

THE REFORM OF FINANCIAL MANAGEMENT: OBJECTIVES AND CO-ORDINATION  
OF CERTAIN POLICIES AND INSTRUMENTS

1. The Prime Minister asked for a paper on the objectives and co-ordination of the proposed campaign for the improvement of financial management; this year's review of systems for controlling running costs in a sample of departments; and the continuing annual scrutiny of departmental running costs.

2. The three exercises noted in paragraph 1, together with other relevant work referred to in paragraph 10, are presented in this paper as elements in a single programme for a lasting reform in financial management.

Central Initiative on Financial Management

3. The main strategic instrument in this programme is the initiative on the improvement of financial management which is shortly to be launched by the Treasury and MPO.

4. Its objectives are in each department:

- (1) The clarification of departmental objectives.  
(And, wherever possible, the assessment and quantification of "outputs" or performance in relation to those objectives.)
- (2) The definition of the responsibilities of managers, at all levels, for making the best use of resources. (And, wherever possible, the identification of "cost" or "responsibility centres".)
- (3) The development of management accounting to provide managers with the information and the pattern of accountability required for effective management.

These objectives go wider than developing good systems of financial control and the information needed to support them. They also involve questions of the management and organisation of each department and the allocation of responsibilities within it.

5. The Treasury and MPO memorandum will ask departments to develop and define a programme of work for the improvement of financial management by the end of January 1983 and to discuss it with the Treasury and MPO. Departmental programmes should

- (1) build on such recent work as MINIS and "Joubert" in DOE, the management consultancy studies in MAFF and DOI, the "Reeves studies" in MOD etc;
- (2) observe certain common criteria set out in the memorandum;
- (3) specify stages and target dates.

6. One of the stated criteria is that each department should have an effective system for the budgeting and control of running costs. The two other specific exercises referred to in paragraph 1 are designed to contribute directly to that objective in the following ways.

#### Review of Departmental Running Cost Control Systems

7. Experience with the annual scrutiny of running costs showed that merely compiling data about running costs and subjecting them to a "top down" scrutiny does not by itself produce better management and control or reduce consumption. The "Joubert" scrutiny in DOE (Central) and other recent work showed that what is needed is to fix responsibility and accountability for costs at the lowest level possible. This means:

- (1) strengthening each department's own central control arrangements; and crucially
- (2) clarifying the responsibility of individual managers.

8. Hence the review of six departmental running cost control systems was originally devised and included in the "efficiency strategy" for 1982, as a one-off exercise aimed at:

- (1) improving those departmental systems as necessary; and
- (2) improving such systems across the Service more generally.

#### The Annual Scrutiny of Departmental Running Costs

9. The annual scrutiny (run this year for the third time) is intended to lead to improvements in departmental control systems and to provide the Treasury with data as a basis for further action with departments. The main objectives of current work are these:

- (1) to make the scrutiny as economical and well adapted to its purpose as possible. (An official working party is engaged on this, under Treasury chairmanship, with a report to Ministers in June); and
- (2) to see that the information provided by the scrutiny enables departments to take action on particular blocks of expenditure or on their systems of control and management; and enables the Treasury to select particular aspects for more detailed investigation.

10. With regard to (1) above, current Treasury thinking suggests that departments should go on with the scrutiny as a separate exercise until they have effective management information systems which enable them to allot running costs to programme or operational expenditure. The annual scrutiny should be used in the interim but certain improvements are needed to make it more usable.

- (1) The data to be examined should be more up-to-date and thus more relevant to budgeting. They should be provided at the time when departments are preparing Estimates for the next financial year.
- (2) There should be more common ground between the data used in the scrutiny and those used in the Estimates.
- (3) The material presented to the Treasury should contain fewer detailed tabulations, constructed on a uniform basis as between departments, and much more commentary on significant facts (eg movement in blocks of expenditure) or ratios. (The production of runs of data over time will help with this, as will work now in hand on developing ratios and performance indicators.)

#### Other Relevant Work

11. Other work in the "efficiency strategy" 1982 is also relevant to the drive for improved financial management. In particular, the programme of resource control reviews in large executive organisations (eg the prisons, RAF support and PSA district works) is designed to produce both immediate improvements in efficiency and better continuing arrangements for the management and control of resources. Also relevant is the programme of joint MPO/departmental cost-effectiveness studies

of common activities (eg typing, messengerial services, stores transport etc); beyond immediate cost reductions, the programme is leading to the issue of guidelines for the more effective management of these activities.

