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PRIME MINISTER

FUTURE OF THE CENTRAL DEPARTMENTS

... As requested in Mr Whitmore's minute of 24 September
I attach a report on the re-allocation of CSD's
functions to the Treasury and to the Cabinet Office.

I have prepared the report in collaboration with Sir
Douglas Wass, Sir Robert Armstrong and Sir Derek
Rayner. It is an agreed report.

I am sending copies of this minute to the Chancellor
of the Exchequer, the Chancellor of the Duchy of
Lancaster, Sir Douglas Wass, Sir Robert Armstrong, and
Sir Derek Rayner.

JAB

IAN BANCROFT
9 October 1981

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THE RE-ORGANISATION OF THE CENTRAL DEPARTMENTS

1. Mr Whitmore's minute of 24 September recorded the Prime Minister's decision in principle to abolish the CSD and:

- a. transfer its responsibilities for manpower and pay to the Treasury;
- b. transfer its functions in the field of efficiency to the Cabinet Office; and
- c. redistribute its other functions

We were asked to suggest how this reallocation might be arranged in detail.

The Framework of Proposals

2. CSD's functions divide broadly into:

- a. Control of Civil Service pay; superannuation; other conditions of service; manpower numbers and associated administrative costs (including supply control of PSA, HMSO and COI); computer policy and project approval.
- b. Development and appraisal of organisation and management, partly in support of supply control and partly in search of improved efficiency and effectiveness (eg through the scrutiny programme, service-wide reviews, and the annual scrutiny of departmental running costs).
- c. Management of people: succession planning and senior appointments, central management of certain staff groups, policy for the management of other staff and central policy for recruitment and training.
- d. Provision of central services: recruitment (Civil Service Commission), training (CS College), procurement of and developments in administrative computers (CCTA), catering (CS Catering Organisation) and central payrolling (Chessington Computer Centre).

e. Support to all the above: Departmental establishments and personnel work.

3. The redistribution of some of these functions follows clearly from Mr Whitmore's minute of 24 September (see paragraph 1(a) and (b) above). Accordingly:

a. CSD's responsibilities for manpower, pay, superannuation and other conditions of service and for supply control of PSA, HMSO and COI would be transferred to the Treasury, thus unifying the central control and allocation of all resources.

b. The Central Computer and Telecommunications Agency would be transferred to the Treasury on the same principle.

c. The seven CSD staff in the Functions and Programmes command (FP1), who support the scrutiny programme and service-wide reviews with which Sir Derek Rayner is associated, would be transferred to the Cabinet Office.

d. The CSD staff in the Personnel Management command who deal with the selection, development and motivation of people would be transferred to the Cabinet Office.

e. Security; acceptance of business appointments by former senior civil servants and others; and civil service conduct would be transferred to the Cabinet Office, but retirement policy would go to the Treasury.

f. The Public Appointments Unit, the Machinery of Government Division and the Ceremonial Branch would be transferred to the Cabinet Office.

4. This leaves for decision the following main areas of CSD's work:

a. "Good housekeeping" - including cost-cutting studies, work measurement, reviews of functions eg messengerial and typing services, transport economy (part of Functions and Programmes Division 2).

- b. Staff Inspection and Evaluation Division - a vital arm of Manpower control, but increasingly deployed in support of scrutinies, functional reviews etc.

- c. Accountancy, Finance and Audit (5 Treasury staff out-posted in CSD) - including staff work on the Annual Scrutiny of Departmental Running Costs, key ratios and indicators.

- d. Management Development - including general organisation and methods, management reviews, O&M aspects of computerisation.

- e. Operational Research - including support services for Manpower and Pay and for other departments.

The redistribution of these areas of work turns, in each case, largely on a judgement on how best to promote the centre's work on efficiency.

Efficiency

5. At present, some aspects of the drive for greater efficiency are being dealt with in the Treasury (eg financial control systems); on other aspects, CSD is in the lead (eg departmental running costs and management information systems); while yet other aspects are being dealt with jointly (eg internal audit). And CSD's personnel management work is also clearly relevant to the improvement of efficiency. A third force - Sir Derek Rayner's office - pioneers new ideas, proposes fresh initiatives and tackles specific projects, calling on CSD's resources for support if necessary. All of this work is mutually supportive and inter-active.

