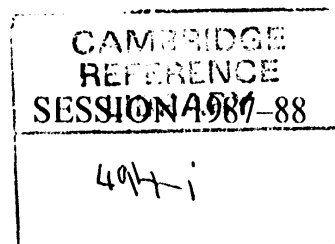


HOUSE OF COMMONS



TREASURY AND  
CIVIL SERVICE  
SUB-COMMITTEE

THE CIVIL SERVICE MANAGEMENT REFORM:  
THE NEXT STEPS

MINUTES OF EVIDENCE

Wednesday 18 May 1988

OFFICE OF THE MINISTER FOR CIVIL SERVICE

*Mr E P Kemp, Mr J Vaughan and Mrs D Goldsworthy*

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# MINUTES OF EVIDENCE

TAKEN BEFORE TREASURY AND CIVIL SERVICE  
SUB-COMMITTEE

WEDNESDAY 18 MAY 1988

Members present:

Mr Giles Radice, in the Chair

Mr Terence L Higgins

Mr John Watts

Memorandum Submitted by the Office of the Minister for Civil Service

## INTRODUCTION

1. The Sub-Committee has written to the Office of the Minister for the Civil Service (OMCS) and to a number of other departments including the Treasury about the implementation of the Government's decisions on the Next Steps report. The Second Permanent Secretary OMCS, is the designated Next Steps Project Manager. This reply will therefore deal with those questions relating to the general principles of Next Steps; as well as questions about the role of the Project Manager and the work of the team so far. It will also respond to the questions addressed directly to the Civil Service College (which is part of OMCS).

2. In the House of Commons on 18 February this year the Prime Minister announced that the Government had accepted four of the recommendations of the Efficiency Unit's report "Improving Management in Government: the Next Steps":

- (i) that, to the greatest extent practicable, the executive functions of Government -- as distinct from policy advice -- should be carried out by units clearly designated within departments, referred to in the report as "agencies";
- (ii) that the Government should commit itself to a progressive programme for attaining this objective;
- (iii) that staff should be properly trained and prepared for management of the delivery of services;
- (iv) that a "Project Manager" at a senior level should ensure that the programme of change takes place.

The Prime Minister went on to announce that a Permanent Secretary in the Office of the Minister for the Civil Service would be responsible through the Head of the Home Civil Service for managing the process of change needed to implement the recommendations. A copy of the Prime Minister's statement is attached at Annex A.

3. Mr E P Kemp was appointed to the post of Second Permanent Secretary, OMCS, and Next Steps Project Manager on 18 February 1988. The OMCS is part of the Cabinet Office. It is directly responsible, among other things, for the following Civil Service activities:

- the Civil Service Commission
- management development and training policy
- the Civil Service college (to whom the Sub-Committee has also written)
- equal opportunities, welfare and employee communications
- the Occupational Health Service

The OMCS and the Treasury work closely together in relation to Civil Service management matters.

## ROLE OF THE PROJECT MANAGER

4. The Next Steps Project Manager is responsible for planning and managing the process of change and for ensuring that obstacles to progress are identified and tackled. This includes:

- (i) ensuring that departments are adequately informed about the Next Steps proposals and how these will affect them; that they understand what is required of them and when;
- (ii) developing in conjunction with departments a progressive programme for the establishment of agencies in accordance with the Prime Minister's statement;
- (iii) guiding departments in taking the practical steps necessary to establish an agency once an activity has been identified; and, immediately, helping departments to prepare their proposals in respect of the first 12 agency candidates which have been named; ensuring that where appropriate experience is shared and common lessons learned; and facilitating any necessary contacts between departments and agencies over particular issues;

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- (iv) identifying and tackling the across the board issues which arise;
- (v) ensuring that effective training and personnel management policies aimed at improved management and delivery of services are designed and introduced;
- (vi) evaluating and reporting progress at regular intervals.

#### WORK OF THE PROJECT TEAM

5. The implementation of the Government's policy on Next Steps will be a corporate effort within the Civil Service, involving OMCS, the Treasury and departments. A Project Team has been appointed within OMCS to provide direct support and others throughout the whole of OMCS will support the Project Manager in carrying the Next Steps initiative forward.

6. One of the first tasks for the Next Steps Project Team has been to make arrangements for good, regular communication between all parts of the Service to ensure that the agency programme goes forward as quickly as possible, that good practice is shared, and that problems are dealt with without delay. To this end the Team meets regularly with a number of groups embracing the Treasury, and nominated Next Steps representatives in departments. From time to time the Team will also bring together particular groups with specific shared interests to exchange ideas.

7. Next Steps will have benefits for staff as well as for the public and taxpayers. The Project Manager and his team have already met staff in their visits to departments and this will continue. The Project Manager also meets the Council of Civil Service Unions (CCSU) from time to time. The CCSU and the JCC (who represent industrial civil servants) have been given an assurance that there will be consultation at national and local levels as work on implementation proceeds, and that they will have a full opportunity to represent the special interests of their members in the potential agencies on matters relating, for example, to terms and conditions of service.

8. The Project Team's job is the support of the Project Manager in the role set out in paragraph 4. Specifically the work so far has included:

- (i) helping departments to draw up their proposals for the first 12 agency candidates, with the aim of laying sound foundations for future business success;
- (ii) beginning discussions with departments to identify their proposals for further agencies;
- (iii) beginning to review, with departments, what changes will be needed to central and departmental training to improve the way staff are prepared for work involving the delivery of services. The background to this is described in Annex B;
- (iv) identifying and starting to consider the across the board issues which arise;
- (v) encouraging awareness and discussion of the Next Steps proposals.

#### ADVANTAGES OF AGENCIES OVER PRESENT ARRANGEMENTS

9. The idea of agencies is not new. What is new is the extent and pace of the proposed changes. The Next Steps proposals build on many of the improvements in management that have taken place in the Civil Service over the last few years, in particular the work done as a result of the financial management initiative and reforms in the pay and personnel field. The thrust of these developments has been to focus more closely on performance, on getting value for money and on delegating, as far as possible, responsibility and authority to those with the job of getting results; and to recognise that the Civil Service needs increasing flexibilities to suit local conditions and requirements, and to tailor its organisation more closely to the enormous variety of tasks which it carries out.

10. The aim of creating agencies is to release the managerial energy and personal commitment needed to achieve real improvements in the handling of Government business. The benefits will include better service to the customer and better value for money in the delivery of services.

11. Achievement of these improvements will necessitate, and will derive from in particular

- (i) a clearer distinction between responsibility for executive functions and policy formation which will enable both agencies and departments to focus more sharply on the job to be done;
- (ii) greater precision about the results required;
- (iii) greater emphasis on training and experience to prepare staff for work in the delivery of services;
- (iv) delegation of necessary powers to Chief Executives (subject to clearly specified central rules where essential) to exercise personal responsibility for delivering the required service; and

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- (v) improved measurement and assessment of the results achieved, and development of systems to reward those responsible in the light of results.

#### IMPLICATIONS FOR ACCOUNTABILITY

12. The internal accountability of agencies to their Ministers will be expressed in terms of:

- (i) the achievement of agreed performance targets within agreed resources;
- (ii) the conduct of day to day operations within the policy and resources framework agreed by Ministers, which will cover issues including standards of conduct, propriety and other management practices.

13. Ministers will continue to account to Parliament for all the work of their departments including agencies, including replies to Parliamentary Questions and debates. Departmental Select Committees will be able to examine departmental agencies and agency staff in the same way as they now examine departments about specific responsibilities; Ministers will continue to be responsible for replies to Select Committee reports. Accounting Officers giving evidence to the PAC on the activities of agencies will normally expect to be accompanied by the head of the agency. Members of Parliament may wish to approach agencies direct about enquiries concerning operational matters, though this could not preclude an approach to the responsible Minister.

