

HOUSE OF COMMONS

Session 1987–88

**TREASURY AND
CIVIL SERVICE
COMMITTEE**

Eighth Report

**CIVIL SERVICE MANAGEMENT REFORM:
THE NEXT STEPS**

VOLUME I

Report, together with the Proceedings of the Committee

Ordered by The House of Commons to be printed
25 July 1988

The Treasury and Civil Service Committee is appointed under S.O. No 130 to examine the expenditure, administration and policy of the Treasury, Management and Personnel Office, 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 specialist advisers 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.

24 November 1987

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

Mr Anthony Beaumont-Dark	Mr Giles Radice
Mr A J Beith	Mr Brian Sedgemore
Mr Nicholas Budgen	Mr John Townend
Mr Neil Hamilton	Mr John Watts
Mr Terence L Higgins	Mr David Winnick
Ms Joyce Quin	

Mr Terence L Higgins was elected Chairman on 30 November 1987.

The following were Members of the Sub-Committee during the course of the enquiry:

Mr Giles Radice (Chairman):

Mr Anthony Beaumont-Dark (appointed 18.5.88)	Ms Joyce Quin
Mr Neil Hamilton (appointed 18.5.88)	Mr Brian Sedgemore (appointed 23.3.88)
Mr Terence L Higgins	Mr John Watts

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Department of Transport
 Home Office
 Foreign and Commonwealth Office
 Department of Trade and Industry
 Scottish Office
 British Council
 Ministry of Defence
 Department of Health and Social Security
 Forestry Commission
 Department of Employment
 Northern Ireland Office and the Northern Ireland Civil Service
 Department of the Environment (Property Services Agency)
 Professor Richard Chapman
 Dr Geoffrey K Fry

EIGHTH REPORT

The Treasury and Civil Service Committee has agreed to the following Report:

CIVIL SERVICE MANAGEMENT REFORM: THE NEXT STEPS

Introduction

1. On 18 February the Prime Minister made a statement to the House¹ to announce that the Government had accepted the main recommendations of a previously unpublished report from the Efficiency Unit: "Improving Management in Government: The Next Steps." The main recommendation of the report was "that 'agencies' should be established to carry out the executive functions of government within a policy and resources framework set by a department."² As up to 95 per cent of the Civil Service is concerned with the delivery of services,³ this change could be the most far-reaching since the Northcote-Trevelyan reforms in the nineteenth century. If it proved possible to improve the effectiveness of such an overwhelming proportion of government business, this would clearly be of great national benefit. A well managed state is in the interest of all its citizens. It is essential that change on this scale is not only carefully considered and expertly implemented, but also carries with it the enthusiasm both of civil servants themselves, at all levels, and of those outside the Civil Service—the general public and their representatives on both sides of the Commons. For these reasons, and because of the implications for democratic control and accountability, we appointed a Sub-Committee to inquire into The Next Steps.

2. The Sub-Committee took oral evidence from the authors of the report and Sir Robin Ibbs, the Prime Minister's adviser on Efficiency,⁴ from the Project Manager in charge of implementing the proposals, Mr E P Kemp,⁵ from the senior civil servants' union, the First Division Association,⁶ from the Director General of the Royal Institute for Public Administration, Dr William Plowden, and its Research Adviser, Mr Gavin Drewry,⁷ from two Members of Parliament with expertise in the field, the Rt Hon Michael Heseltine,⁸ and Mr John Garrett,⁹ from Sir Robin Butler, Head of the Home Civil Service,¹⁰ from Sir Peter Middleton, Permanent Secretary to the Treasury,¹¹ and from the Right Honourable Richard Luce MP, Minister of State, Privy Council Office, Minister for the Civil Service.¹²

3. In addition the Sub-Committee received a large amount of written evidence, from a variety of sources: Government Departments, former civil servants, the National Audit Office, the Chairman and another Member of the Public Accounts Committee, a number of academics, management consultants, and former heads of public and private sector organisations, the Council of Civil Service Unions, and others. Much of this written evidence is published in Volume II of this Report,¹³ and we would urge readers of this Report to look carefully at this body of evidence—it is a most valuable contribution to the continuing discussion about management in Government. We have chosen not to publish the majority of memoranda received from Departments,¹⁴ we have however referred them to the appropriate Select Committees.¹⁵ We hope that our colleagues on other departmental Select Committees will take a keen interest in the developments in the Departments for which they are responsible.

4. We are extremely grateful to those who gave evidence to the Sub-Committee, and also to the Sub-Committee's Specialist Advisers, Sue Richards, and Professor John Constable. In this

¹ Official Report, 18.2.88, c.1149.

² *Next Steps*, para 19; see Annex to this Report, The Next Steps: Progress so far pp. xxiii-xxv below.

³ *Ibid* para 3.

⁴ Ev pp. 17-25.

⁵ Ev pp. 1-16.

⁶ Ev pp. 35-41.

⁷ Ev pp. 17-35.

⁸ Ev pp. 43-49.

⁹ Ev pp. 49-56.

¹⁰ Ev pp. 56-62.

¹¹ Ev pp. 62-72.

¹² Ev pp. 73ff.

¹³ Appendices 1-22.

¹⁴ They have however been placed in the House of Commons Library, and in the Record Office for public inspection.

¹⁵ Under Standing Order 130(5) (d).

Report, we set out the arguments put to us concerning the way in which government is organised and managed, the changes which might be made to it, the consequences of those changes, and the implications for Parliamentary accountability and democratic control. We hope the Report will provide a focus for a continuing debate.

A Management in the Civil Service

The Efficiency Unit's Report

5. As a document upon which to build a new Civil Service for the next century, the Next Steps report has shortcomings. While its analysis of the problems which confront attempts to reform the Civil Service is useful, some of its conclusions and recommendations are little more than vague generalities and restatements of the conclusions of previous reports, to which the Efficiency Unit made only passing reference. We deal later¹ with its attitude towards the work of Parliament, and in particular its Select Committees, which we consider ill-informed. The National Audit Office is given scant recognition for its extremely valuable work on the economy, efficiency, and effectiveness of Government spending. This is particularly disappointing, since two NAO reports² produced in 1985–86, before the Efficiency Unit began its work, anticipated to a large extent the conclusions of the Next Steps report.³

Previous Reforms: The FMI

6. Although there have been numerous attempts to reform the way government is managed since the Fulton Report twenty years ago, the most important has been the Financial Management Initiative, launched in 1982. Without the FMI it would not now be possible to consider change on the scale proposed by the Government.⁴ On the other hand FMI aimed to give managers a clear view of their objectives, measures of performance, well-defined responsibility over their resources, information about costs, and adequate training.⁵ These are very similar to the aims of the Next Steps. The FMI has been successful in putting the budgeting systems in place which provide information on how much the activities of government cost, although the process is by no means complete. It has been less successful in the second stage, of delegating responsibility to the budget holders. The Government's latest proposals provide the opportunity to overcome the difficulties which have prevented the full implementation of the FMI. Even so, where agencies are not established the Government should continue to push for better financial management through the FMI.

7. The Sub-Committee was told by the FDA that

"many of our members (and others) in junior and middle management posts have come to regard the developments flowing from the Financial Management Initiative as a meaningless and irritating waste of time."⁶

The reality of the FMI's implementation did not match the theory.⁷ One of the aims of the FMI was "to promote in each department an organisation and system in which managers at all levels have . . . well-defined responsibility for making the best use of their resources . . ."⁸ However, the Efficiency Unit found:

"controls not only on resources and objectives, as there should be in any effective system, but also on the way in which resources can be managed. Recruitment, dismissal, choice of staff, promotion, pay, hours of work, the use of IT equipment, are all outside the control of most Civil Service managers at any level."⁹

Given that the FMI was introduced in response to the criticisms of our predecessor Committee,¹⁰ and has been welcomed as a crucial step in improving management in government,¹¹ we are disappointed at evidence of its stunted growth.

¹ See paras 40–41.

² HC588 (1985–86) The Financial Management Initiative, HC576 (1985–86) Financial Reporting to Parliament.

³ See Appendix 10.

⁴ Q. 332.

⁵ Cmnd. 8616 (1982) para 13.

⁶ Ev p35; see also Q172.

⁷ See *Next Steps*, Annex B paras 39, 45–50; Ev p518.

⁸ Cmnd 8616, para 13, *Efficiency and Effectiveness in the Civil Service*, Government Observations on the Third Report from the Treasury and Civil Service Committee. Session 1981–82.

⁹ *Next Steps*, para 11.

¹⁰ Third Report, 1981–82, HC236.

¹¹ See Appendix 10, para 2.

