

Prime Minister

CONFIDENTIAL

This minute from Sir Ian Bancroft is clear and comprehensive; so much so that you do not need to read the study team's report word by word, at least not at this stage. The one issue not covered in the minute - and properly so - is the Ministerial structure of a merged department.

The only decision you need to take at once is whether to release the factual and analytical material to the Select Committee. We have already told them they will get it as soon as possible in November. May we release it to them? **Yes MF**

When you saw Lord Jones and Sir Derek Rayner on 15 October, you said you would see Mr de Courcy to urge him to get the Select Committee to report within 2 or 3 weeks of receiving the material. Shall we arrange a meeting, as soon as the material has been handed over? **Yes MF**

PRIME MINISTER

THE ORGANISATION OF THE CENTRAL DEPARTMENTS

1. You asked for a detailed study of the pros and cons of merging the Treasury and CSD. The report on the study is attached. **31x**

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Please check Sir Ian for this outline report - the summary reminds and the speed with which the study has been carried out.

(P.S. The minute from Sir Robert Armstrong has now arrived as well (May 4); plus one from John Harty is (Hy 8)

2. This covering minute, which has been prepared in consultation with Sir Douglas Wass and Sir Derek Rayner, comments on the main features of the report and offers advice on matters outside the study's remit\*; it also records the conclusions we have reached as a result of the study and the work which preceded it.

3. The study was conducted by a small team, led by Mr Michael Hawtin of the Treasury and Mr Julian Moore of CSD. We commend them to you for their speed, industry and thoroughness.

THE STUDY TEAM'S MAIN FINDINGS

4. If the departments were merged, all their functions would, of course, come under unified Ministerial control. The arrangements at Ministerial level were outside the team's remit and their report deals, therefore, with the organisation of the Centre's functions at official level. They found scope for reorganisation and staff savings in three areas if the departments were merged:

- a. the work on financial and management systems;
- b. manpower and public expenditure control;
- c. common services.

The team see no reason why a merger should itself affect the organisation at official level of the other functions currently performed by the Treasury and CSD (such as overseas finance and Civil Service superannuation). They have not, therefore, considered the organisation of these other functions in detail. We fully agree with the team about this.

5. We also agree with the team that, in the event of a merger, the CSD's Manpower and Organisation command should become part of what is now the Treasury's Public Services Sector. (The Manpower and Organisation command deals with Civil Service manpower and departmental organisation and efficiency; it also includes the Central Computer and Telecommunications Agency. The Treasury's Public Services Sector is responsible for the overall control of public expenditure and detailed supply control for most of the main spending departments; it also includes the divisions concerned with Treasury's current work on financial systems and government accounting.)

\* The terms of reference are quoted in paragraph 1 of the report; you approved them on 26 August.

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6. Financial Systems: the structure proposed by the team would integrate responsibility for all the centre's work on financial systems at the centre and in spending departments. The development of this work has not been helped by the current split of responsibility for it between the Treasury and CSD. We commend the team's solution if the departments are to be merged. Even if they are not, a closer integration of this work could be achieved than exists at present.
7. Manpower and Public Expenditure Control: the team's report devotes much attention to the integration of the manpower and public expenditure control functions. It identifies two options. Option A would bring within the Public Services Sector of the Treasury the existing CSD Deputy Secretary command responsible for manpower, efficiency and organisation; the present CSD unit responsible for manpower control, headed by an Under Secretary, would, therefore, be kept intact within the Public Services Sector (see paragraph 19 of the team's report). Option B - which the team do not regard as a blue-print but simply as an illustration - involves a deeper integration of manpower and expenditure control, combining in some of the Treasury's separate public expenditure divisions responsibility for the manpower of the departments they are controlling with responsibility for their other expenditure (see paragraph 20 of the report). The team conclude that more time would be required to work out the details of Option B and that a full assessment of its merits as compared with those of Option A could not be made until further work had been done.
8. Because of the priority attached to reducing the total size and cost of the Civil Service, there are powerful arguments for preferring Option A to Option B; disruption of the central divisions concerned with manpower control carries with it risks to the achievement of the Government's manpower objectives. The course of proceeding thereafter to Option B would not be foreclosed by adopting Option A initially. We agree with the team, however, that further study and planning for Option B would be required. Because the balance of advantage between Options A and B is unclear, we recommend that - if you decide in favour of a merger - no firm public commitment should be given initially to go further than Option A; but we think it would be right to make it clear publicly that the merits of a deeper integration will be further examined as soon as Option A has been implemented.
9. Common Services: the third area where the team foresee scope for close integration is in the provision of common services (eg accounts, office services, personnel work). It is here that the main staff savings would be achieved.
10. Public Service Pay: the team conclude that there should continue to be a separation organisationally between the responsibility for negotiating the pay of the Government's own employees and the central interest in pay as an aspect of macro-economic management and public expenditure control. We agree with this. There is little scope for saving in this area through merging the two departments. Whether a merger is or is not made, the role of the central departments in co-ordinating policy on public service pay needs clarifying and this is in hand.