#### ORDER OF PRIORITIES FOR ESTABLISHING AGENCIES AND FORMS THEY MIGHT TAKE

14. The initial 12 candidates were nominated by the Ministers concerned, generally because they were already discrete executive functions to which, *prima facie*, the principles in the Efficiency Unit's report could be readily applied. They are listed at Annex C, and proposals which examine their suitability for agency status are now being prepared.

15. The Prime Minister made it clear in her statement to the House on 18 February that, to the greatest extent practicable, agencies would be established to cover all the executive functions of Government. Departments are currently reviewing their activities to assess the scope for this. It is for individual Ministers and departments, in consultation with the Project Manager, to identify the functions and activities that might be suitable candidates for agency status; to set dates on which they might become agencies under the progressive implementation programme endorsed by the Government; and to establish priorities within that programme. Identification as a candidate does not automatically imply that agency status will follow, nor that alternatives have been ruled out. Neither is it an indication of when, if granted, agency status might be achieved.

16. Agencies will generally be within the Civil Service and their staff will continue to be civil servants. The Government will maintain its privatisation policy but Next Steps is primarily about those activities which are to remain part of Government and part of the Civil Service.

#### STEPS TO FOLLOW UP THE STRUCTURAL CHANGES TO REINFORCE THE EMPHASIS ON MANAGEMENT

17. The existence of a rigorous policy and resource framework and clear targets for the delivery of services will of themselves reinforce the further emphasis on management. It will also be manifested in the business/corporate plans, annual reports and other similar documents through which agencies will account for their activities.

18. Where agency status is inappropriate, or in the interim period before an agency can be established, managers will be expected to continue to take steps to improve performance in accordance with the reforms referred to in paragraph 9 above.

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## ANNEX A

HANSARD 18 FEBRUARY 1988

## Civil Service Management

3.30 pm

The Prime Minister (Mrs Margaret Thatcher): With permission, Mr Speaker, I should like to make a statement on management in the Civil Service.

I asked the efficiency unit to report to me on the progress of management reforms in the Civil Service. It has produced a report, "Improving Management in Government: The Next Steps". The report finds that many Civil Service managers want to see further changes to give more room and flexibility for the exercise of personal responsibility. The report recommends, first, that to the greatest extent practicable the executive functions of Government, as distinct from policy advice, should be carried out by units clearly designated within Departments, referred to in the report as "agencies". Responsibility for the day-to-day operations of each agency should be delegated to a chief executive. He would be responsible for management within a framework of policy objectives and resources set by the responsible Minister, in consultation with the Treasury; it recommends, second, that the Government should commit themselves to a progressive programme for attaining this objective; third, that staff should be properly trained and prepared for management of the delivery of services whether within or outside central Government; and, fourth, that a "project manager" at a senior level should ensure that the programme of change takes place.

The Government have accepted these four recommendations, which will set the direction for further development of management reform in the Civil Service. Each agency will be accountable to a Minister, who will in turn be accountable to Parliament for the agency's performance. These agencies will generally be within the Civil Service, and their staff will continue to be civil servants. The Government will develop a continuing programme for establishing agencies, applying progressively the lessons of the experience gained.

The Civil Service unions will be consulted about the setting up of particular agencies. They will also be consulted if any change in terms and conditions of civil servants is contemplated.

The centre of the Civil Service must be organised in a way which is helpful to bringing about change. A permanent secretary in the Office of the Minister for the Civil Service will be responsible, through the Head of the Home Civil Service, to me for managing the process of change needed to implement the recommendations.

I have placed copies of the efficiency unit's report, together with a list of executive functions that appear to be promising candidates as initial agencies, in the Library and copies are available in the Vote Office.

## ANNEX B

## Civil Service Training and Next Steps

1. The Next Steps initiative lays new emphasis on improving the effectiveness of central and departmental arrangements for the training of civil servants in the delivery of services, whether they are in agencies or otherwise.

2. The OMCS provides certain Service-wide training and management development arrangements in support of individual departments which are responsible for the job to be done, and for equipping their staff to do it. Departments will continue to undertake the majority of Civil Service training. As well as vocational training in relation to particular activities, departments provide much of the management development training for managers at levels below Grade 7.

3. The OMCS's training structure comprises:

- (a) the Training Development Division (TDD) which is responsible generally for overseeing training policies in the Civil Service as a whole. It provides guidance to departments; ensures active consideration of relevant developments in the wider training community; contributes to the formulation of central policy initiatives going wider than training; and is responsible for the development of those training policies and activities which are most effectively handled by the centre;

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[Continued

- (b) The TDD is also responsible for devising with departments and overseeing a series of Service-wide management programmes, put into place within the last five years and operated by departments, aimed at improving the effectiveness of managers and the better running of the operations for which they are responsible. These comprise the Top Management Programme (TMP) which is a six week intensive residential programme for civil servants promoted to Grade 3; the Senior Management Development Programme (SMDP) which is a structure to enable managers to develop skills from work experience, projects, secondments and formal training courses, and is a continuous development programme for younger staff at Grades 4 to 7; and the Management Development Programme (MDP) which is angled so as to suit the need of individual departments but is intended to provide a series of planned postings and training of staff at SEO/EO and equivalent level who are likely to have the potential to get to Grade 7. Together the TMP, SMDP and MDP have a potential target area of roughly 50,000 non-industrial civil servants. They complement longstanding training and development programmes such as the fast stream training for Administration Trainees and higher Executive Officers (D) and the Senior Professional Administrative Training Scheme (SPATS);
- (c) The Civil Service College which comprises a residential centre at Sunningdale and non-residential centre in London. Although it provides only 5 per cent of all Civil Service training, the College is the main—though not the exclusive—provider of management education and training for staff of high promise and for those at Grade 7 and above.

4. The OMCS intends to review these capabilities, in conjunction with departments, and to reorient them to meet the various needs arising from the Next Steps initiative. In particular TDD will consider how departmental training arrangements can be supported and strengthened to encourage and procure the improved training of staff down to the most junior level in particular at the point of service to the customer; and the College will expand and develop its already considerable training in the management of organisations, people and finance, and to develop new courses to meet the specific requirements of agencies including courses on corporate planning and the requirements of customer oriented organisations.

## ANNEX C

## The First 12 Agency Candidates

Driver and Vehicle Licensing Directorate	}	Department of Transport
Vehicle Inspectorate		
Employment Service		Department of Employment
Her Majesty's Stationery Office		Chancellor's Department
Non-nuclear Research Establishments	}	Ministry of Defence
Meteorological Office		
Royal Parks	}	Department of Environment
Historic Royal Palaces		
Queen Elizabeth II Conference Centre		Property Services Agency
Resettlement Units		Department of Health and Social Security
Passport Department		Home Office
Companies Registration Office		Department of Trade and Industry

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[Continued

## Examination of Witnesses

MR E P KEMP, Head of Next Steps Project team, MR J VAUGHAN and MRS D GOLDSWORTHY, Members of Project team, Office of the Minister for the Civil Service, examined.

## Chairman

1. Welcome, Mr Kemp, we are very pleased to see you. Would you introduce your colleagues for us please?

(Mr Kemp) I am a Second Permanent Secretary in the OMCS and the nominated Project Manager for the Next Steps project which is the subject of your inquiry. I have a very small team within OMCS: John Vaughan who is on loan from the Department of the Environment, grade 5, and Diana Goldsworthy of the OMCS at grade 7, and we are expecting one more principal to join us in the next week or so.