8. One particularly important aspect of the Initiative is the development of "budgeting systems which delegate financial responsibility to specified levels of authority in the hierarchy".¹ But these systems appear to have had limited impact on the delegation of authority, either because the "specified levels of authority" are too high up in the hierarchy, or because of central controls, and have not been applied across the board. The Efficiency Unit found that they applied to around three-quarters of Civil Service running costs.² But administrative expenditure amounts to only 13 per cent of total public expenditure, and pay, over which there has hitherto been little flexibility, accounts for around 70 per cent of that.³ The extension of the FMI to programme expenditure has been slow. Central controls, whether from the Treasury or departments, restrict this flexibility: the annuality rule⁴ (against carrying over unspent money to the following year, or anticipating next year's spending); gross running cost controls for fee-earning organisations;⁵ and restrictions on moving money from one item to another.⁶

9. The Sub-Committee was told by the First Division Association that,

"the freedom [managers] have to manage under the delegated local budgeting is extremely limited and . . . they are probably literally only able to influence spending in the course of the year of a couple of hundred pounds out of the total budget they are responsible for of £100,000".⁷

When this point was put to Sir Robin Butler⁸ he did not deny that this was the case, but claimed that the complaint was really about a lack of influence over pay and numbers of staff. It is clear from the list of restrictions on flexibility above that this is not the case. We cannot therefore fully accept the assertion of Sir Peter Middleton that the FMI has been "a very considerable success".⁹

10. The Civil Service must always be flexible and responsive to its changing role. While there has been progress since 1981 in improving the performance of the government machine, there is considerable room for more. No one who gave evidence sought to argue that further changes were unnecessary. We find this unanimity impressive. Mr Kemp, the Project Manager, said:¹⁰

"... we hope to improve the pace of change and the extent of change, building on what I think is a very real sense among civil servants and among the public and certainly the Government, that this is something which has to be done and must be achieved."

We agree with this view. Our concern is that the pace of change should not be too slow, and the extent of change too limited, as long as the consequence of such change is an improved quality of service to Government, Parliament, and society.

What further change is needed?

11. The Efficiency Unit recommended that "agencies" should be set up to carry out the executive functions of government, within a policy and resources framework, which would set out the policy, the budget, and the results to be achieved. So long as the management was operating within the strategic direction of ministers, they should be left "as free as possible to manage within that framework".¹¹

"The aim should be to establish a quite different way of conducting the business of government."¹²

12. The idea of giving more authority to managers, in order to improve the way the Government conducts its business, is not new. The Report of the Committee under the

¹ *Next Steps* Annex B12.

² *ibid*; This was the position according to the First Report on the Implementation of the Recommendations of the Multi-Departmental Review on *Budgeting* in December 1986. The position at May 1988, according to the Second Report, was as follows: The number of budget holders for running costs was approximately 11,000; the number of managers of programme expenditure was approximately 3,000. The proportion of running costs within line managers' budgets (in 33 departments excluding DHSS) was approximately 68 per cent.

³ *Next Steps* Annex B13-14.

⁴ *ibid* Annex B 46.

⁵ *ibid* Annex B 47.

⁶ *ibid* Annex B 48.

⁷ Q. 172.

⁸ Q. 272.

⁹ Q. 332.

¹⁰ Q. 2.

¹¹ *Next Steps*, paras 19-21.

¹² *ibid*, para 44.

Chairmanship of Lord Fulton¹ criticised the way in which decisions were often referred too far up the hierarchy, or made by committee,² and recommended that executive work be organised into separate "commands".

"The manager of each command should be given clear-cut responsibilities and commensurate authority and should be held accountable for performance against budgets, standards of achievement and other tests."³

13. The Expenditure Committee, nine years later, took the same view:

"We do not believe that the Fulton proposal of accountable units has been taken sufficiently seriously in the Civil Service. We recommend a determined drive to introduce accountable units in all areas of executive work and, where possible, in administrative work."⁴

This was regarded by that Committee as the crux of its proposals for increased efficiency in the Civil Service.⁵

14. Our predecessors followed a similar line:

"Some decisions are inevitably centralised—as decisions on major investments are in a commercial organisation. Nevertheless, decision taking and responsibility are unduly centralised in the Civil Service."⁶

"... the actual business of improving efficiency and effectiveness is the responsibility of line managers... They should be given a personal responsibility for making a defined contribution to the achievement of the objectives and targets set."⁷

15. As we pointed out above⁸ the Financial Management Initiative was intended to effect change of precisely the kind endorsed by these Committees. And since its inception, the principle behind the FMI has been further endorsed, for instance by the Public Accounts Committee:

"We recommend that high priority is given to examining how departments can delegate to line managers more effective responsibility for the resources they control, and give them more incentive to use such resources economically, efficiently and effectively."⁹

Much of the evidence received by the Sub-Committee also supports the delegation of decision-making "down the line"¹⁰ and thus the principle underlying the Next Steps proposals.

16. We regard the proposal to set up "agencies" or "accountable units" as an extremely important one. Accountable management is a theme which runs through twenty years of reports, and is widely accepted to be the best means of achieving vital improvements in efficiency and effectiveness. The "agencies" which were set up in the 1970s, such as the Procurement Executive, the Property Services Agency, and the Civil Service Catering Organisation, did not have Fulton's concept of accountable management¹¹ at their heart. They brought into one organisation responsibilities which had been diverse, but did not devolve responsibility to managers in the same way as the new "agencies". We hope that the obstacles which have hindered the development of accountable management can now be overcome. Agencies may be the most appropriate instrument of attaining vital improvements in efficiency and effectiveness but the limited progress made in that direction so far does not enable clear conclusions to be drawn.

17. Reports of the PAC, Value for Money audits by the NAO, and departmental efficiency scrutinies continue to highlight cases of inefficiency and poor management in the provision of services by government, sometimes on a grand scale.¹² Government, itself or at one remove, provides services not only to the public sector, and to industry and commerce, but also directly

¹ Cmnd 3638.

² para 146.

³ *ibid.*, para 154.

⁴ Eleventh Report of the Expenditure Committee, 1976–77, HC535–I, para 94.

⁵ *ibid.*

⁶ Third Report from the Treasury and Civil Service Committee, 1981–82, HC236–I, para 65.

⁷ *ibid.*

⁸ para 6.

⁹ Thirteenth Report from the Committee of Public Accounts, 1986–87, HC61, para 38.

¹⁰ For example: Appendices 3, 5, 7, 9 para 3.3, 10, 12; Q. 173.

¹¹ See para 12 above.

¹² See NAO report on Social Security Benefit Offices HC (1987–88) 451; and the "Business of Service", DHSS 1988, for example para 42 "in some places, customers are receiving a very bad service which, at current rate of progress, can only get worse."

to individuals, from social security and unemployment benefits, acute and general health services to passports and vehicle and driver licences. Public expenditure¹ represents more than a third of national income, and will continue to do so, on present plans.² Thus inefficiency and poor management in Government services are not only extremely costly (a mere 1 per cent of the planning total in 1988-89 comes to £1,568 million) but are also likely to impinge severely on people's lives.

18. Clearly there have been substantial efficiency gains, and improvements in productivity in the Civil Service.³ However, the Efficiency Unit found:

"there is still a long way to go; in particular there is insufficient sense of urgency in the search for better value for money and steadily improving services. There is wide agreement . . . that substantial further improvement is achievable, but that this depends heavily on changing the cultural attitudes and behaviour of government so that continuous improvement becomes a widespread and inbuilt feature of it."⁴

This sense of urgency has been a feature of the work of the NAO and of the PAC; we agree that it must also become a feature of the Civil Service. We welcome the Government's reforms in the fields of financial and personnel management, and of management training and information systems, but we are concerned that these do not appear to have gone far enough. We wish to draw particular attention to the need to change the culture and attitudes of the civil service, in the ways we outline.

B Necessary Steps for Successful Change

19. We welcome the Government's recognition that "staff should be properly trained and prepared for management",⁵ and that there must be greater precision about the results required, improved measurement of the results achieved, the delegation of necessary powers, and clearer lines of responsibility.⁶ The Efficiency Unit identified a number of "obstacles to further progress"⁷ and concluded "many civil servants question whether the underlying assumptions which mould the way in which government does its business have changed sufficiently. . .".⁸ It is essential to avoid the risk identified by Sir Peter Middleton, that "you can just have a change of name or organisation and nothing very much happens".⁹ Therefore steps must be taken, and must be seen to be taken, to change the underlying assumptions, and to remould the way government does its business, while ensuring that the traditional impartiality of the Civil Service is unimpaired.

PEOPLE

20. If management in government is to be better and more efficient and the quality of service is to be improved, agencies need people with the right skills and experience, and the ability and incentive to achieve. In addition Ministers need advice from people who have had experience of management, either in agencies or elsewhere. The Next Steps report identifies crucial weaknesses in the area of personnel management, and there is little evidence to indicate that there is sufficient commitment to tackle and to overcome these weaknesses. It is very difficult to reconcile the assertion of the Head of the Home Civil Service that "when I go round and see executive operations on the ground I believe that they are very well managed"¹⁰ with the suggestion of the report that a prime reason for poor management in the past has been that senior civil servants came to top management inadequately prepared for their role by their earlier experience.

