



(Seen by P.M.)

PRIME MINISTER

FINANCIAL MANAGEMENT IN GOVERNMENT DEPARTMENTS

Your minute of 17 May 1982 invited 32 departments to draw up programmes of work for improving their financial management, and to discuss them with the Treasury and MPO. This minute reports the results. It represents the joint views of the Lord Privy Seal and me.

2. The financial management initiative (FMI) is a major part of the Government's policy for good management throughout the Civil Service. The White Paper on Efficiency and Effectiveness in the Civil Service, Cmnd 8616, published last September, stated its aim: the promotion, in each department, of an organisation and system in which managers at all levels have:

- (1) a clear view of their objectives and outputs, and the means of assessing their performance in relation to them;
- (2) clear responsibility for making the best use of resources, and getting value for money;
- (3) the information, and the training, needed to perform well.

3. This is partly a matter of improving financial information and systems. It is no less a matter of personnel management: encouraging and training managers and their staff to operate the new systems effectively and to understand and respond to what is expected of them. Janet Young sent you a minute on 29 March.

about the review of personnel work and her priorities for change in that field. We see the pursuit of those priorities and the FMI as complementary.

RESULTS OF THE FMI

4. We summarise the results in general terms below, together with action we recommend to carry the work forward and keep up its impetus. But your minute launching the FMI rightly focussed the exercise firmly on individual departments. We therefore attach to this minute a summary of each department's programme. If you have not time to read them all, those for the Ministry of Agriculture, Fisheries and Food, the Department of Industry, the Inland Revenue and the Scottish Office will give you a good idea of the wide range of specific action that has been set in hand.

5. In general, departments have pursued the aim of the FMI on 4 fronts:-

- (1) meeting the needs of Ministers and top officials - the importance of which was emphasised in your Private Secretary's letter of 2 September 1982;
- (2) managing administrative expenditure, described in Cmnd 8616 as the resources which the Government consumes itself;
- (3) managing programme expenditure, ie other expenditures which are mainly external to Government departments;
- (4) policies for managing staff; and for training, which was also emphasised in your Private Secretary's letter of 21 December 1982.

Meeting the needs of Ministers and top officials

6. The programmes concentrate on the information system and machinery needed to support Ministers and top managers in setting objectives, establishing priorities, and allocating resources - all in the knowledge of what the activities cost.

7. Departments are now introducing systems which will perform the same function as MINIS, in ways adapted to their particular needs. The chart at Annex A shows the main features of the systems which the larger departments are adopting. Many departments have established new or strengthened machinery at the top for managing resources.

8. To take our own departments as examples, the Treasury will start an experimental round of work programming in July 1983 in preparation for the 1984-85 Estimates, under the direction of a central planning board, which will consider priorities and allocate resources to line managers. A full scheme of programming, costing, budgeting and review will be introduced in the following year. The MPO is adopting a broadly similar timetable for its system of activity planning, resource allocation, budgeting and monitoring; a full trial run of the system will begin in Autumn 1983, when the 1984-85 activity review will underpin the 1984-85 Estimates and budgets.

Managing administrative expenditure

9. The programmes are generally directed towards dividing departments' work into appropriate blocks, and into "cost centres" within each block; making their managers accountable for the planning and control of their costs and for the results they achieve; and establishing procedures, information systems and measures for setting the targets and budgets against which performance will be judged.

10. Departments have adopted various approaches to administrative expenditure, according to their circumstances. Some (for example, DOE and DTp through the MAXIS system) are developing budgets for administrative costs covering the whole department. Others (for example, the MOD and the Department of Industry) are testing the operation of line management budgets by the use of pilots in selected areas; the MOD budgets cover programme as well as administrative costs. Others have started by placing some, but not all, cost elements within the authority of line managers, with the intention of moving to a fully-fledged budgetary system at the next stage; this is the majority approach, the DHSS in particular having a well-developed plan for it (see paragraph 9 of its summary).

Managing programme expenditure

11. The common lines of development here are:-

- (1) clarifying each manager's responsibility for controlling or influencing the expenditures with which he is concerned; in some cases this is linked to assembling systematic basic information about objectives, costs and criteria or targets for assessing results (for example, see the summaries for MAFF - paragraph 6, Energy - paragraph 5, the Scottish Office - paragraph 5 and MOD - paragraph 5);
- (2) improving project appraisal and the analysis of cost-effectiveness (for example see Industry - paragraph 14);
- (3) clarifying responsibilities and relationships where the spending authority is outside the department (examples are work by the DES on research councils - paragraph 9, DHSS on the NHS - paragraph 13, the DOE on its non-departmental bodies - paragraph 15, and Industry on the nationalised industries - paragraph 14).