2. I understand you would like to make an opening statement?

(Mr Kemp) Certainly. The Next Steps project starts of course from the Ibbs Report which in turn led to the Prime Minister's statement of 18 February, and it is the decisions in the Prime Minister's statement which it is our job in the OMCS and the Project Team to seek to implement. The basic theme is a simple one, it is the better management of Government services for the benefit of taxpayers, customers and staff. This should be brought about, we hope, through the release of managerial energy and the inculcation of a greater sense of personal responsibility among individual civil servants for what they have to do. This in turn will have to come about through addressing some of the problems which we are aware of, that the Civil Service is very large, very horizontally orientated, and tends to be inflexible across departments. The FMI has established knowledge of the inputs to services and what we now need to do is concentrate on the outputs; in order to start concentrating on the outputs managers need to be told more clearly what they are going to do and measured on their outputs and held accountable for delivering their tasks. For that they will have to be given freedom and flexibility to get on with things within whatever residual central rules will be required. Agencies are a means to this end; agencies are not in my view an end in themselves. There is nothing particularly new about the idea of agencies or indeed any of this; Fulton 20 years ago talked about units of accountable management. What is new today is that 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. It is literally the "next steps" in modernising and improving the Civil Service management. I think it is going to work and, as project manager, I am determined to make it work.

3. Thank you very much indeed. I think we want to divide our questions into two parts, firstly what Next Steps is all about and looking at the principles of the thing, and secondly at your job and, if you

like, the management of change. Could you tell us how great the commitment of the Government is to the Efficiency Unit report? I think Sir Robin Butler told us on 9 March that the Efficiency Unit report is not a White Paper to which the Government subscribes or takes responsibility for every line. How great do you think the commitment of the Government is to this report?

(Mr Kemp) I think the commitment of the Government is quite clear, and this goes without saying, set out in the Prime Minister's statement of 18 February. The Prime Minister's statement came from the report and I think the Prime Minister's statement will be found to have accepted the main recommendations, in fact I think all the main recommendations, of the Ibbs Report. I think Sir Robin Butler is right to go from that to say that does not mean the Government necessarily go along with or need to go along with or need to take a view on everything that is said, every finding, every view which the Efficiency Unit express in their report; that was their view. Their views led up to their main recommendations and those main recommendations have I think given the broad brush nature of the whole exercise; those main recommendations are the ones which the Government have accepted.

4. But surely one thing follows from another? Their analysis of what is wrong then leads on to their recommendations?

(Mr Kemp) I think their analysis of what is wrong is a very correct analysis and I think we would go along with the general thrust of their analysis.

5. You accept, do you, the long term view of the Civil Service expressed in paragraph 44 of the report: "The central Civil Service should consist of a relatively small core engaged in the function of servicing Ministers and managing departments, who will be the "sponsors" of particular government policies and services. Responding to these departments will be a range of agencies employing their own staff, who may or may not have the status of Crown servants, and concentrating on the delivery of their particular service . . .", do you accept that view?

(Mr Kemp) Yes, I do, but I think I would turn it, as it were, upside down. What we are engaged in is examining from the bottom up the executive functions of Government to see whether that can be better organised by way of agencies, these discrete units of management, and as the Prime Minister said we hope to the greatest extent practicable that can happen. What is left when that has been done, and I think it will take quite a time, will be as it were almost by definition the core services. Quite how big or how small they will be when we get there, I do not know. I think it is probably not unfair to the Efficiency Unit to say they started from the top down: there is a core engaged in servicing Ministers and the rest should be capable of being

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turned into agencies. We, practically putting this scheme into operation, have necessarily have to start from the bottom up to identify the various units and turn them into agencies and, as I say, what is left then will be the core.

Mr Higgins

6. Could I clarify that? You said that there is a part of the Civil Service which is related to servicing Ministers and you said the rest would then appropriately be changed into agencies. You do not mean to be quite that wide-ranging, do you?

(Mr Kemp) I am sorry if I did, I did not mean to be that wide-ranging at all. The agencies will be established from the executive function where it is practicable and where it makes sense and not otherwise. What we do not know at this stage is quite how far that will go. The Efficiency Unit mentioned the figure which has been widely quoted.

Chairman

7. 95 per cent.

(Mr Kemp) 95 per cent of Government is involved in the delivery of services. I would not like to go from there to say the end result will necessarily be that 95 per cent will turn into agencies; there may be other reasons why it should not be an agency and this may change over time.

8. If it is right that 95 per cent of the Civil Service is engaged in delivery of services, what will be the other reasons which, in your view, will mean that they are not necessarily good candidates for being agencies?

(Mr Kemp) I think there will be areas which go beyond pure policy advice which I think will probably not be suitable for this sort of treatment. There will be areas that will go beyond where the sort of disciplines and frameworks and so on will not be appropriate, the sort of freedoms will not be able to come because, perhaps, Ministers will necessarily have to continue to be involved closely in policy work. I think that it is over-simple and a misrepresentation to say that there is executive work here and there is policy work there. All policy work has an element of execution and all executive work has an element of policy. Where the precise mix comes out I do not know. One can imagine a situation where the necessary day-to-day involvement of Ministers and the necessary changes that take place simply make it not very suitable for the sort of relative stability and relative freedom which we look for in agencies.

9. Would you like to give us some examples of what you have in mind, to help the Committee?

(Mr Kemp) I find that not very easy, because I do not want to specify against the background where I am Central Department Project Manager; I would rather not identify particular departments as though they were being, as it were, let off or let on. I do find it a little difficult. Sticking my neck absolutely right out—and I hope my colleagues in that department will forgive me—it may very well be there are parts of the Foreign Service which would be

inappropriate. I have just been to Stockholm talking to people who have a similar system to this and their residual Civil Service consists of about 2,000 people of which nearly half are the Foreign Office. The Swedish experience—and it goes back 300 years—seems to be that the approach has not proved successful in this area. I would not like to say that was the only area where it was unsuitable, nor would I like to stick my neck out and say that was unsuitable; undoubtedly there could well be functions within that department which could be an agency. Indeed, the Foreign Office, like other departments, will be surveying their activities on that front.

10. Could I press you on that. Just taking another example, the DHSS benefit offices, which way do you think that would fall?

(Mr Kemp) I would hope very much that could become an agency. That is a very large one, of course, but does deal with all the executive functions on a grand scale—the delivery of benefit services. I would hope very much that is the sort that could eventually become an agency.

11. But you could see, from the Minister's point of view, that might possibly be an area which might be of some political embarrassment, so the other arguments you have been putting forward might possibly not arise.

(Mr Kemp) Possibly of political embarrassment? I think it would depend how the resources and framework is set up. If one can identify the system under which the DHSS, social security, is managed, and down the line let the various offices know quite clearly what they are primarily responsible for—the delivery of services—to standards, within timetables and within resources frameworks, while Ministers were on the other side of the fence, then I think one could see it coming out. This does not mean, of course, that Ministers will not always be interested. I can see quite clearly Ministers and Members of Parliament will always want to have access and be able to ask questions about individual cases, but you do not have to go from that to say that it is not suitable to try to get the executive function of social security services set up in that way.

Mr Watts

12. I would like to explore one other example, the planning responsibilities of the DoE, where there is a policy framework and the planning inspectorate works in a fairly independent way but, nonetheless, there is still a very heavy policy involvement in the final decisions that are made. How would you see that sort of function performing?

(Mr Kemp) I think that is a difficult one. I do not know, I am afraid, enough about the planning functions of the DoE to be able to answer that. It might fall into the sort of category of core advice where the policy inputs, or policy interest, was so sufficiently important, sufficiently day-to-day and heavy for it to be not suitable to be an agency. On the other hand, there may be a great deal of executive work in that with a relatively small amount of



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[Continued]

[Mr Watts *Contd*]

policy work which would be suitable. I am afraid I do not know enough about that particular branch to be able to answer your question.

