

CONFIDENTIAL

A

PRIME MINISTER

ASPECTS OF FINANCIAL MANAGEMENT

Case studies of financial control and internal audit in MAFF
and DOI

I am grateful for your request that my unit should join with Mr Wolfson and the Treasury in considering with MAFF and Coopers and Lybrand the latter's analysis of the Department's planning and control systems and their conclusion and recommendations.

2. I think it would be helpful if the same were done in the case of the Department of Industry study coming along later.

Scrutiny of departmental running costs

3. Your wish to examine with two Ministers the outcome of the scrutinies for their Departments should encourage those who care about good management and, on the Admiral Byng principle, some others too. There is certainly no reason for complacency.

4. However, I have some anxiety about a fresh management consultancy. Consultants would have to spend time boning up on the Departments concerned. There might be some hassle about this, including the question of who was going to employ and pay them, especially if they were thought to be appearing, so to speak, "for the prosecution". (The Cooper and Lybrand team of 5 in MAFF are charging £1,120 a day.)

5. I say a "fresh" consultancy because management consultants have been involved this year and it should be possible to build on the contribution they have already made. Mr Heseltine went forward from his survey of running costs to a scrutiny of their estimation, monitoring and control, including the

possibility of establishing local cost centres. This has been carried out by one of his Economic Advisers, Mr C J P Joubert, in consultation with Messrs Peat, Marwick, Mitchell & Co. The report is now available and looks very promising.

6. May I therefore suggest a different approach? I believe that, guided by the purposes of the running costs scrutiny, the "test" questions which were set out in my original letter to the Home Secretary of February 1980 and by the outcome of the DOE scrutiny, you would get a lot of value out of a meeting if you were to ask the Minister and Permanent Secretary concerned:

- X - what plans they make for controlling running costs;
- how they compare actual performance with the plan;
- how they find out the reasons for any difference between the plan and actual performance; and
- what happens as a result. X

7. You might find it particularly helpful if the platform for this was a presentation to you by the Department/s, including two or three officials at key levels in the hierarchy, eg:

- X - the Permanent Secretary;
- his Establishment Officer;
- the "line" manager of a large or small cost centre, eg the head of an R&D establishment or the manager of a local office. X

8. If this approach suited the purpose you had in mind, I should be glad to brief beforehand and, if it would help, be present to join in the discussion.

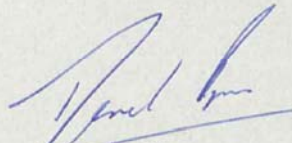


9. Whether or not the "presentation" route is acceptable, there is the question of how many and which Department/s.

10. It might be much more manageable to begin with one Department and perhaps go on to a second later. Not the least advantage of this would be that it would help in deciding whether there was a further part for management consultants to play.

11. Possible departmental candidates are set out in the Annex. One is obviously DOE, where Mr Heseltine has been a trail-blazer. I think that DHSS (Social Security) would be another good choice.

12. If you like this approach, I suggest that my staff should work up the details in consultation with Mr Rickett, the Treasury, CSD and the department of your choice.


Derek Rayner
8 July 1981

Enc: List of possible departments

ANNEX

POSSIBLE DEPARTMENTS: Total estimated expenditure 1980-81 (including pension and gratuity liability and equivalent market rents) (1)

<u>Dept</u>	<u>Average staff numbers</u>	<u>£m</u>	<u>Cost per employee £000</u>
Home Office ⁽²⁾	36,190	633	17,497
DHSS ⁽³⁾	96,400	1132	11,746
Inland Revenue ⁽⁴⁾	77,990	763	9,784
Customs & Excise ⁽⁴⁾	27,085	321	11,864
Environment ⁽⁵⁾ (excl. PSA)			
FCO ⁽⁶⁾	16,745	281	16,765
<u>Notes</u>			

