



# **EFFICIENCY AND EFFECTIVENESS IN THE CIVIL SERVICE**

## **Government Observations on the Third Report from the Treasury and Civil Service Committee, Session 1981-82, HC 236**

*Presented to Parliament by the Prime Minister and Minister for the Civil Service  
by Command of Her Majesty  
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Cmnd. 8616

**GOVERNMENT OBSERVATIONS ON THE THIRD REPORT FROM THE  
TREASURY AND CIVIL SERVICE COMMITTEE:  
SESSION 1981-82, HC 236**

1. The Government welcomes the Report of the Treasury and Civil Service Committee on "Efficiency and Effectiveness in the Civil Service" (Third Report from the Committee, Session 1981-82, HC 236) as a timely and valuable contribution to promoting greater efficiency and effectiveness in the Civil Service.
2. The Government accepts, totally or with some reservations, 20 of the Committee's 26 recommendations. Of the others, four concern the powers and role of the Comptroller and Auditor General (C&AG), and seek to expand and support recommendations of the Public Accounts Committee (PAC). The Government is considering the PAC's recommendations, and its response to **Recommendations (xvi) and (xvii)** of the Treasury and Civil Service Committee's Report will be made known in due course.
3. The Government's response to the substance of the Committee's recommendations follows. The Committee's recommendations and the nature of the Government's response are summarised in Appendix 1 for ease of reference.

**Achievements so far**

4. The Committee concentrated its enquiries upon *arrangements* to promote efficiency and effectiveness in the Civil Service. It concluded that "there is no clear orientation towards the achievement of effectiveness and efficiency at the higher levels of the Civil Service or in government generally"; and that, although there is a commendable concern with economy in the use of resources, there are too few attempts to set operational objectives, measure outputs and results, and hence guide the proper use of resources.

*The Government's policy for good management*

5. The Government has since May 1979 regarded good management throughout the whole of the Civil Service as an aim to be pursued as a matter of policy in its own right. This policy holds the key to securing a general and sustained improvement in efficiency and effectiveness. The Government's objectives have been to review the functions of government, to eliminate those that are unnecessary or are no longer required, to make sure that those that are retained are performed as efficiently and effectively as possible, to build on existing examples of good management practice in departments, and to disseminate such examples more widely. The Government's policy for meeting its aims was described in "Efficiency in the Civil Service" (Cmnd. 8293, July 1981).
6. The first part of the Government's policy—which, as the Committee appreciated, shows concern with economy in the use of resources—entails setting a financial framework, with stricter limits on the amount of money and manpower available, to stimulate economy and efficiency. Departments use manpower monitoring systems which exercise close control over staff numbers month by month. Early in its life the Government set a target for the size of the Civil Service of 630,000 by April 1984—over 100,000 fewer than when it came

to office. Reductions are on course: on 1 July 1982 the size of the Civil Service was 659,300, the smallest number for 16 years. Service-wide some £½ billion a year in pay is already being saved. For some departments the 1979 baseline itself represented much lower manpower levels than in the past. In the Ministry of Defence (MOD), for example, civilian staff numbers had been reduced by over 20,000 United Kingdom-based civilians between 1976 and 1979, and some 30,000 more have gone since then.

7. The second part of the Government's policy—which tackles problems identified by the Committee—has been to secure better value for money. The Government has sought to create and maintain an environment which is conducive to good management and to set and attain particular management targets. This demands critical examination of the continuing need for activities, functions and policies, as well as their costs, and an assessment of whether any should be transferred or contracted out to the private sector. Between 1978–79 and 1980–81 the number of Inland Revenue staff per 10,000 taxpayers has fallen from 24 to 21 (12½ per cent); and it is estimated that the relative costs of administering Social Security benefits will have fallen by six per cent between 1978–79 and 1981–82. Other examples of improvements made by departments include the following:

a. The Ministry of Agriculture, Fisheries and Food has streamlined its regional organisation and simplified the arrangements for making grants to farmers for capital equipment, thus saving so far 700 posts worth about £6 million a year.

b. In HM Customs and Excise, operational research techniques have improved the effectiveness of the Department's programme of VAT control visits. The increase in detection of under-declarations resulting from these techniques is estimated at about 20 per cent, worth about £25–30 million a year.

c. The MOD has created a Directorate General of Management Audit, bringing together the functions of central management services, staff inspection and internal audit. This is already beginning to yield results in better co-ordination, more selectivity in coverage, and the development of management audit techniques using mixed discipline teams to examine more complex issues where straightforward inspection or audit alone would not give sufficient assurance of the Department's efficiency.

d. The Department of Health and Social Security (DHSS) has carried out a major study to examine the way business is handled at the various levels of the Social Security organisation, and the traffic in work between headquarters, regional and local offices. The report, published in September 1981, proposed a big reduction in the extent to which local offices are required to refer matters elsewhere for decision. Implementation of these recommendations is expected to lead to a net saving of around 1,000 posts over the next 12–18 months as a result of reducing the number, size and functions of the regional offices.

8. The scrutinies and reviews conducted by departments with the help and advice of Sir Derek Rayner provide notable examples: departments will have

undertaken 133 scrutinies by the end of 1982. The work completed so far has identified potential annual savings worth £300 million and one-off savings of £37 million. This includes a “Rayner” review of government statistics<sup>1</sup> which has already reduced by ten per cent the burden of enquiries on industry and other organisations and saved £10 million (690 posts) a year in government expenditure. A further substantial reduction is expected by 1984 and additional savings of £7 million a year (840 posts) as the remaining recommendations are implemented. A recently completed review of support services for government research and development identified savings and improvements worth about £15 million a year (1,500 posts) and about £7 million once and for all savings.

9. The Government has also taken initiatives to secure lasting improvement, affecting both people and systems, in the quality of Civil Service management. On the “people” side, the introduction by the Government of a more formal system of centralised succession planning to identify and plan staff moves in crucial posts provides essential support for the principle that people likely to occupy senior management posts—especially those concerned with financial management—should be given suitable experience and training earlier in their careers. On the “systems” side, internal audit has been strengthened, and administrative forms have been reviewed (results were announced in February 1982)<sup>2</sup>. Further reviews of the management of large, self-contained executive operations, of the control of running costs, and of personnel management are in progress.

10. The Government shares the Committee’s view (**Recommendation (xxvi)**) that efforts to increase efficiency and effectiveness would be hampered by a failure of morale in the Civil Service and has no doubt about the importance of good staff relations. Achievement of the Government’s objectives of a smaller and more efficient Service that provides good value to the taxpayer may cause some uncertainties for staff; this is bound to be so when an organisation is reducing in size. The Government is wholly persuaded of the need for good communications and the prompt announcement of decisions to minimise these difficulties, so that the Civil Service can sustain its sense of pride in a job worth doing and well done. It is clearly important for the Government to do everything possible to carry its employees with it in the implementation of policy, to explain the need for its policies and the longer-term advantages of a more streamlined and effective Civil Service, and to make clear—as it is happy to do in this Report—that it appreciates and values the work that is done by its civil servants, including their essential contribution to carrying through all the improvements in efficiency and effectiveness that have been made so far and which are in train.

11. For the future, the Government wishes to see staff involved more closely in the development and formulation of the decisions that affect their work, where this will itself enhance their effectiveness in carrying out their tasks. It is considering ways in which staff can gain some benefit from efficiency savings—for example by investing a proportion of such savings to improve output and enhance the working environment. It is seeking to secure greater co-operation

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<sup>1</sup> *Government Statistical Services*, Cmnd. 8236, April 1981.

<sup>2</sup> *Administrative Forms in Government*, Cmnd. 8504, February 1982.

between different departments' offices operating in the same geographical area<sup>1</sup>. It is improving management/staff communication: for example, DHSS has recently issued a note to all its local office staff setting out the personnel policies it proposes for the next two years and emphasising the efforts being made to avoid redundancies while nonetheless achieving its manpower targets. The responsibilities of the central departments and their Ministers are recognised in the *Early Tasks* paper (Appendix 2) published by the Management and Personnel Office (MPO); and two of the MPO's five major objectives for 1982-83 are to promote the motivation and performance of staff and to develop good employment practices throughout the Civil Service.

### **The Presentation, Management and Review of Programmes**

12. The Committee made a number of recommendations related to the presentation, management and review of programmes (**Recommendations (i) to (x)**). One particularly important development of the Government's policy, designed to ensure the systematic and comprehensive application of higher standards of financial management, has recently been initiated by the Treasury and the MPO, and is relevant to the Committee's **Recommendations (iv), (v) and (vi)**. It will build on the valuable work that has already been undertaken in various departments to develop better financial management systems.

#### *Financial management*

13. The aim of the financial management initiative is to promote in each department an organisation and system in which managers at all levels have:

- a. a clear view of their objectives and means to assess and, wherever possible, measure outputs or performance in relation to those objectives;
- b. well-defined responsibility for making the best use of their resources, including a critical scrutiny of output and value for money; and
- c. the information (particularly about costs), the training and the access to expert advice that they need to exercise their responsibilities effectively.

14. The working document with which the initiative was launched on 17 May 1982 is at Appendix 3. Departments are called upon to examine the way they manage all aspects of their programmes and to work out the best pattern of managerial responsibility, financial accounting and control. Keeping in touch throughout with the Treasury and the MPO, each department is to develop and define a plan which on completion will be sent to the Treasury and the MPO (before the end of January 1983); those departments will publish a central report by July 1983.