Co-ordination

12. The Treasury and the MPO are both directly concerned. The Treasury is in the lead on financial management and the annual scrutiny, the MPO in the "one-off" reviews. But improved financial management cannot be separated from the general objective of greater managerial effectiveness and efficiency. The two departments must therefore act closely together throughout. The mechanism for ensuring that this co-ordination is achieved is the Joint Management Board, comprising the joint heads of the Civil Service, Sir A Rawlinson and Mr J S Cassels. In addition, Sir Derek Rayner is directly associated with all three of the main exercises, as well as having a general interest in tackling the subject of "managerial effectiveness and efficiency" through such specific exercises as departmental scrutinies.

13. Within that framework, the organisation of the work to be done on behalf of Ministers is best seen in terms of specific tasks assigned to specific people and making the necessary connections between these. Operational responsibility is allotted as follows:

<u>Exercise</u>	<u>Department and Minister</u>	<u>Lead Official</u>
Financial Management initiative	Treasury and MPO; Chief Secretary and Lord Privy Seal	Mr R W L Wilding (Chairman, Financial Management Co-ordin- ation Group)
Annual Scrutiny	Treasury, Minister of State (C)	Mr J S Cassels  Mr R W L Wilding

<u>Exercise</u>	<u>Department and Minister</u>	<u>Lead Official</u>
One-off review of systems; programme of resource control reviews; and management guidelines for common activities (para. 11).	MPO; Lord Privy Seal	Mr J S Cassels

14. The necessary co-ordination at "working level" between the Treasury, MPO and Sir Derek Rayner's unit will be secured both formally and informally as the need arises in the course of business.

Conclusion

15. The Prime Minister, the Chief Secretary, the Lord Privy Seal and the Minister of State (Commons) (HM Treasury) are invited to say whether they are content with:

- (1) the objectives of the various exercises in hand (paragraphs 3 to 11); and
- (2) the arrangements for co-ordination and responsibility here noted (paragraphs 12 to 14).

C J P JOUBERT  
23 April 1982

(Rayner Unit, Management and Personnel Office,  
Whitehall, SW1)

21 APR 1982



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Mr RICKETT



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FINANCIAL MANAGEMENT

I attach a paper, as requested by the Prime Minister, for the meeting intended for 27 April with the Chief Secretary, Lord Privy Seal and others<sup>and</sup> now postponed. It is copied with this minute, to the private secretaries to the Chief Secretary; Lord Privy Seal; Minister of State (Commons), HM Treasury; Sir Robert Armstrong; Sir Douglas Wass; Sir Anthony Rawlinson; and Mr Cassels. A copy also goes to Sir Derek Rayner.

*C J P Joubert*

C J P JOUBERT

26 April 1982

(273 3434)



T F Mathews Esq  
HM Treasury

*Mh on financial management file. WH 7/5*

FINANCIAL MANAGEMENT

1. The Prime Minister was grateful for the Chief Secretary's minute of 28 April. She is content that Mr Brittan should let her have a draft covering minute to Ministers in charge of departments launching the initiative. *But*  
The ~~Prime~~ <sup>she</sup> Minister has asked me to make three other points.

2. First, Mrs Thatcher thinks that the joint note, or the covering minute, should say something about the cost of the initiative. It would be better to anticipate criticism on that score than to have to respond to it. The Prime Minister's own view is that the cost should be slight in comparison with the expected benefits.

3. Secondly, the Prime Minister sees no prospect of an early meeting on co-ordination. If there is an opportunity later, she would like to come back to this. In the meantime, she would like Sir Derek Rayner to represent her interest in the organisation of the initiative and she has asked Sir Derek *would be very grateful if the Chief*  
*Secretary could* to arrange for *Sir Derek* himself and his unit to be closely *involved* associated with it.

Mrs Thatcher has also asked me to say that she would *welcome brief* like a note in due course on *the* outstanding questions *on* with regard to the control of departmental running costs, which *was* *were set out in my letter to Adrian Carter of 15 March, and which were originally to have* the original purpose for the meeting to have been held on *fixed for* *been discussed* *at* 27 April.

4. Finally, the Prime Minister regards the quality of people as critical to good financial management. ~~While~~ She welcomes what <sup>is</sup> ~~it~~ said about training in the Chief Secretary's note, and in the Lord Privy Seal's minute. <sup>But (would like to</sup> she ~~suggests~~ that <sup>when</sup> the note <sup>is</sup> ~~when~~ sent to departments <sup>it</sup> should include a firm <sup>policy</sup> statement by the Treasury <sup>and MPO. Advice</sup> ~~about its policy~~ with regard to the accept-  
<sup>and experience</sup> ~~ability~~ <sup>needed by</sup> of candidates for appointment as Principal Finance Officers, <sup>needed by</sup> and about that of officers taking up other key posts as financial managers or advisers in departments.

