

CONFIDENTIAL

Prime Minister

Agree that Robin Butler
should write to Department as at
Aug 4 to "set the scene" for Robin
Jebb.

PRIME MINISTER

My first task has been to assess progress so far and to identify the principal targets if efficiency is to improve substantially during your second term. I believe that my immediate objectives should be:

- a. to maintain the momentum of the scrutiny programme;
- b. to focus this programme increasingly on areas where there are substantial opportunities for increasing value for money, and to extend it to some major areas of public expenditure beyond central government (for example, the NHS);
- c. to support through the scrutiny programme, and to encourage by other means, the introduction of lasting reforms, notably the FMI and better staff management;
- d. to identify ways of increasing throughout the public service the motivation of management for finding savings and achieving better value for money.

My general assessment

2. The basic need is to limit public expenditure but sustain necessary services despite growing demands in some areas.

3. A contribution can come from streamlining central government's administrative costs. I am impressed by the effort some Ministers and departments have put into efficiency improvement. The steps taken by the social security organisation in DHSS to slim down bureaucracy and introduce performance standards for managers are one good example. The existing scrutiny programme, and the lasting reforms now in train in financial and staff management, must continue to play a big part here.

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4. But these administrative costs are only 15% of total public expenditure. Improvements on the scale needed mean that we should look wider than this: at the value for money delivered by various existing policies, and at other parts of the public sector beyond central government.

5. Overall, despite the excellent work in some departments, I do not think that the public sector as a whole has yet made a convincing breakthrough in accepting the importance of value for money. There is too much emphasis on trying to get more money and not enough on getting more output.

6. The lesson in the private sector in recent years, and I have personal experience of this, is that when a management realises that survival depends on obtaining the same output from less resources, substantial savings and improvements are usually achieved. It is recognition that ultimately the choice is 'improve or go under' that releases a willingness to improve at all levels.

7. To me a major challenge is to obtain a similar recognition of reality in the public sector. Many departments and line managers still hang on, waiting to be pushed into greater efficiency. But progress on the scale required means that they must themselves take the initiative; the improvement needed is far more than can be achieved by central initiative alone.

8. As I see it, a means must be devised, based on your Government's strong political position and track record on improving efficiency, for convincing public servants generally that the only way forward is to get more output from an existing level of resources. This is the sound way of making additional programmes possible. Every public servant needs to believe that he owes it to the tax payer to secure steadily improving value for money, year on year. There is no standing still on these matters.

The next step

9. The immediate task in all departments is to establish the lasting reforms launched in your first term, particularly the Financial Management Initiative, as vigorous parts of the normal management system and not as bureaucratic formalities. Effort has to be concentrated at points where the reforms will yield maximum benefit.

10. Strong central leadership will continue to be essential if rapid progress is to be made. Future scrutinies can be selected so as to encourage the implementation of these reforms. Better management can be fostered within departments by requiring them to use the systems they are developing of the MINIS type

- to set targets for improvement in the value for money delivered by specific areas of administrative cost or policy
- to select and commission scrutinies and other work needed to bring the improvements
- to assess progress in implementing lasting reforms and the findings of previous scrutinies.

Selection of scrutinies can also help to put emphasis on areas where the potential rewards are greatest and to increase the efforts in weaker departments.

11. I propose to bear all these aspects in mind in drawing up a selective programme of central efficiency work to maintain pressure on your behalf at the points where it will have best effect.

12. The main drive for securing the lasting reforms of financial and staff management has to come from the Treasury and the Cabinet Office (MPO). However, I believe that from time to time I might usefully take a special interest on your behalf in plans for securing progress in

Financial management:

- developing systems of the MINIS type
- applying FMI principles to programme as well as administrative expenditure
- encouraging repayment, contracting out
- delegating budgetary control to managers down the line
- improving internal audit and review capabilities

Staff management:

- encouraging delegation
- making improved personal performance in the job a prime objective of staff appraisal
- developing an element for personal merit in pay
- dealing positively with poor performers
- pruning the jungle of central rules in the personnel field.

Relations with the public:

- cutting down and improving forms.

Information technology:

- introducing new technology cost-effectively.

The task beyond

13. If tax increases, or arbitrarily reducing public expenditure programmes across the board, are to be avoided, there will need to be a greater willingness to increase the efficiency with which policies are carried out and to drop some of the policies which are least cost-effective. This is something that Departments must be persuaded to do increasingly vigorously for themselves. I find that the existing pattern of scrutinies has already started to reveal - albeit in a small way - not only opportunities for administrative savings, but worthwhile instances of where the efficiency and value derived by established programmes need to be reviewed because there are substantial potential improvements to be had. For example, the Overseas Development Administration found that their Directorate of Overseas Surveys determined their own programme of work independently of genuine demand criteria and sometimes significantly at variance with genuine need. The DHSS discovered that far from helping, their health care export activities hindered British companies. The Department of Trade & Industry currently have a scrutiny looking at the methods used to assess the cost effectiveness of selective financial assistance to companies.

