

CONFIDENTIAL

PRIME MINISTER

PRESENTATION ON FINANCIAL MANAGEMENT, 10 DOWNING STREET,
TUESDAY 8 SEPTEMBER

ATTENDANCE, BACKGROUND AND PURPOSE

The Chancellor of the Exchequer, the Secretary of State for Social Services* and Sir Derek Rayner will be present. I shall be in attendance to take the note.

2. The immediate cause of this presentation is the doubt you expressed in May on the draft paper prepared by the Chancellor and Lord President on the control of expenditure, namely whether the central departments had

"sufficient staff of the right experience and training to promote and monitor the best possible control systems in departments" (see letter at Annex I).

3. As you then acknowledged, there is much going on. This includes:

- succession planning for key management posts
- work on the meaning of and training in financial management and on the fitness of the existing framework of accounting for the Government's policies for better management
- the scrutiny of the Treasury's Specific Expenditure Divisions
the assignments by Cooper & Lybrand and Touche Ross in MAFF and DOI respectively as a result of your intervention on internal audit
- the internal audit reform programme

* and Minister of State, CSD, vice Lord President



- the impending DOE presentation to you on the control of running costs.

4. It is unlikely that you will want to suggest any new initiatives, therefore. But this is the first time in many years that the Service has thought with discipline about what "financial management" means in Government. You will accordingly want to see what is now going on pulled together to get results on the ground. This means that you will be looking for a combination of short- and long- term action to build up greater confidence on the part of Ministers and others in financial management: in short, to clarify and concentrate responsibilities, equip people with the training and the facts they need to do a good job and to bite into the long-standing nonchalance about value for money by changing the pattern of awards and incentives as necessary.

5. To a degree, a paper coming to you shortly from the Lord President and Sir Derek Rayner on the strategy for central "efficiency" exercises in 1982 will help. It will propose among other things Government-wide scrutinies of the management of such self-contained units as research and development establishments and of how to get better systems for controlling running costs (in the wake of the DOE work noted above). But the existing work on financial management which will be outlined at the presentation tomorrow will need driving forward with a single hand and with vigour and determination. Mr Cassels's appointment will help you to secure that this is so.

SHAPE AND HANDLING OF THE PRESENTATION

6. Full details are given in Annex II. I have suggested there questions which you might like to have in mind.

7. Sir A Rawlinson is the compere. He will introduce six other officials:



- (1) Treasury/CSD strategy or overview: Messrs Littler and Wilding: 20 minutes.
- (2) Treasury/CSD tactics or detailed control: Messrs Prescott, Robinson and Morris: 20 minutes.
- (3) DHSS arrangements: Mr Hulme: 15 minutes.

8. Despite warnings from your office and this one, the presentation is lengthy. Officials have been asked to be as brief as possible, consistent with doing justice to the subject. They will no doubt be nervous. The presentation will need firm control. You may like to begin by welcoming the presenters and by saying that

- (1) You and your colleagues would prefer to be pointed to the main issues rather than given detailed descriptions of systems; and
- (2) you particularly want to hear what Messrs Prescott, Robinson and Morris from the central departments and Mr Hulme from DHSS have to say on what financial management means in practice.

9. The presentation ^{including questions} lasts ninety minutes. Officials will be ready for questions after each section. I suggest that you either put questions between each of the three sections or, in two blocks only, the first after all the Treasury/CSD contributions and second after Mr Hulme's.

Reminder

10. I have suggested in Annex II some possible questions for you to have in mind.

ISSUES

11. There is no single form of "financial management" in Government. But it boils down to:

- (1) What all departments have to do, ie the common core of procedures for Cabinet and Parliamentary planning and control of public expenditure through the Public Expenditure Survey, Estimates, Cash Limits, Vote Accounting etc; and
- (2) what each department has to do, ie its particular financial business, whether transferring money to individuals or other bits of the public sector, or buying weapon systems, or investing in support of private industry.

12. Some of this is highly political: the final "management" decisions are for Ministers. A current example is the new torpedo. But much of it is for the Civil Service to deal with, year in, year out. The obvious example is the cost of government. And Ministers usually have no choice but to depend in all respects on the quality of their officials' financial judgment, experience of the world, systems etc.

13. The essential need in all this is not a half-hearted aping of private sector practice. It is understanding and practising the disciplines necessary for good financial management in Government.

14. Cash limits, cash as the basis for planning and retrenchment are changing things. But scrutiny and other evidence shows that there are still great problems about cost-consciousness, cost-responsiveness, value for money and the relationship between our transitory finance staff and the other side's experts.