Mr Higgins

13. I have one question, Mr Kemp, in the context of the DHSS offices being possibly an agency. You said Ministers might wish to ask question. Do we take it from that, also, that Ministers would continue to answer questions about particular cases?

(Mr Kemp) I am sure Ministers will have to continue to be ready to answer questions about individual cases. I put it that way, Mr Higgins, because it seems to me that it might be possible for a practice to grow up in the DHSS which, I believe, has grown up in some of the tax offices where if an MP asks a question and it is about detailed case work he has addressed it to the local office, to the local manager, where he can get a direct answer from the person there. If such-and-such a case has been mishandled and it is an individual case, then it may often be better for the MP and quicker and more direct if he addresses himself to the local office. But I go on to say it is absolutely not the Government's intention that any of this should cut-off an MP from the right to get a reply from the responsible Minister for a public service.

Chairman

14. I wonder if you could tell us how you see agencies working. What are these agencies going to be like. How, for example, are they going to differ from the Property Services agency and the procurement executive which, of course, have existed for some time but have not exactly transformed the Civil Service?

(Mr Kemp) There is no hard and fast pattern for what an agency might be. I think that the characteristic will be that it will be, as I said, a block of work which essentially will have a chief executive positively in charge of it and it will have what I described as the policy and resources framework (which is referred to in the Prime Minister's statement, and referred to also in the yellow book) which will set out in detail what it is, the resources it has, the job it has to do, how that job is to be measured, and the respective responsibilities of the chief executive, on the one hand, and the people in the department on the other. The policy and resources framework will be the distinguishing feature coupled with the existence of a chief executive held personally responsible for the delivery of his outputs and a specific job which he has to do. This is a concept which is not a mechanical concept, it is not like saying that will all be the same, we will necessarily set it up this way or that way, and you will see from the opening list they vary from relatively small possibilities to very large possibilities. The concept of an agency is more a frame of mind and an approach to how we do business which will be characterised by a very clear written statement which I hope would normally be published of what it is to do and what it has to do with it and its place in the Civil Service as a whole.

15. That is going to make it quite difficult for outsiders, and particularly Members of Parliament, to actually make judgments about how these agencies are doing, if there is no hard and fast pattern, if there are no proper ground rules?

(Mr Kemp) I have obviously not expressed myself properly. I think there will be no hard and fast pattern, no straitjacket into which different agencies will be put, but once one has established an agency it will be very clear, and hopefully clearer than today, to Parliament and the public just what that agency is doing, just what it is out to do and just to what extent it has succeeded. The framework itself will be a positive and tough document.

16. Will the frameworks be published?

(Mr Kemp) Normally, yes.

17. I hoped you would say in all cases, I cannot see the argument against not publishing them.

(Mr Kemp) I can see two arguments. It is conceivable, and I am not going to specify, that some agencies' frameworks might involve activities in commercial competition with others where it might be inappropriate to publish very detailed plans, which does not mean they do not exist. There could just conceivably be arguments of national security too. I hope very much the frameworks will be published and I hope that appropriate Select Committees will take a considerable interest in them.

18. Can we follow this up? Commercial activities: that is assuming there are going to be some agencies outside the Civil Service, is it?

(Mr Kemp) No, I do not think so. One of the first ones mentioned here is the Queen Elizabeth Conference Centre across the road, that has a quasi-commercial activity in competition with other providers of conference facilities and it may well be that it is not sensible to publish precise details of its plans. I am chancing my arm here, I do not think we can give a blanket assurance that all frameworks will be published.

19. How can we judge how they are doing if we do not know what the framework is?

(Mr Kemp) I think it will be very rare they are not published. I think too it will still be open to the appropriate Select Committee to probe and press in the appropriate Committees. Select Committees are well used to probing matters like that and do it very well.

20. I am sure they will want to do that. Do you see many agencies being established outside the Civil Service? Does that mean they will be privatised or hived off?

(Mr Kemp) There is a range of possibilities. You mention privatisation. The Government's privatisation policy of course remains. The agencies and the concept in the Prime Minister's statement is about activities which are likely to remain in the Civil Service, or perhaps a wider public service. One can imagine there is quite a wide area between full privatisation and fully remaining in the Civil Service; we all know about non-departmental public bodies,

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quangoes, and one could have public corporations set up by special legislation; one could envisage publicly owned limited liability companies and so on. There is a range of juridical structures for agencies as might be appropriate which are not necessarily Civil Service or privatised.

21. I thought the Government policy was against quar goes?

(Mr Kemp) It is and there are not likely to be many of these set ups in this context. These activities are more likely to be either agencies within the Civil Service or subject to the privatisation policy.

22. You said that there might be some agencies which would not want to publish their frameworks, or the Government would not want to publish them, for reasons of national security. What have you in mind here?

(Mr Kemp) I do not know enough about the workings of some departments but one could imagine there could be matters which concern defence procurement or other national interest matters which are on the one hand executive functions but on the other are not matters which the Government might wish to publish. I cannot specify and I think even if I could, I do not think it would be appropriate for me to do so.

Chairman: We now turn to the question of accountability. Mr Higgins has some questions.

Mr Higgins

23. I want to concentrate on the issues of accountability but might I clarify one or two points arising from the statements you have already made? It is important we establish the extent of the proposals which are now put forward and you were suggesting earlier that one might end up with what you described, perhaps rather inadvertently, as a "residual Civil Service" which, if one assumes the rest of the operation to the extent of 95 per cent would be made agencies sooner or later, would mean the residual is about 30,000 and the remainder of the 600,000 is then all put in agencies. If that is so, this is a very big change indeed and obviously requires very great attention. Just as a wild guess, if you were ten years out from now, what percentage in terms of numbers of people would actually be in agencies?

(Mr Kemp) That is quite a question because, as I say, we are taking this bottom up approach and asking departments to survey their activities to see what can come in. Since you ask the question, the first 12 amount to 71,000 people out of a total Civil Service which is currently just on half a million for the non-industrialised and about 90,000 for the industrialised. So that is about 70,000 out of slightly under 600,000, so 11 or 12 per cent so far. I think that it depends really whether, and I think it would be possible, the very large battalions like the DHSS, which has something like 90,000 people, come into the reckoning. There is an assumption they will and we can turn them into an agency which will benefit the staff, taxpayers and the customers. If one takes

it to the extreme I would be personally sorry if we did not get to at least three-quarters.

24. Three-quarters of the 600,000?

(Mr Kemp) Yes.

25. This clearly makes it a very important change indeed.

(Mr Kemp) It does, yes. Before the staff in departments get frightened, I take comfort from your words "about ten years out", because it is not something which will happen tomorrow.

26. You describe the Civil Service as very horizontally orientated but then you said in your opening remarks that you were a Second Permanent Secretary and your colleagues were grades 5 and 7, which seems a more vertical approach to this problem. I do not know whether the main Committee has had any definition of what the various grades are but we tend to think in terms of under secretaries, principals and so on. Can you relate one to the other? I know it is a rather pedantic question but the question of the level at which all this is going to happen is important.