12. This work will also help in improving the management of local authority expenditure. Although the prime responsibility for its efficiency rests with the authorities themselves, with the help of the Audit Commission and its Scottish equivalent, central government can play an important part, especially where both central and local government have an interest in how a service is delivered. The DOE is pursuing with other departments and with local government how central government practices can be further improved to encourage better financial management by local authorities. The Home Office programme (paragraph 7) also describes developments in the handling of its policies and priorities for the police service.

Staffing and training

13. While departments have so far devoted most of their attention to systems and procedures, there is widespread recognition of the need to give individual managers more discretion, create the right climate of incentives, train people to make the most of the new systems and bring on the managers of the future. Departments are

experimenting with the delegation of authority (eg to the managers of pilot centres in Industry) and incentive schemes (eg DHSS). The MPO is taking forward with departments the conclusions of the personnel work review in the light of your comments (your Private Secretary's letter of 11 April).

14. As you noted in your Private Secretary's letter of 21 December last, training is crucial. It has caused us some concern. Though most departments recognised its importance in their replies, many had not then developed plans much beyond their immediate needs. We have brought our concern about this to the attention of our colleagues, and there are signs of good progress. We will keep in close touch with it.

15. Most of the training needed for improved financial management will be provided by departments themselves for their own staff. Thus the Departments of Environment and Transport, for example have held seminars for all cost-centre managers and their assistants to pave the way for the introduction of the new budgeting and monitoring system (MAXIS) for running costs. DHSS also has mounted a major training effort for their introduction of cost-centres. In addition, much is being done centrally to improve and increase training in financial management by the Civil Service College.

CONCLUSIONS

16. First, how much conviction has been shown by departments so far in developing their ideas and carrying them through? Taking the initiative as a whole, we think that the signs are encouraging. Individual plans vary. Some are very good: they include those already mentioned in paragraph 6. Two or three were distinctly weak when first submitted; I have been in touch with the Ministers concerned, and the summaries reflect some definite improvements. While some programmes still need working up further, all the departments are now set on a course which will produce a major improvement if the impetus is kept up.

17. Second, there is the substance - what has the initiative really achieved? In our view, it has done 3 things:-

- (1) It has widened and deepened the drive to improve financial management - the specific aim which you set out in your minute of May 1982. It has stepped up the pace of developments already under way and prompted a sound start on new ones.
- (2) It has stimulated all departments to bring together and develop more coherently a number of hitherto separate parts of their plans for good management.
- (3) Perhaps most important of all, the initiative has begun to change the climate of management in the Civil Service, by building cost-consciousness and the search for value for money into the system instead of relying on ad hoc exercises and external scrutiny.

Next steps

18. Our verdict, therefore, is "so far, so good". But we are still only at the beginning of a long haul. It will be crucial to maintain the momentum. We think the main activities for the coming year are:-

- (1) Departments must reach the targets they have set themselves for the next stage in implementing their programmes. We recommend that you call for a progress report in one year's time on the progress made by each.
- (2) Janet Young and I will monitor progress during the year through our officials and the Financial Management Unit.
- (3) The Treasury and MPO should also identify and disseminate good practice, in particular on common issues and problems. These have been the subject of a separate report by the Financial Management Unit. We have agreed to keep the Unit in being for a further year.
- (4) The complementary changes in financial and staffing matters should be pushed forward together, with close co-operation between the finance and establishments branches in departments and between the MPO and the Treasury.

- (5) The trend towards decentralising managerial authority will also affect the relationships between the Treasury/MPO and the other departments. On the personnel side, some changes are emerging from the recent review. On the expenditure side, departments are identifying at the Treasury's invitation particular types of control which may need to be modified. Some changes have already been made. Others should follow as appropriate during the coming year.
- (6) The flows of financial information needed for departmental management, for Public Expenditure Survey decisions, and for presentation to Parliament, should be brought together as closely as possible, both to avoid bureaucratic complication and to present a clear picture to Parliament and the public. The Treasury is consulting departments on the changes that may be needed in the structure of the Estimates and in the Public Expenditure White Paper, and will make proposals to the relevant Select Committees as necessary.

