

Prime Minister

This is Derek Rayner's further
reply to the Select Committee. He
will submit it tomorrow. MFD
24/11/11

A VIEW OF THE PRINCIPLES INFORMING THE ORGANISATION OF THE
TREASURY AND CSD

Note by Sir Derek Rayner

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INTRODUCTION

1. The Sub-Committee has asked for my views on the principles which should be observed in deciding between different options for organising the Treasury and Civil Service Department. I emphasise that what follows represents only my own views.
2. It is very probably true that there is no "organisation of the centre of Government which is universally and for ever right" (Sir Robert Armstrong, Q770). I agree that it is questionable whether organisational change of itself produces the desired results (Mr Eggar, Q792) - a clear policy and firm leadership are needed for that.
3. However, there is a question about the utility of particular forms of organisation. I agree that political will cannot by itself "achieve maximum success unless there is a proper organisational structure to back it" (Lord Crowther-Hunt, Q978).
4. My conclusion is that the right way to make the centre a robust instrument of management is to unify the Treasury and the CSD. That would bring together under one Ministerial head the centre's functions with regard to economical and effective planning and management of manpower and money, whilst preserving the essential link between macro-economic management and the handling of public expenditure as one element within it.
5. The rest of this note explains that conclusion.



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Paul?

FACTORS TO BE HAD IN MIND

6. Central Government looks to departmental (or "spending") Ministers for responsible, effective management of resources as well as of policies, since it is they who plan for and consume resources.

7. There are practical limits to the extent to which Ministers can or should be expected to manage their Departments and the resources in their charge. Ministers, who are not permanent, have to rely on the Civil Service, which is, to provide them with and to operate on their behalf good systems of resource control and management.

8. Whatever part Ministers may themselves play in departmental management and whatever outside experience and thinking may be injected into it, the Civil Service possesses in a very large measure the practical and effective responsibility for good management. This applies equally to officials working for "spending" and "central" Ministers.

9. The implications of the collective responsibility of Ministers must be considered too. The Cabinet's responsibility for decisions on the Government's direct expenditure can be exercised confidently only if Ministers are satisfied that their colleagues' bids have been properly calculated and that expenditure control is fair as between competing claims. Ministers cannot be expected to get down to all the details of central control and other systems. So once again there is an important working assumption, namely that the systems operated by the Civil Service are effective.

10. Those considerations lead me to the view that the right policy for the centre (as also for departments) is one of securing good administration, including a means of satisfying Ministers that the design and operation of systems of control and management are sound. Elements of this policy are as follows:

a. The underlying administrative structures and practices which outlast successive Ministers should be of a quality which convinces them that they are standing on firm ground. The constitutional responsibility for ensuring that government management is excellent rests with Ministers.

b. The means of implementing a "good administration" policy must be found mainly in departments because that is where most responsibility lies. The centre should not need to second guess departments. But because both central Ministers and Cabinet must be able to rely on departmental management, the centre must satisfy itself that the systems and procedures operated by departments are reliable. This argues for three things, that the criteria of effectiveness in departmental systems must be known and promoted; the centre should selectively monitor departmental performance against them; and both the centre and departments should be suitably organised and staffed.

PREFERRED COURSE

11. The jobs of the centre are those of staff work for Ministers and the care, maintenance and development of the on-going management of the government machine.

12. In case "care" etc seems lukewarm, I emphasise that I attach very great importance to the job of the centre in providing technical and professional leadership for the Service, drawing upon departments to help in this as appropriate.

13. That job, and the job of assisting Ministers with their control functions, can in my view best be done by unifying the Treasury and CSD (Option (c) in the joint CSD/Treasury paper of 8 July). I make the following points in support of that conclusion:

a. In my business experience, it is a mistake to draw so sharp a distinction between types of resources as to treat one as wholly "monetary" in character and the other as wholly "personnel". Any successful and cost-effective organisation needs to consider, as different parts of the whole, what it should invest in policies, plant, systems and people and what it is committing itself to spend on them in the long term.

b. Similarly, in any relationship between a central authority and peripheral authorities, it is at best a recipe for difficulty if the centre is so organised as to separate control over money and manpower. The most reliable course is to combine in a single format control over all resources. For this reason, I do not favour the "co-ordination/co-operation" solution (Option (d)).

c. Although Government and business are not the same in either purpose or organisation both need a firm and clear-sighted control over the current use and prospective commitment of resources. This responsibility is of a peculiarly important kind in the public sector with its own, non-commercial disciplines.