(Mr Kemp) We do publish, or rather the Treasury publish, an excellent little book called, "Key Figures on Civil Service Manpower" which tells you where people are, how many civil servants there are. It is a very interesting book, especially for people in London who sometimes seem to be metropolitan-minded and think most civil servants are in London, whereas they are not. The top grades, grades 1 to 4, which are now from Permanent Secretary through to just Under-Secretary level, there are about 1,000 of those. Then we move through grade 5, which formerly used to be called Assistant Secretary level but are now in the unified grades, and we have about 2,500 of those. Grade 6, formerly called Senior Principal, about 5,000; grade 7, Principal (but, of course, now including—because we have followed up unified grading, as recommended by Fulton—people who used to be the Principal Scientific Officers and other grades), about 14,000. One then gets down to the SEO level (Senior Executive Officer), about 22,000. HEOs, 51,000.

27. What grade is an HEO?

(Mr Kemp) Higher Executive Officer.

28. What number are they?

(Mr Kemp) I am sorry, how many there are?

29. It is the duplication of the description which I think is worrying. On the one hand we are saying "HEO" and on the other saying "grade 7".

(Mr Kemp) HEO comes under SEO.

30. Which is grade what?

(Mr Kemp) It has not got a number. The only grades that have numbers currently are grades 1 to 7, and that came about because of the introduction

<sup>1</sup>Note by Witness: The Project Team thus consists of one Grade 5, formerly known as Assistant Secretary and two Grade 7s, formerly known as Principals.

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of unified grading which followed from the recommendations in the Fulton report that the names Assistant Secretary and Principal were no longer appropriate because other creatures came into the numbering. Going on from there, if one was numbering, an SEO would be grade 8, an HEO would be 9, and so on down.

31. Why did the unification not go any further down? It is scarcely unification if it stops at that level.

(Mr Kemp) That is a very good question. I think that that is the sort of thing which Civil Service management should actually keep under review. It has taken some 20 years for Fulton to get us to grade 7! But I think, if I may say so, you have put your finger on a different point there. Part of my criticism of the way we run the Civil Service when I mentioned about horizontality was that unification would actually reinforce, perhaps undesirably, that horizontality. The point I was trying to make about horizontal grades was—let us take, for example, Executive Officers, of whom there are about 50,000. That is a very large number, practically every department has them and those Executive Officers are all on the same sort of pay regime, give or take London Weighting; they do not get anything special for performance or for skill or anything like that. Yet those 50,000 people are doing an infinite variety of tasks, they are doing tasks appropriate to the agency or activity they are in. What one would want to look for, in due course, are arrangements which will adapt within a unified Civil Service, this very “across the board” regime we have for Executive Officers and others into a regime which is more appropriate to the specific task to be done. That, I think, will give a better service and, also, more satisfaction to individual members of staff. Extending unified grading would run counter to this.

32. If I relate these very general questions to the specific enquiry, what kind of level would you envisage the head of a particular agency being at?

(Mr Kemp) I think it will very much depend on what the agency is. I think that I can best answer that by saying, first, that no agencies have been set up, but let us take by way of example the Employment Service, which is named as one of the formal candidates, which is currently headed up by a grade 3 or Under-Secretary (which gives some indication of the sort of level of work involved). If we go down to the Driver and Vehicle Licensing Centre in Swansea, that is currently headed up by a grade 3 or Under-Secretary, and the Vehicle Inspectorate is currently a grade 5 or Assistant Secretary, I believe. I think that one will want to put in the appropriate, if you like, grade to the task to be done, and it may well be, as we move on, that as we get these agencies set up the more the grading concept will need to be looked at rather carefully against the background of the job to be done.

33. What I was trying to do was get some impression of the level at which, in terms of accountability, a head of a particular agency might appear, for

example, before a Select Committee. We are really saying something down to grade 5?

(Mr Kemp) I think that is possible, yes. I hope the rule will establish itself, that the person in charge is graded and paid at the right level for the job he has got, and the Select Committee would wish to see the person in charge to answer for his doings. I make a possible exception here for the Public Account Committee because they will want to see the Accounting Officer and the Accounting Officer may or may not be the chief executive of the agency.

34. My questions are going to jump around, so it may not be immediately apparent where the pieces in the jigsaw fit together. Can I pick up one point in paragraph 5 of Annex A where it says: “A variety of different structures exists to cover these functions, for example: Customs and Excise and the Inland Revenue are non-ministerial departments with boards which have defined statutory responsibilities.” That is not true, is it? There are Ministers responsible for Customs and Excise and the Inland Revenue?

(Mr Kemp) Indeed there are Ministers who answer for them, but I think I am right in saying that certainly both the Customs and Excise and the Inland Revenue do actually have statutory responsibilities under the law for—I think the expression is—“care and maintenance of the tax acts” (some phrase like that). They carry out these functions which the statute gives them, but there are certainly, as we know only too well, Ministers answerable and responsible for those departments.

35. And Ministers, in that context, answer very important questions to the House.

(Mr Kemp) That is right. Perhaps the expression “Customs and Excise and the Inland Revenue are non-ministerial departments”, if I may say so, bears out the point that I would not want to take responsibility for everything in the yellow book.

36. I think you are wise in that! Can I turn to the question of accountability. As you know, the main Treasury and Civil Service Committee, the Defence Committee and the Liaison Committee and so on, were much engaged in the last Parliament on the question of the relationship between Ministers and Civil Servants, and in particular, the question of whether Civil Servants were responsible to the House for their conduct. The kind of changes we are envisaging now and discussing this morning will obviously tend to make individual heads of particular agencies very much more directly accountable to the House, in as much that one would normally envisage them appearing before a Select Committee, presumably, and answering for the operation of their particular agency. Do you see that as, in any way, undermining the traditional relationship between the Ministers and Civil Servants?

(Mr Kemp) No, I do not think so. I certainly would not think it undermined it; it may just change it but change it, I think, for the better. You say that the chief executive will be answerable for the operation of his agency; I think, strictly speaking, he will be answerable for what is given to him in his

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framework, which may not be the whole of the operation of the agency. To take an extreme case, the Minister will take responsibility for wider issues of policy, and the chief executive would carry out those issues of policy. An example might be the DVLC. Supposing there was a change in the regime in motor taxation. That would be the Minister's decision but it would be for the chief executive to carry it out, so I think the chief executive would appear—hopefully before Committees of this House to answer for what he has been given to do within his framework. That framework in itself would have been examined by the appropriate Select Committee and when they examine the framework it will be for the Select Committee to opine as to whether it thinks the split is right, and whether the reserved responsibility which the Minister keeps falls this side or that side of a line of accountability. The Prime Minister said in the House on 18 February—quite clearly—that there would be no change in arrangements for accountability and Ministers would have to continue to account for the work of their departments. Although the mechanics may change I think the principle remains.

37. Let us take a more specific example. Let us suppose there is a particular agency carrying out a specific function which has a chief executive. Is that the right expression to use?

(Mr Kemp) I think we will call him chief executive, yes.

38. As a chief executive he appears before a Select Committee, it becomes apparent that something has gone seriously wrong and the appropriate thing will be for the chap to be removed forthwith. Leaving on one side the question of how that would be arranged in the Civil Service context, does he then appear before the Select Committee and own up to this, or at the point where his conduct is doubtful does he say "That is a matter for my Minister to look into"?

(Mr Kemp) I hope very much if something has gone as disastrously wrong as you suggest it will be picked up quite early on. One of the important residual functions for the attention of what we have described as the core Civil Service will be the monitoring and keeping a close eye on what these agencies are doing and how they are performing. If it is as bad as that, one would hope appropriate steps, as drastic as may be necessary, would have been taken before it got to the Select Committee. I think the chief executive will be answerable in the first place to the person who appointed him, who will be the Ministers in the department and I think they will be the people whose task it will be in the first place to take any appropriate action, in the same way as they will be the people who will judge whether he has succeeded and trigger any performance pay which may be involved in that. I would have thought the Select Committee would want to ask some quite sharp questions of the agency and the department.