5. I am copying this to the private secretaries of the Lord Privy Seal, the Minister of State (Commons)(Treasury), Sir Robert Armstrong, Sir Douglas Wass, Sir Anthony Rawlinson, and Mr Cassels <sup>Sir Derek Rayner,</sup> ~~and to Christopher Joubert in the Rayner Unit.~~

Private Secretary

DRAFT OF 6 MAY 1982

J Buckley Esq  
Management and  
Personnel Office

TRAINING IN FINANCIAL MANAGEMENT

1. The Prime Minister has seen the Lord Privy Seal's minute of 30 April, for which she was grateful. She looks forward to receiving a further report later in the year as promised and would like her encouragement made known to those concerned. *I have reminded her,*

*Re* ~~Mr Thatcher's~~ comments on the training aspects of the initiative ~~are contained in my~~ <sup>a</sup> letter <sup>that I have sent</sup> to Terry Mathews ~~of~~ <sup>today</sup> (copy enclosed).

3. I am copying this to the private secretaries ~~of~~ <sup>to</sup> the Chief Secretary, the Minister of State (Commons)(Treasury), Sir Robert Armstrong and ~~to Christopher Joubert in~~ Sir Derek Rayner's office.

Private Secretary

PERSONAL

Mr RICKETT

*I have spoken to Mr Priestley on 21/4*

*Govt  
Mach*

MINIS

I attach a copy of the draft paper which I have sent to the Treasury, MPO and Sir Robert Armstrong for comment and which, in its final version, is intended to provide at the PM's intended meeting on 27 April a basis for discussing the objectives and co-ordination of the exercises noted in para. 1.

2. I understand that the Treasury will be reporting separately, whether on paper or orally is not yet clear, on the PM's questions about the control of running costs which originally gave rise to this meeting.

3. The purpose of this minute is first to ask whether, assuming that the meeting holds, the paper is constructed in a way likely to be helpful to the Prime Minister, given all the other pressures on her reading time.

4. Secondly, you may like to have advance warning that there has been much to-ing and fro-ing on the possibility of setting up - between the Treasury and MPO- a temporary (12 month) team of officials and management consultants to be available to assist departments in responding to the Treasury's "systematic campaign". This was the idea of senior people in MPO; has the reluctant acquiescence of Treasury officials (who would prefer that it was not on the cards); is doubted by the Lord Privy Seal; and generally opposed by Sir Derek Rayner, who thinks that the Treasury and MPO should get on with their respective tasks; with sound co-ordination but without a fifth wheel. It is too soon to say whether the "team" idea is dead - it hasn't lain down yet - but I doubt whether the PM would find it attractive when it came to her (if it did).

5. Perhaps we can have a word on the phone?

*CP*  
C PRIESTLEY  
20 April 1982  
233 8550

Enc: Draft paper

DRAFT OF 19 APRIL 1982

THE REFORM OF FINANCIAL MANAGEMENT: OBJECTIVES AND  
CO-ORDINATION OF CERTAIN POLICIES AND INSTRUMENTS

1. The Prime Minister asked for a paper on the objectives and co-ordination of the Treasury's proposed systematic campaign for the improvement of financial management; this year's review of systems for controlling running costs in a sample of departments; and the continuing annual scrutiny of departmental running costs.

THE GOVERNMENT'S POLICY FOR RESOURCE MANAGEMENT AND CONTROL

2. The three exercises noted in para. 1 are presented in this paper as three elements in the programme for a lasting reform in financial management.

3. The Treasury's systematic campaign is the main strategic instrument in that programme. The simplest way to see the relationship between it and this year's review and the annual scrutiny is to regard them as being parts of it and supporting it. But the policy of effective control over administrative costs, to which the review and the annual scrutiny relate, is important in its own right, as well as being part of the larger whole.

OBJECTIVES OF THE TREASURY'S SYSTEMATIC CAMPAIGN

4. The objectives of the Treasury's proposed campaign are, for each department:

- (1) The clarification of departmental objectives.  
(And, wherever possible, the assessment and quantification of "outputs" or performance in relation to those objectives).
- (2) The definition of the responsibilities of managers, at all levels, for making the best use of resources.  
(And, wherever possible, the identification of "cost" or "responsibility centres").
- (3) The development of management accounting to provide managers with the information and the pattern of accountability required for effective management.

5. A secondary objective of the campaign is that each department should have an effective system for the budgeting and control of running costs.