15. It is expected that every department's plans will include the following points:

- a. there will be an outline plan of development which will cover the whole of the department's activities. The assembly of each plan may proceed in stages, including pilot projects;

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<sup>1</sup> Departments involved are: HM Customs and Excise, Department of Employment (including the Manpower Services Commission and the Health and Safety Executive), Department of Education and Science, Department of Health and Social Security, Home Office, Inland Revenue, Lord Chancellor's Department, Ordnance Survey, and Department of Transport.

- b. there will be an information system that not only provides higher management with aggregated information needed for estimating and control, but managers at successive levels down the line with the information they need to do their job properly;
- c. the responsibilities of managers for the control of the resources they consume and, wherever feasible, the results they achieve will be specified systematically;
- d. the plan will include a system for the budgeting and control of administrative costs;
- e. where practicable, performance indicators and output measures will be developed which can be used to assess success in achievement of objectives. This is no less important than the accurate attribution and monitoring of costs; the question departments will address is “where is the money going *and* what are we getting for it?”.

The full achievement of the aims of the initiative will require a heavy commitment of resources, including the efforts of senior management, and departments will need time. However, some departments were already well ahead. The MOD, for example, has had for some time cost and management accounts covering expenditure approaching £4½ billion and widespread staff and travel budgets. It had already conducted a major study of financial accountability in the Department and is now considering proposals for a system of responsibility budgets for line managers.

16. A small MPO/Treasury unit comprising civil servants and management consultants has been set up to help departments in the preparation and review of their plans. It will work mainly in departments, advising senior management in the light of its experience gained from other departments and from the private sector. It will also help to identify Service-wide issues and to point to useful changes in existing practices and rules.

#### *Management of Programmes—General*

17. The Government supports the principles contained in the Committee’s **Recommendation (xi)** that, while there should be greater devolution of management, central departments should adopt a stronger and where necessary more prescriptive role in reviewing the effectiveness and efficiency with which management operates.

18. The Government also accepts the suggestion which is commended in **Recommendation (i)** and set out more fully in paragraphs 50 to 56 of the main Report, that the evaluation of a programme requires the development of an analytical framework. Provided that fundamental principles are observed, the Government agrees with the Committee’s comments that there should be no question of rigidity and that the framework of analysis should be adapted and developed to fit the policy or problems in question, rather than the policy or problem being distorted to fit any particular framework. It may be helpful to the Committee if the Government outlines its approach to these issues.

19. In essence, the Government intends to apply principles to management and management information which have a general strength and robustness in the way which best suits the particular situation. The variety of responsibilities

which Ministers have in charge can be illustrated by reference to three departments, DHSS, MOD and the Department of Energy.

20. The responsibilities of DHSS extend to five large and separate businesses which vary greatly in type and span of control, accountability and methods of working. These include some 86,000 directly-employed staff in the Social Security system, where expenditure is specifically under the direct control of DHSS Ministers; some 2,700 staff working in the special hospitals which are run directly by DHSS; nearly a million staff employed by the NHS authorities, who are also responsible for the allocation of money provided by DHSS Ministers for which they remain accountable; and the provision of local authority social services by local authority staff out of local authority resources and the rate support grant, where the DHSS responsibility is limited to guidance and advice. The MOD is directly responsible for all its very diverse activities. These include the determination of defence policy and its implementation, the oversight and conduct of operations, the control of more than half a million Service and civilian personnel, the large-scale procurement of defence equipment and its associated research and development, and the production of certain equipments and munitions. On the other hand, a small department, such as the Department of Energy, with 1,100 staff but an extensive policy range, is trying to develop manpower and running-cost controls and methods of policy review fitted for very different circumstances.

21. Such differences mean that the ways in which principles are applied and the form of analytical systems may differ somewhat and that, even within one department, the methods of analysis to be developed in future should be capable of dealing with a wide range of activities.

22. Nonetheless, the Government believes that fundamental principles of good management transcend the differences between departments. Despite differences between functions, scale and organisation, the management of each department can and should be informed by clear and common principles. The position is now as follows.

23. First, as regards the central departments, the Government reaffirms that it is the function of the Treasury and the MPO, as of the centre of any large organisation, to promote high standards of administration by a combination of guidance, prescription and scrutiny; to ensure that these standards are reached by all; and to ensure that Parliamentary and other requirements are met. The Government expects the central departments to make full use of the knowledge and experience of other departments; to establish clear principles; to provide information and advice about the practical application of principles; and to check that they are applied in practice. The results should be visible to Parliament and the public; the Government's views on publication of management information are set out in paragraph 30.

24. Secondly, as regards departments generally, much good work has already been done to improve financial management. That is in line with the policy which the Government had on taking office for raising the standard of management in the Civil Service. The time has now come for a general advance, to consolidate the work already done, and to bring the rest up to the standard of

those who are in the lead. The Government has therefore launched the financial management initiative outlined in paragraphs 13 to 16 above and described more fully in Appendix 3.

25. The Government is looking to the initiative for the application of three fundamental principles, so as to build upon the work that has already been done by departments, to systematise it and extend it. These are that objectives for policy and administration should be clear; that responsibility for attaining objectives, and for the management of resources in so doing, should be defined; and that the information needed to exercise the responsibility should be provided. These principles apply to managers at all levels, up to and including Ministers. They cover resources of all kinds: manpower, money and other. They relate to both the resources which the Government consumes itself and the resources which it makes available to other agencies.

26. Thirdly, on the question of the resources which the Government consumes itself, Ministers have already done much to reform the management of expenditure on their own manpower and on such related expenditures as accommodation. They have sought to keep in balance the propositions that each of their employees is a cost to the nation and also that each of the jobs they do provides a service to the nation. The Management Information System for Ministers (MINIS) of the Department of the Environment is the best known of the departmental initiatives that have now led to the general drive for better management of these resources. It has deservedly attracted much attention and comment, at home and abroad, and the Committee has recommended (**Recommendations (iv) and (v)**) that MINIS or its clear equivalent should be adopted in all departments, that MINIS-type costings be capable of reconciliation with departments' conventionally recorded expenditure, and that MINIS-type documents should be publicly and readily available.

27. MINIS deals with part of the ground covered by the financial management initiative. As an information system for resource allocation it deals with administrative rather than with policy programme resources, placing a strong emphasis on staff costs and numbers. It provides information primarily for Ministers and senior officials. As it develops it will prove of increasing value to line managers in the management of their resources. The purpose of MINIS is to bring together information—including that from other specific information systems—about activities, past performance and future plans for each part of the Department, regardless of the nature of the activity or the size of the organisation unit. It shows how the work is organised and who is responsible for doing what. This information enables Ministers and senior officials to review regularly all aspects of the Department's work, to compare priorities of the different tasks to be performed and thus to decide how resources can best be allocated between them, and to arrange for particular areas to be examined. MINIS continues to develop in response to the general drive for improvement and developing Ministerial requirements. Its creation and development have provided the Government with a most valuable new instrument to assist resource allocation.

28. Fourthly, there is the management of policy or programme expenditures which form the great bulk of government expenditure. The financial manage-



ment initiative deals with these no less than with administrative expenditure, with the aim of promoting organisations and systems to enable staff at all levels to exercise their responsibilities, whether as advisers on policy with a financial content or as managers of financial relationships with other bodies outside their department.

29. To sum up, the Government is working for a general improvement in management and therefore in management information. MINIS is a good example of this. It is one of a number of different systems that different Ministers are adopting or trying out. Such systems should be informed by the principles outlined in paragraph 25 above. The ground they cover should include that covered by MINIS, where they should differ from it only to the extent to which they reflect genuine differences in the roles and responsibilities of different departments. The Government expects departments generally in response to the financial management initiative to establish management systems which, like MINIS, provide the information needed to make and maintain a proper distribution of resources in order to achieve objectives, in sufficient detail to identify the costs involved in carrying out particular tasks. The Treasury and the MPO will examine the programmes of work to be drawn up by departments in the light of those requirements.

30. The costings used in departments' management information systems will be compatible with their normal methods of recording expenditure, as the Committee recommended. The Government's intention is that departments should disclose as much as possible of the information they derive from their management systems. It attaches importance to making material relating to priorities and the allocation of manpower and other resources available to Select Committees and the public, though not all such material can be disclosed, for example if it concerns measures to combat fraud. The Treasury and the MPO expect to receive guidance on the question of disclosure of information from the advisory unit referred to in paragraph 16 above, and their report on the initiative (paragraph 14) will cover it.

#### *Presentation and review of programmes*

31. The Committee recommended (**Recommendation (iii)**) that the annual Public Expenditure White Paper should update and bring together statements about programmes, and that the annual Supply Estimates should offer more detail on targets and outputs. There are limits to the amount of information that can manageably be contained in the White Paper and Estimates, but the maximum relevant information will be made available, and the White Paper and Supply Estimates will continue to reflect improvements in the presentation of expenditure and the measurement of output. The style of the Public Expenditure White Paper has changed considerably over the years to match changing interests, and will continue to do so. The Government will also continue to consult Parliament about changes in Supply Estimates to ensure that developments in financial management do not conflict with Parliamentary needs. Departments will continue to extend the practice of publishing information about their programmes, their objectives and their performance in achieving them. The MOD, for example, publishes an annual Statement on Defence Estimates in two volumes.

