present levels of time and resources that are allocated under the facilities agreement. This is certainly something that concerns me because my information is that the cost to Government of the facilities agreement is very considerably greater than the cost of similar agreements and similar arrangements in private industry.

Mr Shepherd

1304. Would it not be beneficial to publish CPRS reports?

(Sir Robert Armstrong) Some have been published. Others are in the category of advice to Ministers and are often based on contacts or on information which have been supplied in confidence and I think it would be very difficult to publish those.

1305. Just for clarification at the moment, if the CPRS is not really evaluating any more the basic effectiveness of courses of action, who else is doing it? Is there a central organisation directing itself to that?

(Sir Robert Armstrong) To the overall effectiveness of Government policy?

1306. Yes?

(Sir Robert Armstrong) I suppose there is a sense in which you can say that it is the role of Cabinet to assess that effectiveness. It is not supported by the CPRS in the sense that the CPRS is not now doing what it used to do. The Treasury is doing rather more of it than it used to do, I think.

1307. Who and what in the Treasury?

(Sir Robert Armstrong) Various bits of the Treasury. I am afraid you will have to ask the Treasury about the details. I do not know. The Chairman said he did not think their work was wholly satisfactory but they are seeking to do more work in the measurement of effectiveness.

Chairman: Sir Robert and Mr Cassels, may we thank you very much for your help this afternoon.

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ANNEX

Note by the Management and Personnel Office

TRANSFER OF FUNCTIONS (MINISTER FOR THE CIVIL SERVICE AND TREASURY) ORDER 1981 (No 1670)

1. The Transfer of Functions Order (1981 No 1670) was considered by the Privy Council and made on 24 November and was laid before Parliament on 1 December. It came into operation on 7 December—ie on that date the Civil Service Department under that name ceased to exist as the Department supporting the Minister for the Civil Service in the performance of her function.

2. The Order was made in pursuance of Section 5(2) of the Ministers of the Crown Act 1975 and is thus a negative instrument, subject to annulment in pursuance of a resolution of either House. A Transfer of Functions Order under the Act is subject to the affirmative resolution procedure only if it "provides for the dissolution of a Government Department". This Order does not do that. The office of Minister for the Civil Service is retained: some of the functions of the Minister are transferred to the Treasury; others remain with her, and in her discharge of these functions she continues to be supported by her own distinct Department. This Department is denominated by a name—the Management and Personnel Office—which accurately reflects the range of functions for which the Minister is responsible.

3. The Order has been scrutinised by the Joint Committee on Statutory Instruments, which is responsible for considering, amongst other matters, whether an Order is laid under the proper procedures. The Joint Committee have raised a couple of points which have been replied to, but have not questioned the fact that the Order is laid under negative resolution procedure.

4. The Leader of the Opposition and others have tabled an Early Day Motion praying the Transfer of Functions Order should be annulled. This Motion is to be debated after the Christmas Recess. Until and unless the Motion is carried, the Order remains effective.

December 1981

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WEDNESDAY 10 FEBRUARY 1982

Members present:

Dr Jeremy Bray, in the Chair

Mr Anthony Beaumont-Dark
Mr Timothy Eggar
Mr Michael English
Mr Richard Shepherd
Mr Richard Wainwright

Examination of Witnesses

Mr J S CASSELS, CB, Second Permanent Secretary, Management and Personnel Office, called in and further examined and Mr N E A MOORE, Principal of the Civil Service College, called in and examined.

Chairman

1308. Mr Cassels, may we thank you for coming to give evidence again to the Committee at a late stage in our investigation of effectiveness and efficiency where we felt it would be helpful if we could ask you and your colleague some questions specifically about training at the high levels in the Civil Service. We are concerned particularly with training for people in the open structure. Can you tell us what training is provided in the way of actual formal courses at that level?

(Mr Cassels) I would like to ask Mr Moore if I may to answer in greater detail about this. The College does however provide regular seminars for people at Under Secretary level and above and something like between 80 and 100 Under Secretaries and above attend such seminars at the College in the course of the year. They vary in subject. It depends very much on what may be thought particularly important at any time. I recently talked to one for example on equity and efficiency but the attempt is made to design seminars which will help illuminate problems which are thought to be particularly important at the time.

1309. And 80 to 100 attend, with an average attendance of ten perhaps which means that there would be eight or ten such seminars a year?

(Mr Moore) Yes, it is true we do run seminars for Under Secretaries. The number varies from year to year. In the current academic year we are running seven plus 29 for Assistant Secretaries. In the previous year we ran four plus 23 for Assistant Secretaries, but of course in addition to those some Under Secretaries come along to courses at lower levels and we have such things as, for example, lunchtime and evening discussion groups which include Under Secretaries and Assistant Secretaries to talk to colleagues in other walks of life. These are sessions which we organise jointly with the British Institute of Management.

1310. To set the background can I ask one more question about the fields with which we are dealing? Mr Cassels, can you tell us how many people are appointed to Deputy Secretary, Permanent Secretary or equivalent level posts in the public service in the average year?

(Mr Cassels) It has been changing. I cannot I am afraid quote straightaway the Deputy Secretary or Permanent Secretary figure. The Under Secretary figure used to be—which is the entry to the open structure which I particularly wanted to mention—around 80 to 100 a year and is now down to about 40 a year. I do not know what it will be this year. It might be fewer than that but it is about 40 a year at the moment.

1311. Extrapolating that, Principals appointed to Deputy or Permanent Secretary posts could not be more than 20?

(Mr Cassels) It would be fewer than that.

1312. Can you see if you can let us have that figure in recent years?[1]

(Mr Cassels) Yes.

Mr Beaumont-Dark

1313. I wonder if you could help us a little with the background? Mr Moore, what is your own background because you are Principal of this, are you not?

(Mr Moore) Yes. I started Civil Service life in 1952 as an Assistant Principal.

1314. What were you doing before 1952?

[1]See Annex, p 500.

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(Mr Moore) I was at university.

1315. What did you do at university?
(Mr Moore) I read modern languages at Cambridge.

Mr English

1316. What sort of degree?
(Mr Moore) I got a First in Finals.

1317. In what?
(Mr Moore) Modern languages, French and German.

Mr Beaumont-Dark

1318. And then you went into the Civil Service?
(Mr Moore) After two years in the Army, yes.

Mr English

1319. What rank?
(Mr Moore) I was a Second Lieutenant in the Royal Army Education Corps, and then I did three and a half years Territorial Army service and finished as a Captain in the Intelligence Corps.

Mr Beaumont-Dark

1320. In the Civil Service what did you do before you became Principal?
(Mr Moore) Of the College?

1321. Yes.
(Mr Moore) I started in the Post Office, which was then a Government Department. I did the normal Assistant Principal training that Department then had, which involved being a whole year out in a region working for a time, for example, as a postman, as a telephonist, as an engineering linesman, plus the formal training which was at that time provided for Assistant Principals centrally.

1322. Did you yourself go to the Civil Service College?
(Mr Moore) There was not a Civil Service College of course until 1970 but I did the central course that was then run for Assistant Principals. I cannot remember how long it was.

1323. Was this a position that you sought, to be Principal? Were you keen to take on this task or was it suddenly foisted on you?
(Mr Moore) I was slightly surprised when I was told to do the job but it would not be the first time in my career as a civil servant that I have been given a posting which slightly surprised me.

1324. How many staff have you got?
(Mr Moore) 276 is the complement of the College plus another 15 in Training Division in the Management and Personnel Office.

