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Prime Minister

This draft paper does not
break any significant new
ground.

MR C A WHITMORE

Yes no

Content for Sir Ian to
submit it to the Select
Committee?

SELECT COMMITTEE ON THE TREASURY AND THE CIVIL
SERVICE

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When Sir Douglas Wass and I gave evidence to the
Sub-Committee on 2 July we were asked for a paper
describing the options for the organisation of the
central departments which had been identified in
his evidence to the Sub-Committee by Sir Robert
Armstrong.

... I attach a draft of such a paper which I have
cleared with Sir Douglas Wass and with Sir Robert
Armstrong.

If the Prime Minister is content we will submit it
very early next week. I think there would be great
advantage in letting the Sub-Committee have it
before they take evidence from Lord Crowther-Hutton 9 July.
It will be declassified when sent to the Select Committee.
I am sending copies of this minute to Sir Douglas
Wass and to Sir Robert Armstrong. I am also submitting the
draft to the Lord President and I understand that Sir Douglas
Wass will be showing it to the Chancellor of the Exchequer.

IAS

IAN BANCROFT
4 July 1980

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THE ORGANISATION OF THE TREASURY

AND THE CIVIL SERVICE DEPARTMENT

Note by the Civil Service Department and the Treasury

Introduction

1. At their hearing on 2 July 1980, the Sub-Committee asked for a paper describing in more detail the four options for the organisation of the central departments that Sir Robert Armstrong had identified in his evidence on 18 June.

2. The options were:
 - (a) to split the Treasury, merging its public expenditure control functions with the CSD, leaving the rest of the Treasury as a separate department;

 - (b) to split the CSD, transferring its manpower, organisation and efficiency divisions to the Treasury, leaving the rest of CSD as a separate department;

 - (c) to unify the Treasury and the CSD;

 - (d) to retain the Treasury and CSD as separate departments but to strengthen further the co-ordination and co-operation between them.

This paper briefly describes and comments on the pros and cons of each of these options, but does not seek to express a preference between them.

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Split the Treasury

3. This option would unite supply control responsibility and brigade it with responsibility for the management of the Civil Service at the cost of splitting the present Treasury's unified responsibilities for economic questions. The Treasury's public expenditure functions would be merged with the CSD in a single "Department of Expenditure and Management", which would have unified responsibility for the planning and control of public expenditure programmes and their management within government. The rest of the Treasury would form a "Department of Finance and Economic Affairs".

4. It would then become necessary to handle across the boundary between the new departments:

(a) the interaction of public expenditure decisions with macro-economic analysis and policy-making;

(b) the construction of public sector accounts and the handling of issues related thereto, given that income would be largely the business of one department and expenditure that of the other; the interaction of revenue and expenditure issues at the micro-level (eg policies on social security benefits and social security contributions) would also take place across the boundary; and

(c) the relationship of public expenditure to general industrial policy and the role of public sector enterprises.

This would increase the number of economic and financial decisions which had to come forward for collective discussion because they could not be settled within the

Treasury. The co-ordination of the management of public expenditure with the responsibilities for public finance as a whole could become more difficult than it is when the Chancellor of the Exchequer and the Chief Secretary are able to act together within a single department.

Split the CSD

5. Under this option, too, there would continue to be two central departments. The CSD's manpower, organisation and efficiency divisions would be transferred to the Treasury, and the rest of CSD's functions (eg pay, personnel management, recruitment, training) would be the responsibility of a separate department.

6. On the one hand, this arrangement would unify supply control and the central responsibility for Civil Service efficiency. The arguments in favour of it are contained in the Eleventh Report from the Expenditure Committee for Session 1976-77. On the other hand, this option would separate control over the number of civil servants from control over Civil Service pay, pensions and allowances; but the bill for Civil Service manpower is the product of the two. Manpower control also involves control over grading (these functions would be transferred to the Treasury); but grading has strong links with both the structure for personnel management and the framework of pay rates (which would be the concern of the "rump" CSD). The split would make it more difficult to do effective forward planning because "demand" would lie with the enlarged Treasury and "supply" with the rump of CSD. There

is also a relationship between future manpower requirements and the planning of computerisation, which is why manpower control and supervision of the Central Computer and Telecommunications Agency (CCTA) are brigaded together within CSD. Moreover, the organisation of people and the organisation of work have to be considered in close association; personnel management, training and recruitment have an important contribution to make to improved efficiency. It is also arguable that, stripped of its manpower and efficiency functions, the rump of CSD would carry little "clout".

Unify the Treasury and CSD

7. This option, like the others, would unify the central responsibilities for the control of public expenditure and manpower and for the efficiency of the Civil Service. But it would not entail breaking the strong and important links between the work on manpower and efficiency and that on man-management, pay, recruitment and training. Nor would it suffer the penalties of separating the control of public expenditure from the rest of the Treasury's functions. On the other hand, unification would add to the already heavy load on the Chancellor of the Exchequer and other Treasury Ministers. And there would be a risk that the functions of the former CSD would receive less attention and priority than they do now when they are the full-time concern of a separate department.

Internal Organisation of a Single Central Department

8. If the departments were unified, there would be

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several options for the internal organisation of a single central department. One possibility might be to transfer CSD intact, recreating in effect the "Management" and "National Economy" sides of the Treasury that existed between 1962-68. Another would be to create "mixed" public expenditure and manpower divisions of the type which existed in some parts of the Treasury before 1962. There are other possibilities and it would require detailed study and planning to consider which might be most effective and what period of time, after the decision to unify was taken, would be required to complete the process of reorganisation.

Retain and Strengthen the Present Arrangements

9. The main argument in favour of the present arrangement is that it enables the Civil Service Department, as a separate department with its own senior Minister in the Cabinet, to give the whole of its attention to its responsibilities on the manpower and efficiency fronts and allows Treasury Ministers to concentrate their attention on the control of public expenditure and on financial and economic policies. Retaining this arrangement would avoid the diversion of effort and disruption inherent in major changes of organisation.

10. If it were decided that the present arrangements should be retained, there would be scope for modest but nonetheless useful improvements in the existing co-ordination and co-operation between the Treasury and CSD. For example, there may be room for some adjustment or clarification of the two departments' responsibilities for the development of better financial management and associated systems of control within spending departments.

Civil Service Department
Whitehall SW1
4 July 1980

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