d. I see that "administrative reasons" have been adduced for preferring one form of organisation to another. These include arrangements for spreading the burden of work on central Ministers; providing advice to the Prime Minister on, for example, top appointments and the machinery of government; and getting able people to work on "establishments" in the Treasury. Of those, the second and third should be readily dealt with by good official arrangements, subject to Ministerial approval. The question of load on Ministers, the most important of all those mentioned, is not insuperable. Senior Ministers have junior Ministers and officials to help them.

e. The fundamental question is that of the policy to be served by organisation. This I see as being to achieve excellence of management at the centre and in departments. To help achieve this, officials of appropriate personal and intellectual strength, with unmistakable instructions to carry out the policy, must occupy the key positions; departments must be more rigorous than ever in their control and use of resources; and the centre must show the right leadership. I should emphasise that I regard the leadership needed as positive not negative, and that I regard the present juncture in our affairs as a first-class opportunity to build on and extend the good work that is to be found in the Service, but is not yet universal.

f. It is axiomatic that organisation should facilitate the implementation of policy. I believe that the present division between the Treasury and CSD is bound, despite the best endeavours of those concerned, to impede it, whereas a single organisation, under vigorous leadership, could in my judgment make a very greatly increased and sustained contribution to effective management.

16. I do not favour Options (a) and (b), namely splitting either the Treasury or the CSD, for these reasons:

a. In the former case, I would not welcome the creation of a whole new range of important policy questions which had to be dealt with across what would be, in my view, an unnecessary borderline between economic management and the handling of public expenditure as one element in it. I think that the management and control of public expenditure can be dealt with effectively within the larger organisation of the classical Treasury.

b. In the latter case, I think there would be an equally needless split between the manpower, organisation and efficiency divisions of the CSD and divisions dealing, as paragraph 6 of the joint paper explains, with matters which are closely related and indeed often given expression to their policies.

17. Because I prefer Option (c) - unification - I would see Option (d), namely keeping the Treasury and CSD separate but increasing co-ordination and co-operation between them, very much as an "also ran" lying well down the field.

18. Again owing to my preference for unification I have not considered the question of changes in either the Treasury or the CSD (paragraph 4 of Mr Hubback's letter of 10 July), but it is axiomatic that the success of any organisation, whatever its purpose, depends on a clear specification of its job; the right leadership; and the right skills, experience and motivation including promotion for achievement.

19. In the short time available to prepare this submission I regret that I have not been able to consider the question of arrangements within Departments (paragraph 5 of Mr Hubback's letter).

CONCLUDING REMARKS

20. The Fulton Report which recommended the creation of the CSD is a brilliant analysis of some important weaknesses of the Service, but with the benefit of hindsight, I believe that its proposal to create a separate Department to bring about the desired changes was mistaken.

21. The Report, in identifying the weaknesses under Treasury control, believed that by the creation of a new Department these weaknesses would be remedied. However, in setting up the CSD insufficient people were injected at senior levels who were sufficiently seized by the importance of management and whose

background and success in management would give the necessary professionalism to the implementation of the Fulton Report's proposals. (Lord Crowther-Hunt had some interesting comments on this matter in his evidence to your Committee.) This was a serious weakness given that from 1968 through to last year the CSD had tended to be an officials' department. Simultaneously, by creating a new Department without financial control, one of the two essentials of central authority was lost.

22. Given the complexity of Government, the shape and size of a Central Department is difficult to define with certainty of success but, in my view, it should be high in quality and range of management skills and low in numbers. In those successful large businesses known to me, it is the quality of those at headquarters that command respect and achieve success and not the growth in numbers and complexity.

23. One of the principle tasks of a central organisation must be to ensure that as much authority and responsibility as possible are delegated to Departments and its authority should be exercised in insisting that key senior appointments in Departments, for example, the Principle Finance Officer and the Principal Establishments Officer are chosen for aptitude and experience. It should use its authority to assist Departments in dealing with the problems that arise with over promotion and people who run out of steam. It should ensure that internal audit and controls are adequate, that management information systems are appropriate and that manpower planning takes fully into account the skills and experience needed to ensure the correct range of talents for the future. It should deal and indeed exploit the contribution that individuals can make to the improvement of the organisation and less with the formalities of personnel policies.

24. In my view these functions of the centre are best served by a single department which combines the control of money and manpower. In 1968, when the weaknesses had been identified,

I believe that an attempt should have been made to ensure that the existing "headquarters" (pre-1968 Treasury) re-balanced its priorities. A division of responsibilities should always be considered as a last resort not least because the creation of a new Department will invariably follow the pattern of "divide and multiply".

Derek Rayner
22 July 1980