1325. Have they a similar background to you or do they come from a wider world?
(Mr Moore) Oh, a very wide range of backgrounds indeed. It is extremely difficult to generalise, but, as far as I can, they fall into two groups: first of all people who have been in the Civil Service for some time and are picked for their breadth of experience. Most of the people for example who do training work in systems and computers and organisations and methods fall into that category. The second group of people are those who have joined us from outside, both industry and predominantly the academic world. A number of them are teachers and have in fact had experience of teaching in other forms of higher education.

1326. For lecturers and so forth their background is predominantly academic?
(Mr Moore) It is a mixture of academic and practical. Some are civil servants who, although they are skilled teachers, also have a lot of practical experience to build on. Others come from the industrial world.

Mr English

1327. What rank of civil servant?
(Mr Moore) Some are Principals; some are Senior Executive Officers.

Mr Beaumont-Dark

1328. How many come from the business world, who are say accountants, from private industries, personnel, people like Marks and Spencer or Unilever?
(Mr Moore) We have three or four people at present who came direct from the industrial world as opposed to the academic world; for example we have a Principal in one directorate who is specifically there to help us build up our contacts with industry and commerce and she is in fact from Unilever central services.

1329. Bearing in mind possibly as far as we are concerned, or some of us, that cost is of tremendous importance, and you will forgive me if some of us sometimes think it does not have quite the importance in the Civil Service that we give it, what kind of

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changes in courses are taking place to allow for the fact that value for money and making sure that the money is wisely spent is able to be inculcated?

(Mr Moore) Quite a lot. It is fair to say that the College has never run for two consecutive academic years with precisely the same band of courses but it is notable that over the last year or so there has been a marked trend towards more courses and seminars for senior people on financial management for instance. For example, verv recently we ran a strikingly successful seminar for Under Secretaries entitled "Value for Money" and it is a marked trend to do more courses of that kind.

1330. In your experience now do you think it would be a good thing to encourage more not so much senior people to go into business for secondment for two years and vice versa, but if that went further down the line before they were promoted if you like back into the Holy Circle?

(Mr Moore) Yes. It is not my subject but it is fair to say that at any one time the Civil Service has something like 95 people seconded to the business world and they are not at any one level. They are mostly Assistant Secretaries and Principals but there are others.

1331. But they must come on to courses afterwards, some of these people that come back to the Civil Service?

(Mr Moore) Some do, yes.

1332. Do you find there tends to be a different approach from people who have been out and about?

(Mr Moore) I think it would be rash indeed to generalise on that. So much depends on the open-mindedness of the individual and his or her willingness to learn from experience. Even if people have not actually been out and done a stint in the outside world many spend quite a lot of time in very close contact with the business community by virtue of the kind of jobs they do.

1333. The job you hold—does this tend to be for a period of time or is the position handed round?

(Mr Moore) I do not think I can answer that other than to say that in the 11 years of the College's existence there have been four Principals. I am the fourth.

Mr Beaumont-Dark: That does not sound very stable to me. It sounds to me as though it is a job which is passed round.

Mr English: One was an academic.

Mr Beaumont-Dark

1334. In a normal college it would be a matter surely that four people in 11 years would strike me as a kind of "It is your turn next" or even worse, "You might have to do the job if you do not behave yourself." How can you get a good, sensible, coherent policy going running something if the Principal changes every two years or so?

(Mr Moore) There is just one comment I would like to make and that is that it is wrong to think of the College, or indeed any bit of the Civil Service if it comes to that, as being a one-man band. I am not the only person in a management position in the College.

1335. But the conductor of the orchestra ought to know a bit more about the music, do you not think?

(Mr Cassels) I would agree that a post like the Principal of the College ought if possible to be held by someone for a considerable period, say five years, in order to have depth of experience and some continuity in planning what the College does brought to it. I think there are all sorts of reasons which occur why it is difficult in fact to arrange that and this Committee I believe is familiar with the fact that moves sometimes take place in the Civil Service rather more rapidly than is thought conducive to efficiency. There are reasons which intervene but I would say in general that I think that a post like the post of Principal of the College ought to be held for some considerable time in order to get continuity.

Mr English

1336. I am puzzled. In an annual report Dr Grebenik, Principal of the Civil Service College, made it quite clear that in his view, shortly before he ceased to be the Principal of the Civil Service College, it was quite impossible to run an organisation that, as I recollect he put it, was trying to train Fellows of All Souls and something like—and I hesitate to mention his other alternative—people who leave school at the minimum age. Mr Moore, why do you think you are competent to run an organisation that, according to what Dr Grebenik said, was impossible to run?

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(Mr Moore) Mr Grebenik was and is entitled to———

1337. Dr Grebenik.

(Mr Moore) Why am I competent to run it? I think that is a question you should really ask those who appointed me to the job rather than me.

1338. That is a quite sufficient answer. You have actually answered my question, and we will.

(Mr Moore) If I could, sir, just hazard a view———

1339. I thought you were answering my question. If you are saying somebody else is responsible, fine.

(Mr Moore) I think I know one of the reasons.

Chairman

1340. Would you like to give it?

(Mr Moore) I think it is very important in a job like Principal of the College to have someone who knows what Civil Service work is like for real at various levels. I have had a pretty wide experience of the Civil Service: in central departments, both the Treasury and Civil Service Department, as Secretary of two committees of inquiry and in a field department, namely the Post Office, dealing with the public, because it was then a Government Department, and as Secretary of a small unit which had a degree of independence, namely the Decimal Currency Board. And I have had occasion to use in practice a number of the management techniques which it is now the job of the Civil Service College to try to put over to others. So, I suspect, if I could read the minds of those who appointed me, that one of the main reasons was that they felt it important to appoint someone who had a very wide experience of Civil Service work and also knew the people who decide who should attend courses—Permanent Secretaries and Principal Establishment Officers.

Mr English

1341. In Civil Service terms what is your rank?

(Mr Moore) I am an Under Secretary.

1342. In France the Ecole Nationale d'Administration which has trained the 2,000 top people who run France, for obvious reasons, has four full time—by now it might be six or eight but when a former Committee of this House in the last Parliament visited it it had four full time—staff. They were well paid for the job. Most of its teachers were what we would call Permanent Secretaries or Ministers. They were not, if you will forgive me saying so, Under Secretaries or Principals. Why should we not try and teach our future rulers of the United Kingdom at that level? We do not.

(Mr Cassels) I wonder if I could say something, Chairman? May I say first that I would not agree I think with the proposition that it is impossible or undesirable to have people of quite different ranks.

1343. Nor did I say it.

(Mr Cassels) This was I think the view attributed to Dr Grebenik. It is not a view which I would readily assent to and in the case of the comparison with ENA I think that it raises the question of whether you really want to have to organise the Civil Service on quite the elitist lines which the French Civil Service is organised on. I think there are real questions about that and I would not say that the British Civil Service was the loser by not having that very sharp division between an elitist corps and the rest of the Civil Service. When it comes to planning the training of those who are going to reach the higher ranks of the Civil Service I think a number of things have to be borne in mind. First of all ENA noticeably concentrates on the entrant to the Civil Service and does not concentrate on people later in their service. I think that there are some good reasons for that and some which need to be questioned. One of the good things about ENA viewed from here, and I have not looked at it myself first hand, is I think that it gives people first hand experience because they spend their first year out seeing what the job is. I think that the kind of experience which Mr Moore had in the Post Office is exactly the kind of experience which is likely to help people in their later careers. I think there are questions that then need to be asked about the extent to which we want to go down the road of giving opportunities for more fundamental learning than they get at the moment to people at the beginning of their careers, giving people incentives to acquire skills such as, say, accountancy skills, ADP skills, perhaps economic skills if they do not have them. I think there are important questions about that. In addition to that I think that an important part of the preparation of people for the top of the Service ought to lie in proper career management and that is something which, as you will know, has

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been given increasing attention. I think that for example the possibility of a secondment to industry—though not necessarily to industry; it might be to a voluntary organisation at some point—is one way of broadening people's experience in a way which might be very useful to them. I think if you put all your eggs in the basket of a very long course at Under Secretary level, which is expensive, you have to answer some quite hard questions about what exactly they are going to learn during that period.