"Many people commented to us that too few civil servants showed the qualities of leadership which would be expected from top managers in organisations outside the Civil Service".¹¹

This suggests a need for a long-term strategy to counteract this weakness for future generations of managers. Some elements of such a strategy are in place, but we are concerned that their implementation has been patchy.

¹The Public Expenditure Planning Total, see the 1988 Financial Statement and Budget Report, Table 5.1.

²35 per cent of GDP in 1988-89, and 44.9 per cent in 1990-91.

³M Levitt, *Productivity in Central Government*, 1985.

⁴*Next Steps*, para 1.

⁵Ev p. 1.

⁶Ev pp. 2-3.

⁷See *Next Steps* Annex B.23-35.

⁸*ibid* B.56.

⁹Q. 360.

¹⁰Q. 263.

¹¹*Next Steps* Annex B.25.

Recruitment

21. The recruitment of good Chief Executives and senior managers for the agencies is essential. The Next Steps scrutiny found that too few of today's top civil servants have sufficient management experience.

"This is reflected when senior civil servants are suddenly put into positions which do have management responsibilities. Either they neglect management, because the immediate pressures are to deal with day-to-day ministerial business; or they go about the management task in a way which lacks confidence and conviction."¹

Other witnesses suggested that some Chief Executive posts, and probably also many second tier appointments, should initially be offered outside the civil service. We were heartened to hear from the Next Steps Project Manager,

"it does seem to me important that for some of these agencies which are going to be involved in jobs requiring skills which perhaps we do not have that we should go to the outside market and certainly test the market to see whether we can find somebody who can do it for us better."²

The Minister put a slightly different emphasis on this:

"we should look as a whole to the Government, or to the Civil Service, to provide the candidates, but if the Civil Service, we feel, are not able, in the particular case of a particular agency, to provide candidates, then, as we have already done in a number of fields . . . we would look to the outside world to provide an appropriate candidate for that post."³

It is, of course important to build management experience into the careers of those who will, in the future, set the framework for agencies, and give policy advice to Ministers. However, in the short to medium term, the main difficulty is one of changing an established culture and introducing a more effective way of conducting business. For that reason we would welcome an injection of talent from outside the civil service, on a non-political basis. As the culture changes, and the career development of civil servants improves, it may well be that more posts should be filled in-house.

22. We are also extremely concerned that those with the potential to fill management positions should be recruited from as wide a field as possible. The Fulton Committee of 1966-68 referred to dominance in the Civil Service by Oxbridge graduates and those with qualifications in classics and the arts. We believe that this concern still has some relevance and that a change of culture could be helped by making further progress towards attracting recruits from as wide a variety of backgrounds and educational disciplines as possible.

Secondment

23. The use of secondments, both inward and outward, is also an important lever for change. The current level of secondments shows a commendable increase on former levels: there has been a 47 per cent increase in outward secondments to industry and commerce between 1983 and 1987 at the same time as a 3 per cent increase in the numbers of staff in the grades involved.⁴ However the target of 200 set in 1977 for inward secondments from industry and commerce has still not been reached. We suggest that more civil servants would benefit from experience in outside bodies if the length of secondments were reduced.⁵ This would also encourage employers to release staff for secondment into the Civil Service.⁶ The emphasis of the secondments policy seems to be on "ensuring the Civil Service understands the needs and problems of its clients [and that it benefits] from the expertise of others".⁷ We hope that secondments can also play a greater part in the process of improving management. We believe that the move to an agency structure offers the opportunity to increase the level of inward secondments in particular, which will supplement direct recruitment at mid-career, by a significant factor.

¹ *Ibid.*

² Q. 56, cf Q. 384.

³ Q. 300.

⁴ See Appendix 22 table 5.

⁵ In 1987 the average length of outward secondments was around 2½ years, see Appendix 22, Table 7.

⁶ The average length of inward secondments from industry and commerce was 2.8 years.

⁷ OMCS press notice (5/87, 23.11.87).

Training

24. The Government have accepted the Efficiency Unit's recommendation "that staff should be properly trained and prepared for management of the delivery of services".¹ Sir Robin Butler told the Sub-Committee that the management content of training would be increased.² We welcome this commitment. There is, however, disturbing evidence that previous commitments have not been carried through in the implementation of initiatives. The Senior Management Development Programme (SMDP), launched in 1985, involved a Government commitment to increase tenfold the training time of the next generation of top managers, setting a "target" of an average 5 days training per year.³ While it is clearly the quality of training which is of most importance, we are very disappointed that only 40 per cent of participants completed this five days of training in the first year of the SMDP, and that only 18 per cent found SMDP "of significant value", while 22 per cent found it of "little or no value".⁴ While the Top Management Programme for Under Secretaries (Grade 3) is a valuable exercise, it is no substitute for the steady development of competencies through the years before an official reaches top management. We recognise that it is very hard to spare tomorrow's top managers from their desks, but unless a renewed commitment is made to preparing them for future tasks by meeting clear training targets, the structural reforms proposed in the Efficiency Unit's report will be meaningless.

25. The Sub-Committee received conflicting evidence on the adequacy of resources allocated to training. The FDA claimed that resources were insufficient,⁵ the OMCS⁶ and Sir Robin Ibbs⁷ said that only a refocusing of effort was needed. **What we emphasise is that adequate investment, which includes the investment of the time of able people, in training, and especially in management training, is an investment in the longer term efficiency and effectiveness of government, and as such vital to the Next Steps.**

Promotion

26. The Next Steps report draws attention to the extent to which being good at traditional administrative work is "the golden route to the top"⁸:

"Promotion to senior jobs is given to those whose main skills and experience are in policy and ministerial support."⁹

It appears that too little thought has been given to the way that promotion sends messages to the staff in a department. If there is to be a new emphasis on management, then promotion practices must reflect this. They must be conducted in such a way that management activity is rewarded. Where promotion boards operate, their instructions must be such as to lead to the recognition of management achievements.

"There are few indications so far that the perception that middle ranking civil servants should get management experience has affected the way departments post their staff."¹⁰

Far greater effort must be made to give, and to reward by promotion, management experience to those in the middle grades, and in particular to the fast-stream recruits.¹¹ If the senior civil service is to contain effective managers, the kind of people who can become good Chief Executives, something must be done to break into the cycle by which the old culture renews itself. **The "golden route to the top" should combine management experience within agencies together with experience of policy work.**

¹Official Report, 18.2.88, c1149; Ev pl; *Next Steps*, para 34, "We recommend that departments ensure that their staff are properly trained and experienced in the delivery of services whether within or outside central government; the staff will then be in a position to develop and interpret government policy and manage the agency in a way that can maximise results."

²Q. 263.

³Senior Management Development Programme—A Civil Service Programme for Senior Staff (Cabinet Office (MPO)) page 3; SMDP Management Guidelines (Cabinet Office (MPO) June 1987) para 23; HC358-i (1986-87) page 43.

⁴Appendix 18.

⁵Ev p35; Appendix 18.

⁶Q. 53.

⁷Q. 129.

⁸*Next Steps* para 4.

⁹*Ibid* Annex B.25.

¹⁰*Next Steps* Annex B.26.

¹¹*Ibid* B.27.

Reward

27. The recruitment¹ and retention of good staff² is clearly difficult when pay and rewards in the private sector are greater. Clearly this is not the only reason for leaving the Civil Service:

"The group of people who had left the Civil Service all told us that while pay was an important reason for leaving, as important was the fact that they had little personal responsibility, and saw little prospect of getting more as they rose through the hierarchy."³

Job satisfaction is not just about pay, and this is another reason for pushing at some speed to giving managers more independence and responsibility, so that civil servants who can contribute effectively as managers are not lost to the service as they take their enthusiasm and talents elsewhere. However it would be wrong to neglect the financial dimension. Indeed the Treasury has evidently been pushing for more flexibility in the pay system for precisely this reason, in negotiating agreements with the Institute for Professional Civil Servants, the Inland Revenue Staff Federation,⁴ and the Association of First Division Civil Servants.⁵ We endorse these moves away from the traditional pay system of the Civil Service, and the recognition of the need to compete for the the best people with other employers in the market place, and welcome the commitments of both the Treasury⁶ and the FDA⁷ to consider further flexibility where appropriate.

