



From the Minister

PRIME MINISTER

Prime Minister, 2

This is really weekend reading, and will be useful background to your meeting with the Management Consultants Association. But you may wish to glance at it now since it tells an encouraging story.

*Wm
10/3*

9 March 1982

Weekend book please MB

FINANCIAL MANAGEMENT REVIEW BY COOPERS AND LYBRAND

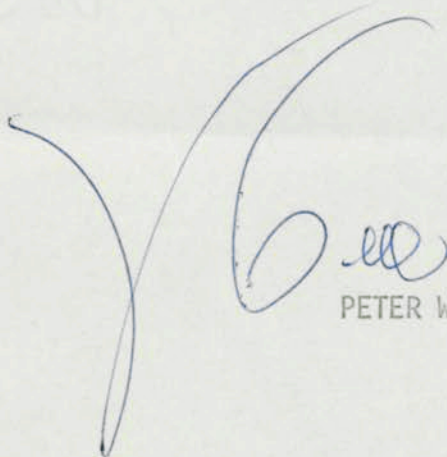
1. You have asked for a report on the study of my Department's financial planning and control systems which was carried out by Coopers and Lybrand.
2. The consultants were asked to examine the effectiveness and appropriateness of our financial planning, control and monitoring systems; to identify any significant shortcomings by comparison with the highest commercial standards and to note whether there are any features of Government operations calling for different standards; and to recommend any changes which appear desirable. Their approach was, first, to review briefly the whole Department and its systems; and then to look in depth at six major areas of the Ministry's work, including blocks of policy expenditure and also running costs, which together account for about 60 per cent of our expenditure. Given the tight timetable we had set them, they rightly saw their task as one of identifying the broad directions in which our systems should be improved, rather than of giving detailed prescription for change. In my view they did their work well. Their report (copy enclosed) is readable and well considered.
3. Their conclusions fall into two categories. First, they conclude that in general the Department's systems adequately safeguard the proper use of public funds and ensure compliance with Government financial procedures. This has habitually been seen as the primary function of financial control systems in the public service and I am not surprised that they find it to be done adequately.
4. Their main point, however, is that this is too narrow a view of the purpose of financial systems, and that financial management must concern itself more, as it does in the best run commercial concerns, with such concepts as the optimum allocation of resources, the definition and attainment of clear objectives and the measurement of performance. They comment that prevailing arrangements have not favoured this approach: senior management has tended to regard resource management as a relatively minor function by comparison with policy advice, management information has not been well geared to assist effective planning and control, and management responsibility and financial accountability have not

coincided to the extent that they should. Without necessarily endorsing all their criticisms, I do see some force in their general conclusion that the view habitually taken of the role of finance in management has been too restricted.

5. They make a number of recommendations designed to put this right and so to secure better value for money from the resources available to the Department. These comprehend four main themes:-
 - (i) Management responsibility should be redefined and financial accountability devolved so that it coincides as far as possible with management responsibility. In other words, line managers must be, and feel themselves to be, more directly responsible for the resources used in their fields.
 - (ii) Policy objectives should be more clearly defined, and indicators of performance developed so that achievements can be measured against objectives. The purpose here is to find ways of defining aims and measuring progress which can serve as a substitute for the commercial yardstick of profit.
 - (iii) Management information should be improved so as to help managers decide on the allocation of resources and measure performance more effectively.
 - (iv) Planning, estimating and audit procedures should be improved, and the disciplines and skills required for the finance function developed more widely in our managers.
6. I fully agree with the general thrust of these recommendations, as does my Permanent Secretary. The first of them is the most important and is indeed central to the whole approach. It amounts to a recommendation to let managers manage, with much less detailed central supervision of the traditional kind; but to impose a discipline on them by the measurement of their performance. The consultants made very clear their belief that there were too many external checks and that the right course was to restore financial authority, and with it financial accountability, to line management. This of course has its problems. The central Departments will always want and indeed need to maintain some degree of control over spending Departments; and within Departments there must always be a degree of central control over line management. But I agree with the consultants that there has been too much centralism and too much emphasis on uniformity of practice, that this has detracted from the role of line management, and that we must restore to line management genuine responsibility and accountability.
7. I have therefore given my Department's Management Board, chaired by the Permanent Secretary, authority to proceed immediately with the process of translating these general recommendations into detailed practice. The work is being steered by a sub-committee chaired by the Principal Finance Officer and supported by a small implementation team. The first task is to identify the major practical issues that arise in determining where responsibility and accountability should lie in a complex, multi-function department. The approach

adopted is to take three major and representative areas for pilot work: the Central Veterinary Laboratory, a large and discrete unit where the principles can probably be applied most readily; a Divisional Office, representing the whole of our regional structure, where the implementation of the principles may prove most complex; and one of our Advisory Services, representing the forty per cent of the Department which serves to advise and give technical help to the agricultural industry. These studies should show not merely how the principles can best be applied throughout the Department, but also how cost-effective financial management systems can best be developed; what the personnel and staffing consequences are likely to be; and, not least, where traditional financial constraints may need to be modified.

8. The implementation team are well into their study of the three areas and will be recommending a programme of action to the Management Board next month. They are being helped temporarily by Coopers and Lybrand, who are thus themselves learning something of the practical problems of putting their principles into operation, and of the substantial time-scale needed for doing it properly. But action is already being taken in particular areas. We have started to modify our computerised payments system so that it will be capable of producing the data needed for the financial system we shall be developing. We shall start taking into account the consultants' advice on planning the future allocation of resources during this year's public expenditure survey. And we shall be acting very shortly on the consultants' recommendations on internal audit. Throughout the process of implementation we shall of course liaise continuously with the Treasury and the Management and Personnel Office.
9. This exercise is a substantial one, which will not be completed quickly or without difficulty. But I am convinced that it is worthwhile. Government is not the same as industry or commerce and it will never be possible, nor would it be right, to reproduce exactly the systems, the motivations and the yardsticks that operate in the best of our businesses. But we can undoubtedly do more to develop concern for the optimum use of resources, systems for measuring resource use more effectively, and procedures and information which will help managers do their work more effectively. That is very well worth doing.
10. I am sending copies of this minute to the Chief Secretary, the Chancellor of the Duchy of Lancaster, the Secretary of State for Industry, Sir Robert Armstrong and Sir Derek Rayner.



PETER WALKER



10 MAR 1982

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