- (1) Source: Annual scrutiny of departmental running costs, January 1981, Annex C.
- (2) If the Home Office was included, attention might focus on either Central Services (6,660 staff, £73.5m wages and administrative expenditure estimated for 1981-82) or the Prison Department (26,200 staff, £425.5m). But the Prime Minister might prefer to select a Minister other than the Home Secretary for the purpose.
- (3) If the DHSS was included, attention might focus on Social Security (94,000 staff, £895m wages and administrative expenditure estimated for 1981-82). The Permanent Secretary responsible for this expenditure is Sir Geoffrey Otton, not Sir Kenneth Stowe.
- (4) The Inland Revenue and Customs & Excise are also "big systems" departments. Either would be an acceptable alternative to DHSS. The Ministerial lead would be for the Chancellor or one of his Ministers, but the Revenue might be left off, given the trouble it is having over the pay dispute.

- (5) Mr Heseltine has taken a close personal interest in the running of his department. The latest manifestations of this are (1) his combination of his "Ministerail information system" (MINIS) with the annual public expenditure survey of manpower and (2) his current scrutiny of the control of overhead costs. (The scrutiny is being undertaken by a good Economic Adviser, Mr C Joubert, who might be included in the presentation.)
- (6) FCO is however a rather unusual department and the Prime Minister might prefer to select another Minister for this purpose.

DRAFT OF 8 JULY 1980

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John Wiggins Esq
HM Treasury

CONTROL OF EXPENDITURE: DEPARTMENTAL RESPONSIBILITIES

The Prime Minister was grateful for the comments made by the Chancellor of the Exchequer, the Lord President of the Council and Sir Derek Rayner in response to her request for advice on the staffing of the central departments (my letter to you of 21 May).

The Prime Minister takes the point and welcomes the fact that there is a lot going on. She also notes that there is something of a chicken and egg problem here in that providing training and experience for the staff of central and other departments depends on analysing what is meant by "financial management" in government and the skills of which it consists, both generally and in relation to particular departmental activities.

The Prime Minister believes that prompt action to deliver the changes required will be essential and she agrees with the Chancellor's reference to the possible need to bring in help from outside, whether in defining what has to be done to up-grade financial management or to help with the up-grading itself. For example, she would envisage that it might be necessary as a start to mount a crash programme, through the Civil Service College and

training institutes outside government, to train people in the disciplines of good financial and resource management.

(Gos said that she)

The Prime Minister would find it helpful to receive a presentation on these matters ~~{during the late summer/early autumn}~~ ^{September} when some of the thinking and analysis already in hand are further advanced. She would like such a presentation to cover:

- An overview ^{perhaps by senior Treasury and CSD officials,} of what we are doing and trying to achieve in relation to financial control and management.
- What Treasury and CSD control means in practice now and would mean in future (brief presentations ^{by Principals from the Treasury and CSD} from a Principal head of branch in each).
- ^{A presentation on the} ~~And perhaps~~ financial management and control systems ^{large} in a department: *the Prime Minister has suggested that the Principal Finance Officer of the DHSS might accept this task.*

The Prime Minister would be grateful if the Chancellor or the Chief Secretary would ~~kindly arrange for this to be done~~ ^{set in hand arrangements for such a presentation} in consultation with the Lord President, ~~whichever~~ ^{The Secretary of State} Minister in charge of a department seems appropriate for the purpose, ~~should the idea of including a department in the presentation sit well with its main purpose, and~~ Sir Derek Rayner. ^{He P - M -} She would of course like the Chancellor, the Lord President, the Chief Secretary, the Minister and Sir Derek Rayner to accompany her on this occasion if they are free to do so.

A possible date for this presentation would be 1500 on Tuesday, 8 September.

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I am copying this letter to Jim Buckley
(Lord President's office), ^{Don Brennan (Mogensen's office)} Terry Mathews (Chief Secretary's
office), David Wright (Cabinet Office) and Clive Priestley
(Sir Derek Rayner's office).

W F S Rickett