39. We really are in a different ball game, here is a chap carrying out an entirely commercial function in a particular agency, in normal commercial life if

it turned out he had failed to perform satisfactorily he would be sacked. Do you envisage this happening under this arrangement if somebody performs very badly?

(Mr Kemp) You yourself mentioned a moment ago the question of the problem of getting rid of civil servants with tenure. Can I deal with the easy bit of your question which is if we get chief executives who have been specially appointed by fair and open competition. They will be on a contract and that contract will make provision for circumstances in which failure has been so extreme that he should be dismissed. That will be a relatively easy situation because the man or woman would have entered into that contract before they took the job on. With existing civil servants it is more difficult because the problems of getting rid of inefficient civil servants are quite well known. We have a reporting system and a system where, as you know, if people get a sufficient number of bad "boxes" in their annual reports they can be got rid of, in practice it is often not too easy and the solution often adopted is that the man or woman is relieved of that particular job and sent elsewhere in the Service. That can happen very easily.

40. Can we turn then to the question of resources. It recommends that agencies should be established within a policy and resources framework set by a department. How do you see that being related to the estimates in terms of Parliamentary control of expenditure?

(Mr Kemp) I think the resources framework, the policy and resources framework, will have to reflect the resources that are made available to the agency which in turn will have to be part of the total system of public expenditure planning. We have to distinguish between a policy and resources framework which will be a document with a certain permanence and which will not just be renewed year after year it will change as circumstances change, but otherwise it will have a certain permanence, and the ordinary forward planning which would be involved and would bring in the vote provision and other financial disciplines.

41. We are of course about to introduce a change, we hope, in the system for departments producing the estimates and annual departmental reports and so on. Do you envisage the agencies will produce annual reports and corporate balance sheets?

(Mr Kemp) Most certainly. We have been thinking about how agencies in their annual reports would fit in with the system which in fact this Committee recommended for changes in the structure of part of the Public Expenditure White Paper. I think they are entirely consistent one with the other. It is planned that the departmental volumes should appear, as I understand it, around Budget time or thereabouts, and obviously a department will include its agencies within that and will discuss the provision for the agencies and I hope it will spell this out in some detail. The agencies' annual report will emerge about June or July in a year because agencies will have governmental financial years because that is convenient for what will in effect be

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a very large conglomerate organisation and it would not be tolerable for the agencies' stewardship to wait before the next Budget before they accounted for themselves. I think the agencies will produce reports and accounts rather similar to the way in which responsible organisations, public or private, will produce reports and accounts, and these will be for the benefit of Parliament, as shareholders, and the department and the staff. They will be produced not too long after the end of the financial year because accounts prepared too long after that date are not very useful.

42. So you envisage them producing annual accounts and income and expenditure statements presumably?

(Mr Kemp) They will produce accounts which are suitable for the function they are carrying out. Something like the QE2 Centre, where it has a relatively small number of staff but a very visible asset, would have to have income and expenditure accounts and so on and I hope it would use best commercial practice including for instance a source and disposition of funds statement to help reconciliation with public expenditure planning. These accounts have to be tied in with the public expenditure planning system. It is an enormous mistake to think that commercial accounting for these organisations and the vote system are alternatives. They are just two halves of the same coin and they have to fall out of the same system.

43. On the question of balance sheets, and let us take a simple case, supposing the Royal Mint becomes an agency, presumably there is no great difficulty in producing a balance sheet for it?

(Mr Kemp) I think you may find that they already produce an admirable balance sheet.

44. That is a straightforward case, but let us take the DHSS offices. Do they have balance sheets at the moment?

(Mr Kemp) I think not, I think it is very unlikely. That is not to say they do not know what assets they have got, and that is not to say they are not aware of the costs of accommodation and that sort of thing, but it does not seem to me likely and I can almost promise they will not have a balance sheet in the sense we are talking about.

45. In the sense they do not at the moment?

(Mr Kemp) Yes, indeed. To establish a balance sheet for the DHSS system would be a pretty formidable task. Theoretically it ought to be done because all managers ought to know the value of their assets which are in their care, but there may come a time when this counsel of perfection and the job of establishing the balance sheet in a financial and valid fashion is just too much work. You have taken two extremes of the spectrum, the QE2 Centre, where there should be a balance sheet showing the value of the asset which is in their care, and the DHSS social security offices at the other end. There will be other options down the line and a simple test might be that the bigger the value of the asset or the amount of assets involved in the operation relative

to staff, the more desirable it is to have a balance sheet.

46. As far as the permanent secretary is concerned, he will continue to be the accounting officer in each case?

(Mr Kemp) Yes, normally.

47. He will be the chief executive, is that right?

(Mr Kemp) The permanent secretary will continue to be called the permanent secretary—in the Department that is. The chief executive will be the chief executive at whatever grade is established for that.

48. So in terms of personal responsibility, the whole weight will still fall on the permanent secretary and the chief executive?

(Mr Kemp) As long as the permanent secretary is the accounting officer, that would be so. One hopes with the establishment of the resources the framework for these chief executives will enable the permanent secretary to satisfy the Public Accounts Committee as to his stewardship via the establishment of the framework.

49. But you do not see a possibility—and it has not happened to permanent secretaries for some time—of the chief executive being surcharged if something goes wrong?

(Mr Kemp) If he was the accounting officer then I suppose conceptually he could be surcharged. If not we have to find other disciplines.

50. Could I clarify one other point? To whom is the chief executive going to report?

(Mr Kemp) He will report, I think, directly or indirectly to the Permanent Secretary in the department,<sup>1</sup> but the Permanent Secretary and the Minister concerned will, of course, work very closely together.

#### Chairman

51. Just one further question on accountability, which is paragraph 23 of the report. What paragraph 23 of the report does suggest is that it may be necessary to have legislation to achieve changes in the arrangements for formal accountability. What it is suggesting is that Parliament, through Ministers, should regard managers as directly responsible for operational matters, that there are precedents for this in the precise way in which it can be handled, that it may be necessary to have legislation and that, in suitable circumstances, this should be considered. In fact, the Prime Minister apparently is not suggesting that. Could you clarify this for us? I think a number of people have been rather confused about what the situation is really going to be.

(Mr Kemp) I think this is another part of the report which, again, underlines my point that the Government has not accepted the whole report *in toto*. The Prime Minister has said quite clearly that there will be no changes in arrangements for account-

<sup>1</sup> Note by the witness: The Permanent Secretary may wish to establish his own machinery to advise him, but the responsibility will be his.

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ability. It seems to me that the sort of legislation which is contemplated here (though it is not too clear what is actually contemplated), if it was regarded as some kind of blanket legislation applying to agencies, would I should have thought be quite intolerable for the House to be asked for. If it is to be, taken as it were, agency by agency, and depending on the structure, then, presumably, if one was setting up a quango or a new public corporation, that would require specific legislation, and at that point the issues of accountability could arise. I do not, myself, see any need—or, indeed, would it be one little bit desirable—to try to have legislation to change accountability on an overall basis.

52. If there was a quango, or privatisation, Members of Parliament would not be able to ask questions.

(Mr Kemp) If you privatise them then privatised organisations are private. If you turn them into a nationalised industry, again, there are things one does not do. There are well-known precedents of the extent to which MPs can question sponsoring Ministers about the activities of their sponsored industry. My point is, if you wanted to change that, you would need legislation and Parliament to judge whether the proposals for accountability were adequate or not.

Mr Watts

53. These proposals involve very significant changes in methods of working and in skills that are required. I think one thing that is very clear from the report is the need for greater emphasis on management skills. Have you made any assessment of how much investment in training will be necessary in order to implement those agencies?