RELATIONSHIP BETWEEN THE TREASURY'S SYSTEMATIC CAMPAIGN, THE REVIEW AND THE ANNUAL SCRUTINY; AND THEIR OBJECTIVES

6. The Treasury's plan for its systematic campaign gives departments until the end of 1982 to develop and define a programme of work for the improvement of financial management and to discuss it with the Treasury and MPO. Departmental programmes should:

- (1) in terms of logistics, be divided into stages, with target dates specified and
- (2) in terms of substance, draw on the work done recently in other departments (notably MINIS and "Joubert" in

DOE; the management consultancies in MAFF and DOI; the "Reeves" studies in MOD; and last year's review of supporting services in R & D establishments) and on work in train this year (including the review of running costs in a sample of departments; the review of certain executive operations, eg the Prison Service, RAF Support, in another sample; and the review of personnel management in nine departments.)

7. The Treasury plan will indicate the criteria to be adopted by Departments in securing satisfactory arrangements for financial management.

8. As already noted the review of systems for controlling running costs and the annual scrutiny are best seen as parts of the wider Treasury strategy. The background and objectives are these:

(1) Experience with the annual scrutiny showed that merely compiling data about running costs and subjecting them to a "top down" scrutiny do not produce better management and control or reduce consumption. The "Joubert" scrutiny in DOE (Central) and other recent work showed that what is needed is to fix responsibility and accountability for costs as low as reasonable.

This means:

- (a) strengthening each department's own central control arrangements, and crucially
- (b) clarifying the responsibility of individual managers.

(2) Hence the review of six departmental running cost control systems was originally devised and included in the "efficiency strategy" for 1982, as a one-off exercise aimed at:

(a) improving those departmental systems as necessary;  
and

(b) improving such systems across the service more generally.

(3) The annual scrutiny of departmental running costs (to be run this year for the third time) is intended as an instrument of control, for top management in departments and for the Treasury. The main objectives of current work are these:

(a) To make the scrutiny as economical and well adapted to its purpose as possible. (An official working party is engaged on this, under Treasury chairmanship, with a report to Ministers in June.)

(b) To use the information provided by the scrutiny to take selective action on particular blocks of expenditure, or on departmental systems of control and management, which appear to require attention by the Treasury.

(4) With regard to 3(a) above, current Treasury thinking suggests that departments should go on with a separate display of running costs until they have systems which enable them



to allot running costs to programme or operational expenditure. The annual scrutiny should be used in the interim, but certain improvements are needed to make it more usable:

- (a) The data to be examined should be more up to date and thus more relevant to budgeting. The data should therefore deal with the expected out-turn. The data should be provided at the time when departments are preparing Estimates for the next financial year.
- (b) There should be more common ground between the data used in the scrutiny and those used in the Public Expenditure Survey and in Estimates.
- (c) The material presented to Ministers should make less use of detailed tabulations, constructed on a uniform basis as between departments, and much more of commentary on significant facts (eg movements in blocks of expenditure) or ratios. (The production of runs of data over time will help with this, as will work now in hand on developing ratios and performance indicators).

#### CO-ORDINATION

9. Because the objectives of the "systematic campaign" extend to the improvement of all forms of management, and are not limited to financial management, the policy responsibility for it is shared between the Treasury and the MPO. Both departments will contribute to the work, although a much larger effort will be required of the Treasury on financial management for which it is responsible, than of the MPO. Sir Derek Rayner

is associated with all three exercises.

10. The organisation of the work to be done on behalf of Ministers is best seen in terms of specific tasks assigned to specific people and making the necessary connections between these. Operational responsibility is allotted as follows:

<u>Exercise</u>	<u>Dept. and Minister</u>	<u>Head Official</u>
"Systematic campaign"	Treasury; Chief Secretary	Mr R W L Wilding (Chairman, Financial Management Co- ordination Group)
Annual Scrutiny	Treasury; Minister of State (C)	" "
One-off review of systems	MPO; Lord Privy Seal	Mr J S Cassels

11. The arrangements for co-ordination are as follows:

- (1) Insofar as the three exercises contribute to the "efficiency strategy" and "targets for 1982", they are overseen as necessary by a Joint Management Board comprising the Joint Heads of the Civil Service and Sir A Rawlinson and Mr J S Cassels.
- (2) Within the Treasury, Mr Wilding is responsible for co-ordinating the corporate effort of those involved in the systematic campaign; for its administration; and for making sure that relevant lessons are drawn from other exercises.

- (3) As between the Treasury, the MPO and Sir Derek Rayner's Unit, co-ordination is achieved both formally and informally as the need arises in the course of business, with a deliberate effort to avoid unnecessary elaboration of arrangements.

CONCLUSION

12. The Prime Minister, the Chief Secretary, the Lord Privy Seal and the Minister of State (Commons)(HM Treasury) are invited to say whether they are content with

- (1) the objectives of the three exercises as here stated (paras. 4 - 8); and
- (2) the arrangements for co-ordination here noted (paras. 9 - 11).

Rayner Unit  
Cabinet Office

19 April 1982

20 APR 1982