32. The Committee recommended (**Recommendation (vii)**) that departments should work out with the MPO an annual programme of reviews to evaluate their programmes, establish the machinery for conducting them, and report to the MPO (and thence to Parliament) the results of the reviews and decisions taken on them. It also suggested (**Recommendation (xiii)**) that the Treasury should probe the effectiveness of departmental programmes. It has long been the practice for individual departments to subject programmes and policies to review as the need or opportunity has arisen, and it is essential for good administration that they should continue to do so. A further stimulus has been applied in recent years: for example “Rayner” scrutinies have often gone well beyond immediate management questions into the policies that underlie programmes. Moreover, there are already arrangements for systematically following up issues identified by Ministers during the Public Expenditure Survey as requiring more detailed review. The scope for more effective probing by the Treasury will be enlarged by the financial management initiative, with its emphasis on evaluating objectives and output as well as measuring costs; and the Treasury will continue to stimulate reviews of expenditure programmes where it perceives the need. The Government believes that the steady development of existing review activity will be more fruitful than the institution of a highly centralised approach.

33. The Government considers that it should be for individual departmental Ministers, not central departments, to decide whether to publish the results of their reviews and, where appropriate, to announce in advance that they are taking place. Ministers have demonstrated increasing readiness to do so, and this policy will be continued.

*The role of other bodies in the review of programmes*

34. The Committee recommended that departmental Select Committees should be able, via the PAC, to request the C&AG to review the efficiency and effectiveness of government programmes; that the C&AG should report annually on enquiries into government programmes conducted during the last ten years, on programmes that have not been reviewed in that time, and on planned reviews; and that departmental Select Committees should be able to table substantive motions requiring information or debate on recommendations relating to improved efficiency and effectiveness (**Recommendations (viii) to (x)**).

35. With regard to the first of these recommendations, the C&AG’s powers to examine the files of government departments, and to comment on his findings, derive from the Exchequer and Audit Departments Acts. Thus, his access to departmental files relates to his audit of the departments’ accounts.

36. The C&AG’s reports on efficiency and effectiveness arising out of his audit are considered by the PAC, the terms of reference of which refer specifically to the accounts. Neither the C&AG nor the PAC, unlike the departmental Select Committees, comments on the merits of government policies; the C&AG’s powers of access should not cover such a purpose. In the view of the Government the existing procedure under which the PAC reports and makes recommendations, having considered the C&AG’s report and having taken evidence

from Accounting Officers, is very effective. For these reasons the Government does not consider that it would be appropriate for the C&AG to use his powers on behalf of other Select Committees.

37. **Recommendation (ix)** is addressed to the C&AG who, as an independent officer, deploys his resources as he thinks fit.

38. The departmental Select Committees have powers, subject to well-established conventions, to call Ministers to account and to seek information from them about policies and programmes and about the way they are administered. The Government welcomes the role of Select Committees in doing so, but believes that they have sufficient and appropriate powers for that job.

39. The Committee also recommended (**Recommendation (ii)**) that Ministers should continuously account to Parliament for resources used and results achieved in relation to objectives; and that government should ensure freedom for independent enquiry and money to support independent programme reviews. The Government fully endorses the importance of Ministerial accountability to Parliament, and believes that Select Committees provide a valuable additional instrument for Parliament in carrying out its own role in the review process. Outside bodies too will continue to participate in this process, and the Government will take into account their comments as part of its own reviewing work.

#### **The Role of the Central Departments**

40. The Committee made a number of recommendations concerning the role of the central departments (**Recommendations (xi) to (xv)**). The Government's view on **Recommendation (xi)** concerning the balance between devolution to departments and central prescription have already been given (paragraphs 17 and 23 above); and its views on **Recommendation (xiii)**—the Treasury's role in probing the effectiveness of departmental programmes—are at paragraph 32. The Committee also recommended that the MPO should do more to disseminate examples of good practice from elsewhere, including abroad (**Recommendation (xii)**); that the Treasury and the MPO should be co-located to assist in necessary collaboration (**Recommendation (xiv)**); and that the MPO should act with the full support of the Prime Minister (**Recommendation (xv)**).

41. The Government endorses these recommendations with minor reservations. One of the MPO's main tasks is to build upon the substantial work that has been done already by departments to promote good management systems and practice. The MPO has been working with departments in reviews of a number of common activities, and as a result of this work has drawn up and issued guidelines on good management practice in four of these areas: typing, telecommunications, messenger services and transport. Work in other areas, such as stores, is in hand, and it is proposed that further guidelines will be issued. Already savings in the areas studied amount to £21 million per annum. The lessons from the review of administrative forms are being vigorously followed up. The review of support services for government research and development, which has recently been published, will also give rise to guidance of general application. This year's multi-department reviews of the control of running

costs,<sup>1</sup> of the management of large self-contained executive operations,<sup>2</sup> and of personnel work<sup>3</sup> should also provide the basis for practical and long-lasting guidance to departments. This will be published.

42. Another example of arrangements for the dissemination of best practice, both from within government and from the private sector, is the establishment of the MPO/Treasury unit described in paragraph 16 above. However, comparisons with costs of related *overseas* programmes are usually of limited value because, except at a superficial level, circumstances differ so much. For example, the Inland Revenue has found that revenue bodies in other countries are normally responsible for a different mix of taxes, each of which may be more or less complex, with different levels of taxation, different divisions of work between taxpayer and department (for instance, because of self assessment) and different systems and powers. Likewise, attempts by HM Customs and Excise to compare the cost of VAT collection in the United Kingdom and in other European countries have been made more than once, but have been inconclusive because some countries are unable to identify what it costs them to collect VAT whilst others cannot produce figures on bases comparable with those used in the United Kingdom; there are significant differences both in the tax-collecting organisations and in the scope of the tax itself. While therefore the Government accepts that there is value in those responsible for running particular activities in departments studying the practices adopted in other countries, it does not consider that the probable returns are sufficient to justify substantial studies to compare costs directly.

43. Responsibility for the organisation, management and overall efficiency of the Service, and for policy on recruitment, training and other personnel matters rests with the Prime Minister as Minister for the Civil Service, and is discharged by the MPO. The MPO will continue to act in these matters with the Prime Minister's authority.

44. In April this year the MPO published a paper (*Early Tasks*) setting out its major objectives for 1982–83 (Appendix 2). The Treasury and the MPO share many responsibilities for the framework within which government departments operate, making it essential that these two central departments work closely together. MPO and Treasury Ministers, and the Joint Heads of the Home Civil Service, meet regularly and frequently to consider questions of Civil Service management. There are many formal and informal links below that; for example, the use of “assignment” staff such as Staff Inspectors and O&M experts is now jointly planned. Links between the Treasury and the MPO will be made much easier, as the Committee recognised, by the Government's decision to house the two departments at the Great George Street building. It is expected that the

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Departments taking part in reviews:

<sup>1</sup> Department of Education and Science; Department of Employment; Department of Energy; Foreign and Commonwealth Office; Management and Personnel Office; Department of Trade.

<sup>2</sup> Ministry of Defence (Meteorological Office and RAF Support); Department of the Environment (PSA District Works Offices); Home Office and Scottish Office (Prisons); Royal Mint; Department of Trade (Coastguards).

<sup>3</sup> Ministry of Agriculture, Fisheries and Food; HM Customs and Excise; Department of Employment; Department of Health and Social Security; Home Office; Inland Revenue; Lord Chancellor's Department; Property Services Agency; Scottish Office.

main move, involving as it does other departments, will be completed by Spring 1983.

### **Other Public Sector Bodies**

45. The Committee made recommendations concerning audit by the C&AG of public sector bodies (**Recommendations (xvi) and (xvii)**), and the achievement of efficiency and effectiveness in such bodies (**Recommendation (xviii)**). The first two of these recommendations follow up views already expressed by the Expenditure, Procedure and Public Accounts Committees of the House of Commons. The Government has undertaken to consider the views expressed in the debate of 30 November 1981 on the role of the C&AG<sup>1</sup>. The Government is considering all the relevant issues, including the Treasury and Civil Service Committee's views.

46. The Government accepts that the standards and methods of approach it wishes to see applied to the management of departments and to the control of their programmes are capable of extension within the public sector, and will expect non-departmental public bodies to take account of the lessons learned in departments. Where appropriate, departmental Ministers will oversee the management methods used by the bodies they sponsor. The MPO publication *Non-Departmental Public Bodies: A Guide for Departments* gives specific guidance to sponsor departments on securing the proper control and accountability of non-departmental public bodies.

### **Personnel Management and Efficiency**

#### *Definition of responsibilities*

47. The Committee recommended that the relative responsibilities of Ministers and their Permanent Secretaries should be more clearly defined, and that newly-appointed Ministers should have the opportunity to replace any Permanent Secretary with whom they cannot work satisfactorily (**Recommendation (xxii)**). The Government agrees that, as part of the process of strengthening line responsibilities, there is a need for a clear understanding between a Minister and his Permanent Secretary on the way in which the responsibility for managing the department is discharged and the extent to which the Minister delegates authority in management matters to his Permanent Secretary. Any general guidance on the issue would have to accommodate a wide range of differing circumstances and personalities, but the Government is considering whether any useful general guidance can be formulated.