Resources, costs and results

19. Janet Young and I share the view, expressed in your minute of May 1982, that investing resources in better financial management will pay dividends. One fairly general feature of the programmes causes us concern. Departments have set themselves tight timetables for ambitious programmes - rightly, since it is important to keep up the pace. To achieve that, they must devote enough skilled manpower to the task. These skills are in short supply. We are encouraged by the quality of some of the officials now assigned to the FMI. Even so, we do not feel sure that the resources planned for the job are in proportion to its size; the work involved in turning the programmes into practical and enduring reforms should not be underestimated. I have taken up this point with colleagues and their departments are responding to it. We should take it into account when we consider future plans for civil service manpower in the summer.

20. The costs of implementation so far identified amount to some

£30 - £35 million, mostly in staff time, the greater part to be spent over the next two years. We shall expect departments to finance it mainly from their existing allocations by giving this work priority over other tasks. This is about $\frac{1}{3}$ % of the civil service pay bill. The benefits for the taxpayer will show themselves in a tighter control of administrative cost, a sharper scrutinising of the value for money of activities and a more systematic approach to the results achieved by external expenditure. Much of this cannot be quantified. But the recent review of running costs provided some clues. In 1980, for example, the Scottish Office achieved savings of 20% in travel and subsistence by setting up local budgets. When all departments have set up their new systems, we are in no doubt that the savings will far outweigh the costs, apart from the more general benefits that will accrue from better information and improved decision-taking.

Announcement

21. The Government is committed to publishing a White Paper on this exercise by July. We propose that it should consist of 2 parts, a general progress report and the summarised accounts of each department's programme enclosed with this minute (subject to some final editing). These summaries will inform the Select Committees and others who are interested in the affairs of particular departments. They will also represent a published commitment by each department to carry through its proposals by the stated dates.

22. You undertook in your letter of 4 February to Edward du Cann to try to get the White Paper to the Treasury and Civil Service Select Committee in time for them to look at it before the Recess. We will circulate a draft of the first part of the White Paper for colleagues to consider towards the end of this month.

23. Copies of this minute go to Ministers in charge of departments, Sir Robert Armstrong and Lord Rayner.

L. B.

DEPARTMENTAL HIGH LEVEL MANAGEMENT INFORMATION SYSTEMS

	Name given to its System	Type of expenditure covered	Timespan Covered forward/back	Level at which statements produced	Cost inf. given to line managers	Provision for showing objectives	Provision for performance measures	Timing of introduction
Agriculture	MINIM, supported by MAIS	Administrative and programme	1 year forward and back	Under Secretary	MINIM not designed to do this; MAIS will give monthly/quarterly information	Yes; to be developed further	Yes; to be developed further	Initial run of MINIM in 1983; MAIS complete by 1985-86
Customs	Board's Management Plan supported by PES and Review of Running Costs	administrative (department has negligible programme expenditure)	1 year forward and back	Under Secretary	varies at present; future system to be decided	Yes	Yes - to be developed further	Initially 1983- to be developed
Defence	(a) MINIS (Management Information System for Ministers and Top Management)	administrative (except front line) and programme	2 year's forward; 1 back (perhaps 1½ year's forward; 6 months back on 2nd round)	Under Secretary and military equivalent	Annually (quarterly or monthly cost or management accounts available for most programme areas)	Yes - at both U/S and A/S (and military equivalent) levels	Yes	First round, January - July 1983. 2nd round, September 1983 - March 1984. Then annually, September - March
	(b) Long Term Costing	all expenditure, in line detail	10 years forward	Project and programme managers provide inputs; coordinated at Deputy Sec level	Annually	Future force levels and policy assumptions shown in detail	No	Early 1960s
Employment	Senior Management Group supported by RIS (Resource Information System)	Administrative (detail on non-staff costs to be developed) and programme	1 year forward and back, longer if necessary, eg for PES purposes	Assistant Secretary or Senior Principal	Monthly to all cost centres	Yes	Yes - with special attention in first SMG round	complete by 1986-87; SMG run in 1983 without RIS information
Environment	(a) MINIS (Management Information System for Ministers) operating with	reviews functions including programme costs	1½ years forward, 6 months back	Under Secretary	-	Yes	Yes - to be developed further	Running since 1979. 5th round starts autumn 1983
	(b) MAXIS (Management of Administrative Expenditure Information System)	Covers administrative costs	Financial years	Varies: cost centre manager (SEO to Under Secretary)	Quarterly or monthly reports, plus on - line interrogation	-	-	Progressively from April 1983
Health and Social Security	IMA	administrative and programme	1 year forward and back	Under Secretary	monthly to 800 cost centres	Yes	Yes	initially run in 1982-83
Home Office	APR	administrative and programme; details of coverage to be developed	6 months forward and back in initial run; 1 year forward and back planned for subsequent runs	Assistant Secretary (heads of division)	presentation of resource information under consideration	Yes	Under consideration	initial run in 1982
Industry	ACT supported by MIS	administrative and programme	1 year forward and back	Under Secretary (heads of division)	monthly (to divisions) quarterly (at departmental level) as MIS advances permit	Yes	Yes	First ACT run in 1983-84