Mr English

1344. Regarding the Ecole Nationale d'Administration, it does not—and I would directly disagree with the witnesses—only deal with entrants to the French Civil Service. It is the only institution of higher education in France for which one does not need a baccalaureat to enter. Secondly a very substantial proportion for that reason comes directly from the Civil Service and is promoted within the Civil Service as it were so it is, oddly enough, contrary to the principle of the first division association British Civil Service where you have to have an Honours degree and so forth. It is quite different. You can actually not have an Honours degree in France and get into the top echelons in the Civil Service. It is not in my view—Mr Cassel's words may be different—as elitist as perhaps he was trying to make the Ecole Nationale d'Administration sound. The second thing is, and I do take personal exception to this, that when I was told I was attributing words to Dr Grebenik I was actually of course quoting from a published report, the annual report of the Civil Service College. I was not attributing words. I was quoting words. The last point is this. I was told in the past that some Permanent Secretaries were prepared, like their French compatriots, to try and spend a little bit of time on training their successors. Others were not. What is the present situation?

(Mr Cassels) May I say first, Chairman, that it is of course the case that people can rise to the open structure of the British Civil Service without degrees. It can happen and it does happen. As to the willingness of Permanent Secretaries to take part in the work of Sunningdale, they do. I could not quantify it. Perhaps Mr Moore can. I can simply say this, that in recent weeks I have been to two seminars run for Under Secretaries there. One was chaired by the Parliamentary Commissioner for Administration. One was chaired by a retired Permanent Secretary, Sir Douglas Henley, and there was quite a collection of eminent speakers on them. I did not feel that the quality of what was on offer was being skimped but I take the point that training for the higher ranks of the Civil Service is a very important part of the process of having an efficient Civil Service. I am sure Permanent Secretaries in general try to give that as much priority as they can. There are other priorities of course also pressing in all the time.

Mr Wainwright

1345. Mr Moore, amongst high fliers who come to courses at the College what would be your assessment of the general level of willingness and keenness to take part in these courses?

(Mr Moore) Oh, very high indeed because generally speaking of course we only take volunteers. There are very few pressed people who come to the College. The extent to which those Assistant Secretaries and Under Secretaries who come to the College take part is very impressive. If I can follow up Mr Cassels' point, yes indeed, quite a number of Permanent Secretaries and Deputy Secretaries and also people in very distinguished positions in other walks of life regularly come to the College and take part in seminars.

1346. Mr Cassels, could you make some assessment of the difficulty or otherwise which Permanent Secretaries tend to have in getting volunteers at fairly high levels to attend these courses?

(Mr Cassels) I do not have enough experience to say anything very definite about that. I would have thought if you are talking at AT level, there is no difficulty whatsoever. The more senior a man is or a woman is the more difficult it is to spare them. I think that Departments do take it seriously and do try to spare people but it is not always possible, I must say that.

1347. You have no experience of where some of these people are unlikely to volunteer because they feel they would be sacrificing very valuable experience in the Department for what might be a rather academic spell at the College?

(Mr Cassels) I think some people do feel that. I think it depends on the cast of mind of the person. I think some people feel they might be being distracted from an important job for something the relevance of which, at any rate until they arrive, and I think that is quite an important caveat, they

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are not entirely convinced of. I think there are people like th. :. There are others who are much keener to come and go there very willingly indeed.

1348. Assuming reports are made back to the Department of each person who attends, what status do these reports have? Are they the equivalent of a normal report on a civil servant's work in post or do they have a different status?

(Mr Cassels) There are no such reports on how people have behaved.*

1349. Mention has been made of the open structure. In other evidence when we have inquired about the rather modest number of people with good professional qualifications who have got into the open structure it has been said that these people very often lack the general qualities which are necessary in the open structure. Are there courses deliberately designed to give high quality professional people that general experience?

(Mr Moore) Indeed there are, and it is a part of the College work to which we attach very great importance; in other words training "technological generalists" if you like. We really have had a number of very successful courses which are designed to broaden the horizon so to speak of people who may have spent a lot of time on engineering work or in a laboratory and who have reached the stage in their careers when they may move into more general administrative work. I regard that as very important. Following the point made earlier, I have some figures here that might be useful. Although the figure that was mentioned of 79 people at Open Structure level coming to the College seems low, in fact it is about 13 per cent of the total stock and, if we look at the Assistant Secretary and equivalent level, something like 24 per cent, ie getting on for a quarter, in any one year will spend some time, admittedly not long but some time, at the Civil Service College.

1350. Have you visited in order to investigate and observe courses run by other large organisations at their own training centres?

(Mr Moore) I have not visited any yet though I have made a number of contacts with organisations like for example Henley and the London Business School.

Mr English

1351. Sandhurst?

(Mr Moore) Not so far, no, because it seemed to me important first to get to grips with the job, and then to find out what other people running similar organisations come across by way of problems. I have only been there five months and have been trying to build up a fair knowledge of how the College runs. I agree with you it is very important to know how other people run their colleges.

Mr Eggar

1352. In those five months what in your view have you identified as areas you could improve in the College?

(Mr Moore) I would personally like to see the College giving rather less attention to what we have traditionally called seminars at Under Secretary and Assistant Secretary level and rather more attention to what, for lack of a better expression, I will call mini courses, ie you would not get these people to come simply to exchange ideas and experiences but you would actually give them some information in an unfamiliar field. We are already doing something of this, for example we run very senior seminars on "Understanding Modern Accounts." I would like to do a lot more of that and I know the Director of Economics and Accountancy is pushing this hard himself, actually teaching at this level as opposed to just getting senior officers to exchange ideas amongst themselves and with outside people.

1353. One of the most important things I think that has been said to this Committee was the emphasis that Sir Robert Armstrong placed on the importance of management skills in the Civil Service and the effect that the acquirement of those skills would have on succesion planning and promotion. That is quite a significant shift and quite a significant statement even though it might have been known about inside the Service before. What attention has the Civil Service College paid to that and what action is the College taking?

(Mr Moore) As I said before, we are always changing our courses and one thing we have been paying particular attention to

**Note by witness:* In general there are no assessments on College students. The only exception is for ATs who attend fast-stream training modules and on whom assessments of performance are made by the College for Departments.

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recently is the lessons that can usefully be drawn from general efficiency reviews, from things like the Rayner studies and so on, anything that throws light on whether we are managing the Service in the right way or the wrong way. One wants to generalise this sort of experience and put it over in courses. We are already beginning to do this and it is something we can take further.

(Mr Cassels) Quite a lot of work is going on now into the preparation of a financial management course which is designed to be the sort of thing which provides information about the management of money and resources, which the Principal Finance Officer of a Department ought to know and also which line managers who have large resources under them ought to know. So we are putting quite an effort now into designing new financial management courses and the first one we hope will be run in September of this year.

1354. How long would that course last for?

(Mr Moore) There will be a core which lasts a fortnight, plus a lot of modules lasting two or three days each on particular aspects. But the final details have not been worked out so I cannot tell how long as a total package it would be.

