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PRIME MINISTER

PAPER ON CONTROL OF EXPENDITURE: DEPARTMENTAL RESPONSIBILITIES

... I should like you to see in advance the attached paper which the Lord President and I propose to circulate jointly to Cabinet as soon as you are content that we should do so. I held it back until after our discussion of cash planning and the guidelines for the 1981 Public Expenditure Survey. On that account we are now clear to go ahead, and I should like to do so. The Lord President is also content.

2. As you will remember, this paper arises out of Derek Rayner's work on Long Term Reforms. Ministerial endorsement of this paper will set the framework for other papers recommended by Rayner to define roles and responsibilities more sharply; and it will give explicit authority for the more prescriptive role which we envisage for the central departments. Specifically, in the period ahead the Treasury and the CSD intend to make progress in a number of practical matters, including improving financial and management information systems generally, investment appraisal, defining the responsibilities of departmental finance officers, and in general shifting some of the emphasis of Treasury expenditure work towards promoting departmental efficiency and control systems. It would be possible to pursue these tasks without this paper, but collective Ministerial endorsement of the general idea of a more positive and prescriptive role for the Treasury and the CSD will assist and accelerate the co-operation needed from departments.

/The draft



3. The draft takes account of various discussions at official level and with Derek Rayner. In its present form it is designed to fulfil the purposes just mentioned without undermining the fundamental responsibility of spending Ministers and departments for their own efficiency, and without producing counter-productive controversy at Cabinet. It remains possible that some of our spending colleagues may be suspicious lest it indicate a shift of responsibility away from spending departments and towards the centre of a kind which they would not welcome. But my hope and expectation is that the paper can be endorsed without too much argument, and that this would be a useful step forward. I should, however, like to be sure first that the paper has your personal support.

4. I am sending copies of this minute to the Lord President, Sir Derek Rayner and to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'G.H.' with a flourish.

(G.H.)

14 May 1981

Draft

CONTROL OF EXPENDITURE:
DEPARTMENTAL RESPONSIBILITIES

Note by the Chancellor of the Exchequer and
the Lord President of the Council

As the Ministers in charge of the two central departments, viz the Treasury and the Civil Service Department, we have been considering the contribution which our departments should make to the Government's objectives of the restraint and control of public expenditure and civil service manpower, and of the improvement of the efficiency of the public services.

2. Successful prosecution of these policies, aiming as they do at the efficient use of resources, depends principally on

- sound decisions by Ministers collectively on the total of public expenditure and on its distribution between the different programmes;
- sound management of the resources so allocated by the Ministers in charge of spending departments and by the officials responsible to them down the line of management.

3. In the management of the resources allotted to each programme, the role of the responsible spending department is critical. It is here that both strengths and weaknesses will be chiefly manifest. But the central departments have also a role and responsibility, to co-ordinate, to encourage, and to seek to spread good systems and good practice.

4. As a Government, we seek to emphasise the personal responsibility of departmental Ministers in these matters. In practice much of the task must be and is devolved to the civil service. As Ministers, we should continue to strive to foster and encourage the highest standards of management throughout the civil service.

5. The attached memorandum summarises, as we see them, the respective roles of the central departments and of the spending departments. It is part of the programme which Sir Derek Rayner mapped out for us under the heading "lasting reforms". It will be complemented by notes defining in similar fashion the functions of Ministers, Permanent Secretaries, Principal Finance Officers and Principal Establishment Officers.

6. Much of the memorandum is a re-statement and a clearer definition of existing responsibilities and practice. But it also reflects our conclusion that, in order to strengthen our drive for economy and efficiency throughout the public services, the Treasury and the Civil Service Department should be recognised to have a role in, and responsibility for, promoting the development and operation of the best possible systems in departments.

7. This is not novel in principle. But in recent years the emphasis has been in decentralisation and on the responsibility of the spending departments for their own efficiency. We have no intention of detracting from, or in any way undermining, the responsibilities of the spending departments. But we believe that, in partnership with the spending departments, and as a complement to their work, the central departments should be more active and more positive in setting standards and seeing that they are observed.

8. Major tasks to be pursued in the period ahead include the development of cash planning of public expenditure, which we are pursuing in the 1981 public expenditure survey; further development of management accounting, both to identify the full

cost of Government operations and to integrate it more effectively into expenditure control; succession policy for senior staff; training and staffing policies to meet the needs foreseen; programme and project evaluation; more effective development of internal audit.

9. We invite colleagues to endorse the attached memorandum on departmental responsibilities.

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CONTROL OF EXPENDITURE:
DEPARTMENTAL RESPONSIBILITIES

The allocation of financial and manpower resources to Government departments, and the control and efficient use of those resources, call for constructive partnership and co-operation between the Treasury and the Civil Service Department as central departments on the one hand and the spending departments on the other. Effective co-operation requires understanding of the proper role and responsibilities of each.

2. The purpose of this memorandum is to summarise those respective responsibilities. They are in each case responsibilities of departments as a whole. For this purpose there is no distinction between Ministers and officials; the department is headed by the Minister in charge and the officials are responsible to the Minister.

3. In this memorandum the term "spending departments" applies to government departments. The arrangements are somewhat different where the actual spending is the responsibility of nationalised industries, local authorities, or other fringe bodies, with a "sponsor" department between them and the central department concerned.

A. Responsibilities of Spending Departments

4. The primary responsibility of a spending department is to conduct its Minister's policy and its statutory functions to the best effect within the financial and manpower limits determined by the Government as a whole. Each Minister, advised by his department, will have participated in deciding those limits collectively.

5. The department is responsible for ensuring that the resources, both financial and manpower, allocated to it are used efficiently.