48. The Government sees no need to institute formal arrangements to review the appointment of a Permanent Secretary after the appointment of a new Minister. If a newly-appointed Minister and his Permanent Secretary are not able to establish a mutually acceptable working relationship, that fact will certainly come to the notice of the Prime Minister and the Joint Head of the Civil Service, and it is for the Prime Minister to decide how best to deal with the matter, with advice from the Joint Head of the Civil Service as appropriate.

49. The Committee recommended further extension of the personal authority of line managers within departments (**Recommendation (vi)**); the Government

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<sup>1</sup> Official Report 30 November 1981 Vol 14, No 19 Col. 39.

agrees. A good deal of recent work has been done to this effect. Departments generally will in future pay for most of the goods and services provided by Her Majesty's Stationery Office, the Central Computer and Telecommunications Agency and, from 1983, the Property Services Agency. Many courses at the Civil Service College will be on repayment from 1983. The requirement to make such payments will enhance awareness of costs, and make it easier for local managers to be given more authority to control the use of resources they consume.

#### *Training and career management*

50. Line managers need help in order to discharge these changed duties properly; this underlines the importance of training (as the Committee recognises —(**Recommendation (xxi)**) and of career management. Training has constantly to be adjusted to reflect current priorities, especially when numbers of training staff are being reduced. As a contribution to Information Technology Year 1982 no fewer than 5,000 civil servants have attended courses run by the Civil Service College at centres throughout the United Kingdom on the practical potential of information technology. Training in forms design has been increased following the Administrative Forms Review. The Civil Service College is now redesigning and expanding courses on financial management skills, and a new Senior Finance Course has been introduced for staff expected to fill senior posts with important financial responsibilities. After April 1983 it will normally be required that an officer will have completed this course before being appointed a Principal Finance Officer or will do so without delay after appointment. In order to carry out the Government's intention to double the number of professionally qualified accountants in the Civil Service much is being done to train people to professional standards by using Colleges of Higher and Further Education and also the MOD facilities at Worthy Down (where over the past four years an average per year of 28 MOD staff and 17 from other departments have been trained in Cost and Management Accountancy). In addition, for those jobs that do not demand full professional qualifications but do demand aptitude, much effort is being put into training, both in-house at the Civil Service College and in departments, and externally.

51. Objective 3 of the MPO's *Early Tasks* paper (Appendix 2) concerns the selection, training and career management of staff. The supporting programmes include a review led by the MPO which will assess what training is necessary for staff with potential for senior management, what gaps there are in the considerable training opportunities already available inside and outside the Service, and how best to fill them. In line with the Committee's **Recommendation (xx)** the review will also consider what extra training provision is needed for those expected to rise to top posts; there will be consultation with people outside the Civil Service as well as within it.

52. The Government fully agrees with the Committee's view (**Recommendation (xix)**) that a substantial proportion of the most senior posts in the Civil Service should be filled by officers with successful records in financial and general management. It is already the policy that all senior posts should be open to those best fitted to hold them from all groups and classes in the Service and that effective use should be made of people of high potential whatever their current

occupational group or class. Improvements have been made in the arrangements for succession planning for senior posts to reflect this policy. The Government's examination of the structure of Civil Service grades (of which the Committee is already aware from Cmnd. 8170<sup>1</sup>) may also be relevant, although decisions on this cannot be made until the recommendations of the Megaw Report have been taken into account. Meanwhile one important change of direct relevance to the Committee's current concern has been made. From 1 July 1982 members of the expanded Government Accountancy Service have been included within the Administration Group. This will make it easier to give accountants experience of administration early in their careers, so that they will be fitted for senior posts later on. It will in due course lead to an increase in the number of professionally qualified accountants in the upper reaches of the Service.

#### *Pay and industrial relations*

53. A Committee of Inquiry chaired by Sir John Megaw was appointed in June 1981 to make recommendations on the future principles and system for determining the pay of the non-industrial Home Civil Service. Among the topics which the inquiry was asked to consider is the scope for introducing merit pay in the Civil Service (**Recommendation (xxiii)**). Copies of the Government's evidence on all these issues have been sent to the Select Committee and are publicly available. The Committee reported on 7 July 1982 and the Government is now considering its recommendations, taking into account those of the Select Committee on merit payments and on the general principles which should underlie arrangements for determining pay (**Recommendation (xxiv)**).

54. The Select Committee commented upon the need for proper control over the use of "facility" time for trade union activities (**Recommendation (xxv)**). The Government agrees; it has renegotiated, with considerable improvements, the agreement dating from October 1974, and the new national agreement came into effect on 30 April 1982. The Government has taken into account the need for greater precision, particularly in relation to the distinctions between "industrial relations duties" and "trade union activities". Departments have been made responsible for agreeing their own arrangements for facilities within the new national framework, which should enable them to exercise better control over the use of facility time.

#### **Conclusion**

55. The progress made so far in implementing the Government's policies to secure greater efficiency and effectiveness will be further consolidated in the period ahead. There can be no final completion: the task is continuous. However, the efforts made by departments, whether in response to central programmes or on their own initiative, are very substantial indeed and the returns will continue to increase. The Government is grateful for the further stimulus provided by the Report of the Select Committee.

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<sup>1</sup> *Government Observations on the First Report from the Treasury and Civil Service Committee, Session 1980-81, HC 54, February 1981.*

# APPENDIX 1

## KEY TO RECOMMENDATIONS

Recommendation		Response	Paragraphs in Government's Observations
i.	A common framework of analysis to be used by departments.	Accepted in part	18
ii.	Responsibility of Ministers and Parliament for the review programme.	Accepted in part	39
iii.	Contents of the Public Expenditure White Paper and Estimates.	Accepted in principle	31
iv.	MINIS and equivalent systems; documents to be made available.	Accepted in principle	29–30
v.	MINIS costings to be compatible with conventional records of departmental expenditure.	Accepted	30
vi.	Responsibility and accountability of line managers.	Accepted	49
vii.	Annual programme of departmental reviews to be introduced and results published.	Not accepted	32
viii.	Select Committees to commission C&AG to carry out reviews of efficiency and effectiveness of Government programmes.	Not accepted	34–38
ix.	C&AG to publish annual report of reviews carried out in last ten years.	Drawn to the attention of the C&AG	34–38
x.	Select Committees to table substantive motions for debate and vote in Parliament.	Not accepted	34–38
xi.	Central departments to move away from guidance to prescription.	Accepted in part	17 and 23
xii.	MPO to collect and disseminate examples of good practice and to review the advantages of obtaining cost comparisons from abroad.	Accepted in part	41–42
xiii.	Treasury to probe effectiveness of programmes for which it provides funds.	Accepted in part	32
xiv.	Close collaboration needed between Treasury and MPO; co-location of the two Departments.	Accepted	44



## KEY TO RECOMMENDATIONS (Cont'd)

Recommendation	Response	Paragraphs in Government's Observations
xv. MPO to be seen to act with full authority and support of Prime Minister.	Accepted	43
xvi. C&AG's audit to be concerned with efficiency and effectiveness; C&AG to have access to accounts of public sector bodies.	Under consideration	45
xvii. C&AG to have access to accounts of all bodies in receipt of "public funds".	Under consideration	45
xviii. Standards of efficiency and effectiveness to be required in other public sector bodies.	Accepted	46
xix. Senior posts to be filled by staff with experience in financial and general management.	Accepted	52
xx. Establishment of a senior staff training course; MPO to set up working party.	Accepted in part	51
xxi. Review training of line managers in light of Select Committee's recommendations.	Accepted	50
xxii. Clarification of relationship between Ministers and Permanent Secretaries; new Minister to be able to change Permanent Secretary.	Accepted in part	47-48
xxiii. System of merit pay to be considered.	Accepted as part of the consideration to be given to the Report of the Megaw Inquiry	53
xxiv. Arrangements for pay to enable unions to accept civil servants continuing to co-operate in improvements in productivity and efficiency without special payment.		
xxv. Facilities Agreement: need for precise revised provisions and careful control of facility time.	Accepted	54
xxvi. Morale: improvement of industrial relations and restoration of morale essential for achievement of efficiency and effectiveness.	Accepted	10-11

**THE MANAGEMENT AND PERSONNEL OFFICE: EARLY TASKS**

**INTRODUCTION**

1. In the message which the Prime Minister sent to the staff of the Management and Personnel Office (MPO) when it was set up she said—

“ . . . it is people who make the services provided to and by Government work well. I should like all our services to be excellently run and all civil servants to have the confidence that comes from a job worth doing and well done, and to be proud that they work for the public. I look to the new Office to have as its aims improving methods of work and efficiency in the Civil Service and encouraging and helping people to give of their best”.

2. This statement outlines how the MPO is setting about its tasks. It is being underpinned by management action within MPO to assign responsibility for carrying out tasks and meeting objectives on the basis of detailed planning documentation.

**THE APPROACH**

3. Government departments, under the direction of Ministers, exist to provide the public with services which must be as good as they can make them within the constraints of the resources available. Each and every department affects the lives of individual citizens in diverse ways, some direct and immediate, some more indirect. Each faces its own special and constantly changing problems. Each department carries the main responsibility for the quality and efficiency of the services it provides; it must therefore be responsible for organising itself, for deploying its resources to best effect and for developing the skills and potential of the civil servants it employs.