6. On one view, it is mistaken conceptually to regard work on efficiency and on personnel management as being separate from resource control. But brigading all these functions together would entail the transfer of CSD's functions en bloc to the Treasury. This was considered and rejected at the turn of the year and we do not consider it further in this report.

7. The way forward, we suggest, is to redistribute CSD's functions by reference to the following objectives:

- a. consolidation in the Treasury of control over resources of all kinds;
- b. providing the Treasury with the specialist staff (eg staff inspectors) needed for effective control of manpower and administrative costs;
- c. bringing together in the Cabinet Office the arrangements for selecting, developing and motivating people; and
- d. providing in the Cabinet Office a comparatively small, high quality staff to assist the Government in its general policies for the greater efficiency and effectiveness of administration by running the scrutiny programme, service-wide reviews and comparable management audit and by assisting departments with development work complementary to management audit.

These four objectives are inter-dependent but the third and fourth of them are substantial and important in their own right; they are concerned with much more than a set of control mechanisms.

8. This analysis leads us to suggest how the functions listed in paragraph 4 should be distributed:

- a. the "Good housekeeping" work of Functions and Programmes Division 2 would go to the Cabinet Office in support of scrutiny and similar work (minus work measurement, which is integral to manpower control, and should go, therefore, to the Treasury);
- b. Management development would also go to the Cabinet Office because it is closely associated with the scrutiny programme and other management exercises. But a few staff would be out-posted to the Treasury in support of its manpower control work.
- c. Staff Inspection, Operational Research and the CSD unit of Accountancy, Finance and Audit would go to the Treasury, but staff from them would be out-posted to the Cabinet Office, as necessary, in support of its management audit and scrutiny work.

Annex A sets out in full the proposed allocation of functions.

Staff Savings

9. Under these proposals, there would be an immediate saving of two top posts - those of the Permanent Secretary and Second Permanent Secretary, CSD. Last October's report of the study team on the merger of the Treasury and CSD made clear that integration would produce some staff savings, particularly in supporting services. We believe that similar savings can be expected under our proposals. Detailed work will be needed after the changes are made to pin-point the posts which can be saved.

Comments on the Proposals

10. While we believe that this reallocation best gives effect to the objectives set out in paragraph 7, we must draw attention to the following points:

a. Because the centre would be divided, it would be necessary for Ministers in charge of spending departments and the trades unions to deal with both the Treasury and the Cabinet Office on most efficiency and personnel management initiatives because of their implications for manpower and pay, and vice versa. There would no longer be one department responsible for the overall management of the Civil Service.

b. Supply control, the development of better financial and manpower control systems, internal audit, management information systems, work measurement, cost-consciousness and the internal organisation of departments are all deeply inter-twined. To separate them, as our proposals do, is to perpetuate a divided central capacity for strengthening the control of public expenditure and improving the operational efficiency of departments.

c. Unless the CSD functions transferred to the Cabinet Office were in some way kept separate from the rest of the Cabinet Office's work, there would be the risk of changing the nature of the Cabinet Office and of it becoming subject to the same degree of Parliamentary scrutiny and investigation by the Parliamentary Commissioner as the Treasury and CSD are at present.

11. With this last point particularly in mind, we recommend the establishment of a separately identifiable unit - the "Office of Management and Personnel" - to deal with the CSD functions transferred to the Cabinet Office. It would be headed by the Secretary of the Cabinet; and a Minister could be designated to be in day-to-day charge of it on the Prime Minister's behalf. These arrangements would not disturb the direct link between Sir Derek Rayner's office and the Prime Minister.

The Allocation of Responsibility for the Commission, the College etc

12. At present, the Civil Service Commission, the Civil Service College, the CS Catering Organisation (CISCO), the CS Medical Adviser and the Chessington Computer Centre are part of CSD but create very little work for Ministers, and operate with considerable day to day independence. We recommend that:

- the Commission
- the College
- the Medical Adviser

should become part of the Cabinet Office on the same basis. We further recommend that:

- CISCO and
- Chessington

should come under Treasury Ministers*.

13. We also recommend that the responsibilities of CSD Ministers for HMSO and COI should be transferred to Treasury Ministers.* They would also become responsible for the Government Actuary's Department, which is closely associated with Superannuation.