28. Sir Peter Middleton, however, stressed the Treasury's anxiety about the repercussions of pay flexibility⁸ on other parts of the Civil Service. The problem of leapfrogging pay claims, as Sir Peter acknowledged, "gets progressively more difficult as you get closer into the Civil Service".⁹ Here is another argument for establishing agencies not as part of departments, but as free-standing organisations, able to some extent to set up their own regime. There are three provisos: that such flexibility should be clearly related to need, for example to recruit or retain specialist staff, that it should not increase pressure on public expenditure, and that the interchange of staff between policy and executive functions, which we regard as vitally important, should not be made more difficult. **It is essential that the Treasury provide agencies and departments generally with sufficient flexibility in this area to carry out their functions effectively, while avoiding the main problems associated with flexibility.**

29. One particularly important aspect of pay flexibility is Performance Related Pay (PRP). We believe that PRP has a role to play in encouraging staff in agencies to improve their personal performance in meeting previously agreed objectives. We understand that Chief Executives are to have a performance related element in their pay.¹⁰ The success of PRP depends crucially upon the quality of the appraisal system, and the training of those carrying out appraisals, which determine the awards. If handled badly PRP can demotivate those who do not receive awards, and fail to motivate those who do. The individual appraisal and reward system should be linked with other aspects of performance management, so that people know what is expected of them and are recognised when they achieve it. Awards should be of amounts sufficient to change behaviour—it is essential that money not be wasted by making the awards too small. In addition, the awards must be withdrawn if the good performance for which they were given falls off.

A personnel strategy

30. The Sub-Committee was told by one witness¹¹ that there was no effective personnel function at the centre of government. The Next Steps team related that they were told, particularly by Permanent Secretaries, that the centre was fragmented, and that "there was no single voice of authority".¹² Notwithstanding the assurances that co-operation between the Next Steps Project Team and the Treasury has been harmonious,¹³ it is not self-evident that the division of

¹ Civil Service Commission's 1987 Annual Report (HMSO 1988) pp25–33; uncompetitive salaries are specifically mentioned as making recruitment difficult in nine of the Commission's recruitment operations.

² Q. 172; Q. 383.

³ *Next Steps* Annex B.52.

⁴ Q. 356

⁵ Q. 183

⁶ Q. 378

⁷ Q. 187

⁸ QQ. 338–40

⁹ Q. 341

¹⁰ Q. 57

¹¹ QQ. 199, 207.

¹² *Next Steps* Annex B.38.

¹³ Q. 256.

responsibility between the OMCS on the one hand, for training and management issues, and the Treasury on the other, for "recruitment policy, pay and superannuation",¹ will make the task of evolving a personnel strategy an easy one. We do not advocate another shift of responsibilities between the two departments. We do however urge the Government to consider how best to co-ordinate policy on personnel issues. We find attractive the idea of a Management Board.² The Chairman might be the Head of the Home Civil Service, and the "Chief Executive" the Next Steps Project Manager. There could be a number of "Executive Directors", from the Treasury, the OMCS, large departments, and including the head of the Efficiency Unit, and a number of "non-executive Directors" from outside the Civil Service. No more than a dozen people, their task would be to advise the Prime Minister, the Minister for the Civil Service, the responsible Treasury Minister and departmental Ministers, on strategic management issues. The prime responsibility for implementation would be the Chief Executive's.

STRUCTURES

31. The kind of organisation in which people work will also have an important effect upon the way they work, and so upon the prospects for success. We fully accept however that an "agency" is not going to be one particular kind of structure.

"The concept of an agency is more a frame of mind and an approach to how we do business."³

The question of the type of organisation which will be appropriate for an agency should be decided on a case by case basis.⁴

"Effectiveness, that is the real test, how do we do this job most effectively, what organisation enables us to do our job in the most effective way?"⁵

There are a range of options within and without the Civil Service: departmental agencies,⁶ trading funds,⁷ separate or non-ministerial departments,⁸ non-departmental public bodies,⁹ public corporations,¹⁰ publicly owned limited companies,¹¹ management contracts,¹² or privatisation.¹³ This is not an exhaustive list, but it illustrates the variety of structures and approaches which Government has in the past found appropriate in seeking to carry out its executive functions. We note that although the Minister did not rule out the possibility of agencies outside the Civil Service, or of privatisation, he said:

"By and large I see (and the Prime Minister has made this plain in Parliament) that the agencies will be part of a Government department and directly responsible through the chief executive to the Secretary of State"¹⁴

32. Witnesses supported the desire of the Minister to delegate as much freedom to managers as possible, but indicated that the form of the agency was crucial to the success of that aim. Sir John Cuckney asserted that the Property Services Agency, of which he was the first head, was "doomed to failure" as soon as it was decided to set it up within the Department of the Environment. He went on:

"I see little hope for agencies being able to operate effectively unless they are free standing and operate within a trading fund".¹⁵

Sir Frank Cooper argued further along similar lines, that Ministers would continue to interest themselves in areas which "put their standing and reputation at risk", and this would alter only

¹Q. 326.

²suggested by Sir Frank Cooper, see Appendix 6.

³Q. 14.

⁴*ibid.*

⁵Q. 120.

⁶For example the Civil Service Catering Organisation, Procurement Executive.

⁷HMSO, Col.

⁸Forestry Commission, Export Credits Guarantee Department, OFTEL.

⁹British Council, Training Commission, Development Corporations.

¹⁰The Post Office.

¹¹JMS Ltd.

¹²Q. 201.

¹³Q. 316.

¹⁴Q. 316.

¹⁵Appendix 17.

if the "functions are removed from Government or abolished altogether".¹ Another witness, Rt Hon Michael Heseltine MP, was of the same opinion:

"if you really want accountable units, you want them as far removed from the disciplines of the classic public sector arrangements as possible."²

Their suggestions were to give agencies Boards with defined or statutory functions, and to use management contracts as in the Royal Dockyards. We express no opinion on the merits of particular options. However, within the limits imposed by the need for Parliamentary accountability, the objective is more likely to be achieved the more decentralised an agency is. The Minister will be able to delegate responsibility to a free-standing organisation, a coherent unit,³ possibly with its headquarters away from London,⁴ more easily than to a part of his or her own department.⁵ In its plans for the future of agencies and departments the Government should aim at as reasonable a regional distribution as possible. Further concentration in the South-East of England should be avoided and none of the decisions taken during reorganisation should further exacerbate regional and economic divisions.

33. We confess to being slightly confused by the relationship between the Next Steps and the Government's privatisation policy. On the one hand Mr Luce, the Minister for the Civil Service, told the Sub-Committee that these two policies were distinct from one another:

"If the Secretary of State regards a particular operation as being more suitable for privatisation then that will happen—that will be the priority. But if it is not suitable for that, he may take the view that it is a suitable operation for an agency arrangement."⁶

In contrast, Sir Peter Middleton, the Permanent Secretary to the Treasury, said that agencies might be a step to privatisation,⁷ thus implying that the policies were not distinct. The essential thing in any individual case is to avoid uncertainty. If an announcement that part of a department is to become an agency is greeted by suspicions that it might later be privatised, such uncertainty could well damage efforts to improve efficiency and the quality of service. If the organisation is to be privatised it should be made clear at the outset that this is so.

MONITORING

34. The more freedom to make decisions is delegated to management the more important become the financial and budgetary systems which enable the efficiency and effectiveness of the agency to be monitored. The Sub-Committee was told by the Minister that it would be a precondition of setting up an agency that there were sufficient genuine indicators of performance for the monitoring of the agency to be effective.⁸ We welcome this, and urge the Government to ensure that the difficulties in producing such measures of efficiency are overcome, so that the pace of reform is not unnecessarily slowed. We would expect the framework of each agency to include, wherever possible, a combination of performance measures relating output to input, for example cost per transaction or possibly return on capital; measures of efficiency, for example the number of transactions per member of staff; and quality of service measures, for example waiting times or levels of complaint. Targets should be set for an appropriate number of years, and reviewed on an annual basis. Performance against the targets should be monitored regularly, perhaps on a quarterly basis. If the level of resources given to an agency is properly related to the objectives and targets set, and the internal financial and management systems are adequate, there should be no need for further monitoring by departments. It is essential that the Government's experience of monitoring organisations with delegated financial responsibility be successfully brought to bear on the new agencies.

35. It may be appropriate, in order that performance can be more accurately judged, and indeed to provide further incentive to better performance, to introduce an element of competition, or surrogates for competition. As the Project Manager said:⁹

¹ Appendix 6.

² Q. 201.

³ Appendix 4.

⁴ QQ. 207, 276.

⁵ Q. 316.

⁶ Q. 316.

⁷ Q. 342.

⁸ Q. 306 We note with interest that sixteen departments (see Budgeting, Vol 1 (HM Treasury, Financial Management Group May 1988) Appendix 1) are planning further work to produce output and performance indicators. The Chief Secretary has said that "this work will provide an important contribution to the development of policy and resource frameworks for executive agencies". (Official Report, 7 July 1988, c. 728 (WA)).

⁹ Q. 60.