(Mr Kemp) We are just starting that. In fact, this last weekend my department ran a conference of departmental training officers to start thinking about these very matters. We spend quite a lot on training. I am advised that the Civil Service as a whole spends about £260 million a year on training of various kinds, which is about 5 per cent of the pay bill, which is not out of line with what many other businesses think right to invest in training. I think that we shall want to review our training arrangements, as we said in the paper we gave the Committee, against the background of Next Steps, and against the background, perhaps, of orientating our training more in the direction of training for management and management, particularly, in the delivery of services. I think initially we shall look to re-orientate the considerable effort that goes in already to make that more relevant to the sort of regime we should be moving into here, than actually to spend more money. What we will have to spend a lot more on is effort in getting it right.

54. Do you envisage that most of the training will continue to be in-house?

(Mr Kemp) I do not know. I would like to see more training outside. Not all training is in-house anyway. The Civil Service College, for instance, has no monopoly on Civil Service training; many

departments send staff outside. I think quite a lot of training will necessarily be in-house because quite a lot of it will be not training in the sense which some people think it is sending people on courses; it will be more on-the-job training and integrated better, hopefully, into personnel management and job careers for the individuals concerned—that sort of training. Certainly we would like to learn as much as we possibly can from the other people who tend to do a similar sort of thing to what we do. One of the things we are looking at is the extent to which we can learn from the experience of others.

55. What role do you envisage for the Civil Service College? Is it itself a candidate for establishment as an agency?

(Mr Kemp) Yes, indeed, I am very proud to say Mr Luce told the House about ten days ago that he had, in accordance with what all Ministers do in reviewing their department, reviewed his department and identified the Civil Service College as an appropriate candidate for an agency. I think that is right. It is an organisation which has a distinct managerial function to carry out. You can measure its performance in many terms—for instance in output and satisfaction. I think the Civil Service College will have a lot to offer not just by way of being one of the first agencies to be set up but also by way of contributing to the training and changed training systems which are required for the Next Steps initiative. I think it is worth saying that although the Civil Service College does do a great deal of training, it only does a relatively small part of the whole Civil Service training—about 5 per cent of the whole training. Most of the training is departmental training done by departments whether in-house or out-house.

56. If I may move on to a number of points on pay and conditions. I think, in answer to Mr Higgins' questions, it seemed that you were envisaging chief executives being appointed at appropriate Civil Service grades. Does this mean that you will not be head-hunting in the commercial market for chief executives to head-up, particularly, the more commercial functions? Are you going to be tied to Civil Service grades?

(Mr Kemp) I think the contrary is true. I think the time will come quite soon when it will become not just acceptable but almost the practice to seek open competition for some of these jobs. I think that is right. I hope civil servants will—and I am sure they will be able to—apply, and I am sure many of them will prove to be the best person, but 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.

57. Could it also be part of the pattern that chief executives would be appointed on fixed term contracts—renewable, of course—rather than having the great security that civil servants have?

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(Mr Kemp) I think it must be the case that they will be appointed on fixed term contracts. I think we would envisage a relatively high risk and reward pattern for these people. They would be given a job to be done with pay and conditions (and their pay I hope will include a substantial performance-related element), and the corollary of that would be they would be on high risk if they failed.

58. How much freedom will chief executives have in hiring and firing and determining the pay and conditions of those who are employed in the agencies?

(Mr Kemp) I think this is one of the areas where, first of all, each case will have to be, as it were, settled separately. More importantly, I think it is one of those areas where we shall develop over time. At the moment, as I am sure the Committee knows, we do have a strongly centralised pay-bargaining—and, indeed pay regime. I talked about the numbers of EOs earning the same rate; it is also the case that pay-bargaining is done by the Treasury centrally for all these people. Indeed, I have spent the last five years of my life doing that very thing. We are, I hope, gradually moving in a direction where local managers will be able to take more of their own hire and fire and pay decisions, but I think it will have to be against certain essential backgrounds, if we are to make sense of it. I think the sort of backgrounds are, first of all, we shall have to be satisfied that the flexibilities that are generally being built into the system are not adequate already. I think the second thing is that it will have to be established when the freedoms are actually required and are necessary; I do not think that will be very difficult to establish. I think the third thing is that the agency does have the resources to meet the cost of whatever it negotiates. The fourth thing is that the agency will have to persuade the centre they have the skill to do it. Pay bargaining is not an amateur task, it requires a degree of expertise and skill and some of the small agencies may not have it. Finally, because we have a Civil Service which is very horizontally structured and we will have to see that any changes in terms and conditions which might be initiated for one particular activity do not have undesirable repercussions for other activities across the board. These will be developed over time. I mentioned ten years but gradually as the chief executive establishes he can do these things he will move across. The Civil Service pay bill is about £5 billion a year, so there is a lot of public money at stake in this.

59. Do you envisage that agencies will operate on a national basis or where they are very large organisations, and one could look at the DHSS benefit offices for example, could it be that the agencies will be established on a more regional basis which would inevitably lead to opportunities for more flexibility in pay rates and so on?

(Mr Kemp) I think that is possible but I think that if one has a national product to deliver, take social security for instance, it will be desirable that the agency as such be established on a national basis. Whether within the agency the management decided it should regionalise itself to develop terms

and conditions and ways of working more appropriate to various geographical parts of the country, would be down to that agency, and I would have thought it was very likely that would happen. We have all seen, even in this relatively small country, how there is the south east and the rest, and one should have opportunity for these things.

60. While there is no opportunity to have competition in the delivery of social security benefits, there may be advantages in comparison of performance. If the unit of management of the cost centre were at a lower level, a smaller size, than if you were looking at one monolith, it would not be much different from the structure we have at the moment?

(Mr Kemp) You are right in saying for the sort of services we are talking about there is very little outside competition. 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, and one would develop an internal market competition among these large organisations, otherwise with no outside spur as you say it is quite difficult to know in any absolute sense whether you are achieving any efficiency. Performance indicators should be valid not just within the organisation as between one officer and another, but at other times. Even if you do not know whether today's position is right or wrong, you can see if it gets better or worse next year.

61. Of course it makes it easier to have performance related pay, is that part of what you envisage?

(Mr Kemp) Yes, it is certainly. I mentioned that we hope the chief executive when they come in from the outside will bring with them a substantial performance related pay element. We are developing that now within the Civil Service and we shall be introducing it down to grade 7 in the system. It has recently been put to the appropriate unions and my understanding is that it is acceptable to them. Further down the line I hope we can develop performance pay but it should have to be more of the nature of group rewards for groups of staff rather than individual awards for individual people, although as the system gets more flexible and as we develop it perhaps we can look in that direction too.

62. What will be the arrangements for monitoring pay and conditions for people employed by agencies? Do you see this as a function of the department to which the agency reports, or will this be a central function, a Treasury function?

(Mr Kemp) In the very longest term it will be hopefully almost neither's function. It will be down to the chief executive to do that when he is satisfied with the conditions I have mentioned, and when the Treasury—I cannot speak for the Treasury, they are giving evidence later on—are satisfied with them. I am sure initially some monitoring will be required because if you start giving people freedom and ability which they have not had, it is important to see they are using them sensibly and abiding within whatever residual rules there are. Initially quite a tight degree of monitoring will be necessary.

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63. One concern which existing civil servants must have is over the career implications of these changes. Do you envisage there will be freedom to move between agencies and from agencies to departments at every level, or will people once they have moved into an agency have their career paths really planned out?