15. The questions I have suggested in Annex II are about the PEOPLE and the TASKS of financial management in Government. Officials have been asked to be candid about our successes, failures and things that are still in the balance to help you and your colleagues see where we should be putting the main effort in the future.

ANNEX II

PRESENTATION ON FINANCIAL MANAGEMENT, 8 SEPTEMBER 1981

AGENDA AND QUESTIONS

1. INTRODUCTION (1 minute)

Sir Anthony Rawlinson (55), Second Permanent Secretary, HM Treasury, responsible for Public Services Sector (including theory and practice of Treasury control over public expenditure).

2. OVER-VIEW "OF WHAT WE ARE DOING AND TRYING TO ACHIEVE IN RELATION TO FINANCIAL CONTROL AND MANAGEMENT" (20 minutes)

Mr Geoffrey Littler (51), Deputy Secretary, HM Treasury; responsible for last 18 months - through Sir A Rawlinson - for the theory and design of public expenditure control. Recently devised cash as the basis for planning.

Mr Richard Wilding (52), Deputy Secretary, CSD; since 1976 responsible for the Management Group (Manpower; Functions and Programmes; Management and Organisation; and the Central Computer and Telecommunications Agency).

Possible questions

What are the marks of good/bad financial management?

What are we doing to improve financial management in departments?

Where are we succeeding/failing?

Who is pulling things together?

What are we doing about "amateurism"? How many PFOs/ financial managers have appropriate qualifications or training?*

When will "succession planning" make a difference?

* The CS College has a short course for existing senior finance staff in preparation, but the question also applies to people now entering the Service who will be managers at the end of the century.

3. WHAT DO TREASURY AND CSD CONTROL MEAN IN PRACTICE NOW?
WHAT WOULD THEY MEAN IN FUTURE? (20 minutes)

Mr Michael Prescott (33/34), Principal, Health Services Division, HM Treasury; responsible for last 2 years for Health and Personal Social Services.

Mr Trevor Robinson (33), Principal, Manpower 3 Division, CSD: responsible for last 15 months for control of manpower and related resources in Inland Revenue and DHSS.

Mr Brian Morris (40), Senior Principal, Functions and Programmes 2 Division, CSD: responsible for last 7 months for cost-cutting studies, functional reviews, work measurement and transport. (Previously Principal in Treasury responsible for education expenditures.)

Possible questions

How do you know whether the department you are working on has a good/bad system?

How much of what you do makes a difference? What power do you have?

Is your sort of job sought after in Treasury/CSD?

Is there anything that would make you or Treasury/CSD more effective?

What are you trying to achieve? What is a recent success/failure in your work?

4. FINANCIAL MANAGEMENT AND CONTROL SYSTEMS IN DHSS (15 minutes)

Mr Geoffrey Hulme (50), Deputy Secretary, DHSS - Principal Finance Officer since early this year.

Possible questions

What difference will cash planning make?

Who are the key "financial managers" inside and outside DHSS?

Are you satisfied/dissatisfied with financial management in DHSS and the NHS?

Can we use the scrutiny technique in the NHS?



POSSIBLE OUTCOME

16. Depending on your response to what you hear, I suggest that you make the following points in summing up:

- (1) "Grateful to all concerned. Have heard some interesting things."
- (2) "A lot going on. Will look to Mr Cassels on arrival to keep me in touch with progress and, more important, action."
- (3) "Clearly necessary to take stock later in the year about where we are going and what we are trying to achieve (after Cooper & Lybrand, Touche Ross). We must have a well thought-out plan covering both people and tasks."
- (4) "PEOPLE crucially important. Would like to see a plan to get these things right:
 - Move away from amateurism. Develop status of financial management, eg proper career prospects for the qualified.
 - Select and train future key financial managers thoroughly, especially Principal Financial Officers and those policy/other staff dealing with big financial issues, eg investment.
 - To get long-term change, train new graduate entry to the Service (Administration Trainees) thoroughly. No room for cynicism about money/value for money in preparing tomorrow's managers. Will ask Mr Cassels to bring forward proposals on this.



- Remove impediments to everyone's understanding of the importance of financial management/value for money. Make increasing practice of rewarding success. More generally, change pattern of rewards/incentives/penalties as necessary."

- (5) "TASKS of financial management also important."
- (6) "Don't want to say much about SYSTEMS, but clear that we want arrangements which make people's responsibilities clear and give them the facts they need and ensure that they are used."

Sp

C PRIESTLEY
7 September 1981

Encs: Letter of 14 July, Annex I
Agenda and questions for presentation, Annex II