4. The public judge the effectiveness and efficiency of government mainly by their experience of doing business with the men and women in the front line of government departments all over the country. Their performance is to be reckoned not only in cost but also in the amount and quality of the services provided. It is primarily for Ministers and senior officials in charge of departments to encourage and help their staff to serve the public well.

5. The MPO has two main functions. The first is to promote the efficiency and effectiveness of government departments, a task which involves identifying, supporting and spreading good management systems and practice in departments and monitoring, questioning and auditing performance in securing them. The second is to maintain a Service-wide framework for the development of personnel policy and practice, and to provide central services to all departments, notably through the Civil Service Commission (recruitment), the Civil Service College (training) and the Medical Advisory Service (occupational health).

6. The Treasury now has responsibility not only for the management and control of public expenditure in general but also for that of Civil Service pay and manpower in particular. The objective of reducing the size of the Civil Service to 630,000 by 1 April 1984 constitutes a constraint which bears upon the scale of the service to the public, and sets a premium on improving the quality and efficiency of that service.

7. Thus the Treasury and MPO share responsibilities at the centre of government—over and above the responsibilities which each department carries in its own sphere—for the framework within which government departments and civil servants work, for the efficiency with which government business is done, for the competence, well-being and morale of the civil servants on whom that depends and for the conduct of relations centrally with the trade unions representing civil servants. It is this shared responsibility which has led the MPO and the Treasury to launch jointly a major initiative to improve financial management and so develop managerial effectiveness in government departments—see paragraph 8(2) below.

8. In order to use its resources effectively, the MPO has to be selective in identifying what objectives to pursue. The major objectives for the MPO in 1982–83 will be as follows:

**(1) To carry out its part in the programme of efficiency work in 1982 announced by the Chancellor of the Duchy of Lancaster on 9 December 1981.** It will support Sir Derek Rayner with further departmental scrutinies in the programme for which he is responsible to the Prime Minister, and will co-ordinate reviews of the use and control of resources in various executive operations; of projects to help departments improve their systems of estimating, monitoring and controlling their running costs; and of personnel work in nine departments covering more than half the Civil Service.

**(2) Jointly with the Treasury, and in consultation with other departments, to launch a major initiative to improve financial management in Government departments.** Departments will be invited to work up practical plans for improving their financial management in the light of guidance issued by the Treasury and the MPO. The initiative will call for a major and systematic effort to clarify the objectives and responsibilities of managers and provide them with the information, training and expert advice that they need. As plans are put into effect there will be a general raising of standards of financial management in government departments. The initiative will also assist the MPO and the Treasury to examine any changes in the existing practices and rules of the central departments which may be needed to promote managerial effectiveness and financial management in departments; and will help the MPO to develop a longer-term strategy for promoting efficiency and to define a further practical programme of work for 1983.

**(3) To review the central selection, training and career management of staff,** in particular with a view to—

(a) ensuring that skills in financial management are brought up fully to the standards necessary for good management;

(b) encouraging more staff early in their careers to deepen their knowledge of relevant disciplines, such as accountancy, ADP, etc;

(c) arranging for more of the younger staff likely in time to carry important management responsibilities to gain first-hand experience of how the work of government impinges on the outside world, for instance by doing a spell in a local office;

(d) managing the careers of potential senior managers in the first half of their service so as to enable them to gain greater depth of knowledge in particular aspects of departmental work;

(e) as a corollary to (d), broadening in mid-career the skills and experience of staff expected to reach the highest levels of responsibility so as to give them wider insights on which to draw;

(f) increasing the scope for recruiting staff at senior levels from outside in mid-career, either on short-term exchanges and secondments or on permanent transfer, and for enabling civil servants in mid-career to gain experience in other types of employment relevant to their future work, for example in industry; and

(g) facilitating early retirement for staff wishing to leave the Service voluntarily and for departments wishing to retire the less efficient.

**(4) To promote the motivation and performance of staff** by improving the quality of personnel management and the training relevant to it, by conducting projects which involve staff in improving the output and organisation of their work, by promoting understanding of the implications for people of the introduction of new technology, both for the efficiency of their work and for their satisfaction in it, and by raising the effectiveness of occupational health advisory services.

**(5) To promote the development of good employment practices throughout the Civil Service in line with Government policies applying to all employers,** in particular in the field of training, and in the employment of women, of members of the ethnic minorities, and of disabled people.

## **CONCLUSION**

9. In selecting major objectives for 1982–83, the intention has been to put together a practical programme with a good pay-off. Its success will lie in the extent to which it helps government departments and the men and women who work in them to serve the public well. Towards the end of the period the MPO will assess progress and consider what major objectives should be set for 1983–84.

Management and Personnel Office

April 1982

**FINANCIAL MANAGEMENT****Note by the Treasury and MPO**

1. The time has come for a general and co-ordinated drive to improve financial management in government departments.
2. This paper sets out the objectives, places them in the wider context of management and organisation, and invites the departments listed at Annex A to work up programmes of action and discuss them with the Treasury and MPO.
3. Programmes of action should build upon the work done recently in a number of individual departments, in several cases with help from consultants; and the further work already planned for 1982. Departmental reviews which have pointed the way include the major reviews of financial management in MAFF, the Department of Industry and the Ministry of Defence; the institution of the MINIS system in the DOE; the studies of a budgetary system for the control of administrative costs and of management responsibilities in the network of Social Security offices in DHSS; and the review of support services and R&D establishments in six departments. In 1982, reviews are planned of the arrangements for controlling running costs in the FCO, MPO, Department of Trade, Department of Employment, Department of Energy and DES; of resource control in certain executive operations in the Home Office, Scottish Office, Ministry of Defence, Department of Trade, PSA and the Royal Mint; and of personnel management practices in nine departments.
4. The need now is:
  - to keep in focus the fundamental objectives;
  - to sustain the impetus towards them, translating the recommendations of reviews into action fitted to the tasks and priorities of each department;
  - to identify and take action on any changes needed in Service-wide arrangements or requirements of central departments;
  - to help departments to draw on the lessons of each other's experience.

**The Objective**

5. The main objective is to promote in each department an organisation and a system in which managers at all levels have:
  - i. a clear view of their objectives; and assess and wherever possible measure outputs or performance in relation to these objectives;
  - ii. well-defined responsibility for making the best use of their resources including a critical scrutiny of output and value for money;
  - iii. the information (including particularly about costs), training and access to expert advice which they need to exercise their responsibilities effectively.
6. There are obstacles to the application of these principles in the public service. The yardstick of profitability is lacking. Many government objectives are generalised, and the test of their success is often acceptability rather than a

quantified measure of output. In some areas, final measures of output are elusive and only partial indicators of performance can be devised. The task of applying the principles will therefore take time, and complete success in every particular is not to be looked for. Nevertheless, the principles are fundamental to good management and the effective use of resources. They should be applied to the maximum practicable extent.

7. A manager is anybody who has to take managerial decisions, ie decisions about the deployment and use of money and staff. The lowest level at which such decisions are taken varies. In some policy divisions they may normally be taken at Principal or Assistant Secretary level; in some operational areas they may be taken by Higher Executive or even Executive Officers. But the principles set out above apply to all areas of a department's work, whether it is advice on policy, the execution of policy or a specialist or staff function.

8. Good management thus goes wider than the good systems of financial control and the information needed to support them, which are the primary subject of this memorandum. The achievement of the objective requires a managerial structure within which the system of financial management can operate effectively. It will be necessary to consider the implications of financial plans for the management and organisation of each department as a whole and for the allocation of responsibilities within it.

#### **The Contribution of Management Accounting**

9. The development and use of management accounting, linked as appropriate to other information systems, can make a central contribution both to the managerial structure and to the management of resources within that structure. It is not the accounting system itself that is crucial, but the discipline of breaking down a department's activity between managers, whose responsibilities can thus be more clearly distinguished and objectives more clearly defined; whose costs and outputs can be more clearly assessed; and to whom greater authority can then be delegated to choose the best way of using the resources allocated to them in pursuit of the defined objectives. The process of setting up and using a management accounting system, if properly planned and carried through, imposes that discipline. A more detailed note on management accounting is at Annex B, and notes on a suggested approach to implementation at Annex C.