"It is perfectly possible to get some internal competition and get regions or individual offices measured against other offices for unit costs, for speed of through-put, error rate . . . otherwise with no outside spur . . . it is quite difficult to know in any absolute sense whether you are achieving any efficiency [gains]. Performance indicators should be valid not just within the organisation. . ."

We support comparisons of this kind between regions or offices to help improve the overall level of the services provided, and urge the Government to encourage an element of competition in the agencies. Where competition is not possible, surrogates might be available such as the limits placed on increases in British Telecom's charges by OFTEL (the (RPI-x) formula).¹ Where competition can be created it needs to be accompanied by incentives and penalties related to performance.

MANAGERIAL INDEPENDENCE

36. Given that the people, the structures, the framework, the monitoring systems are in place, how much freedom should the managers have? Mr Luce told the Sub-Committee:

"For this exercise to succeed, and I must stress this very strongly, then there must be the maximum freedom on day-to-day operational matters for the Chief Executive."²

The search for efficiency and improvements in the quality of service can only be carried out by the managers. Central controls may prevent things going "haywire",³ they cannot of themselves produce results. We are not saying that there should be no central controls: the monitoring function of departments and the Treasury is a form of control. But these should support the effort to achieve more output or to reduce costs, or both. Only the central departments can take a long term overview of the needs of government, in terms of the senior managers and policy advisers of the future, and of the government's public expenditure plans and priorities. Therefore we suggest that instead of handing out freedoms to managers as they prove themselves capable of using them responsibly the Government should formally adopt the policy that managers will be free to take all decisions for their organisation, within the policy they are assigned to carry out, except where the wider needs of government must override that assumption. This is not a matter of semantics. The centre needs to show more confidence in its managers than is conveyed by the following comments of the Next Steps report⁴ and Mr Kemp:

"Greater freedom to manage should be delegated progressively to individual agencies, depending on the robustness of the framework and their capacity to put the freedom to good use."⁴

". . . one could see an agency set up which over time, as it proved itself and showed it could manage these . . . freedoms, increasingly free to do this . . ."⁵

We well understand the Treasury's fear that "thoughtless" delegation might result in failure.⁶ However the delegation we advocate is hardly thoughtless. The Sub-Committee was told that there are good managers in the Civil Service, and that where there are not, managers will be sought from outside, that there were "enough organisations with well-developed financial systems to go beyond" the initial twelve,⁷ and that it would be a precondition of setting up an agency that there would be sufficient performance indicators to ensure effective monitoring.

37. We have doubts about the argument that we must wait to see how the first few agencies fare before one can make a judgment about how far responsibility can be delegated to them, or how far the process as a whole might go. Sir Peter Middleton told the Sub-Committee that,

"we have not actually *had* an agency. We shall, as time goes on, gain a certain amount of experience about how they work."⁸

Yet he also said:

¹ App. 13.

² Q. 302.

³ Q. 336.

⁴ *Next Steps* para 47.

⁵ Q. 274.

⁶ Q. 360.

⁷ Q. 362.

⁸ Q. 344.

"There are some things which are not called agencies now which are more like agencies than the agencies will be."¹

". . . within my own department some parts operate almost exactly as these agencies are supposed to be doing."²

In its memorandum the Treasury said that each of the Chancellor's departments "already has a head of department who fulfils the role of 'Chief Executive' and who is responsible for the efficient conduct of day to day operations within the resources available and the overall targets agreed with Treasury Ministers."³ There is to be *greater* precision about what is required and *more effective* means of monitoring performance, yet the Government still urges caution. We urge the Government to display more confidence in the systems they set up, and the managers they appoint. Too much freedom can be reined in, too little may mean the opportunity is lost.

38. The policy and resources framework, which will define the relationship between an agency and its parent department, will clearly provide a vital guarantee of managerial independence. It must be made clear in the framework precisely what the responsibilities of the Chief Executive are. This will not be an easy task, for the dividing line between policy and execution is not always a clear one. We entirely agree with the Minister that the Secretary of State must be "entitled to override a decision of the Chief Executive if he thinks there is a wider Government and Parliamentary interest that he has to take into account".⁴ Each framework agreement, which sets out what is within the authority of the Chief Executive, should be regarded as a contract. The Minister would then be entitled to overrule the Chief Executive, whom we argue elsewhere should be the Accounting Officer,⁵ but only by way of a formal note, by an extension of the Accounting Officer principle. If this practice is not adopted there is a danger that informal contacts of the kind which characterised relations between departments and Nationalised Industries⁶ would make it very difficult to establish the precise responsibility for decisions.

C Democratic Control and Accountability

39. With greater delegation of responsibility to agencies there must be rigorous accountability for performance within government. There must also be rigorous accountability to Parliament, and to the public. The crucial issue, which we address in the following paragraphs, is the form which such accountability should take, and whether the present arrangements will be appropriate in future. We do not regard Parliamentary accountability as a cost which must be weighed in the balance against the benefit of effective management. It is not only important in its own right, it is also an extremely effective pressure for improvement. The Next Steps report asserted:

"Evidence . . . gathered in the scrutiny suggested that when individuals had to answer personally to Parliament, as well as to Ministers, their sense of personal responsibility was strengthened."⁷

This is extremely important, since giving managers a sense of personal responsibility for improvement is a key step in securing the cultural change in the Civil Service, which is essential to the success of the Next Steps.

40. However we do not recognise the report's view of the work of Parliament and its Committees:

"Pressure from Parliament, the Public Accounts Committee . . . tends to concentrate on alleged impropriety or incompetence, and making political points, rather than on demanding evidence of steadily improving efficiency and effectiveness."⁸

Certainly impropriety and incompetence are matters of legitimate concern for the House of Commons, but Parliament has also been increasingly successful in demanding evidence on efficiency and effectiveness. Both have long been of great interest to this Committee, and to the

¹ Q. 333.

² Q. 386.

³ Ev p. 69, para 8.

⁴ Q. 302.

⁵ Para 47.

⁶ Appendix 1.

⁷ Next Steps, Annex A.1.

⁸ Next Steps, para 9.

Public Accounts Committee. Both Committees have examined the issue overall,¹ and requested that more information on output, performance, and level of service be made available.² The Public Accounts Committee regularly presses for improvements in efficiency on specific spending programmes.³ Other Select Committees are developing their scrutiny of Departmental Estimates and expenditure programmes. We regard this as a significant part of the role of this and other Select Committees, but recognise that there is scope for further improvement.

41. One of the difficulties in Committees carrying out this task has been the lack of the right kind of information and the obscure way in which the information made available was presented. This Committee and our predecessors, as well as the PAC and the NAO, whose work on Value for Money is not adequately recognised by the report, have taken a keen interest in Financial Reporting to Parliament.⁴ As a result there have been and there continue to be improvements.

42. In the present context we welcome the Minister's statement concerning the publication of the policy and resources framework, which will set out the objectives and targets of an agency:

"There may be certain circumstances where a Secretary of State feels that either the whole agreement or part of the agreement in the national interest should not be disclosed, but I must make it plain that the general objective, wherever possible, would be to publish the framework agreements."⁵

The Project Manager told the Sub-Committee that there were two reasons why a framework agreement might not be published: reasons of commercial confidence or national security.⁶ We recognise the need for confidentiality in these spheres, however we emphasise that the onus should be upon the Secretary of State to give reasons if he or she decides not to publish the agreement, or to publish only in part. We are also reassured that agencies will make annual reports setting out whether and to what extent they have achieved those targets.⁷ We share the hope of the Government that Select Committees will wish to examine agencies on their performance.⁸

Accountability to the House of Commons

43. The Prime Minister said on 18 February that there would be no change in the arrangements for accountability.⁹ This was repeated by the Project Manager,¹⁰ and by the Head of the Home Civil Service.¹¹ We regard Parliamentary scrutiny of agencies to be the best guarantee, in addition to effective monitoring by the Government itself, of improved performance. Much of this scrutiny will continue to be performed by the departmental Select Committees, by the Public Accounts Committee, and by the Comptroller and Auditor General, an Officer of the House. Individual Members of the House will no doubt continue to wish to table Parliamentary Questions concerning the activities of agencies and other executive bodies. Many of these questions are on matters for which the Minister is directly responsible: for example policy, strategic objectives, the formal directions given to such bodies, the monitoring of their performance and the level of resources. Ministers will, and must, remain clearly accountable on the Floor of the House for these matters, just as they will remain answerable to Select Committees.