Inland Revenue	SMS	Administrative (department has little programme expenditure)	1 year forward and back	Under Secretary	will be provided by PAMAS	Yes	Yes - but to be developed further	pilot run 1983-84
Scottish Office	Scottish Office management planning system (with associated management information and budgeting system)	administrative and other expenditure on directly- managed depart- mental operations	1 year forward and back	Assistant Secretary or Senior Principal	monthly for costs controlled by line managers	Yes	not yet - under development in 1983	management planning system revised from 1983; information system to start from 1984-85
Trade	RAR supported by MIS	administrative and programme	1 year forward and back	Under Secretary	monthly (to divisions) quarterly (at departmental level) as MIS advances permit	Yes	Yes	First RAR run in 1983-84



FROM: CHIEF SECRETARY

DATE: 9 May 1983

Prime Minister:

PRIME MINISTER

FINANCIAL MANAGEMENT INITIATIVE

Attached is the Chief Secretary's report on the Financial Management Initiative. He would like you to minute colleagues. Robin Butler + I think a minute, if you agree, would have greater impact at the beginning of the new Parliament.

I have sent you today a report on the initiative which I have approach? copied to colleagues. In it Janet Young and I recommend that you should call for a further progress report in a year's time. 10/5

2. Departments are now moving into the next phase of implementation. It would be good to reinforce this quickly and strike while the iron is hot. In order to prevent any slackening off of Ministerial interest, we suggest that you should write to colleagues now, commissioning the progress report for 1984 and registering your continuing personal interest and concern. Yes not

3. While the draft of the White Paper for July is still being prepared, the meat of it is in my separate minute and the summaries of the departmental programmes attached to it. We do not think that the text, when it is submitted, will alter what you might want to say.

4. I attach a draft minute which you might send to our colleagues if you agree.

Copies of this minute go to the Lord Privy Seal, Sir Robert Armstrong and Lord Rayner.

L.B.

LEON BRITTAN

DRAFT MINUTE TO MINISTERS IN CHARGE OF DEPARTMENTS

IMPROVING FINANCIAL MANAGEMENT

The Chief Secretary's minute of [] May gives his and the Lord Privy Seal's assessment of the response which departments have made to my minute of 17 May, 1982. This is an encouraging report. Much energy and hard work have clearly been put into the operation and a good foundation has been laid. I should be glad if you could convey my appreciation to those who have been responsible.

As the Chief Secretary points out, this stage is the beginning of a long haul. While it is being worked through, other more immediate problems can easily distract attention and distort priorities. Ministers have a crucial part to play in ensuring that the impetus is kept up. I therefore ask all colleagues to give continuing personal attention to this over the next 12 months. As the Chief Secretary and Lord Privy Seal propose, I shall ask for a further progress report in 12 months' time.

The Chief Secretary draws attention to the importance of finding the skilled manpower needed to carry through the plans effectively and quickly, and of ensuring that managers both understand what is required of them and receive the necessary training. I think these aspects are of crucial importance. The next progress report should deal fully with what has been done on both aspects.

Copies of this minute go to the Chief Secretary, the Lord Privy Seal, Sir Robert Armstrong and Lord Rayner.



FILE

DA
V2 - sub mit
revised draft by
end of June

10 DOWNING STREET

From the Private Secretary

11 May 1983

Dear Tom,

The Prime Minister has now seen the Chief Secretary's minute of 9 May reporting on progress with the Financial Management Initiative. She was pleased to hear of the progress which has been made and in principle favours the Chief Secretary's proposal for a minute to Ministerial colleagues along the lines of the draft attached to his minute. She considers however that such a minute would have greater impact at the beginning of the new Parliament. She would be grateful therefore if the Chief Secretary could return to this question after the Election.