1355. Would it be practical, Mr Cassels, do you think, given the current levels of work at the top end to take out Assistant Secretaries and Under Secretaries for, say, between four and six months for a rather longer course than is being contemplated at the present time?

(Mr Cassels) I think it would be pretty difficult. I think it would be expensive for a start in that you would be taking out people whom you are paying salaries of over £20,000 a year to and you would have to be absolutely clear, if you were going to take them out for off-the-job education and training, exactly what you were going to get out of it. I think that is the nub of the matter. What actually would you be teaching these people and what would they be learning which would justify that very considerable expense? If you were clear about the justification then of course it would be worth doing and then one would set about trying to overcome the problems, which would be very considerable, in the release of what would often be key people to the proper running of departments for periods of that time. If it could be shown to be the fact that they were learning things which were really vital to their future performance, then of course the way that their careers were managed would have to be changed in order to permit that. I think there are some quite big answers to be answered however before one could give the answer "yes, it would be justified."

1356. Let us just assume, Mr Moore, that it was decided that it could be justified. Do you think that you could run the kind of course that would be necessary or would it have to be done by an outside organisation?

(Mr Moore) The College has to be infinitely adaptable and I would have thought it greatly preferable, if it was thought at the end of the day desirable to have such a course, whatever its range, that it should be done by the College rather than to set up some other organisation where you would incur inevitably overheads and so on.

1357. Increasingly large firms are sending executives at a similar kind of level within the firms' organisations to three month courses often run by US business schools. I think on the whole their experience has been very good. Is this something that you would contemplate or are those kinds of courses so geared to specifically private business that they would not be useful to the Civil Service?

(Mr Cassels) I think there will always be an argument for sending some people to courses run by business schools and in fact people are sent to senior executive courses run by business schools, although I would have said it was more typical to have a course of three, four or five weeks than one that was as long as three months, though they also exist. Yes, people can be sent to those and are sent to those and I think that they can be of benefit to particular people because they provide the kind of experience which is going to help them with their jobs.

1358. Finally, a housekeeping matter. How are Departments charged for the courses that you run?

(Mr Moore) The present position is that Government Departments have had free training from the Civil Service College. Non-Exchequer Departments have to pay the full cost of courses and incidentally those costs compare pretty favourably with the charges made by the main business schools for example. But Ministers decided recently that the College should move over to a system of part repayment under which from the 1st April 1983 courses which are

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directly job relevant for example teaching practitioners in computers and O and M and so on how to do their jobs would be paid for by Departments. But for developmental ability courses, training the managers of the future who might not stay in one Department, the cost would continue to be borne by the Management and Personnel Office, and the Management and Personnel Office would in fact also bear the main overhead costs of the College. The details of how this would work in practice have still to be worked out.

Mr Shepherd

1359. Mr Cassels, I do not know if you saw the article two Sundays ago by Mr Gordon Brooke-Shepherd in the Sunday Telegraph in which he put forward the proposition, which I had not seen before, that maybe the career structure of the Civil Service should be more akin to that of the Army: that if people did not make the grade at certain strategic points in their career their retirement was advanced with certain obvious pension protections. Implicit in that Army promotion structure is the need to satisfy the criteria for example of the Staff College and I wondered (a) is that a proposal that is canvassed or thought about within your Department, and (b) whether the present Civil Service College arrangements could be tied in to marry up with such a radical re-structuring of career prospects within the Civil Service.

(Mr Cassels) As the Committee will know, because the Chancellor of the Duchy of Lancaster said this when she saw the Committee in December, we are committed to preparing an action document on the work of the MPO for 1982–83 and we are looking right now at what sort of work we ought to do concerned with how managers are developed and what sort of regime the Civil Service might have for the future. I do not know how that document will finally look but I do think that as part of it we might well feel that we ought to look at whether it is a desirable and practicable thing to open up possibilities for people to come into the Service at more senior levels rather more than they do at the moment and whether as part of the same thing one would make it easier for people to leave also. I think that if we do look at that we shall be looking at the kind of movement in the kind of direction that you are talking about.

1360. And therefore the linkage with the Staff College would be implicit?

(Mr Cassels) I am sorry: I did not answer that part of the question. I myself would feel doubtful about submitting people to taking say a written exam before being regarded as eligible to go to the College and I doubt myself whether it would be right to set the experience of a person at the College against the whole of his previous career and the assessment made over a number of years by a number of different people of the abilities of that person.

1361. Does not the Army though do just that? Clearly one has to have regard to the competence and abilities of a person and weigh that against their performance in terms of Staff College or the written requirements for admission?

(Mr Cassels) Yes. I think one would have to be wary in the first place of using tests which were loaded towards a person with an academic background. I think that would be a danger one would have to get away from.

Mr English

1362. That might be elitist.

(Mr Cassels) It might be wrongly elitist. The other thing is that I think it is probably easier within the Service to have a homogeneous standard of reporting—I do not know this because I am not familiar with the Army system—and therefore it is less difficult to set standards and structure standards.

Mr Shepherd

1363. I am not asking that that be prejudging, an exchange in a room like this. But I take it that this will be actively looked at, the relationship of the Army and its Staff College etc and the career structure that will actually be considered even if it is discarded by your Office?

(Mr Cassels) We would certainly be willing to look at that.

Mr English

1364. I think I owe Mr Moore an apology. He said "Mr Grebenik" and I thought it was Dr Grebenik. I am not sure what it is now but I notice in the 1977 report of the Committee which I then chaired we described him as "Mr Grebenik" and I think that I will make the assumption that I was right then and Mr Moore was right when he said it.

(Mr Moore) I honestly do not know, but we can call him "Professor" perhaps because he was.

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1365. On the point Mr Cassels and I were discussing, in that paragraph, which was paragraph 16 of the report of the Expenditure Committee,[1] we said that Mr Grebenik added literally in these words "Amen" to the statement in the report on Civil Service Training by Mr Heaton and Sir Leslie Williams in which we said, and I quote again, that the College "has been expected to provide a very widely assorted range of courses, more varied, probably than those of any comparable institution in this country, and of such a divergent nature as to generate not a little ambiguity, and even some inner contradictions in its role. All this, for a very large and constantly changing body of trainees of very widely varying abilities, experience and degrees of commitment and enthusiasm. It is as though the same institution were expected to combine the roles of All Souls and an adult education centre, with some elements of technical education and teacher training thrown in for good measure." I am sure actually that you are all familiar with this quotation. It would be foolish of any Committee to suggest how top civil servants in the United Kingdom should be trained. Can you see any good reason why we should not suggest that a group of Permanent Secretaries, I think probably, should not get together in a working party and consider whether it is just possible that the training of top civil servants in the United Kingdom is not as good as it might be in some other countries?

(Mr Cassels) I ought to say that quite a lot of work was done in the Civil Service Department following the report from which Mr English has been quoting, which I have in front of me, and that involved, apart from anything else, getting together Permanent Secretaries and getting their views on this and also getting together at different stages of the work establishment officers round Whitehall. I am sure that it is right that from time to time Permanent Secretaries in particular should be deeply involved in thinking about the training for the top of the Civil Service. That must be right. I was saying that we were in the middle of preparing our action document and looking in particular at what sort of preparation managers should have in future and particularly those who are going to the top. I am not certain yet what work will be included in that but I would certainly agree that if we are going to look at the preparation for people at the top and the kind of training they might have, it would be essential for us to get the views of Permanent Secretaries on that.