44. We believe, however, that there is a dilemma in the case of matters for which the Chief Executive is responsible. The House needs to assess the risk that Chief Executives' freedom of manoeuvre—their ability to improve efficiency and the quality of service—will be constrained if Ministers continue to answer questions in great detail about the activities which are to become the responsibilities of agencies themselves. Where decisions are made which affect individuals, such as the withdrawal of benefit, or refusal to grant a passport there will always be cases which need to be raised with the Minister, whether because of an anomaly in the rules or for some other reason. This does not represent a constraint upon managerial freedom, but an essential check on possible abuse. We do, however, share the Government's hope that most matters of

¹Third Report from the Treasury and Civil Service Committee 1981–82; Thirteenth Report from the Public Accounts Committee 1986–87, the Financial Management Initiative.

²Eighth Report from the Public Accounts Committee 1986–87, Financial Reporting to Parliament, paras 18–22; Third Report from the Treasury and Civil Service Committee, 1986–87, paras 16–24.

³Appendix 11, para 3.

⁴See our Sixth Report (1987–88) on Financial Reporting to Parliament (HC 614).

⁵Q. 314.

⁶Q. 17.

⁷Q. 41.

⁸QQ. 36, 313.

⁹Official Report, 18.2.88, c.1151.

¹⁰Q. 36.

¹¹Q. 227.

this sort can be brought to a satisfactory conclusion without ministerial involvement, by dealing with those responsible direct.¹ There also remains the possibility of the development of an administrative code of practice, or of existing appeal systems.

Accountability to Select Committees

45. As far as Select Committees are concerned, the Minister told the Sub-Committee on a number of occasions that the principle of ministerial responsibility and accountability would be unaltered, that Select Committees would continue to be able to *invite* Chief Executives to give evidence, but not to *summon* named civil servants,² and that the rules which govern the evidence given to Select Committees would remain unchanged.³ So Chief Executives could not be summoned to appear before a Select Committee, and *in extremis* the Government would, presumably, oppose a motion on the Floor of the House to enforce the appearance of the Chief Executive. When giving evidence he or she would do so under the 'Osmotherly rules',⁴ which make it clear that civil servants are accountable "through" the Minister,⁵ and give evidence "on behalf of Ministers",⁶ and they would do so subject to the instructions of Ministers.⁷

46. We believe the Government should reconsider its position on this issue so far as Chief Executives are concerned. The traditional system of accountability does not seem to us to be entirely consistent with the increased delegation of responsibility to individual civil servants, either under the FMI, or under the Next Steps proposals. Clearly the Minister must be answerable for the terms of the "framework", for the appointment of the Chief Executive, and for formal directions to the agency. The lines of responsibility must be clear, and set out in the framework for an agency,⁸ but the Chief Executive must, in the words of the Project Manager "be answerable for what is given to him in his framework". As he went on to say, "... I think the Chief Executive would appear ... before Committees of this House to answer for what he has been given to do within his framework."⁹ We conclude that there must be a modification to the present formal arrangements for accountability. The Chief Executive should give evidence on his own behalf about what he has done as the head of an agency. But if during the course of questioning, a Select Committee is not satisfied with the answers a Chief Executive gives, or finds that the Chief Executive has acted outside his or her area of responsibility, the proper course of action will be to take the matter up with the Minister, who will then be able to go into the matter in depth, remain accountable, and subsequently give an explanation to the Committee, which can if appropriate report to the House.

47. If the responsibility for making decisions is to be truly devolved, as the Government appears to wish,¹⁰ those who are to make the decisions should be publicly answerable for them and be able to give evidence on their own behalf rather than on the instructions of a Minister. We note with interest the evidence given to the Sub-Committee by the President of the FDA:

"We do not fear expansion of direct accountability to Parliament for our members ... It is going to have to be clear to everybody who is to answer which question, so that only the person who takes the decision ... is going to be answering the question."¹¹

Another witness said:¹²

"if we are really talking about people who are going to remain civil servants ... but at the same time taking real responsibility for operational decisions independently to some degree of Ministers, quite clearly the old clichés about civil servants speaking on behalf of their Ministers and in no other way must be re-written pretty well from scratch ..."

We certainly do not advocate abandoning the principle of ministerial accountability, but modifying it so that the Chief Executive who has actually taken the decisions can explain them, in the first instance. In the last resort the Minister will bear the responsibility if things go badly

¹ QQ. 301, 302, 309, 317.

² Q. 320.

³ Q. 321 see also Q. 287.

⁴ Memorandum of guidance for officials appearing before Select Committees.

⁵ Q. 301.

⁶ Cm 78 Annex para 1.

⁷ *Ibid.*

⁸ Q. 178.

⁹ Q. 36.

¹⁰ QQ. 302-3.

¹¹ Q. 178.

¹² Q. 154.

wrong and Parliament will expect him or her to put things right, but the process of Parliamentary accountability should allow issues to be settled at lower levels, wherever possible.

48. The proposals we have made will, we believe, reduce managerial inhibitions so that they will be less likely to refer decisions up, check with higher authorities, and avoid taking risks. At the same time ultimate ministerial accountability will be retained and Parliamentary scrutiny improved.

Accounting Officers

49. The decision on who should be the Accounting Officer is an important one. The Project Manager told the Sub-Committee that it would normally be the Permanent Secretary, as now.¹ Sir Peter Middleton justified this on the grounds that "one of the main things [PAC] are interested in is the allocation of resources within the department in the first place. This is the responsibility of the Permanent Secretary."² This is not our understanding. The Public Accounts Committee examines Accounting Officers on their stewardship of the resources they are responsible for. The allocation of resources is of interest to the PAC, but it is the responsibility of Ministers, not of Permanent Secretaries, whether in their role as Accounting Officers or not. There are a number of bodies whose Chief Executive, or equivalent, acts as Accounting Officer, for instance, the Forestry Commission, OFTEL, ECGD, OFT, and OFGAS. There is provision in the memorandum on the responsibilities of an Accounting Officer for additional Accounting Officers to be appointed under the permanent head of a department, and for the senior full-time official of non-departmental public bodies and grant-in-aid bodies to be appointed Accounting Officer.³ If the Chief Executive of an agency is to be given responsibility for the efficient and effective use of the resources provided for within the policy framework, he or she should be held accountable, as the Accounting Officer for the agency. We agree entirely with the comments of Mr Tim Smith MP, a Member of the Public Accounts Committee:

"In order to make it clear beyond doubt that the Chief Executive is essentially a new civil service animal who does genuinely have personal responsibility, it seems to me that it would be wholly appropriate to make him personally the Accounting Officer. There could then be no question of buck passing."⁴

Other forms of Accountability

50. It was put to the Sub-Committee that with greater managerial freedom must come other compensating forms of control.⁵ At present the individual can seek redress against government departments and public bodies through his or her MP, who might approach the regional office direct, or go to the Minister. Evidence was presented to the Sub-Committee that this political route of redress should be supplemented by the greater involvement of the courts, tribunals, or ombudsmen⁶ and by reinforcing the apparatus of administrative law. In Sweden, where the executive functions of government are almost exclusively carried out by agencies or administrative boards (*ämbetsverk*), "questions cannot be asked in the Riksdag [the Swedish Parliament] concerning particular administrative decisions by an authority. The Minister is not in a position to influence such decisions and consequently should not be answerable for them to the Riksdag."⁷ Appeals can be made by individuals to the Government, the Court of Administrative Appeal, or the Parliamentary Ombudsmen.⁸ Although international comparisons are difficult⁹ this aspect of the Swedish system would seem to merit the close attention of the Government and of Parliament.

The need for a debate

51. The issue of accountability is crucial. We therefore recommend that the Government arrange for a debate on this to take place as soon as possible.

¹ Q. 46.

² Q. 370.

³ *Government Accounting* (1/87 Supplement No. 2) Section C4.19-21.

⁴ Appendix 21.

⁵ Q. 163.

⁶ *Ev* pp. 27, 34-35.

⁷ Swedish Government Administration, Pierre Vinde and Gunnar Petri, 1978, p.62.

⁸ *ibid* pp.14-15.

⁹ Q.288.

D Summary of Main Conclusions and Recommendations

52. The Minister for the Civil Service told the Sub-Committee:

“there should be no underestimate of the importance the Government attaches to these further changes, these Next Steps.”¹

We welcome the Government's commitment to improvement in efficiency and quality of service, but success will be difficult to achieve. The tendency of bureaucracies to absorb and divert initiatives for change should not be underestimated. We hope that the opportunity, which the Government has created by accepting the Efficiency Unit's proposals, will not be missed. If it is, progress in this area could be set back for many years. We note that the Government announced on 25 July the establishment from 1 August of the Vehicle Inspectorate as the first Executive Agency. (See Annex to this Report.) The House will wish to observe the progress of this agency as an indication of how far the Next Steps policy is likely to succeed. We must, however, at this very early stage express our concern about the policy and resources framework (which the Department of Transport has published). In several key respects it does not correspond to the way in which we would wish agencies to operate: in particular, the Chief Executive will not be the Accounting Officer.