I am sending a copy of this letter to Mary Brown (Lord Privy Seal's Office), Richard Hatfield (Cabinet Office) and Clive Priestley (Rayner Unit).

Yours ever,

The Secretary

Timothy Flesher

John Gieve, Esq.,
Chief Secretary's Office.

CU

1. The Ministry of Agriculture, Fisheries and Food (MAFF) is responsible for programme expenditure and receipts totalling £500 million. About 70 per cent is for agricultural support, land drainage and flood protection, and the balance for other agricultural and food services including advice, research and development, and support for the fishing industry. MAFF also has the leading programme responsibility in relation to the common agricultural policy of the European Community which gives rise to expenditure and receipts by the Intervention Board for Agricultural Produce (IBAP) totalling £1,500 million annually.

2. MAFF employs some 12,000 staff. Its administrative expenditure is £200 million. In addition to the headquarters staff, there are five regional and nineteen divisional offices and five main laboratories.

Summary to date

3. In 1981 consultants reviewed the department's financial management systems. Their main recommendations were accepted in November 1981 by the Minister and the Management Board. A team was established to develop a plan for implementing the consultants' recommendations. The strategy proposed by the team was approved in June 1982. It is now being pursued in the wider context of the Prime Minister's initiative.

General approach

4. The approach has three main components:-
 - a. systems to provide the financial and other information required at both planning and control levels;
 - b. improved planning of the deployment of resources; and
 - c. control of administrative expenditure through a network of budget centres aligned with the management structure.

Information systems

5. Improvements are being made on three fronts:-
 - a. Financial - MAFF's present computerised accounting system does not permit enough flexibility or detail of analysis. A computerised Management Accounting Information System (MAIS) is therefore a first

priority. This will be designed to provide the necessary management accounts for planning and control purposes and to prepare the Appropriation Accounts. The aim is to start initial testing of the new system during 1984-85.

- b. Management - a wide range of non-financial information is already available on the use of manpower and other physical inputs, levels of activity and outputs. It needs to be fuller and more efficiently processed. The aim is to develop co-ordinated systems, computerised as appropriate, in stages over the next few years.
- c. Ministers - a system of Ministerial Information in MAFF (MINIM) is being developed. This will provide annually for each Under Secretary command an analysis of main programmes, including objectives, targets and achievements, and use of resources, both manpower and financial. The system will be integrated with the public expenditure survey and manpower reviews. A preliminary round was completed in 1983.

Planning and the management of programme expenditure

6. In 1982 a systematic appraisal was started of the department's main expenditure programmes. This has involved defining each programme, its objectives, targets or criteria of achievement, measures of performances in use and resources committed. The provisional structure this year provided the basis for the 1983 MINIM round. It will be further developed and refined for use in forming policy and planning the deployment of resources, notably in the public expenditure survey.

7. A major requirement for the MAIS is to provide a continuing analysis of the administrative resources deployed on each main programme. This will require some development of existing time recording systems. Pilot work has already begun.

8. Work will also continue on improving the assessment of the output of programmes. The quantitative measurement of final output is both difficult and costly but in many cases intermediate indicators are in use or may be devised. Wherever possible these will be developed further.

9. The arrangements for overseeing fringe bodies have been reviewed. An additional accountant is to be recruited to strengthen the financial input into reviews of individual bodies.

Control of administrative expenditure

10. Under the present system this expenditure is controlled through central divisions. It is planned to move to devolved control through a network of budget centres aligned with the management structure. A preliminary network, prepared in close consultation with line management, has been determined. The identification of those items of expenditure which can most effectively be controlled by budget centres and therefore attributed to their budgets is now in hand. Pilot work is being carried out at the Divisional Office in Norwich.

11. To maintain effective overall control the development of a budget centre system under which managers take full responsibility for budgeting and controlling their costs will be staged. It is planned to complete the process in 1986-87.

12. Budget centre managers and their superiors need to be able to assess the efficiency, economy and activity of their units. Two small groups have been established to develop the performance measures likely to be most useful in specific areas. Their reports, due in 1983, will be used to determine the direction of further work.