1366. I think that is a fair point. I do not think it would surprise Mr Cassels to know that I have a thorough knowledge of what those discussions contained that he is referring to. What concerns me is the attitude. In France for example if the students want a course on Agriculture in the Common Market then M Deniau is summoned back, the Ambassador of France to Spain, to conduct the course because he was once a Commissioner, and he was the man to organise the course obviously. That gives one the impression that in France it is regarded as important to train top civil servants. I think the key thing that one of you said was that these were volunteers. No bright civil servant is going to waste time going on a course if it does not affect his promotion. In France it does. In this country it does not. How would we change that attitude?

(Mr Cassels) I think that perhaps a statement of the kind to which Mr Shepherd referred earlier by Sir Robert Armstrong, about the attention which is going to be given to management in the future, is the kind of thing which begins to change attitudes. I think it would be true to say that Permanent Secretaries as a body—I hesitate very much to speak on their behalf—

1367. About 50 per cent of them in fact?

(Mr Cassels) It is true to say that there is a very definite feeling that more attention should be given to management and to the acquisition of the skills which are required for management. If that is so, if I am right in that, then I think it would follow that more effort, and more effort at senior level, would be put into training for that purpose. Even so I would not want to denigrate too much what is done now. After all, the College recently put on a Value for Money seminar at Sunningdale and whom did they get to chair it? They got a recently retired Comptroller and Auditor General and previous Permanent Secretary in the Treasury. That seems to me no less appropriate a choice than perhaps the Ambassador to Spain in the case of ENA.

1368. It is the second time you have quoted him. It must be that you have not got many other examples.

[1]Eleventh Report, HC (1976–77) 535–I.

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(Mr Cassels) I have two examples in mind because my experience is short. The other seminar I have attended for Under Secretaries, the only other one held this year, was, as I say, chaired by the Parliamentary Commissioner for Administration.

1369. Why did you say "effort" as distinct from the word "cost"? This follows on my previous one. In France they only have four full time people. That is an increase in public expenditure but they use a lot of what we would call Permanent Secretaries and Ministers and of course their subordinates in both cases. That may be an effort, which was the word you used, but it is not actually a cost in terms of an increase in public expenditure. It is just a different choice of use of a person whom you are already paying. Why did you automatically choose "effort" rather than "cost"?

(Mr Cassels) I am not sure that my use of one word or the other was very well calculated. I think it is a little odd, if I may say so, that that is not felt to be any cost or any expense, using someone who is in a very senior position and taking him away from that to run a course of this kind.

1370. The other thing is you also did another Freudian slip, to put it that way. You said "course". Why should we talk about courses of X weeks? In France of course the home civil servants go and are given a bit of time in a foreign embassy and foreign civil servants are given a bit of time in a home department. My guess is that that would help British civil servants as well but it does not happen here. Instead of "courses" why do we not say "training"?

(Mr Cassels) I would call a period in another Department "secondment" or something like that rather than "training" but I think it is valuable experience and it happens quite a good deal.

1371. Between the services, between the home and foreign services?

(Mr Cassels) There are certainly secondments to and fro from the home and foreign services.

1372. Outside the Department of Trade, where else?

(Mr Cassels) The Department of Employment, for example.

1373. And Finance.

(Mr Cassels) The Treasury.

Chairman

1374. Mr Cassels, we must conclude shortly. You said that the problem would be the timing of common training given at high levels. Do you feel there is a difference in the knowledge of a new graduate today from a person who graduated 30 years ago?

(Mr Cassels) I really do not feel able to answer that. I do not feel graduates today are any inferior to the graduates of 30 years ago.

Chairman: But specifically have you looked at a textbook on economics as used in any major business school or university today and compared it with the textbooks on economics used 30 years ago?

Mr English: The Chairman means are they Keynesians?

Chairman

1375. No. Have you compared the textbooks used today and 30 years ago?

(Mr Cassels) I cannot say I have.

1376. Has Mr Moore?

(Mr Moore) No, I have not. If I could comment on your general question, we would not think there was any difference in terms of intellectual calibre between graduates now and the graduates one knew a quarter of a century ago. I think on the whole one finds a greater feeling of rightness with the world than one did then.

1377. I am not asking for vague generalisations. I am asking for specific ability to handle the kind of problems which students are put through today compared with the kind of problems they were put through 30 years ago. You have not read the books on economics. Have you read the books on variant, micro-economics?

(Mr Moore) If I can put it another way, I think that when Administration Trainees now emerge from the training which we give them they are much better equipped for Civil Service work than they were when I emerged from training a quarter of a century ago.

1378. Mr Cassels, you have not yourself attended a senior executive programme in a major business school in this country?

(Mr Cassels) I went to the Manchester Business School in 1970.

1379. Mr Moore?

(Mr Moore) No, I have not.

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1380. Mr Cassels, do you feel you have learned anything from the Manchester Business School course?

(Mr Cassels) Yes, I did. The course as I recall it was split up into a number of different disciplines. I think the disciplines which I learned most from were the accountancy one, financial management and accountancy, and the marketing one on which I think our skills are really rather deficient in the Civil Service.

1381. How long was the course you attended?

(Mr Cassels) It was three weeks. It was very intensive.

1382. In terms of the quality of course, do you think it could have been improved at all, the Manchester course, or made more helpful to you?

(Mr Cassels) In concept it seemed to me right. Some parts of it were better done than others I thought at that time, yes.

1383. The accountancy firm of Peak Marwick Mitchell has put its partners through a computer literacy course. Has that happened in the Civil Service, the equivalent grades, Under Secretary and the like?

(Mr Moore) A computer course?

1384. A computer literacy course, the ability to know what they are about.

(Mr Moore) Not everyone has been obliged to go through one but there are plenty of such courses; they are in high demand. For example, and this gives me an opportunity to say something which might be helpful, it is wrong to think that either central training is done by the College or not done at all. We have a number of arrangements in the case of computer training for example with the big machine companies like ICL and IBM and also with organisations like the Oxford Centre for Management Studies and the Royal Military College for Science who run computer courses for Assistant Secretary and Under Secretary levels. In the current year there are something like 150 places for people at those levels at one or other of the places I have mentioned.

1385. That is rather different from the design package conducted by Peat Marwick for getting across the degree of information needed by the most senior members of the firm, is it not?

(Mr Cassels) There is in addition a course at the very highest level which is organised by the College together with the London Business School. The third one is being run later this month and I rather hope to attend it.

1386. Mr Cassels, in terms of the amount of time spent, you said £20,000 a year. Is possibly another way of looking at it that officials at that level are handling enormous sums of money and even the tiniest improvement in their managerial skills in this respect would have a huge pay-off?

(Mr Cassels) Certainly if the experience they got—I want to avoid the word "course"—at that level was actually going significantly to improve their performance that would be worth having, but there is the cost also of their not working while they are doing the course and I think you have to bear that in mind also, so you are looking for something quite significant.

Mr English

1387. When you do the course, yes, but the French do not look at it that way. They do not spend all the time for two or three years teaching people in the Ecole Nationale d'Administration. They send them into local government, into business, into the foreign service or wherever. They make use of them. They get some work out of them. Why cannot we take that attitude?

(Mr Cassels) We do second people from one Department to another; we do second people to industry.

1388. Not as a regular thing.

(Mr Cassels) It is something that happens on a wider scale than used to be the case in the Civil Service. I agree very much on the value of it and as part of the better career management of people and making sure that by the time they are about to enter the open structure they really have got the mixture of experience and training behind them which they ought to have. I think it is a very valuable component.

1389. If they knew it was a determinant of whether they entered the open structure they would perhaps be more willing to do it.