Our main conclusions and recommendations are:

- (i) We agree with the view of the Project Manager that the pace and extent of change must be improved. Our concern is that the pace of change should not be too slow, and the extent of change too limited, as long as the consequence of such change is an improved quality of service to Government, Parliament and society (paragraph 10);
- (ii) We hope that the obstacles which have hindered the development of accountable management can now be overcome (paragraph 16);
- (iii) We draw particular attention to the need to change the culture and the attitudes of the civil service, in the ways we outline (paragraph 18);
- (iv) Steps must be taken, and must be seen to be taken, to change the underlying assumptions, and to remould the way government does its business while ensuring that the traditional impartiality of the Civil Service is unimpaired (paragraph 19);
- (v) If management in government is to be better and more efficient and the quality of service is to be improved, agencies need people with the right skills and experience, and the ability and incentive to achieve (paragraph 20);
- (vi) Because the main difficulty, in the short to medium term, is one of changing an established culture, we would welcome an injection of talent from outside the civil service on a non-political basis (paragraph 21);
- (vii) We emphasise that adequate investment, which includes the time of able people, in training, and especially in management training, is an investment in the longer term efficiency and effectiveness of government, and as such vital to The Next Steps (paragraph 25);
- (viii) The “golden route to the top” should combine management experience within agencies together with experience of policy work (paragraph 26);
- (ix) It is essential that the Treasury provide agencies and departments generally with sufficient flexibility over pay to carry out their functions effectively, while avoiding the main problems associated with flexibility (paragraph 28);
- (x) We urge the Government to consider how best to co-ordinate policy on personnel issues. We find attractive the idea of a Management Board (paragraph 30);
- (xi) Within the limits imposed by the need for Parliamentary accountability, the objective, of delegating as much freedom over operational matters as possible, is more likely to be achieved the more decentralised an agency is (paragraph 32);
- (xii) In its plans for the future of agencies and departments the Government should aim at as reasonable a regional distribution as possible. Further concentration in the South-East of England should be avoided and none of the decisions taken during reorganisation should further exacerbate regional and economic divisions (paragraph 32);
- (xiii) As far as the relationship between The Next Steps and the Government's privatisation policy is concerned, the essential thing in any individual case is to avoid uncertainty (paragraph 33);

¹Q.290.

- (xiv) We welcome Mr Luce's statement that a precondition of setting up an agency would be the establishment of sufficient genuine indicators of performance for effective monitoring and urge the Government to ensure that the difficulties in producing such measures of efficiency are overcome (paragraph 34);
- (xv) Performance against targets should be monitored regularly, perhaps on a quarterly basis. If the level of resources given to an agency is properly related to the objectives and targets set, and the internal financial and management systems are adequate, there should be no need for further monitoring by departments (paragraph 34);
- (xvi) We support comparisons of performance between regions or offices to help improve the overall level of services provided, and urge the Government to encourage an element of competition in the agencies (paragraph 35);
- (xvii) We urge the Government to display more confidence in the systems they set up, and the managers they appoint. Too much freedom can be reined in, too little may mean the opportunity is lost (paragraph 37);
- (xviii) Each framework agreement, which sets out what is within the authority of the Chief Executive should be regarded as a contract. The Minister would then be entitled to overrule the Chief Executive, but only by way of a formal note, by an extension of the Accounting Officer principle (paragraph 38);
- (xix) We do not regard Parliamentary accountability as a cost which must be weighed in the balance against the benefit of effective management. It is not only important in its own right, it is also an extremely effective pressure for improvement (paragraph 39);
- (xx) We welcome the Minister's statement that the objective would be to publish the framework agreements wherever possible, but we emphasise that the onus should be upon the Secretary of State to give reasons if he or she decides not to publish the agreement, or to publish only in part (paragraph 42);
- (xxi) We conclude that there must be a modification to the present formal arrangements for accountability. The Chief Executive should give evidence to Select Committees on his own behalf about what he has done as the head of an agency (paragraph 46);
- (xxii) If the Chief Executive of an agency is to be given responsibility for the efficient and effective use of the resources provided for within the policy framework, he or she should be held accountable as the Accounting Officer for the agency (paragraph 49);
- (xxiii) We believe the House will want to debate the issue of accountability, and accordingly recommend that the Government arrange for such a debate to take place as soon as possible (paragraph 50).

25 July 1988

ANNEX

THE NEXT STEPS: PROGRESS SO FAR

The first twelve Agency Candidates were announced on 18 February:

Driver and Vehicle Licensing Directorate
Vehicle Inspectorate
Employment Service
Her Majesty's Stationery Office
Non-nuclear Research Establishments
Meteorological Office
Royal Parks
Historic Royal Palaces
Queen Elizabeth II Conference Centre
Resettlement Units
Passport Department
Companies Registration Office

On 29 April the Scottish Office added two more candidates:

Historic Buildings and Monuments Directorate
Department of Registers for Scotland

On 9 May the Minister for the Civil Service announced a further two candidates:

Occupational Health Service
Civil Service College

On 7 June the Department of Trade and Industry announced that it was to consider establishing the National Physical Laboratory, the Laboratory of the Government Chemist and Warren Spring Laboratory as separate agencies.

On 13 July the Department of Trade and Industry announced that the Companies Registration Office would become an agency later this year. Other parts of the Department were mentioned as "potential candidates" for agency status: the insolvency service, and business statistics office, the Patent Office, export services, radiocommunications division, and DTI regional offices.

On 20 July the Secretary of State for Social Services announced that he was examining the whole of Social Security operations with a view to their being run as an agency or agencies.¹

On 25 July the Minister for the Civil Service said, in a Parliamentary written answer:

"Following the Prime Minister's announcement of 18 February, the Project Manager and his team have been working on the implementation of this initiative.

The purpose of Next Steps is to improve management in the Civil Service. The main element is the establishment of individual Executive Agencies to carry out executive functions. 12 initial candidates were listed in February and a further 17 candidates have since been announced, including the DHSS Social Security operations. In total these 29 activities cover over 170,000 people.

My Rt Hon Friend the Secretary of State for Transport is today announcing that he is establishing the Vehicle Inspectorate within the Department as the first Executive Agency, with effect from 1 August 1988. We expect that the next will be the Companies Registration Office, DHSS's Resettlement Units, and the Employment Service. Work on the other

¹In response to the recommendation of the "Business of Service" report, paras 44, 50-61; see also paras 102-11, 115-16, 129, Annex E.

candidates is progressing well and at the same time Departments are considering with the Project Manager the rest of their operations in line with the Government's acceptance of the recommendation that to the greatest extent practicable the executive functions of Government should be carried out by Agencies.

Establishing Agencies is only part of the task. The Project Manager has drawn up an action plan in conjunction with Departments aimed at reorienting training and career management, so that staff are properly trained and experienced in the management of the delivery of services. At the same time attention is being paid to the scope for giving greater personal responsibility to managers throughout the Service, including the scope for increased financial flexibilities and more local responsibilities in pay and personnel matters.

I shall make a further report to the House before the end of this calendar year."

At the same time the Secretary of State for Transport made the following announcement, also in a written answer:

"I am establishing the Vehicle Inspectorate as an Executive Agency with effect from 1 August. Copies of the policy and resources framework document, setting out the Inspectorate's aims, objectives and responsibilities, have been laid in the libraries in this House and in the other place.

I am appointing Mr Ron Oliver, a qualified Mechanical Engineer who is the present head of the Vehicle Inspectorate, to be its first Chief Executive. I am delegating clear responsibility for day-to-day management of the Inspectorate to him and his management team. Under the policy and resources framework, local management will have enhanced responsibilities in the areas of finance, contracts and personnel management and more scope to develop new business initiatives. They intend to introduce performance incentives and other necessary changes designed to encourage staff to increase efficiency to make more productive use of public assets and thereby improve services to the public. I expect that the scope of local management freedom and responsibilities will grow over time and I shall be ready to consider modifications to this policy and resources framework to reflect and encourage that process. In particular, we shall be reviewing the Inspectorate's financial regime, in order to find ways of mirroring as closely as possible the financial disciplines of a private sector business.

Publication of the framework document itself represents an enhancement of accountability to Parliament and the Inspectorate will in future publish an annual business plan, as well as its annual report and accounts. In order to ensure that letters to Hon. Members are dealt with as quickly and effectively as possible, I have asked Hon. Members to write directly to the Chief Executive in the first instance on questions which concern the Inspectorate's handling of constituency cases concerning operational matters. I and my Hon. Friend the Minister for Roads and Traffic (Mr Bottomley) will continue to deal with questions of policy or with any cases where Hon. Members are dissatisfied with the Inspectorate's reply.

The Inspectorate is already working to specific unit cost targets agreed with the Treasury for 1988-89. I have now set the Chief Executive a further target to improve the cost efficiency of the Inspectorate's main activities by 3.7 per cent over the two-year period from 1 April 1989 to 31 March 1991. These savings will come both from specific efficiency measures and from the development of new initiatives and performance incentives within the Executive Agency framework.