10. The wide variety of work in government departments and the different kinds of expenditure they incur mean, however, that the approach adopted to pursue the objective in paragraph 5—and in particular the extent to which a full management accounting system will be apposite—will differ from one area to another. For example:

a. In some executive operations, like the running of prisons and R&D establishments or the support of the armed forces, where the resources are consumed directly by the Government, the costs of procedures and activities can be measured and indicators of performance or measures of output can in principle be devised, the potential of the management accounting approach can and should be fully exploited. Comparisons between establishments, or between alternative means of securing an objective, should then help to improve decisions.

b. Where the activity involves the procurement of goods and services from other agencies, eg in the building of roads or the procurement of defence equipment, the Treasury has issued fresh guidance in the last year or so both on public purchasing policy and on the use of investment appraisal. The tasks of specifying objectives, assessing alternative means of achieving them (in terms of quantity, quality, cost, time etc) and monitoring results against expenditure will be helped by the application of the management accounting approach and the better information it generates.

c. In executive operations like the paying of benefits or the collection of taxes, the rates of taxes and benefits and the rules governing their application are laid down by statute and the final outputs are therefore largely outside the responsibility of the managers who administer them. But the principles of good management summarised above apply to the administration of benefits and taxes, and the information derived from that process should be used not only to control costs and improve efficiency but also to throw light on the effectiveness of the policy decisions made elsewhere in the department. Departmental systems should clarify the respective responsibilities of those who manage the operation and those who formulate the schemes and monitor their effectiveness, and provide the information needed by each.

d. Where a department pays out grants to other agencies which themselves carry the direct responsibility for how the money is spent, the department will require an information system and the appropriate techniques (eg of investment appraisal) which enable it to make a good job of its responsibilities for the funds in question. The nature of the system will vary with the department's relationship with the spending agency. In the case of local authorities, due regard must be paid to their independence and accountability to their own electorates. The department may want to encourage the use of management accounting in the bodies it finances (a good example is DHSS's concern with management accounting by health authorities), partly as a source of information to help both formulation of policies and priorities and monitoring; and partly to encourage efficiency in the spending agencies. As far as the department's own operations are concerned, its system will focus on the effectiveness and efficiency of the grant-paying process.

e. Where the activity is to provide an internal service, eg finance, establishments, legal advice, Ministers' private offices, outputs are not generally measurable. The same is true of some, but not all, policy work. It is still right, however, that those in charge of them should know their costs and be given as much responsibility as possible for controlling them.

11. Each department should work out its own best pattern of managerial responsibility, financial accounting and control. But the following points apply generally and should be reflected in the plans of all departments:

a. Each department should construct an outline plan of development which will in time cover the whole of its activities. The plan should ensure that the most urgent priorities are tackled first, and that constituent parts of the department's system, as they are constructed, will be compatible.

- b. In most cases it will be well to advance in planned stages. These may include pilot projects. In large departments with a wide variety of functions, the task of filling in the initial outline may take several years and may need modifying if functions and responsibilities are changed.
- c. The system should not only meet the needs of higher management for aggregated information for estimating and control, but should also provide managers at successive levels down the line with the information about their resources which, together with information about performance and outputs, will help them to do their job properly. Unless the system meets the second criterion as well as the first, managers will not use it and its accuracy will degenerate.
- d. The responsibilities of managers should be specified systematically for the control of the resources they consume and, wherever feasible, the results they achieve. Each department should therefore examine the scope for breaking its structure down into cost-centres or responsibility-centres to which resource costs can be allocated and for which, where appropriate, measures of output can be devised and monitored.
- e. Whatever the pattern of their other expenditures, all departments incur the costs of their own administration. All departmental plans should include a system for the budgeting and control of administrative costs. Where outputs are difficult to assess, the identification of costs will still pose questions of value for money.
- f. The management accounting system should be used within the department for the purposes of planning and control. If it is relegated to the status of an optional extra for the display of information only, again the information fed into it will not be accurate and the system will not be used. The Treasury will review with departments, as the need arises, how their management accounting systems and their existing systems for the public expenditure survey, estimates and appropriation accounts can best be related.
- g. The development of performance indicators and output measures which can be used to assess success in achieving objectives is no less important than the accurate attribution and monitoring of costs. The question to be addressed is "where is the money going *and* what are we getting for it?" Systems should be devised to provide answers to both sides of the question wherever and to the extent that it is possible to do so. Relevant information on performance and (where possible) outputs will often be non-financial in character.
- h. Attention should be paid to the costs and cost-effectiveness of the proposed system. In principle, costs can be allocated in different ways: to units of the organisation, to programmes of activity, to objectives. Computerised systems make much elaboration possible, and some of it is necessary. Equally, they can be expensive. In general, therefore, systems should not be more elaborate than the objective essentially requires.

### **Constraints on Cash and Manpower**

12. All activity must continue to be managed within the limit of the total resources allocated annually to each department, both cash and manpower. That



discipline can only be maintained effectively if the managers to whom authority is delegated are also subject to it.

13. Good financial management requires, however, that the manager should be concerned with his total costs and not simply with his annual cash flow. Notional costs, such as the accruing liability for superannuation, are relevant to decisions which involve a choice between staff and other resources. In some areas the manager uses resources which include capital items like buildings and stocks acquired in the past, and these can be a major factor in the costs of his operation. Where this applies, the accounting system which provides the information to help him take decisions should be constructed accordingly.

14. Cash control, though essential, has to be complemented by systems and techniques that encourage intelligent reaction to changes in prices and enable departments to assess levels of service or outputs as well as total costs so that optimum use can be made of the cash and manpower available in each period.

#### **Other Constraints**

15. Centrally devised rules govern the form of government accounts and the presentation of information to the Treasury and Parliament. The Treasury will be ready to review departments' needs (see paragraph 11 (f) above) and where charges in the existing requirements seem desirable, will be ready to make proposals to Parliament accordingly.

16. Similarly, central rules govern the pay, grading and conditions of service of civil servants; many of them are the subject of negotiation and agreement with the Civil Service Trade Unions. Within departments those arrangements limit the extent to which the individual manager can change the pattern of his resources to provide an exact fit with what he perceives as the needs of his particular job from time to time. Such constraints are common in large organisations, both public and private. They will continue to be needed in the Civil Service. But departments are encouraged to make maximum use of the scope for delegation which those constraints allow, coupled with the development of a management information system by which the use of more delegated authority can be monitored. In addition, the Treasury and MPO will be ready to consider and consult about specific proposals from departments which are aimed at introducing greater flexibility in the Civil Service management regime and at improving the incentives for managers to manage well.

#### **Techniques and Training**

17. The main needs are:

- a. to spread cost-consciousness and a wider readiness to identify and try to measure costs and results, and to *act* in the light of this information;
- b. to develop and apply techniques of measuring and appraising which the relatively junior managers who take most decisions will recognise as sensible and will use;
- c. to assemble and use the specialised skills relevant to the work of each department;
- d. to give senior managers sufficient understanding of the relevant disciplines to know when they need specialised advice, and to assess and use the advice given.

18. Action is in hand to increase the supply of qualified accountants, and to improve and expand training in financial management. Training in internal audit is being expanded. A finance course for senior administrators will be mounted in 1982. The Financial Management Co-ordination Group is about to review training in financial management as a whole and will shortly consult departments about further plans.

#### **Appointments of Senior Staff**

19. Crucial to the success of the drive to improve financial management will be the appointment of the right people to the post of Principal Finance Officer and other posts which involve heavy responsibilities for financial management or financial advice. They will need appropriate training and experience and the right personal qualities for the job. The succession plans which each department draws up every year should pay special attention to these posts. Appointments as Principal Finance Officer already have to be approved by the Treasury, in consultation with the MPO. The Treasury will be discussing this further with departments.

#### **Action**

20. In the light of this paper, and taking into account the work already done and in hand, the departments listed at Annex A are invited to develop and define a programme of work for the improvement of financial management, and to discuss their programmes with the Treasury and MPO before the end of January 1983. For this purpose, departments should regard the relevant Treasury Expenditure Division as the central point of contact. Programmes should be divided into stages as appropriate, with target dates specified.

21. In drawing up their plans, departments are invited to consider:
- a. their arrangements for carrying this work forward, including the allocation of responsibility for first formulating and then carrying out the plan, terms of reference, the deployment of suitably qualified and experienced staff, and any external help they may require;
  - b. how far their existing systems, and plans already in hand, will meet their requirements and the criteria set out in this paper; and the size and scope of what remains to be done;
  - c. whether their existing organisation is compatible with an effective structure of responsibility for management—both of programmes executed outside the department and of departments' own operations; and what changes may be needed;
  - d. the scope for developing cost and responsibility centres and the creation of budgets for their managers; what additional authority could be delegated to managers; what that implies for any changes in the respective responsibilities of line managers and of finance and establishments divisions; or in requirements now laid down by the Treasury and MPO;
  - e. what parts of the department's activity, within the outline comprehensive plan, should have priority in the development of management accounting;
  - f. what work is needed for the development of output measures, what areas should have priority and how those and other indicators of performance can best be built into the management system;

- g. how their management accounts, as they develop, can best be related to the Vote accounting system, and any implications for possible changes in the latter;
- h. the implications of their plans for staffing and training, both in finance work and in line management,
- i. whether computerised systems would be desirable and if so how best to obtain them economically, bearing in mind the large extent to which the same basic needs recur in individual departments;
- j. how the management information produced can be used to keep Parliament better informed about the progress of departmental programmes;
- k. the costs of introducing and running the systems they propose.

22. Departmental Trade Union Sides have a legitimate interest in the development of departmental systems. Departments will wish to discuss their plans as appropriate with their Trade Union Sides.

23. The Treasury and MPO will keep in touch with departments as their plans develop; inform themselves of the results of the work already in hand (see paragraph 3) with the aim that any general lessons that emerge are made known through the appropriate machinery; encourage the common use of computerised systems; and circulate any guidance as necessary on central requirements or Service-wide issues generally.