There are two aspects to this. In some cases our aim should be to ensure that Departments look at what is happening on the ground as a result of policy programmes. For example, have the bureaucratic burdens really been reduced as much as they could be in the Enterprise Zones? In others, the need is for Departments to examine the quality of the management of policies. For example, they have to check whether the Under Secretary and Assistant Secretaries in specific policy divisions are equipped with the skills that the tasks really need. What systematic questions are asked in Departments about programmes and what procedures are used to assess the value programmes give? How do they select and plan sufficiently for the cessation of activities? I believe it should be possible to sharpen the effectiveness of the scrutiny procedure to help in tackling questions of this kind.

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It is also important that Ministers identify those areas of policy which are contributing least to the Government's targets, and then plan for their withdrawal so that more important activities can have a greater share of the cake. This type of selection has to go on continuously in the private sector. However, because it is painful, it tends to fade at points where competitive forces are weak unless senior management themselves maintain a pressure. In the public sector, because of the absence usually of competition, the burden falls almost entirely on senior management. If an attempt is made to reduce existing policy provisions, there is frequently determined opposition from the small numbers who will be directly affected, without a countervailing pressure from the majority who would benefit from a different programme or from lower taxation. Steps are needed to educate the public. I suggest that, as part of the basic task of encouraging motivation towards value for money, I might usefully give further thought, in consultation with your Policy Unit, to how such selection could be encouraged in Departments so that programmes of least value are weeded out.

14. There is also an important job to be done in the public sector beyond the Civil Service. Against 0.64 million civil servants (now), there are about 1.25 million people employed in the National Health Service, 1.5 million in local authority education, and 1.75 million in the public corporations. I think that the Unit should give a little more of its time to strengthening selective links with these areas but taking care not to become so deeply involved that it is unable to give the necessary time and effort to improve efficiency in the Civil Service. My aim would be to encourage those in the wider public sector who are keen to improve performance. In particular:

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(1) My first impressions of the as yet small scale NHS scrutiny programme are that, in that vast area too, the scrutiny approach is valid and has much to offer. Sir Kenneth Stowe has already sought my help on this and I propose to report progress with the NHS scrutinies to you in a similar way to progress on the central government programme.

(2) Elsewhere in the public sector, many of the nationalised industries are pressing ahead with internal efficiency reforms - spurred on by the winds of competition. The Unit is advising directly other units in British Gas, British Rail, British Telecom and the Atomic Energy Authority. It has had talks with the Post Office and the Metropolitan Police. It has helped run a scrutiny of supporting services for the Research Councils. And it is developing good links with local authority professional organisations such as the Society of Local Authority Chief Executives and CIPFA.

Conclusions

15. I propose to take as my immediate targets:

- continuing with the scrutiny programme, but in a way that forces departments to make positive use of their systems of the MINIS type (paragraphs 10 and 11)
- in the same way, pressing hard on the implementation of scrutiny recommendations and of the lasting reforms already in train in financial management and staff management (paragraphs 10 and 11)

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✓ representing your interest in lasting reforms to encourage and support the right drive and leadership from the central departments, especially on financial and staff management (paragraph 12)

- considering how to sharpen the scrutiny process so that it can assist further in increasing the efficiency with which policies are carried out and help Ministers to weed out policies that provide the least value for money (paragraph 13)
- extending your policy of good management into the wider public sector but without relaxing pressure on the Civil Service targets (paragraph 14)

16. If you agree with these proposals, it would help me if you were to issue written guidance on what you expected. This will establish the framework and your continuing interest which is essential. I therefore attach a draft of such a "commission", which I would hope you would agree to copy to colleagues.

Amey

17. I am sending a copy of this minute to Sir Robert Armstrong.

RI

ROBIN IBBS

29th September 1983

I am simply delighted with these proposals. I think we should have a small meeting with Robert, Freddie & Robin me to set dates etc for progress reports for dept generally to see how we can keep the impetus. RI



bc. Mr. Mount

lo
5 pm
Sir RA 27th
at

10 DOWNING STREET

From the Principal Private Secretary

Sir Robin Ibbs

The Prime Minister saw your minute of 29 September and agreed that I should send you written guidance on what she expects from you and the Policy Unit. This guidance is attached.

You will want additionally to know that the Prime Minister commented on your minute:-

"I am simply delighted with these proposals. I think that I should have a small meeting with Sir Robert Armstrong, Sir Robin Ibbs, Ferdie Mount and Mr. Beesley to set dates etc., for progress reports from Departments and generally to see how we can maintain the impetus. MT"

We will arrange such a meeting in the near future.

I am sending a copy of this minute to Sir Robert Armstrong.

E. E. R. BUTLER

6 October, 1983.



c.c. Cabinet +
LOD
CWO

Lord Gorman

10 DOWNING STREET

From the Principal Private Secretary

Sir Robin Ibbs

Work on Efficiency

The Prime Minister was grateful for your presentation on the progress made so far on improving efficiency and on the objectives for the future.

The Prime Minister continues to attach high priority to improving management, reducing costs and improving effectiveness. She is impressed by the considerable successes that some departments have had. But she is concerned that much more needs to be done to get personal commitment to these aims at every level and throughout government. Public servants generally must be convinced that the only way forward is to get more output, year by year, from the resources at their disposal.