(Mr Kemp) We do not want to fossilise the system. It is very important not to create people who are agency people and still less have a class of civil servants who are in agencies and another class who are in departments; we do not want that. It will be desirable in very senior levels that staff should move to and fro. One of the points the Efficiency Unit made was that senior management was often not experienced in day-to-day management, they were good policy people but they did not know a lot (at least until recently) about actual management. I would hope, and this is rather a far cry, we get to a time when permanent secretaries and senior people in departments will have a better chance of becoming senior people if they have had a successful spell in an agency; it will become an important part of their career. At lower levels one can exaggerate the degree to which there is mobility at the moment, and a lot of civil servants stay in the department they are in all their careers. It is not the intention to fossilise the system any more than it is now and I hope people will have a career to and fro in that sense.

Chairman

64. Certainly if all this happens, it will be quite a radical change. Who will appoint the chief executives?

(Mr Kemp) I think the chief executives will be appointed by the Minister.

65. Will the Prime Minister have a hand in this?

(Mr Kemp) The Prime Minister has a hand already in senior appointments, as is well known. If you have seen any press notice issued on the appointment of a permanent secretary or deputy permanent secretary, it usually says, "with the agreement of the Prime Minister".

66. And that will be the case with the chief executives?

(Mr Kemp) Not necessarily all, but I think the Prime Minister will be consulted about the more important appointments.

67. So it might be a possibility, and one hopes this would not happen because the whole point is that it should try and improve the efficiency of the service, there could be some kind of political input into all this?

(Mr Kemp) I hope very much we will end up getting the best people for the job, which is the right thing to do.

68. That is very helpful and we will note what you say. What about consultations with the unions because we are going to be speaking to the unions and questioning them and they will have views on

this, particularly on pay and conditions. How do you feel about this?

(Mr Kemp) Sir Robin Butler when he saw the unions on the day of the publication of the report gave the assurance there would be consultation with them on an on-going basis both at national and local level. I have had two meetings already with the general secretaries of the unions to hear their concerns and indeed to give them some of my concerns and to tell them where we were going. The appropriate level of consultation, whether it is at the national level as I intend to do it, whether it is at departmental level or even at the units level and the actual operation, which might be quite a long way from the department itself. It will be what it is, it will be at the right level. We have given assurances to the unions there will be full consultation and it is certainly our intention that there should be consultation over everything, particularly anything that might affect their terms and conditions of service.

69. Finally, we went to just look briefly at the management of change—in other words your job. Poachers usually turn gamekeepers, although in your case it is gamekeeper turned poacher—or at least that is what the Civil Service might think. Do you feel comfortable about your job, as an ex-Treasury man?

(Mr Kemp) I was not always a Treasury man. In fact, before that I was in the old Ministry of Transport and even before that I was not a civil servant—I am what they call a direct entry principal and I am an accountant by trade a long time ago. I have not been a civil servant all my life, and certainly not been in Treasury all my life. I feel extremely comfortable in this job, yes. I know enough, hopefully, about the way the machine works and the Treasury to be able to understand their very, very reasonable concerns in these matters, and hopefully, with them to be able to devise ways of meeting those very reasonable concerns. I think that it is important to know how a machine works. This change is not going to be an easy thing to do. The Efficiency Unit and the Prime Minister's statement were of a fairly broad brush nature necessarily, to get the changes made. I think for a person in my job it is useful to know about some of the rather arcane matters of vote accounting and public expenditure white papers which other people might not know about. If this is a gamekeeper turned poacher then I think I know where the best game is.

70. How do you see your job?

(Mr Kemp) In what sense, Chairman?

71. Do you see it as mainly advisory, coordinating, stimulating—what are you going to be doing?

(Mr Kemp) I think it is all these things. I think there is coordination, there is stimulation and there is going to be a great deal of pressure to be kept up. This is not because departments and Ministers are against any part of this, it is simply because the Civil Service is a very busy organisation and its day-to-day work tends to be important and the immediate often takes precedence over the longer



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term, even if the longer term is arguably more important. So there will be a good deal of making a nuisance of myself and my team making a nuisance of ourselves with departments to make sure that they keep up what they are doing and that the enthusiasms that I am sure they have are actually translated into action. I think there will be a great deal of pressing people on. There will be a coordinating role because although these agencies will be different there will be common features. For instance, training will be a common element. There will be an explaining role; we are still having to explain to the Civil Service and others quite a lot about Next Steps. My people are spending quite a lot of time going round departments with that mission—telling staff at all levels what is going on. We want to do this in a spirit of great openness because I do not think there is any reason to have any secrecy about any of it. There will be a role of trying to solve problems, and that is where I think, if we are changing a system which has horizontal rules and, therefore, practices which go back 100 years or so, then it is going to require not just hard work but also a good deal of ingenuity in finding out just what the problem is and finding out a way of doing it. So it is a general facilitator, progress chaser and so on.

72. In changing the system is it helpful to you—or is it going to hinder you—that there is a division of responsibility in the Civil Service between OMCS and the Treasury?

(Mr Kemp) I think, oddly enough, it is helpful. It is important that the Treasury has—and they will speak to you when they come and give evidence, so it is not for me to say—some very right and proper concerns in the change we want to do, and it is right and proper that those should be pressed and accommodated. My job is to try to, as it were, meet those concerns while, at the same time, looking forward to the next steps. I think it is desirable that the Treasury concerns should all be in the Treasury where they can be marshalled properly and considered properly. Then I, and the departments, can talk to them without having to keep to a slight shading of responsibility which might come if, for example, I were in the Treasury. I think the fact that I am elsewhere is a very sensible arrangement, because I can see my job, as I say, quite clearly, without worrying about Treasury concerns, sure in the knowledge that the Treasury will worry about their own concerns.

73. What about the Efficiency Unit? What are going to be your relations with the Efficiency Unit, and are they going to be involved in the implementation of the report?

(Mr Kemp) The Efficiency Unit, of course, will carry on with their on-going scrutinies and so on. But Members of the Efficiency Unit report to me on their work on the Next Steps project, and they have been very helpful.

74. What about the future of the Efficiency Unit?

(Mr Kemp) I think you will have to ask somebody else about that.

75. Finally, what are your performance indicators? How do you see your job within twelve months, two years and then three years?

(Mr Kemp) I think that for the first twelve months we shall be working on the first of these twelve agencies. I hope very much, and trust (indeed, I am utterly sure) that at least some of them will be set up within the next twelve months and established. I think the job in twelve months will be to get those ones set up and to start pursuing the question of the survey of the other executive activities of Government to try to get a feel for whether—and I hope Mr Higgins will forgive me if I say this—the “guestimate” I gave earlier is even in the right ballpark, or whether I have got it substantially wrong one way or another. Until we do the work and get the departments to do the work we shall not know where we are. The third thing I am going to be doing in the next twelve months is following up the training issues which we have decided—to review our training arrangements and, if necessary, to start the job of re-orientating what we are doing to the agency approach. Finally, there will be a great deal of work on what I call “across the board issues” such as the financial frameworks for these organisations; the reconciliation of the necessary concerns of vote accounting with the equally necessary concerns of management accounts. There will be on-going discussion, obviously, with the Civil Service unions about matters generally, and specifically about any changes that might come up in terms of remuneration and service. I think that is a good twelve months’ job. Thereafter I hope very much we shall have cracked some of the initial “across the board issues”—I am not saying all of them. Then I think it will turn into a continuing exercise of progress chasing and, hopefully, starting to see whether the first agencies set up are actually proving their worth; whether they are delivering what we expect and the problems that come out of it. Eventually one would hope I will have worked myself out of a job because by then the system will have changed.

Chairman: Thank you very much. We are going to be questioning the Civil Service unions on 15 June, then we have got further hearings on 22 June, 29 June and, probably, 6 July, but you have given us food for thought. Thank you very much indeed.