24. In addition to the normal working contacts outlined in paragraph 23, departments may find it helpful to draw on help and advice in tackling the application of the principles in this paper to their particular circumstances. To this end, a small MPO/Treasury unit is being established, which will report to the joint Heads of the Civil Service. This will consist of up to six members (both civil servants mainly drawn from the divisions with the relevant experience and knowledge in MPO and Treasury, and senior consultants) and will have a limited life (probably twelve months). It will mainly work in departments, responsible to and subject to the direction of the Permanent Secretary concerned, to help the senior management of the department, in the light of the experience of other departments and the private sector, on how best to approach the task and to fit it into the wider context of the organisation and managerial effectiveness of the department as a whole. The unit will pay particular attention to considering with departments how implementation of change can be facilitated, including changes flowing from recommendations of scrutinies, reviews and other studies already complete. The unit will also report on any opportunities or problems which it finds to be common to departments and on any changes in existing practices and rules which it believes would enlarge the opportunities or help to resolve the problems. This should help the Treasury and MPO not only to see how best they can contribute to the working out of departmental programmes but also in developing their approach to management and efficiency in the longer term.

**AGRICULTURE, FISHERIES AND FOOD**

Ministry of Agriculture, Fisheries and Food  
Intervention Board for Agricultural Produce

**CHANCELLOR OF THE EXCHEQUER**

Treasury  
Central Office of Information  
Customs and Excise  
Inland Revenue  
Department for National Savings

**DEFENCE**

Ministry of Defence

**EDUCATION AND SCIENCE**

Department of Education and Science

**EMPLOYMENT**

Department of Employment  
Manpower Services Commission  
Health and Safety Commission/Executive

**ENERGY**

Department of Energy

**ENVIRONMENT**

Department of the Environment (including Property  
Services Agency)  
Ordnance Survey

**FOREIGN AND COMMONWEALTH**

Foreign and Commonwealth Office  
Overseas Development Administration

**HOME**

Home Office

**INDUSTRY**

Department of Industry

**LORD CHANCELLOR**

Lord Chancellor's Department  
Land Registry

**LORD PRIVY SEAL**

Management and Personnel Office

**NORTHERN IRELAND**

Northern Ireland Office

**PAYMASTER GENERAL**

Paymaster General's Office

**SCOTLAND**

Scottish Office (including DAFS, SDD, SED, SEPD,  
SHHD)

**SOCIAL SERVICES**

Department of Health and Social Security  
Office of Population Censuses and Surveys

**TRADE**

Department of Trade  
Export Credits Guarantee Department

**TRANSPORT**

Department of Transport (including DVLC)

**WALES**

Welsh Office

## MANAGEMENT ACCOUNTING IN GOVERNMENT

### Introduction

1. This Annex discusses in general terms the meaning of management accounting, the users of management accounting information and their responsibilities, and relationships with other government requirements for financial and accounting information.
2. There is no single definition of management accounting that can be held to apply to the varying needs and circumstances of government departments. At its lowest level management accounting might only be concerned with the analysis of costs—this being the essential starting point. But getting full value from it involves relating those costs to functions, activities and objectives for the purposes of forward planning, budgetary control and decision making. A management accounting system may be part of a family of management information systems, with links to conventional financial systems and to systems which monitor and record non-financial data. Alternatively it may embrace such systems. There can be no hard and fast rules about systems development since departments will be starting from different positions in developing the arrangements that best meet their needs. What matters is that the systems they develop should take account of the underlying principles discussed below.

### What is Management Accounting

3. Management accounting was devised to help industrial managers control the costs of particular activities. It was developed to supplement financial accounts, which tend to concentrate on *inputs*, by relating costs to *outputs*. In its development management accounting has drawn on a wide variety of analytical techniques and control mechanisms. Their common feature is that they are designed to assist all those who incur, control or indeed in any way influence costs to consider options, to formulate plans to meet objectives and subsequently to compare actual expenditure against those plans. Thus, management accounting should essentially be forward-looking. Its focus should be on evaluation (costing options and activities), planning (setting objectives), and control (monitoring events quickly and taking timely action where necessary).
4. Two key features distinguish the approach of management accounting from the financial systems generally in current use in government. The first is in relating inputs to activities, or to outputs. Much existing government accounting, and in many areas the structure of management, is now designed to assess and control cash expenditure under the Vote system analysed on an input basis. Inputs are important. Most management accounting systems seek to analyse input costs in order to ensure that they are looked at *in toto*. But the management accounting approach sees their real importance as part of the total makeup of the final cost of outputs or objectives. A more effective system of control will aim to allocate or apportion all such costs, direct and indirect, to outputs or to an organisational unit (the costs of which may equate to or can in turn then be attributed to outputs or objectives). The need to monitor and control the cost of

the outputs or objectives is then what shapes the system for controlling expenditure. As a result, individual managers are made more aware of the costs of the activities for which they are responsible, and there is a much more comprehensive picture of where costs are being incurred. Once costs are assembled regularly in this way they provide a basis for review and questioning, for budgeting and for monitoring performance against plan.

5. The second distinguishing feature is the nature of "cost". Most financial systems in use in government departments are only concerned with annual cash-flow. Tight control of cash must remain a dominant feature. Cash is also a sensible basis for Treasury and Parliamentary control. But annual cash-flow rarely gives an adequate measure of the resources being consumed by a particular activity and therefore a proper basis for comparison with outputs. Depending on the context, the cost of activities may include the depreciation of fixed assets and the use of stocks, both of which may have been purchased in a previous financial year. It may also include the costs which do not appear on the department's own Votes, such as allied services and the accruing liabilities for pensions and gratuities; and notional costs such as the updated rental value of buildings. All these represent the use of resources which should be taken into account when deciding whether to embark on or continue with an activity, whether to employ different means to meet the same objective and whether the achievement has justified the cost.

6. This is not to say that departments ignore these costs. Rather, that they are not collected systematically and used by line managers in their day-to-day decisions. (Increasingly such information is collected *ad hoc* for different exercises. That is often time consuming, expensive and inevitably not always reliable.)

7. Existing information systems do not always recognise that the nature of the decisions facing individual managers varies. In providing relevant information a management accounting system should reflect these different decisions and opportunities. In the short term management can often only influence variable costs which change in proportion to output. In the longer term there is more scope for changing full costs by increasing or reducing capacity. The difference can be of great importance to the way managers respond to different situations and in quantifying the effects on costs of changes in activity levels. For example, make or buy decisions require information about the costs that will actually be affected by the decision. Similarly, a manager may need to consider how best to set charges, perhaps to utilise spare capacity in a computer or some other installation. Giving him access to the relevant data should help a manager to optimise his decisions.

8. Relevant data will often include pay and price indices. Changes in the relative price of inputs should raise questions about the optimum mix of inputs to achieve a given objective. For example, individual managers should be aware of how the prices for goods and services they are consuming or purchasing compare with those in the market as a whole, both for similar products and for those which could be substituted if they were to change their processes in both the short and long run. This involves monitoring specific and general pay and price indices, as an aid to minimising costs for given levels of output.

### **The Users and their Responsibilities**

9. While individual managers require the information which flows from a well designed management accounting system if they are to control their costs effectively, the control of costs is not the sole objective of management accounting, nor are line managers its only users. The techniques involved, together with related disciplines, are designed to help both managers and policy makers to see clearly the financial implications of different courses of action and thus to weigh these against other non-financial criteria (eg social objectives). They all contribute to assessing the cost-effectiveness of present and future activities in order to ensure efficient use of available resources and in particular:

- a. to reveal uneconomic activities, under-utilised capacity and wastage and to assist corrective action; and
- b. to ensure that decisions are taken with full knowledge of all relevant financial information.

10. At higher levels, decision-takers will be concerned with broad questions such as whether to embark upon, to maintain, to modify or to discontinue particular activities. They need to be able to define the objectives these activities are designed to serve, and to measure their costs. For these purposes and for regular monitoring of performance they need corresponding information on outputs. The management accounting system should provide the basis for this information. But where outputs are not easily measured, as often happens in non-marketed public services, the need for good cost information is not reduced.

11. At lower levels the emphasis will be on the management of existing activities and getting the most effective output for the lowest cost. Cost information here is usually more detailed; its purpose is to help the manager to assess and monitor the components of his costs, and variations in them. In general, the responsibility for the use of resources should be placed to the greatest extent that is practicable at the point where they are consumed, and this points to the maximum delegation of authority to managers. There must of course be limits to the application of this principle, since Principal Finance and Establishment Officers must continue to maintain department-wide controls over particular types of input (cash-flow, staff numbers and pay and other conditions of service are obvious examples—see paragraph 12 below). But even where controls of inputs have to be exercised by a separate, central authority, the system should be such as positively to encourage the manager to examine his costs critically and regularly, to change the pattern of his activities in order to optimise his use of resources in relation to the objectives of his unit wherever he can be given the authority to do so, and to draw attention to the misuse of resources and opportunities for improvement where changes need the action of higher authority.

12. This paper does not attempt to tackle in detail the question how and how far managers can be given increased authority to take decisions about the resources they consume by relaxing the controls and checks over their inputs or altering their form. Departments will need to consider how best to make progress in this direction in their own circumstances. It is however inherent in the approach discussed here that the responsibility within a unit both for the consumption of resources and for observing the department's rules for control-

ling inputs should rest with the managers of that unit (and not with some other person) and that he should be encouraged to regard that responsibility as a major element in his job and one which will be taken fully into account in the assessment of his performance.