(Mr Cassels) I do not think the critical factor is willingness to do it. I do not think we are held back by that.

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Chairman

1390. May we thank you for answering our questions this afternoon and look forward to the particular reply on the question of the numbers which we are concerned with in new appointments at Deputy and Permanent Secretary levels.

(Mr Cassels) Certainly, Chairman.

ANNEX

Note by the Management and Personnel Office

APPOINTMENTS AT PERMANENT AND DEPUTY SECRETARY LEVELS

When Mr Cassels and Mr N E A Moore appeared before the Treasury and Civil Service Committee on 10 February they undertook to supply a note of the numbers entering the grades of Permanent Secretary and Deputy Secretary.

Over the last five years the number of people entering these grades (by promotion or by appointment from outside the Civil Service) have been:

	Permanent Secretary	*Deputy Secretary*
1977	9	24
1978	5	26
1979	3	22
1980	9	21
1981	4	24

In 1982 six retirements of Permanent Secretaries and 17 of Deputy Secretaries are expected; but not all of these, especially at the lower level, will lead to appointments or promotions.

19 *February* 1982

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WEDNESDAY 17 FEBRUARY 1982

Members present:
Dr Jeremy Bray, in the Chair

Mr Anthony Beaumont-Dark
Mr Timothy Eggar
Mr Michael English
Mr Richard Wainwright

Examination of Witnesses

Sir ANTHONY RAWLINSON, KCB, Second Permanent Secretary, HM Treasury, called in and further examined. Mr C H A JUDD, HM Treasury Officer of Accounts, called in and examined.

Chairman

1391. Sir Anthony, may we thank you for coming back to clear up one or two points which we found outstanding in coming to drafting our report on efficiency and effectiveness, with which you have already assisted us and on which you have given evidence? For the purposes of the record, would you like to introduce your colleague?

(Sir Anthony Rawlinson) Yes. I have with me Mr Clifford Judd, Under Secretary in the Treasury and Treasury Officer of Accounts.

1392. You are aware that the Public Accounts Committee reported on the role of the Comptroller and Auditor General. The Government has replied to this, and there has been a debate in the House on the matter, has there not?

(Sir Anthony Rawlinson) Yes, indeed.

1393. To which presumably some further response from the Government is due?

(Sir Anthony Rawlinson) That is so. The Ministers have said that they will make a further statement in due course ("shortly" I think was the word used).

1394. The particular matters on which we would be interested in your views—recognising the inevitably tentative state of affairs at the present time—are the questions of the powers of Committees of the House to issue directions to the Comptroller and Auditor General, or the Head of the National Audit Office to investigate a particular programme or project of a body which he either audits or to which he has access. Do you see any difficulties in that, in Select Committees having that power?

(Sir Anthony Rawlinson) In the way you put the question, you are assuming, I take it, fresh legislation, changing the status of the Comptroller and Auditor General?

1395. Yes.

(Sir Anthony Rawlinson) Under present legislation, he is an independent officer and not subject to directions from anybody. The position so far taken by the Government has been that that should be sustained. As you say, the Government are considering all aspects of this, in the light of the debate, and I cannot anticipate today what statement will be made. Under present legislation, although it is not possible to give him directions, it is possible to make requests. The response to such requests would be a matter for the Comptroller rather than for me. He is independent. I think that, comparing this with what has been customary, one should recognise that other Select Committees than the PAC have commonly been, and are, concerned with policy matters. The tradition has been that the C and AG is an auditor and keeps out of policy matters. His access to departmental records (which is open, free and general) *is* related to his activity as an auditor. I think that if he were being drawn, by these means, into policy matters, the question of access to books would arise. I will not say more than that, but I think it would need consideration. The other point which comes into this is the question of loads of work on the Comptroller himself and on his staff. As you probably know, he has, on occasions, lent members of his staff to other Select Committees, but that has been on a very small scale.

1396. But it is hardly possible for him to investigate questions of effectiveness, is it, without verging at any rate on policy questions?

(Sir Anthony Rawlinson) I would agree that these are difficult lines to draw, yes.

1397. The sensitive matter is then the mode in which he has access to departmental papers?

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(Sir Anthony Rawlinson) I say there is a potential question in that area. It is one thing to have the present and accepted practice of free access to departmental papers, with no restraint on either side: it is another to provide similar access to an investigator for those concerned in matters of current political controversy or current policy.

1398. The present practice does not cause any difficulties in terms of that?

(Sir Anthony Rawlinson) In general, no, because it has not been necessary to draw any distinctions either on the part of Departments or on the part of the Auditor.

Mr English

1399. On this precise point alone, firstly, does the practice of the Ombudsman, the Parliamentary Commissioner for Administration, cause any difficulty? He has access to everything. He is, as far as I know, the only official, apart from the Inland Revenue officials, capable of taking in Inland Revenue files and plucking them out from anywhere. I do not think that even Ministers have that power under the relevant Acts, but he does. Of course, what he is not obliged or required to do is to publish everything that he is allowed to see. Is not that a reasonable principle?

(Sir Anthony Rawlinson) It is a principle that can be advanced. I went no further than saying that questions would arise, and I think they *would* arise. To go back to your question, to my knowledge, I have not heard of difficulties arising in the case of the Parliamentary Commissioner. However, he is, of course, concerned in the main with individual cases rather than policy issues as such (although again there is a question of drawing lines).

1400. Take the case of Sachsenhausen, a German concentration camp where there were British ex-officers.

(Sir Anthony Rawlinson) I am not familiar with all the cases.

1401. The Foreign Secretary had to come before a Committee of this House, to explain why they were not being compensated for the tribulation they had suffered in that German concentration camp.

(Sir Anthony Rawlinson) There are, of course, questions of policy in the sense of how you treat particular cases, but his activities are in the main concerned with individual cases, which I agree may raise policy matters, rather than with major questions of the direction in which the Government is going.

Chairman

1402. Sir Anthony, the observations you have made about the present practice and future possible modifications of that, in terms of requests or directions to carry out particular inquiries, to the C and AG, would equally apply if the suggestions in paragraph 7.27 of the PAC report were implemented, where it is said: "It may be that in the future other Select Committees than this one"—that is, than the PAC—"might wish to ask the head of the national audit office to investigate a particular matter". That raises House of Commons questions in terms of the relations between Select Committees and so on?

(Sir Anthony Rawlinson) This question would arise in that case, yes.

1403. However, as far as you are concerned, or as far as the Government is concerned, the problems relating to other Select Committees are no different from those relating to the PAC in this respect?

(Sir Anthony Rawlinson) The PAC starts from the accounts, and its investigations are, in the main, audit based and are not primarily concerned with policy. I think that there is in practice some difference between the PAC and the generality of other Committees. All I am saying is that I think that a question arises on this front, and I think that that is so.

Mr Beaumont-Dark

1404. I am just trying to come to grips with the idea of this Comptroller and Auditor General business. Obviously, we are not really concerned, are we, with whether someone has pinched the tea money? The Auditor General surely, in this case, has to be involved in what a policy document really is? How can you have any effective audit, say, of the Nationalised Industries Fund? The Auditor General says, "Yes, it has not been misappropriated", but in a governmental sense misappropriation often means that it is not spent on what the Government meant it to be spent on. I do not see how an Auditor General cannot be involved in discussing the policy and understanding the policy, so that he can see that that money was properly spent.

(Sir Anthony Rawlinson) It has generally been held that the investigations of the PAC and of the Comptroller and Audi-

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tor General, as he has operated up until now, do keep out of current policy issues. It is certainly the suggestion that this might be modified, and clearly that is a suggestion which can be made and discussed. Hitherto, however, this has not proved a serious difficulty.

