



10 DOWNING STREET

*From the Principal Private Secretary*

11 September 1981

FINANCIAL MANAGEMENT

The Prime Minister received a presentation on 8 September on financial management, introduced by Sir Anthony Rawlinson and given by officials from the Treasury, Civil Service Department and the Department of Health and Social Security. She was accompanied by the Chancellor of the Exchequer, the Lord President of the Council, Secretary of State for Social Services, Chief Secretary to the Treasury, Minister of State, Civil Service Department and Sir Derek Rayner. The Secretary of the Cabinet, the Permanent Secretary, DHSS, the Head of the Government Accountancy Service and Clive Priestley (Sir Derek Rayner's Office) were also present.

A record of the main points made in discussion is attached.

As she said at the time, the Prime Minister was grateful to all concerned for the work which had gone into a very interesting presentation. She and her colleagues were committed to good financial management in government and to value for money in its services and operations. The necessary policies should be pursued through the Treasury, CSD and Sir Derek Rayner's Office. She attached particular importance to ensuring that officials responsible for financial management had sufficient preparation for and continuity in their posts. Good and effective succession planning was crucial to this.

I am copying this letter to Jim Buckley (Lord President's Office), Adrian Carter (Office of the Minister of State, CSD), Don Brereton (Department of Health and Social Security), Terry Mathews (Chief Secretary's Office, H.M. Treasury), David Wright (Cabinet Office), Clive Priestley (Sir Derek Rayner's Office), Tim Stevens (Department of Health and Social Security) and Alan Cooper (Department of Industry).

**A. WHITMORE**

J. O. Kerr, Esq.,  
H.M. Treasury.

SUBJECT

cc Minister Sir

RECORD OF MAIN POINTS MADE IN DISCUSSION AT PRESENTATION ON FINANCIAL  
MANAGEMENT, 8 SEPTEMBER 1981

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Treasury and CSD over-view (Mr. J. G. Littler, Mr. R. W. L. Wilding)

The Prime Minister queried references to the "hostility of the environment" towards good financial management, to the improbability that management information would be used and to efforts to improve management "petering out". These seemed to suggest that the civil service had no automatic wish to do a good job and to take a pride in doing so. It was however clear, from scrutinies and other evidence, that departments had young officials who had good ideas about management matters and were capable of taking initiatives on them. Senior managers would not succeed in their task if they worked on a "top down" or excessively regulatory basis. They should rather create an atmosphere which would promote good management and in which, for example, the lessons to be learned from a particular review or scrutiny were applied more generally and good younger people were brought on fast.

Officials suggested that the environment's "hostility" lay chiefly in two circumstances. First, government pursued down many management lines a mixture of objectives (including equity and a good service for all but also the avoidance of mistakes), so that staff in the field did not receive a clear message about what was expected of them. Secondly, information about cost was so far rarely available. Prescribing standards helped in some areas of work, but much depended on keeping up the pressure on resources through cash limits and through the detailed examination of particular activities and functions, in search of both particular and general benefits.

Other Ministers said that it was difficult to reproduce in the public sector the primacy that attached <sup>to</sup> the availability of cash in the private sector. The main resource management pressures must be on money and people through the cash limits and manpower targets and must be applied well down the line. Selective examination - through scrutinies for example - was an essential part of this process. Sir Derek Rayner said that public sector management suffered severely from a lack of real knowledge about what things cost in cash terms.

/The Prime Minister

The Prime Minister made the following further points:

- (i) A good service was not necessarily the same as the most expensive service. Value for money must now be seen as one of the supreme objectives of good administration.
- (ii) It was important to identify and remove constraints on value for money, whether in particular instances or across the Service.
- (iii) Cash limits alone were not enough; the real need was to be satisfied that a particular expenditure was necessary at all.

Treasury and CSD Control in Practice (Mr. M. Prescott),  
(Mr. T. J. Robinson, Mr. B. R. Morris) and Financial Control  
in DHSS (Mr. G. G. Hulme)

The Prime Minister agreed with the view that one of the chief requirements for success as a Principal working on Supply Control was experience of the field in question. But it followed from this that officers should stay in post long enough to make use of the expertise they had acquired - and certainly longer than the average of 2-2½ years which now appeared to be the norm.