## ACCOMMODATION

11. We do not regard as acceptable the "minimal colocation" of the Treasury and the core of CSD which the team identified as one of the accommodation options (see paragraph 25 of the report). We believe that full colocation should be the ultimate objective. This could be achieved by removing the FCO and NIO from the Great George Street building. The FCO would be much opposed to losing their accommodation in Great George Street but we regard it as an unavoidable part of the price of merger.\*

## QUANTIFIABLE AND UNQUANTIFIABLE COSTS AND SAVINGS

12. Costs: the team were able to identify two groups of quantifiable costs for a merger:

a. Costs of Colocation - these would be once and for all costs. They would amount to about £660,000 for the full colocation of the Treasury and the core of CSD that we recommend. The second accommodation option identified by the team (described in paragraph 24 of the report) would cost about £150,000.

b. Project Team: there would also be a once and for all cost of the staff who would be needed to plan and push through the merger; this would cost about £100,000.

13. Savings: assuming full colocation, the total recurrent savings the team were able to identify are £485,000 a year for Option A and up to £635,000 a year for Option B.

14. The team estimate that integration in the common services area could save 34 posts (including one Under Secretary post), with equivalent money savings of about £370,000 a year.

15. The team suggest that, in addition, a Deputy Secretary and an Under Secretary post, with two supporting staff, could be saved if Option A were adopted. This would yield an annual saving of about £75,000. We believe that the possibility of cutting out both a Deputy and an Under Secretary post requires further thought because of the risk that it would cause over-load at Second Permanent Secretary and Deputy Secretary level.

16. An organisation along the lines of Option B might - though only a rough estimate can be made at this stage - save another 13 posts (£150,000 a year).

\* MOD would like to take over all the accommodation in Old Admiralty Building (OAB) vacated by CSD; but this would substantially increase the cost of merger because not only would the NIO and FCO divisions have to be moved into some other accommodation but there would also be the cost of moving MOD staff into OAB.

17. Judged solely on this basis, the net annual saving identified by the team as a consequence of merger would be equivalent to under 1% (perhaps £500,000) of the current total running costs of the Treasury and the core of CSD (ie minus such functions as the Civil Service Catering Organisation). Nearly all the costs would be incurred in the first year; the bulk of the savings would not accrue until later.

18. We are firmly agreed that the case for and against merger turns not on the comparatively small quantifiable costs or savings that would be entailed, but on whether the centre would or would not be better equipped to do its essential work on reducing public expenditure while also improving the efficiency and cutting the size and cost of the Civil Service. We recommend, therefore, that the quantifiable costs and savings of merger should not weigh heavily in your decision on the organisation of the central departments.\*