1405. When you say that it has not presented serious difficulty, is that because, frankly, people more or less assumed that what the Auditor was doing was seeing that the money was spent properly? Surely there are ways in which various accounts which are really vast in governmental terms can be switched as against what Government or Parliament intended? That must be so, surely? Therefore, if the Auditor is not involved in knowing precisely what the policy was meant to be, how can his audit mean anything, except that the money has not been pinched?

(Sir Anthony Rawlinson) It is not only a question of auditing in the sense of money not being pinched. He has traditionally audited, and the PAC has investigated, the execution of policy rather than the formulation of policy. It is, of course, a long-standing development (and one which the Government have said they wish to support and encourage) that both the C and AG and the PAC interest themselves in value for money, and that merges into effectiveness. However, it has hitherto been the practice that the PAC and the C and AG have not, in general, involved themselves with current policy formulation, whereas most other Select Committees do.

1406. It is not formulation so much. In vast enterprises—and the Government is as vast an enterprise as you can get—a Minister could lay down one thing, and one could find, surely, sums of money that were being spent for something that was not his proper intention?

(Sir Anthony Rawlinson) That is quite a familiar type of issue which is part of what I would call the regularity auditing, yes.

Chairman

1407. Sir Anthony, may I take you on to the question of non-departmental bodies? The PAC recommended that the C and AG should either audit or have access to the books of all such bodies in receipt of money voted by Parliament. Do you see difficulties about that?

(Sir Anthony Rawlinson) The position which the Government has so far taken has been sympathetic to the general objective, but with some quite large exceptions (namely, the nationalised industries and public corporations, the local authorities and private companies). That is the position today. This is one of the areas very much under discussion. Do you want me to develop on the subject of nationalised industries and so on? This is very much in the area of what the current dispute is about.

1408. Only in so far as distinguishing the question of having access as a matter of right, and having the total responsibility for the overall audit. These are two different questions.

(Sir Anthony Rawlinson) They are different things. The position which the Government has so far taken is that these should remain exceptions. However, as has been said earlier, this is being considered in the light of the views expressed in the debate on 30 November and subsequently, and I do not think I ought to try to anticipate what further statements may be made.

Chairman: Sir Anthony, there are a number of questions which go into more detail, which Mr English would like to pursue with you.

Mr English

1409. I would like to pursue the general principles first. Leaving out ministerial decisions, is there anything that you think would be violently objectionable in the Public Accounts Committee's recommendations?

(Sir Anthony Rawlinson) The Government's position was that stated in the White Paper, and I do not think I can depart from that today.

1410. There has never been a White Paper yet. The White Paper is due next (indeed, I think you may have a share in writing it).

(Sir Anthony Rawlinson) There was a White Paper published in July.

1411. I think that that was simply a reply to a Committee recommendation, was it not?

(Sir Anthony Rawlinson) Yes, it was.

1412. If you call that a White Paper, fair enough. It was totally negative.

(Sir Anthony Rawlinson) It was negative in certain respects.

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1413. So you are saying that you do not agree with anything the Public Accounts Committee said?
(Sir Anthony Rawlinson) No, not at all. There was a large amount of common ground between the Public Accounts Committee and the Government. There were some areas (which are very important) where there was not common ground between the two, in the position as stated in that White Paper.

1414. The sort of thing that worries us is that you mentioned current policy issues. Let me give you an illustration. The General Accounting Office of the United States, as you know, recommended that there should be, as it were, a free market in air fares, so that air fares in the United States are perhaps half what they are in Western Europe. That was not a current policy issue; it was a recommendation of the Comptroller General of the United States, of the General Accounting Office, that they should drop this cartel and reduce air fares in the United States. That was not a current policy issue until he made it so. Therefore, when you say that the PAC and the Comptroller General should not interfere in current policy issues, you missed out one possibility.
(Sir Anthony Rawlinson) I did not say that they should not; I said that they do not under present conventions.

1415. Correct, and you missed out the possibility that they might even mention subjects which are not current policy subjects, but which need to be mentioned, did you not?
(Sir Anthony Rawlinson) That is a possibility. It is a substantial change from the position as we have known it, and it is obviously a possible development.

1416. Although the Comptroller General of the United States is independent (perhaps more independent than our Comptroller and Auditor General, since he has got a tenure of fourteen years), I think that even he might be reluctant directly to oppose something that he knows the President wishes. Our Comptroller and Auditor General, of course, has a shorter tenure, but surely he is entitled to mention things and be independent, whereas at the moment he is not, is he?
(Sir Anthony Rawlinson) No doubt this would be a possible development. It is different from the present position, and it is a different role from that of the Comptroller and Auditor General as he exists today.

1417. I think you have had the opportunity to see certain possible paragraphs which the Sub-Committee (still less the Committee) has not yet approved, on various points?
(Sir Anthony Rawlinson) Yes.

1418. I think you have also perhaps had an intimation from another Department of State that there is one that is not even mentioned in this collection?
(Sir Anthony Rawlinson) I am sorry, I do not think I am following that.

1419. This Parliament has never devolved all the audit functions of the United Kingdom, has it?
(Sir Anthony Rawlinson) It has never devolved them?

1420. I am talking of Northern Ireland.
(Sir Anthony Rawlinson) Yes.

1421. The audit of Northern Ireland was not devolved by the Parliament of the United Kingdom, was it?
(Sir Anthony Rawlinson) I believe that is so.

(Mr Judd) Perhaps I could clarify that. There is in fact a separate C and AG for Northern Ireland.

1422. But not by decision of this Parliament?
(Sir Anthony Rawlinson) I take that from you.

(Mr Judd) That I do not know.
(Sir Anthony Rawlinson) I do not know.

1423. We shall come back to that. I thought the Northern Ireland Office had actually communicated with you, but that may not be so.
(Sir Anthony Rawlinson) No, not in recent days.

1424. I apologise for that, I understood that they had.
(Sir Anthony Rawlinson) No. I am sorry, I am not with you on that point.

1425. I think the Chairman has already mentioned (a) in that little paragraph (that the Comptroller and Auditor General should have access to the books). This is the

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present section 3 of the 1921 Act which, oddly enough, in the Green Paper you mentioned, the Government was proposing to abolish. Surely, however, this is the one thing that must be retained? This enables the C and AG, for example, to look at De Lorean's accounts, if need be.

(Sir Anthony Rawlinson) This is a Northern Ireland point, if I am not mistaken.

1426. No, I am sorry, this is quite general. In section 3 of the 1921 Act at the present time—the existing law—the Comptroller and Auditor General, provided the Treasury so directs him, may look at the accounts of any organisation in the United Kingdom whatsoever, and that includes Northern Ireland. That is correct, is it not?

(Sir Anthony Rawlinson) That is so.

1427. It also includes Scotland and Wales.

(Sir Anthony Rawlinson) The Treasury has not made use of this power for many years.

(Mr Judd) It is subsection (a) of your draft paragraph.

1428. I understand that the Treasury has only made use of that power in respect of twenty-two organisations, is that correct?

(Sir Anthony Rawlinson) I cannot confirm the figure, but I take that from you.

1429. I am not sure myself, but I understand it is about twenty-two.

(Sir Anthony Rawlinson) It may be so.

1430. We should not get rid of it, should we? It must be a necessary power of the State to investigate if required.

(Sir Anthony Rawlinson) If we are talking of new legislation, I think it has been common ground that there should be some method of varying the list of organisations which the C and AG audits or has access to, without necessarily having new primary legislation.