14. Responsibility for the Government Hospitality Fund should, we suggest, go to the Cabinet Office but without prejudice to consideration of the case for its subsequent transfer to the FCO (its main user). Parliamentary Counsel's Office, now a sub-department of CSD, would also come under the Cabinet Office.

*The possibility of setting up, at a later stage, a Common Services Agency embracing PSA and some or all of these activities is not affected by these proposals.

The Ministerial Arrangements

15. At present, the Treasury and CSD together have seven Ministers. Three of them have Cabinet rank and four are Ministers of State. Sir Robert Armstrong will provide a separate note on the Ministerial arrangements.

Permanent Secretary Arrangements

16. A separate note on the duties of the Head of the Home Civil Service and the arrangements at Permanent Secretary level will also be provided.

Timing of the Announcement

17. We recommend that these changes should be announced as soon as possible and by means of an oral statement in Parliament. Announcement in the week beginning 19 October, when the Commons "spill-over" starts, may not be possible because CSD is First Order for Questions on 21 October and the Prime Minister departs for the Cancun Conference that day, returning on the week-end of 24/25 October. Prorogation is expected on 29 or 30 October and we suggest, therefore, that Tuesday 27 October would be the best day to make the announcement. Leaving it until 5 November, the second day of the new Session, would increase the risk of leaks and damaging speculation based on them.

18. When the announcement is made it will be essential to be able to tell as many as possible of the staff of the CSD in which department they will in future be serving. This need cause no delay in making the announcement: we have been able to do enough work in the last fortnight to settle the destination of all but a very few staff (they are mainly in the CSD's Basingstoke Finance and Personnel Services Division). It would, however, be advantageous if a few days were allowed for the staff to be told where they are going.

19. We recommend that as soon as this has been done, the re-organisation should come into effect administratively. Delay would leave the CSD, at Ministerial and official level, broken-backed for far too long in its dealings with other departments, the trades unions, and others. For some time after the re-organisation there will inevitably need to be some marginal adjustments in the distribution of functions and staff between the two departments. It

will also take some time to sort out the accommodation for the re-organised Centre. We do not see any point in delaying the effective date of the re-organisation in an attempt to settle everything before the change occurs.

Legislation

20. While the re-organisation could take effect administratively without delay, the formal transfer of powers would require an Order in Council. The Order would vest in the Treasury the functions of the Minister for the Civil Service in respect of pay, superannuation, conditions of service and allowances. But there is a choice how to vest the Minister's remaining powers (ie "with respect to the organisation and conduct of the civil service of the State, the manner of admitting persons thereto or to situations therein"). The choice is between

- a. retaining the office of Minister for the Civil Service and continuing to vest the remaining functions in that Minister; or
- b. vesting the functions in the Prime Minister.

Our advice, confirmed by First Parliamentary Counsel, is that retention of the office of Minister for the Civil Service would be greatly preferable. On that basis, the Order would be subject to negative resolution procedure, and if laid on the first or second day of the new session (4 or 5 November) could come into effect, say, two and a half weeks later (on Monday 23 November). A fuller note on this subject is at Annex B.

More Detailed Issues

21. In preparation for the announcement work is in progress on:

- a. the drafting of a Parliamentary statement, and notes for supplementaries, about the Prime Minister's decision;
- b. arrangements for informing all Ministers in charge of departments and their Permanent Secretaries;

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- c. arrangements for informing CSD, Treasury and Cabinet Office staff and the national and departmental Trades Union sides about the changes;
- d. arrangements for informing the Treasury and Civil Service Committee;
- e. arrangements for informing others (eg Megaw, CS Appeal Board, TSRB, etc).

22. Further work will be required on:

- a. Accommodation - the aim should be maximum colocation of former CSD staff with the departments to which their work is transferred; this will take time to arrange.
- b. Staff savings - detailed post-by-post scrutiny will be required in some areas
- c. Allocation of CSD support services (eg personnel services, messengers, typists).
- d. Accounting Officer and Vote arrangements.

Because of the risk of leaks, much of this work will have to await the announcement of the changes.