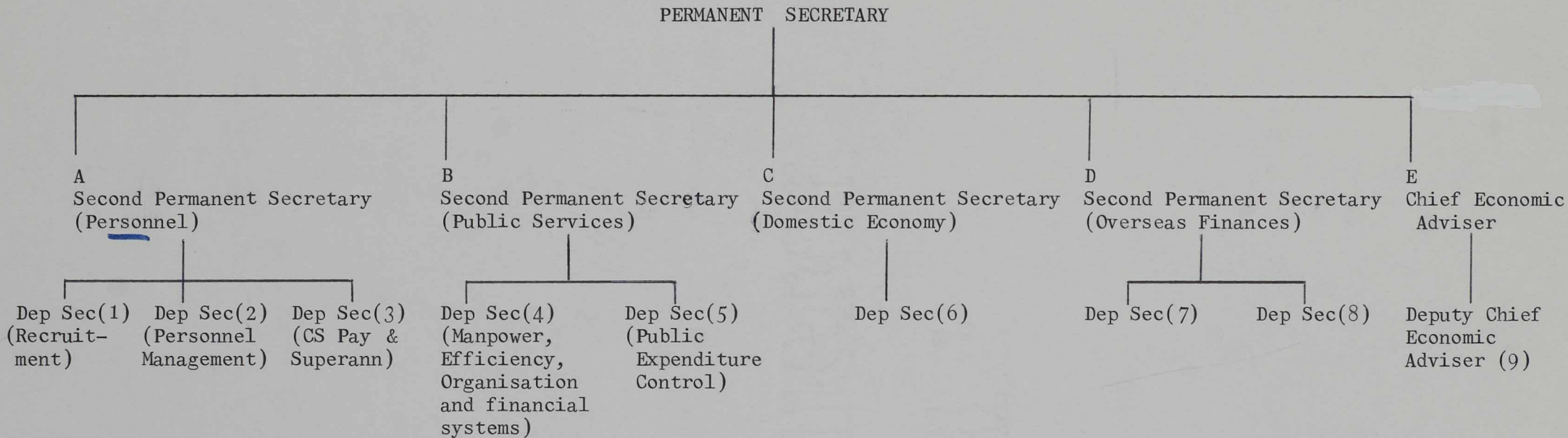
#### THE TOP OFFICIAL STRUCTURE

19. The top official structure was outside the team's remit. Sir Douglas Wass, Sir Derek Rayner and I have, therefore, considered the organisation at Second Permanent Secretary level and above in the event of integration. We have taken into account the team's report and the preceding work. Our conclusions are illustrated in the following chart:

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\* In support of this recommendation we note that:

- a. the unquantifiable costs and savings of bringing about the merger could dwarf the identifiable ones; and
- b. the savings to be achieved from the manpower cuts planned between now and 1984 in the two departments far exceed those arising from integration and do not depend on it.



NOTES:

1. This chart is based on the adoption, initially at least, of Option A
2. Under plans already made, the number of CSD Deputy Secretary posts shown under 2nd Permanent Secretary A will be reduced by one whether the departments are or are not merged.
3. We believe further thought is required whether 2nd Permanent Secretary B above would need two or three Deputy Secretaries.

20. We are agreed, on balance, that the new department should have only one Permanent Secretary. This would be our view whether Option A or B were adopted. We are also agreed that it would be mistaken to separate the functions of the Head of the Home Civil Service from those of the integrated department. We recommend, therefore, that the Permanent Secretary should be both official head of the merged department and Head of the Home Civil Service (the reasons for this were given in the minute I sent you on 4 July). This would save a post at "super" Permanent Secretary level and would add to the savings identified by the team.
21. The load on the Permanent Secretary would be very heavy. We doubt whether he could, for example, coordinate the economic advice to Treasury Ministers in the way that Permanent Secretaries to the Treasury have done hitherto. Moreover, the scope for delegating the functions of the Head of the Home Civil Service to a Second Permanent Secretary is severely limited.
22. At Second Permanent Secretary level, merger would involve two significant changes. First, the responsibilities of the Second Permanent Secretary in charge of the Public Services Sector would be substantially increased (under Option A or B) by the inclusion in his area of the CSD's current responsibilities for manpower and organisation. Second, and as a consequence, the load on Second Permanent Secretary A in the chart above, responsible for the rest of the CSD's present functions (such as pay, superannuation, recruitment and central personnel management), would be significantly lightened because he would lose the manpower and organisation command, which currently reports to him. There might be some scope, though not much, for easing the burden on the Permanent Secretary by arranging for this Second Permanent Secretary to support him in his Head of the Home Civil Service role. Even so, the Second Permanent Secretary post would not be fully loaded. One possibility, therefore, would be to cut out this post, the commands which would have come under it reporting instead direct to the Permanent Secretary. But this would still further increase the formidable load on the Permanent Secretary and the question, therefore, requires further thought.

#### THE COMMON SERVICE DEPARTMENTS

23. You will recall that at the end of June we sent you a paper about the proposition for creating a Common Services Agency from the PSA, HMSO, COI and parts of CSD. It is necessary here to make only two points. The first is to confirm that, in our view, the decision on the organisation of the central departments can be taken without prejudicing the organisation for the provision of Common Services. The second is that, if you decided to merge the departments, the CSD would initially be transferred to the Treasury intact. The question whether the "non-core" CSD functions might ultimately be taken out of the merged department would be considered in the course of the study of the proposition for a Common Services Agency. We recommend that this proposition should be studied further in the light of your decision on the central departments.