The Prime Minister welcomes the widespread development of MINIS (or comparable) systems under the Financial Management Initiative. These systems will enable Ministers to question the cost of activities and to identify those policies which are least cost-effective. The Prime Minister also sees the plans to reform personnel management as an essential component in creating the right conditions for good management.

The Prime Minister looks to you to represent her interest in securing these and other improvements in systems and attitudes. She would like you to help central and departmental Ministers to use the MINIS-type systems:

- to set targets for improvement in the value for money delivered by specific areas of administrative cost or policy
- to commission scrutinies and other work as necessary to bring the improvements
- to review progress in the achievement of lasting reforms in financial and staff management, and in implementing the findings of previous scrutiny work.

/ Mrs. Thatcher

LD

Mrs. Thatcher would welcome a report from you in due course on the extent to which MINIS systems are being used in this way. She will expect the Efficiency Unit to derive from this a carefully selected programme of work to improve efficiency in central government, using the scrutiny technique. She would like you to consider further how the technique might be applied to securing better value for money in government policies, with the aim of achieving really significant contributions to maintaining the quality of government services within what the taxpayer can afford.

Your prime area of operation is the central government, but the Prime Minister hopes that you will also help other parts of the public sector to press ahead with internal efficiency reforms - especially where there are burdens on the taxpayer. Mrs. Thatcher has commented that the government should seek to present efficiency improvements positively and to develop a favourable public and political climate for this work. She looks to you and to individual Ministers to contribute to this.

On all this work you should report directly to the Prime Minister and seek her personal involvement whenever you think it necessary. You should also work closely with the Head of the Home Civil Service.

I am copying this minute to the Private Secretaries to members of the Cabinet and other Ministers in charge of Departments, and to Sir Robert Armstrong.

E. E. R. BUTLER

6 October, 1983.

DRAFT OF 14 SEPTEMBER

DRAFT MINUTE FROM F E R BUTLER ESQ

SIR ROBIN IBBS

The Prime Minister was grateful for your presentation on the progress made so far on improving efficiency and on the objectives for the future.

2. ^{The Prime Minister} ~~Mrs Thatcher~~ continues to ^{attach} ~~put~~ a high priority ^{to improving} ~~on good~~ management, ^{reducing costs and improving effectiveness.} ~~in the state~~. The cost of all operations must be held down and effectiveness improved. She is impressed by the considerable successes that some departments have had. But she is concerned that ^{much} ~~more~~ ^{needs} ~~has~~ to be done to get personal commitment to these aims at every level and throughout government. Public servants generally must be convinced that the only way forward is to get more output, year by year, from ^{the} ~~an~~ ^{existing level of resources at their disposal.}

3. ^{wider} ~~The~~ Prime Minister ^{is aware} ~~is aware~~ that MINIS (or comparable) systems under the Financial Management Initiative, ^{These systems will} ~~are now being developed widely.~~ They should enable Ministers to question the cost of activities and to identify those policies which are least cost-effective. The Prime Minister also sees the plans to reform personnel management as an essential component in creating the right conditions ^{for good} ~~management.~~

4. ^{The Prime Minister looks to} ~~Mrs Thatcher wishes~~ you to represent her interest in securing these and other improvements ⁱⁿ ~~affecting~~ systems and attitudes. She would like you to help central and departmental Ministers to use the MINIS-type systems:

- to set targets for improvement in the value for money delivered by specific areas of administrative cost or

policy

- to commission scrutinies and other work as necessary to bring the improvements

- to review progress ^{in the achievement of} with lasting reforms in financial and staff management, and ⁱⁿ with implementing the findings of previous scrutiny work.

5. Mrs Thatcher ^{would welcome a} ~~would like you to report to her~~ ^{from you} in due course on the extent to which MINIS systems are being used in this way. She will expect the Efficiency Unit to derive from this a carefully selected programme ^{of work} ~~of central efficiency~~ ^{to improve efficiency in central government,} work, using the scrutiny technique. She would like you to consider ^{further} how the technique might be ^{applied developed used to make further} ~~used to improve~~ ^{contributions to securing} the search for better value for money in government policies, ^{with the aim of making achieving really significant} ~~This could make a real~~ contribution to maintaining the quality of government services within what the taxpayer can afford.

6. Your prime area of operation is the central government, but ^{The Prime Minister hopes that you will also} ~~you should~~ help other parts of the public sector ^{to} press ahead with internal efficiency reforms - especially where there are burdens on the taxpayer. Mrs Thatcher has ~~also~~ commented that the government should seek to present efficiency improvements positively and to develop a favourable public and political climate for this work. She looks to you and to individual Ministers to contribute to this.

7. On all this work you should report directly to the Prime Minister and seek her personal ^{involvement whenever you think it} ~~support as necessary~~. You should also work closely with the Head of the Home Civil Service.

8. I am copying this minute to the Private Secretaries to members of the Cabinet and other Ministers in charge of Departments and to Sir Robert Armstrong.

FERB