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FUNCTIONS TO BE TRANSFERRED TO THE CABINET OFFICE

1. CSD's work on the following would be transferred to the Cabinet Office.

a. Management Systems and Organisation, embracing:

- CSD's work in support of the Rayner Unit and "good housekeeping" including service-wide reviews; the scrutiny programme; cost-cutting studies and cost-consciousness; and the Transport Economy Unit (FP1 and part of FP2)
- management, organisation and systems studies; service-wide review of forms; O&M including relevant aspects of computerisation (MD)
- support staff for the above, out-posted, as necessary, from the Treasury (these support staff would be drawn from the Staff Inspection, the Operational Research and the Accountancy, Finance and Audit Divisions and the Central Computer and Telecommunications Agency).

b. Personnel Management, including:

- senior appointments
- succession planning and the central management of staff groups
- grading structure
- recruitment and training policies

c. Security; acceptance of business appointments by former senior civil servants and others; and Civil Service conduct.

d. The Machinery of Government Division

e. The Public Appointments Unit

f. The Ceremonial Branch

FUNCTIONS TO BE TRANSFERRED TO THE TREASURY

2. CSD's work on the following would go to the Treasury:

a. Manpower, including:

- Annual Scrutiny of Departmental Running Costs
- Staff Inspection and Evaluation* and the follow up to Wardale
- supply control of PSA, HMSO and COI and work measurement (part of FP2)
- Operational Research*

b. Pay, Superannuation, Allowances, Conditions of Service and retirement policy.

c. Central Computer and Telecommunications Agency*

d. Industrial Relations

e. The CSD unit of Accountancy, Finance and Audit*.

* Staff from these divisions would be out-posted, as necessary, in the Cabinet Office

THE TRANSFER OF FUNCTIONS ORDER

1. The office of Minister for the Civil Service was created in 1968. Since then, the office has always been held by the Prime Minister of the day. The powers of the Minister are to be found principally in the Minister for the Civil Service Orders of 1968 and 71 and in the Civil Service Order in Council 1978.
2. With rare exceptions, government departments have no powers of their own and no legal existence. They are the collectivity of "such secretaries, officers and servants" as the Minister appoints to assist him discharge his functions (para 2, Schedule 1, Ministers of the Crown Act 1975).
3. However, Schedule 2 of the Parliamentary Commissioner Act 1967 lists the "Departments and Authorities Subject to Investigation" by the Commissioner. Both CSD and the Treasury - but not the Cabinet Office - are listed in that Schedule. Moreover, section 5(1) of the Ministers of the Crown Act 1975 ("the 1975 Act") provides that:

"No Order in Council which provides for the dissolution of a government department shall be made under this Act unless, after copies of the draft thereof have been laid before Parliament, each House presents an Address to Her Majesty praying that the Order be made".
4. It is against this background that the following action is suggested to give effect to the redistribution of the CSD's functions.
5. An Order in Council under the 1975 Act would be made to transfer to the Treasury the functions of the Minister for the Civil Service in respect of the remuneration, allowances and pensions of the Civil Service (and, where appropriate, of the armed forces, the judiciary, judicial staff and jurors etc).

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6. But the present powers of the Minister "with respect to the organisation and conduct of the Civil Service of the State, the manner of admitting persons thereto or to situations therein" are not to be transferred to the Treasury. We recommend that they should remain vested in the Minister for the Civil Service because:

- a. merit may be seen in the retention of that office;
- b. it would avoid vesting the functions in the office of Prime Minister itself;
- c. since the Minister and some of the staff who currently assist her to discharge her functions would remain, the changes would not involve "dissolution of a government department" and the Order would be subject, therefore, only to negative not to affirmative resolution procedure;
- d. this in no way inhibits the adoption of the name "Office of Management and Personnel" to describe the collectivity of the staff who assist the Minister;
- e. "The Office of Management and Personnel" would be added to the list of "departments" in Schedule 2 of the Parliamentary Commissioner Act 1967, thus preserving the exclusion of the Cabinet Office from the list and from investigation.

7. On this basis, the "Office of Management and Personnel" would be formally separate from the Cabinet Office (important for the reason mentioned in (e) above and in respect of the work of the Treasury and Civil Service Select Committee). But, for administrative purposes, the "Office" could be run as part of the Cabinet Office, with the Secretary of the Cabinet as Permanent Secretary of the "Office".

8. The Order could be:

- a. laid on 4 November;

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b. come into effect on Monday, 23 November (there was a two week gap between the laying and coming into effect of the Minister for the Civil Service Order 1968).

It should be noted that the 40 days for prayers against the Order would not have expired by 23 November. Bringing instruments into effect before the expiration of the 40 days is, however, well precedented.

CSD

9 October 1981