## VIEWS OF PERMANENT SECRETARIES OF OTHER DEPARTMENTS

24. When the study was announced in August, the Permanent Secretaries of the spending departments expressed a wish to comment on the organisation of the central departments because of its importance for the work of all Ministries. It emerged that there is a strong consensus of opinion among them that - whether Fulton was right or wrong in 1968 - so much has changed in recent years that the effective central management of the Civil Service now requires a separate department, headed by a Cabinet Minister, to do the job. They are in favour, therefore, of the retention of CSD. But they believe that it could reduce its activities in some spheres so as to allow line departments to exercise more discretion, and thereby release resources in CSD.

## VIEWS OF THE CIVIL SERVICE UNIONS

25. The Council of Civil Service Unions sent you their views on the organisation of the central departments on 7 October. They argued that the Treasury should be split, its public expenditure functions being amalgamated with CSD. They claimed that integration "would be disastrous so long as the Treasury continues to have its current over-stretched range of responsibilities."

26. At departmental level, the CSD Staff Side do not favour a merger of the two departments and the view of the Treasury Staff Side is that the balance of opinion in the Treasury is also against it.

## TIMETABLE AND MECHANICS

27. First Parliamentary Counsel advises that the merger of the Treasury and the CSD would require a Transfer of Function Order (TFO). The draft Order would need to be laid before Parliament and would require a prayer from both Houses before it could be made. The TFO and resolutions could be drafted very quickly and laid on the day you announced your decision. Provided you did that by, say, the end of the first week of December, it might just be possible (subject to the views of the business managers) to complete the Parliamentary requirements in time for the Order to be made at the Privy Council due on 17 December. The Order could then come into full effect on, say, 1 January.

28. We have considered devices to enable the merger to take effect administratively on 1 January if it were not possible to make the TFO before the Christmas Recess. But these are messy and we recommend that if the TFO cannot be made before the Recess, the operative date for the merger should be deferred for the few weeks until the TFO had been made. When the TFO was laid, there would probably be pressure for full debates on it in both Houses.

## THE SELECT COMMITTEE AND PUBLICATION

29. The Treasury and Civil Service Select Committee have been told that the factual and analytical material produced by the study will be made available to them as soon as possible in the course of November. They have also been told that you are prepared to give them two or three weeks in which to report after they receive the material. Thereafter, you would not feel constrained to await the Committee's views before announcing your decision.

30. It will be necessary, therefore, to let the Select Committee have the team's report within the next few days if you wish to keep open the option of announcing a merger in the first week of December, with a view to bringing the TFO into force on 1 January. It is not essential for you to have studied the report closely before letting the Committee have it.

31. We recommend that the full text of the team's report should be published on the same day that it is given to the Select Committee. Copies can be run off on our own machines in sufficient quantity to meet the demand from Parliament and the Press. We recommend that the report should be given to the Select Committee (and to departments and the Staff Sides) in the morning and made generally available to Parliament, the Press and the public in the afternoon. (We shall, of course, be ready to offer you advice on the handling of the Select Committee's views as soon as they are known). We recommend that advance warning should be given to the Ministers whose departments would be affected by the accommodation changes arising from a merger.

32. If the departments are merged, we must expect the Select Committee to ask for regular progress reports and to ask for evidence about whether, for example, the expected costs and savings proved reliable in the event. These matters are within their terms of reference and we should need to supply the information they requested.

## RECOMMENDATIONS

33. We recommend that:

- ✓ a. the study team's report should be published in full and as soon as possible; the Select Committee should be reminded of the need to report quickly if their views are to be taken into account.

34. If you decide to merge the departments, we recommend that:

- b. the manpower/public expenditure, financial systems and common services areas should be integrated on the basis suggested by the study team;



- c. the other areas of the CSD and Treasury should not be restructured as part of the merger;
- d. initially, integration of the manpower/public expenditure functions should be on the basis of the study team's Option A;
- e. further work should be done on the details of an integration on the lines of Option B but a firm public commitment to that Option should not be made until the results of the further work have been assessed;
- f. the aim should be maximum colocation of the staff of the integrated department and the consequent disturbance of the FCO and NIO divisions now housed in the Treasury building should be accepted as part of the price of merger;
- g. the integrated department should be headed by one Permanent Secretary, who would also discharge the functions of Head of the Home Civil Service;
- h. the proposition for a Common Services Agency should be further examined in the light of your decision on the central departments; that examination would include consideration of the case for taking out of the merged department the non core functions (eg the Civil Service Catering Organisation) of the CSD;
- i. the merger will require a Transfer of Functions Order; the aim should be to make it in time for the Order to come into effect on 1 January or, if that proves impossible, the merger should be delayed for a few weeks until the TFO has been made.