1431. No, there is no need to have new legislation; it already exists in the 1921 Act.

(Sir Anthony Rawlinson) That has been suggested, however.

1432. Not by Parliament. It was only suggested in a Green Paper, for some obscure reason, that this power should be abolished. I would have thought it must be a necessary power of the State (if you like to put it that way) or of Parliament to investigate, in perhaps dire crisis circumstances (to be blunt, I mean when people are pinching the cash). Why should not the Comptroller and Auditor General have such a power? Why do you want to take that power away?

(Sir Anthony Rawlinson) The view that was taken when the Green Paper was written was that the power of the Treasury to direct the Comptroller and Auditor General in this way was held to be objectionable.

1433. Not by us.

(Sir Anthony Rawlinson) Some of the critics had felt it so. As it is not a power which has been of practical use in recent years, it is one which the Treasury, if there were new legislation, would happily surrender.

1434. Would you accept that it might perhaps be useful if, in appropriate circumstances, the country (if you like to put it that way) had the power to investigate organisations that were receiving the country's money?

(Sir Anthony Rawlinson) It might be, yes. It is obviously of concern.

1435. That is roughly what we are saying in 83(a), part of the paragraph that you have seen. The other point is to do with the nationalised industries. I think the Chairman has covered that. There is no reason, is there, why the C and AG should not appoint the auditors, rather than the Secretaries of State?

(Sir Anthony Rawlinson) The reason is at the moment that the relevant legislation provides that the Secretaries of State should do it.

1436. That is correct. However, you see no reason why it should not be changed, if the Ministers so desire?

(Sir Anthony Rawlinson) I think that that will be for consideration. Some might say that the analogy with the private sector would be with the Secretary of State as representing the shareholders.

1437. On the other hand, the shareholder ultimately is the Cabinet, I suppose. In this case I think the point made is the question about depreciation. As you know, different auditors advising different nationalised industries have advised them in different and, indeed, opposite ways. Some have said,

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"Depreciate as quickly as you possibly can, because you are making money": others have said, "Depreciate as slowly as you possibly can, because you are not making money". The Treasury, as you also know, has endeavoured to reconcile these disparate viewpoints, without success. Would it not be easier if a non-politician, a non-Minister, a Comptroller and Auditor General (an independent person) had the possibility of calling all these auditors together and trying to reconcile their various views?

(Sir Anthony Rawlinson) It is arguable. Quite honestly, I do not think it matters. I will not say there is no difference; that it does not matter that there should be discrepancies. However, I do not myself think that this is a very significant point either way. Frankly, I am rather sceptical of whether it is right to believe that, if the Comptroller and Auditor General were to appoint all the auditors of these bodies, that would make it easier to develop more uniform accounting practices. That is not an expert opinion, however.

1438. You yourself used the analogy of the shareholders. You know there is this argument in the City that sometimes auditors are appointed who tend to favour the people they are auditing (it is suggested)? I do not wish to go further into it than that.

(Sir Anthony Rawlinson) Yes.

1439. One of the problems, of course, is that, generally speaking, the majority of board directors control the majority of shares in the companies at the companies' annual meeting. In this case we could actually avoid that. In public corporations we could get away from the shareholders or the board of directors (and do not forget that a Secretary of State is, in a way, both, he is a main board director, if you like). We could get away from this by having an independent person appointing the auditors. What is wrong with that?

(Sir Anthony Rawlinson) I think he would have to do more than appoint them, but it is an arrangement which could be developed.

Mr English: If you want me to go into greater detail, I can.

Chairman

1440. I would like to ask you about the question of the practice on depreciation. If the Treasury took a clear view on required practice in the treatment of depreciation by nationalised industries, there would be more direct ways of implementing that view than powers for the appointment of auditors, would there not?

(Sir Anthony Rawlinson) It is perfectly possible for the Treasury or for the Departments concerned, perhaps acting on behalf of the Government, to go into these questions of auditing practice in nationalised industries. Indeed, this has been done. There has been a paper to the PAC on this subject last year. Also, I believe that the Accounting Standards Committee has a sub-committee working in this field. I do not think that the problem (in so far as there is a problem) is one of machinery. I really find it difficult to believe that this proposal would have a great contribution to make to it. However, I do not think it is significant either way, frankly.

1441. If matters like this were left to the auditors, it is not unknown for companies to accept a qualification of the auditors' report, rather than institute a change of accounting practice with which they do not agree, is it?

(Sir Anthony Rawlinson) I think that is also right.

Mr English

1442. I think that is right, Chairman. The thing is that in most multinational companies (some of which have subsidiaries in the United Kingdom) there is usually common practice amongst their subsidiaries. This does not seem to be so in this country amongst our nationalised industries. I am going to skip (c) because that is being considered at the moment by a Standing Committee. With regard to (d), the Auditor of the Civil List (who is your Senior Permanent Secretary, Sir Douglas Wass), surely we cannot really have a situation whereby the auditor of the Auditor is the Permanent Secretary of the Department of Finance (the Treasury, in other words)? At the moment the auditor of the Comptroller and Auditor General in fact—although not in law—is your Permanent Secretary, Sir Douglas Wass. The auditor in law—although not in fact—is the man himself, the Comptroller and Auditor General. This must be nonsense. How are we going to alter that?

(Sir Anthony Rawlinson) I do not know that I am going to alter it at all. It depends on legislation.

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1443. The law is already passed; it was passed in 1866, was it not?

(Sir Anthony Rawlinson) I am not aware of any widespread dissatisfaction with the situation.

1444. I did not suggest that there was dissatisfaction. The present practice, since 1921, has been illegal, is that right?

(Sir Anthony Rawlinson) I am not aware that it has been illegal, but I hesitate to tangle with *you* over it! I am not aware of any great pressure to make any changes in an arrangement which has operated for a very long time. Equally, however, if there were new legislation being introduced, the point which you have made has now been raised and could be looked at, obviously.

1445. Thank you. I personally think that in this case the law is an ass, as Dickens said. However, the fact is that in law the auditor of the Comptroller and Auditor General is himself, which is a nonsense. Is it not the case that this should be looked at? The practical fact of the matter (although, I agree, not the lawful one) is that the auditor of the C and AG is your Permanent Secretary?

(Sir Anthony Rawlinson) That is correct, yes.

1446. Which is also a bit of nonsense, but in a different way.

(Sir Anthony Rawlinson) Obviously, if there were general legislation in this area, these are points which could be looked at.

1447. You would take this point into consideration, in preparation for that?

(Sir Anthony Rawlinson) Certainly, yes.

1448. I think you have seen my point about the House of Commons audit as well. The main point is this. Do you yourself think that the present system of audit of the United Kingdom, whilst it may be—and I am sure is—satisfactory in relation to pinching the money, is really up to modern standards, in the sense that multinational companies try to ensure that their auditors look at whether their various subsidiaries are efficient?

(Sir Anthony Rawlinson) I am not sure that I find the analogy with multinational companies terribly helpful.

1449. Take some other analogy.

(Sir Anthony Rawlinson) I am all in favour of developing the audit arrangements in ways that match the needs both of Parliament and of the Government itself (although the Auditor, of course, is independent of the Government).

1450. Would you add "the country"?

(Sir Anthony Rawlinson) Certainly. I would hope that Parliament represented the country for this purpose.

Chairman: Sir Anthony, may we thank you for dealing with these rather limited points. We are very grateful to you for the help you have already given us in our inquiry into Civil Service effectiveness. We thank you very much indeed for coming at very short notice.

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