13. The monitoring of performance and the handling by managers of the costs of their activities should be a matter of close concern to senior management. But the flow of information should be seen by all levels of management as providing stimulus and opportunity for better judgements and decisions; if it degenerates into a process of mere collection of information at one level and critical comment at a higher level, the system will wither and die. The accurate definition of information needs at each successive level of management is therefore a crucial part of constructing a management accounting system and past experience shows that it needs time and care. Information should not be collected and presented unless it is actually required by someone for assessment and decision.

#### **Relationships with other Financial Information Systems**

14. Departments will need to consider the links between management accounting systems and existing financial information systems: the Public Expenditure Survey, Estimates, the FIS Monitoring System and Appropriation Accounts. It is possible to introduce separate management accounting systems to operate alongside the existing systems, but this approach will rarely be fully effective, as experience in some past developments of management accounting within government has already shown. It is likely to lead to a situation in which line managers are confused by different sets of data prepared at different times according to different criteria. There is a risk of much time-wasting reconciliation and unnecessary duplication. Even more damagingly, the management accounting information is then often seen as an optional extra. It is unlikely to survive relegation to that status.

15. These problems can be minimised by bearing in mind two important factors, both of which point to integration of management accounting with existing financial systems. The first concerns structure. If the broad structure of the systems can be aligned with each other, and where possible with the organisation and objectives of the department, the nature of the information and its flow along reporting channels is simplified. Secondly, while the search for integration should not be carried to the point at which the system becomes unnecessarily elaborate and inflexible, unnecessary duplication and confusion can be avoided by recognising that annual cash flow, for example, represents a core requirement for management accounting on the one hand and existing financial systems on the other. With modern computer facilities this common-core can be stored within a single system and elaborated and extended according to the needs of the particular application in hand. This process is made easier if the broad structure of the different systems is compatible. This approach should also reduce the burden on departments of providing information for related exercises.

16. Papers which touch on these questions have been circulated in the past describing, for example, the former Civil Service Department's integrated management accounting and information system, and cells and codes in financial



systems. These papers illustrate that many detailed problems will arise at the design stage in adopting this approach, but it is perhaps worth drawing attention to four points, two positive and helpful, two marginally constraining, which will apply quite widely:

- a. The requirements of the Public Expenditure Survey, and to some extent of other existing systems, are at a higher level of aggregation than the information required for management accounting systems. In many cases this gives scope for the development of management accounting systems within departments whose data can be built up into the more aggregated requirements of the other systems.
- b. Where this is not so it should not be assumed that the particular data requirements, definitions and structure of the existing systems are incapable of being changed. Public Expenditure Survey material could be improved if its components were related to costs and objectives more closely. Estimates and Appropriation Accounts already contain many variations and, although it will be necessary to seek the agreement of Parliament to any major changes, there is a reasonable presumption, on the evidence of past expressions of opinion by Parliamentary Committees, that Parliament will be prepared to look favourably on changes which would bring the structure of existing systems into a closer relationship with new management accounting systems. Where departments wish to propose such changes they should discuss them with the Treasury.
- c. Since the existing systems serve certain requirements of central planning, monitoring and control, it is necessary to retain some compatibility between figures presented for them by different departments. The interests of cross-comparison and economics of scale in design and implementation also suggest that it will be desirable for departments to advance on lines which are broadly similar though not identical. While the functions of departments are very different, and therefore require different presentations of information in the detail of their management accounting systems, at a higher and more aggregated level these systems can be made much more compatible. There is no obvious reason why these considerations should prove to be a serious constraint on the development of satisfactory management accounting systems, provided they are adequately taken into account in the early stages of exploration and design. The Treasury will be ready to offer guidance and arrange for the dissemination of experience in this field.
- d. Existing government accounting concentrates heavily on cash flow, and this must remain an important requirement for the future. By contrast, where costs are not co-terminous with annual cash-flow for the reasons discussed in paragraph 5, a good management accounting system will need to show elements of cost going beyond, or falling short of, particular cash flows. Information in terms of both cash flow and overall cost is, however, a normal feature of most effective management accounting systems and should not be seen as a major constraint.

## MANAGEMENT ACCOUNTING SYSTEMS: A SUGGESTED APPROACH TO IMPLEMENTATION

### Initial Planning and Development by Departments

1. The starting point will depend on a number of factors. When were the department's systems last reviewed; how far do these match the existing organisation; how does the existing organisation relate to the department's objectives and to the style of financial management now proposed; are responsibilities clear and lines of accountability distinct?
2. The aim should be to develop a structure of organisation in which identifiable functions and objectives can be assigned to responsibility centres whose responsibilities can be distinguished from those of other parts of the organisation. This entails a management structure in which the lines of reporting and accountability are clear. The processes involved in achieving this aim may in some cases raise fundamental questions about the nature of the department's business and its objectives. Logically, that is the right place to start. But where a department is satisfied that it starts from a position in which its structure provides a reasonable fit with its objectives, it may prefer to go straight into the process of identifying responsibility centres. It will then be necessary to check as the process continues that the objectives and responsibilities of the groups concerned can indeed be defined and distinguished. When they cannot, this may indicate a need to modify the organisation. Particular points to watch here include the distinctions between the responsibilities of policy and executive units, and between central and local control.
3. Having assigned responsibility to discrete units the next step will be the systematic identification of costs, in sufficient detail to enable those who are responsible for particular activities and objectives to be aware of and, wherever possible, held responsible for the cost of the resources they are consuming. For these purposes it may be desirable to analyse the costs attributable to individual responsibility centres into more detailed cost centres. These may be organisational sub-groups, functions, activities, tasks and projects. This process leads logically to the setting of budgets and the monitoring of costs against objectives. It also involves setting targets for the overall cost of the output or activity in question. Given budgets and targets for output or activity, comprehensive monitoring can be undertaken of both input costs and output.
4. The precise form and degree of detail in which information is collected and stored and subsequently presented to managers will depend on their needs. In determining these there is a constant need to ask who is going to use the information, for what purposes and what freedom the users have to respond to it. A case in point is the treatment of indirect costs or overheads. In the process of building up a picture of total costs care should be exercised to ensure that systems are not made unnecessarily elaborate in the interests of statistical tidiness.
5. Progress will be made in stages but should preferably be within the framework of an accounting system which covers the entire activities of a department.

A universal common factor is the cost of administration—or running costs—on which some progress has already been made in presenting material for the annual scrutinies of departmental running costs. The material produced so far does not generally constitute management accounting information, nor is it in general yet used by line managers in departments. But it does constitute a possible starting-point for further development. It is also an area where many items of expenditure are susceptible to local control. In this connection, departments are recommended to study the report<sup>1</sup> recommending the development of management accounting in the Department of the Environment.

6. Where a department decides to proceed by establishing a basic responsibility centre structure, aligned with the department's programme objectives, and a management accounting system which starts by covering administrative costs, it will be possible progressively to widen the exercise to bring in other expenditures for which the relevant centres are responsible. Priority should be given to those areas where the benefits are likely to be greatest. Tackling the work in stages also enables departments to read lessons across as they proceed and adapt their systems in the light of experience.

### **Detailed Design**

7. The detailed design of a management accounting system for organisations on the scale of government departments is a very substantial one, involving considerable professional skill. As far as possible, such design should be undertaken by the department itself to ensure that the system reflects its needs and its detailed knowledge of its business. But some recourse to consultants, or other outside assistance, will often need to be considered. The Treasury is equipped, in its AFA Division, to give some help on the approach to design; and advice on the use of consultants to provide assistance at the various stages of development. But it is not staffed on a scale which will allow the Treasury to provide the detailed design work.

### **Computerisation**

8. Given the scale of likely developments, even within part of an individual department, data collection and distribution will in most cases need to be computerised. Whether computerised or not the management accounting system should ideally be integrated with existing financial information systems for the reasons explained in Annex B. But a new computer system will also have to fit into the department's ADP framework and any existing or planned computerisation of financial systems.

9. Experience with other financial systems shows that it is possible to introduce integrated additions to systems at subsequent stages if sufficient foresight has been given to the initial planning. Careful attention should therefore be given to links between systems to ensure compatibility and avoid duplication of data collection. Much of the cost of systems comes from program development rather than equipment costs. It is therefore important to review the range of alternatives from packaged programs to tailor-made systems.

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<sup>1</sup> *Report on Rayner Study of Non-Staff Running Costs in the Department of the Environment (Central)*, June 1981.

10. An inter-departmental committee has already been taking an interest in developments in financial information in departments, providing exchange of experience and some guidance. This work will be developed and expanded. It is intended that the committee should be the vehicle for monitoring and publicising developments in management accounting systems. It will also co-ordinate advice about cost effective ways of computerisation. The Government's reply to the PAC at the end of 1980, to the effect that consideration would be given to removing avoidable differences between departmental financial systems, will continue to be relevant to this aspect of the committee's work.

11. Experience also shows that a better computer system results from very close liaison between the intended users of the system, especially in finance divisions, and the ADP division providing it. It is not advisable to pass on all responsibility for implementation to the latter. Much is gained from close involvement of the user at all stages. Indeed, there are distinct advantages, in terms of bringing together a useful blend of skills and interests, in setting up a small development team which includes experienced line management.

#### **Future Progress**

12. Depending on the pace and scale of development, further co-ordinating machinery may be helpful. Meanwhile, it is proposed to arrange periodic meetings of Principal Finance Officers as an opportunity to take stock of progress and of difficulties encountered, to exchange experience and suggestions, and to arrange for more detailed co-ordination as may be necessary.