PERSONAL VIEWS ON THE MERITS OF A MERGER

- 35. While we are agreed on these recommendations, we differ on the merits of a merger.
- 36. Sir Derek Rayner's view is that organisation should service policy effectively, not impede it:
  - a. A headquarters which divides control over money and manpower/pay/personnel/organisation between wholly separate units wounds itself. For example, failure to invest in the training of resource and operational managers carries the penalty of wasted resources or lost opportunity for new good. The divided centre faces in a "spending department" a cohesive, powerful organisation, combining resource control and use in and under its Minister and Permanent Secretary. The centre is less of a match for departments than if it concentrated its knowledge and its instruments of control and influence.

b. The Fulton Committee argued that CSD would, in a way it said the Treasury had failed to do, deploy specialised skills itself (especially in personnel) and develop management in departments. In fact, specialisms require the right people not a separate department. A single department combining the relevant official strengths of the CSD and Treasury at all levels, inspired by sound policies and leadership, would substantially increase pressure for excellence in management.

37. Sir Douglas Wass acknowledges that the Centre would be strengthened by integration and that a unified department would more effectively co-ordinate the control functions now exercised by the CSD and the Treasury. But he considers that there would be serious drawbacks. The Treasury is a reasonably homogenous financial and economic department. If it were joined to the CSD it would acquire functions unrelated to finance and economics, and the professionalism which has been developed in the department as a result of its more specialised role since Fulton would suffer. The Permanent Secretary would be unable to devote the time he now does to co-ordinating macro-economic and financial policy and to advising the Chancellor on these subjects. As for the Chancellor himself, the load on him would be very heavy indeed and even if he delegated extensively there would be many additional calls on his time and energy. Even if these advantages were outweighed by the strengthening of central control, there would be a substantial transitional cost during the period the merger was being brought to effect. Senior officials in the public expenditure area would be bound to be distracted somewhat from their main function. Given all the strains involved in holding public expenditure on course, the present is not the most opportune moment to engage in time-consuming reorganisation. For these reasons Sir Douglas Wass is on balance not in favour of integration.

38. My own views are as follows. In 1968, I was not in favour of the creation of CSD. I thought it wrong in principle to divide the centre's functions. But I have since become convinced that we do need a separate central department to manage the Civil Service and that one will continue to be required for some time to come. There are two main reasons:

a. Cutting the size and cost of the Civil Service and increasing its efficiency are among the Government's main policies. They make heavy demands on the time of CSD Ministers and senior officials. They will continue to require this attention throughout the rest of this Parliament if the objectives are to be achieved. In some ways, cutting manpower is even more difficult than cutting expenditure. Given the Chancellor's other responsibilities, I cannot see how he and his Permanent Secretary could, with the best will in the world, give the manpower and efficiency work the time it requires. Yet, as the history of the centre shows, this has been a recurrent theme for most of this century (see Annex 1 to the team's report). Instead of coming to grips with the necessary work, successive Governments have tinkered with the organisation. I believe a merger would entail a real risk to the achievement of these objectives not only during the initial period of disruption but also in the longer term.

b. The central management of the Civil Service consists of far more than the responsibilities for pay and manpower control. In particular, industrial relations are now much more volatile, strained and complex than they were in 1968. Yet the implementation of nearly all the Government's policies depends upon the maintenance of good industrial relations within the Civil Service and a properly motivated staff. Securing this requires high priority at the centre. I very much doubt whether, with all the Treasury's other preoccupations, it could receive the necessary priority if the responsibility for it were located there.

39. I believe, therefore, that the best course would be to retain CSD as a separate department. The study has shown areas - notably, the work on financial systems - where the allocation of responsibilities between the Treasury and CSD can be improved without merger. The collaboration between the two departments on manpower and public expenditure questions is already good and can be further strengthened. But what matters far more than co-ordination at official level is firm Ministerial direction of clear policies for the Civil Service - and we have that at present.

40. Copies of this minute and the study team's report are being sent to the Chancellor of the Exchequer and the Lord President and to Sir Robert Armstrong, Sir Douglas Wass and Sir Derek Rayner.

IAS

IAN BANCROFT  
31 October 1980



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