6. The department is responsible for ensuring that the control totals represented by any cash limits or other policies applying to the whole or parts of the relevant programmes are strictly observed, and that the requirements of expenditure and manpower control as laid down from time to time are respected.

7. Within the department all levels of management carry responsibility for the efficient use of the resources entrusted to them. Certain special responsibilities of Principal Finance Officers (PFOs) and Principal Establishment Officers (PEOs) are discussed below (paragraphs 17-20).

B. Responsibilities of the Treasury and the Civil Service Department

8. The responsibilities of the Treasury and Civil Service Department include the following.

9. The Treasury advises Ministers collectively on matters concerning the total of financial resources for the public sector and its relationship both to the Government's broad objectives and to the economic and financial environment; and makes proposals as to distribution of the total among departmental programmes, taking account of Government policies and commitments. The Civil Service Department performs a similar function in respect of Civil Service manpower and related expenditure.

10. In their respective fields the Treasury and Civil Service Department are responsible for defining the essential elements of an adequate system to monitor and control the use of resources allocated to departments. It is their duty to verify that such systems are in operation, both within the central departments and within spending departments.

11. This duty includes:

- (i) prescribing the basic elements of departmental systems which are needed to provide (a) reliable and compatible information for the purpose of central

co-ordination and control; (b) where central prescription is appropriate, satisfactory arrangements for monitoring and control within departments;

(ii) setting standards of adequacy for such systems (departments are then responsible for meeting those standards;

(iii) checking that these systems are working reliably and that corrective action is taken promptly and effectively where they indicate the need; and, if weaknesses of system become apparent, identifying, with the department, the changes that are needed; and

(iv) checking that each department is applying effective and adequate arrangements to promote efficiency both generally and in individual cases in order to fulfil that department's responsibility for efficiency (paragraph 5).

In establishing requirements for departmental systems, the Treasury and the Civil Service Department should consult the departments concerned to check that the requirements proposed are appropriate to departments' needs and do not impose unacceptable costs.

12. By long-established convention, expenditure must not be incurred without the approval of the Treasury or Civil Service Department. In practice, in consultation with spending departments, the central departments determine categories of delegated authority for expenditure. Outside the delegated categories the Treasury and the CSD are to be consulted specifically. This provides an opportunity of external check on how the department's own procedures are being applied in practice, and also for the Treasury or CSD to examine a selection of the more important proposals for new expenditure which have a direct bearing on their responsibilities for overall allocation. In addition the Treasury and the CSD may from time to time examine with a department whether a particular operation is being conducted with maximum efficiency.

13. More generally, the Treasury has responsibility to advise

departments on economic and financial matters, including Parliamentary aspects, and the Civil Service Department on civil service staffing and staff-related matters. Both the Treasury and the Civil Service Department have a responsibility to define and, in collaboration with departments, to maintain proper practices in the handling and expenditure of public money.

14. The Treasury also has a number of other co-ordinating responsibilities, for example for general aspects of public purchasing policy and of policies concerning pay in the public services.

15. The Civil Service Department is responsible for:-

(i) Central policies concerning the training and personnel management of the civil service, and for ensuring that the top ranks in departments are filled, and can continue to be filled, by those regarded as the best available after consideration of candidates drawn from the service as a whole.

(ii) Civil Service recruitment policy and such recruitment as is carried out centrally.

(iii) The settlement of pay, pensions and other conditions of service, and of grading standards, throughout the civil service.

(iv) Computer policy and the procurement of computers for use in Government departments.

(v) The development of staff inspection and, in consultation with the Treasury, of management services throughout the civil service, encouraging the introduction of new and improved management techniques and spreading knowledge of best practice.

C. Co-operation: Finance and Establishment Divisions

16. The interacting responsibilities described above call for co-operation between central and spending departments at all levels.

17. Departmental finance and establishments divisions have a key role in their departments' relationships with the Treasury expenditure divisions and CSD manpower divisions respectively. The responsibility of the Principal Finance Officer and Principal Establishment Officer will vary to some extent with the circumstances of different departments. But in broad terms the Principal Finance Officer is responsible to the Permanent Secretary for the general quality of the department's systems for control and economy in the use of money, and for advising the Permanent Secretary on the quality of those areas of financial management which fall within the responsibility of line managers; for ensuring that any limits which have been decided upon are not exceeded; for ensuring financial propriety and regularity at all times; and for monitoring the use by line managers of financial authority delegated to them by or on behalf of the Permanent Secretary.

18. The Principal Establishment Officer is responsible to the Permanent Secretary for the control and disposal of manpower; for the efficient administration of the department, in particular through the operation of manpower planning and systems of personnel management; and for the conduct of industrial relations.

19. More detailed notes prepared by the Treasury and the CSD describe in more detail the respective responsibilities of the PFO and PEO.

20. Within the normal framework of their responsibilities to their Minister, finance and establishment divisions should work with the Treasury and the CSD to ensure that planned limits are observed, that their departments co-operate generally in carrying out the responsibilities indicated in Section B, and specifically:

(a) that the Treasury or the CSD are consulted in advance on any new proposals outside the categories of delegated authority, or which would commit the Government to find resources additional to the agreed programme; and (under the Cabinet Office rules) before a paper is circulated to Cabinet or to a Cabinet Committee containing a proposal with expenditure or manpower implications.

(b) that the central departments are provided with any information needed for fulfilment of their responsibilities for allocation, control and central management.

(c) more generally that central departments are consulted so far as practicable at a formative stage in policy discussions which could have substantial financial or manpower implications.

HM TREASURY
CIVIL SERVICE DEPARTMENT
May 1981