The Secretary of State for Social Services said that in such a large and standardised system of administration as Social Security, with its multiple local offices, data for comparing performance could be provided. The NHS was another matter since, for example, hospitals and hospital care were not "standardised". Nonetheless, the NHS could do more to scrutinise its own activities. In response to a question about the balance between professional and administrative staff in the NHS, Mr. Hulme said that some of the growth in administrative numbers was due to relieving professional staff of such work as medical records. More generally, there was now a greatly increased attention to management costs. The Secretary of State said that constant external pressure on the NHS was needed to promote good management. It did not welcome such monitoring, but he attached great importance to it as a means of getting improved value for money. Medical records was one example of a wide

/variation in

variation in efficiency between health authorities, but the practice of the best would not be generally adopted without external monitoring followed by dissemination. Good progress was being made, but the squeeze on cash was also critically important; Ministers had made a ten per cent saving in administrative costs an indispensable requirement. However, administrative costs in the NHS were proportionally lower than in similar health services abroad.

The Secretary of State agreed that it was for health authorities to decide how much to spend on each of the matters for which they were responsible, but said that their financial plans were co-ordinated by his Department, not least so that duplication between and gaps in the services could be avoided. The planning system was now so developing as to make it easier for the department to examine health authorities on their achievement of government policies as well as on their intentions for the future.

Sir Derek Rayner congratulated DHSS on the "Key facts" booklet, which he thought other departments might usefully emulate.

In further discussion the following points were made:-

- (a) The "hostile environment" referred to earlier consisted in part of a conflict between two goods, namely to be economical and to provide good services, rather than a conflict between a good (frugality) and an evil (waste).
- (b) The central and the spending departments were on the same side in wanting value for money. The centre might well have expertise and a relatively independent position which could help departments in both their own financial management and their control of other spending agencies, e.g. health authorities. These points deserved wider recognition.
- (c) But it was also true that those responsible for financial management were a "thin red line" whether in departments or at the centre. And financial management could be only partly successful if it relied on such mechanisms as cash limits. Success depended therefore on changing attitudes. Conditioning of the career expectations and

prospects of line managers upon their capacity to be economical as well as provide good standards of service must play a part in this.

- (d) DHSS was trying to produce more qualified financial managers by encouraging staff to take CIPFA examinations designed specifically to cover health and related subjects. More generally, in common with other departments, it was placing greater emphasis on the appraisal of staff through the re-designed annual confidential report form in respect of their use of resources.

Sir Derek Rayner said that getting facts about costs and cost-effectiveness to line managers was crucially important. A beginning had been made, but much more had yet to be done. Ministers observed that the messages from back-benchers which reached staff via their Ministers and also from the Parliamentary Commissioner for Administration suggested strongly that cost was usually a very secondary consideration to avoiding error. Sir Derek Rayner said that in his view it was a function of senior management to defend junior staff who had made mistakes in good faith from unreasonable criticism.

In response to a question, he said that store managers in Marks and Spencer did not need to know what profit they had made, whereas they certainly did need to know and were expected to control their costs. The assurance of good career prospects, rather than immediate promotion, was the main signal of the approval of higher management. Mr. Sharp said that, in his judgement, line managers working in a good system of management had a share in the preparation of their "budget" and were responsible, and were held to be responsible, for the costs they could control.

The Secretary of State for Social Services asked about the value added by the annual scrutiny of departmental running costs. It enabled him to ask questions about such things as telephone costs, but he did not find it of great value to him in increasing the efficiency of his department. Sir Derek Rayner said that if the Minister asked about telephone costs, it was likely that the managers of his 500 local offices would do so as well; if senior people did not ask such questions, their subordinates would not. The Chancellor  
/of the Exchequer

of the Exchequer said that if the scrutiny showed up disparities between departments it was - at least - possible to ask questions. Mr. Littler said that the scrutiny needed developing beyond its present stage so that local managers asked themselves the key questions as a matter of habit; this linked with the development of management accounting to which he had referred in the presentation.

Sir Derek Rayner said that several scrutinies showed that junior staff were struggling to administer difficult systems. They had ideas on how to put things right but change would not happen unless these ideas were sought out and senior management put their weight behind them. The current scrutiny of administrative forms would provide not only most interesting reading in this respect, but some important proposals. The Chief Secretary commented that change would have more significance if seen to be of general application across the country.

The Prime Minister said that the government did not make maximum use of office machinery. As proposed changes were resisted and delayed, was it necessary for all to be negotiated centrally? The Minister of State, CSD, said that as there was no chance of a national agreement on new technology, departments were being encouraged to make their own arrangements. The Secretary of State for Social Services said that while change within departments was a matter for judgement and negotiation, it was clear that many staff would welcome new technology because they wanted to do a good job and that the unions were out of step with them.