I am pleased that the Vehicle Inspectorate is the first Executive Agency to be established, and I wish the Chief Executive and his staff every success in achieving their objectives and targets.

My Department continues to work towards establishing the Driver and Vehicle Licensing Directorate as an Executive Agency. In addition I have commissioned a feasibility study of establishing the Transport and Road Research Laboratory as an Executive Agency and have asked my Department to develop Executive Agency proposals for the Driver Testing and Training organisation (which conducts driving tests) and the Vehicle and Component Approvals division (which carries out type approval tests)."

The 29 candidates for agency status are thus:

Business Statistics Office

Civil Service College
Civil Service Occupational Health Service
Companies Registration Office
Defence non-nuclear research establishments
Department of Registers for Scotland
Driver and Vehicle Licensing Directorate
Driver Testing and Training
Employment Service
Export Services, DTI
Historic Buildings and Monuments Directorate
Historic Royal Palaces
HMSO
Insolvency Service, DTI
Laboratory of Government Chemist
Meteorological Office
National Physical Laboratory
National Weights and Measures Laboratory
Passport Department
Patent Office
QEII Conference Centre
Radiocommunications Division, DTI
Regional Offices, DTI
Resettlement Units
Royal Parks
Social Security operations
Vehicle Component Approval Division, DTp
Vehicle Inspectorate
Warren Spring Laboratory

**MINUTES OF PROCEEDINGS
RELATING TO CONSIDERATION OF THE REPORT**

MONDAY 25 JULY 1988

Members present:

Mr Terence L Higgins in the Chair	
Mr Anthony Beaumont-Dark	Mr Giles Radice
Mr Nicholas Budgen	Mr John Townend
Mr Neil Hamilton	Mr John Watts
Ms Joyce Quin	Mr David Winnick

The Committee deliberated.

Report from the Sub-Committee (Civil Service Management Reform: The Next Steps) brought up and read.

Ordered, That the Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 5 read and agreed to.

Paragraph 6 read, amended, and agreed to.

Paragraph 7 read and agreed to.

Paragraph 8 read, amended, and agreed to.

Paragraph 9 read and agreed to.

Paragraph 10 read, as follows:

"The Civil Service must always be flexible and responsive to its changing role. While there has been progress since 1981 in improving the performance of the government machine, there is considerable room for more. No one who gave evidence sought to argue that further changes were unnecessary. We find this unanimity impressive. Mr Kemp, the Project Manager, said:

'. . . we hope to improve the pace of change and the extent of change, building on what I think is a very real sense among civil servants and among the public and certainly the Government, that this is something which has to be done and must be achieved.'

We agree with this view. Our concern is that the pace of change should not be too slow, and the extent of change too limited."

Amendment proposed, to leave out lines 8 and 9.—(*Ms Joyce Quin*.)

Question put, That the Amendment be made.

The Committee divided.

Ayes, 2	Noes, 3
Ms Joyce Quin	Mr Anthony Beaumont-Dark
Mr David Winnick	Mr Giles Radice
	Mr John Watts

An Amendment made.

Paragraph, as amended, agreed to.

Paragraphs 11 to 15 read and agreed to.

Paragraph 16 read, amended, and agreed to.

Paragraph 17 read and agreed to.

Paragraphs 18 and 19 read, amended, and agreed to.

Paragraph 20 read and agreed to.

Paragraph 21 read, amended, and agreed to.

A paragraph—(*Ms Joyce Quin*)—brought up, read the first and second time, and inserted (now paragraph 22).

Paragraphs 22 and 23 (now paragraphs 23 and 24) read, amended, and agreed to.

Paragraphs 24 to 27 (now paragraphs 25 to 28) read and agreed to.

Paragraph 28 (now paragraph 29) read, amended, and agreed to.

Paragraph 29 (now paragraph 30) read and agreed to.

Paragraph 30 (now paragraph 31) read, amended, and agreed to.

Paragraph 31 (now paragraph 32) read, as follows:

“Witnesses supported the desire of the Minister to delegate as much freedom to managers as possible, but indicated that the form of the agency was crucial to the success of that aim. Sir John Cuckney asserted that the Property Services Agency, of which he was the first head, was ‘doomed to failure’ as soon as it was decided to set it up within the Department of the Environment. He went on:

‘I see little hope for agencies being able to operate effectively unless they are free standing and operate within a trading fund’

Sir Frank Cooper argued further along similar lines, that Ministers would continue to interest themselves in areas which ‘put their standing and reputation at risk’, and this would alter only if the ‘functioners are removed from Government or abolished altogether’. Another witness, Rt Hon Michael Heseltine MP, was of the same opinion:

‘if you really want accountable units, you want them as far removed from the disciplines of the classic public sector arrangements as possible.’

Their suggestions were to give agencies Boards with defined or statutory functions, and to use management contracts as in the Royal Dockyards. We express no opinion on the merits of particular options. **However, within the limits imposed by the need for Parliamentary accountability, the objective is more likely to be achieved the more decentralised an agency is.** The Minister will be able to delegate responsibility to a free-standing organisation, a coherent unit, possibly with their headquarters away from London, more easily than to a part of his or her own department.”

An Amendment proposed, in line 17, to leave out the word “is” and insert the words “may be”.—(*Ms Joyce Quin.*)

Question, That the Amendment be made, put and negatived.

An Amendment made.

Paragraph, as amended, agreed to.

Paragraph 32 (now paragraph 33) read, as follows:

“We confess to being slightly confused by the relationship between the Next Steps and the Government’s privatisation policy. On the one hand Mr Luce, the Minister for the Civil Service, told the Sub-Committee that these two policies were distinct from one another:

‘If the Secretary of State regards a particular operation as being more suitable for privatisation then that will happen—that will be the priority. But if it is not suitable for that, he may take the view that it is a suitable operation for an agency arrangement.’

In contrast, Sir Peter Middleton, the Permanent Secretary to the Treasury, said that agencies might be a step to privatisation, thus implying that the policies were not distinct. **The essential thing in any individual case is to avoid uncertainty.** If an announcement that part of a department is to become an agency is greeted by suspicions that it might later be privatised, such uncertainty could well damage efforts to improve efficiency and the quality of service. Alternatively, if the organisation is to be privatised it should be made clear at the outset that this is so.”

An Amendment made.

Another Amendment proposed, at the end, to add the words “However, privatisation on a large scale does not seem to us to be a desirable option as we fail to see how it can be compatible with the role of a Civil Service responsible to Government, Parliament and society. Until it can be clearly shown that responsibility to shareholders and to the strict pursuit of profit and economic viability would not take precedence over the prime purpose of Government agencies—which is to provide an effective public service—privatisation would not go ahead.”—(*Ms Joyce Quin.*)

Question put, That the Amendment be made.

The Committee divided.

Ayes, 3

Ms Joyce Quin
Mr Giles Radice
Mr David Winnick

Noes, 4

Mr Anthony Beaumont-Dark
Mr Neil Hamilton
Mr John Townend
Mr John Watts

Paragraph, as amended, agreed to.

Paragraphs 33 to 35 (now paragraphs 34 to 36) read, amended, and agreed to.

Paragraphs 36 and 37 (now paragraphs 37 and 38) read and agreed to.

Paragraph 38 (now paragraph 39) read, amended, and agreed to.

Paragraphs 39 to 42 (now paragraphs 40 to 43) read and agreed to.

Paragraph 43 (now paragraph 44) read, amended, and agreed to.

Paragraph 44 (now paragraph 45) read and agreed to.

Paragraph 45 (now paragraph 46) read, amended, and agreed to.

Paragraphs 46 to 48 (now paragraphs 47 to 49) read and agreed to.

Paragraph 49 (now paragraph 50) read, amended, and agreed to.

Paragraph 50 (now paragraph 51) read and agreed to.

Paragraph 51 (now paragraph 52) read, amended, and agreed to.

Annex—(*Mr Giles Radice*)—brought up, read the first and second time, and added.

Question put, That the Report, as amended, be the Eighth Report of the Committee to the House.

The Committee divided.

Ayes, 6

Mr Anthony Beaumont-Dark
Mr Nicholas Budgen
Mr Neil Hamilton
Mr Giles Radice
Mr John Townend
Mr John Watts

Noes, 1

Mr David Winnick

Ordered, That the Chairman do make the Report to the House.

Ordered, That the provisions of Standing Order No. 116 (Select Committees (reports)) be applied to the Report.

Several Papers were ordered to be appended to the Minutes of Evidence.

Ordered, That the Appendices to the Minutes of Evidence taken before the Sub-Committee be reported to the House.—(*The Chairman*.)

Several Memoranda were ordered to be reported to the House.