Internal audit

13. An audit committee chaired by the Permanent Secretary has been established. Following a thorough study by consultants, the Audit Division has been restructured, its terms of reference reviewed and its non-audit functions removed. Since April 1982 the number of professional accountants in post in it has increased from six to ten with three more to be recruited; the proportion of staff above Executive Officer level engaged on audit in MAFF and its associated bodies has risen to two-thirds. An experienced leader has been engaged for its specialist computer audit team.

Staffing and training

14. The team now engaged on the financial management programme comprises the equivalent of nine full-time staff (including two accountants). It is planned to increase the team to sixteen. Many other staff are involved with the FMI as a result of the extensive consultation and work programme required. Their number will increase.

15. The skills and calibre of finance staff are being improved and financial awareness increased throughout the department. Succession planning down to Assistant Secretary level has been introduced; able Principals and Assistant Secretaries are being posted to the finance divisions; specialist skills are being strengthened by recruiting qualified candidates and training existing staff. A systematic training programme is currently

being prepared to cover the specific needs of the finance group and budget centre managers, and to give staff generally a broad understanding of the objectives of the financial management programme.

Costs

16. In 1981-82 costs amounted to around £250,000. In 1982-83 they exceeded £350,000. Costs are likely to continue at or above this level until at least 1985-86, with accounting software costing perhaps £50,000 in 1983-84 and training being heaviest in 1984-85.

INTERVENTION BOARD FOR AGRICULTURAL PRODUCE

The Intervention Board for Agricultural Produce (IBAP) is responsible to the four agricultural ministers for the operation of market organisation measures under the common agricultural policy (CAP) in the United Kingdom. Policy for the resulting programme expenditure is determined by the agricultural departments. The measures comprise:

- (a) over 50 internal market measures, including intervention buying and selling of cereals, beef and dairy products, subsidies to producers, processors and consumers and co-responsibility levies;
- (b) the licensing of agricultural trade and the payment and collection of refunds and levies on exports of foodstuffs covering some 720,000 transactions a year;
- (c) accounting arrangements (for expenditure and receipts currently aggregating £1.5 billion) to satisfy both Parliamentary and Community requirements.

There are 600 staff in two operating divisions and a finance and accounts division supported by an establishment branch. The department relies for operational support on unpaid services provided by other departments (including Customs and Excise on external trade transactions) and on paid services mainly from the Department of Agriculture for Northern Ireland (DANI), the Meat and Livestock Commission and the Home-Grown Cereals Authority. These agency payments account for £12 million of total administration costs of £18 million.

Existing financial management

2. The department's functions are closely defined by Community legislation, almost wholly Community-financed and entirely demand led. Expenditure financed by the Community is subject to audit by the European Commission and the Court of Auditors, and may be disallowed if the rules have not been strictly observed. Financial management therefore aims at minimising the risk of disallowance, and consequent Exchequer liabilities, at minimum administrative cost. The first part of this objective is pursued by a comprehensive programme of reviews of individual Community measures. Disallowances since the formation of the department in 1973 have amounted to under 0.2 per cent of turnover. Administrative economy has been sought by using staff flexibly to respond to the rapid growth of the department's functions and the unpredictable demand for them. Managers at all levels monitor workload, resources employed and time spent and resources are reallocated accordingly. This system is reinforced by overall manpower and cash limits and by regular external staff inspection. Administrative costs have fallen since 1973 from about 1 per cent to 0.4 per cent of turnover.

3. Further improvements in effectiveness and economy are expected mainly from a five-year computer development programme recommended by consultants. The department's Estimates and stock and operating accounts will be presented in a revised format in 1983. The department's paid agents, apart from DANI, operate under financial agreements subject to audit and staff inspection in the same way as the department, and to technical supervision and administrative liaison arrangements.

Financial management programme

4. Objectives and management information. The department's objective is to maximise the benefit of the CAP to the national economy, consistently with avoiding disallowance at the minimum administrative cost. A revised programme of reviews of Community measures has been undertaken. Measures of input and output are already available for each area of work in terms of staff numbers and costs and the volume and value of transactions completed. These will be refined by pilot studies to be completed by the end of October 1983, so that by the end of the year indicators can be established for comparing performance over time and between areas of work. Costing of policies by the agricultural departments will be starting in April 1984; the computer development programme will be designed so that IBAP's own expenditure can be added to the relevant policies in MAFF's MAIS and Ministerial information systems.

5. Cost centres. Day-to-day responsibility for manpower and other resources at present rests with the heads of the three divisions of the department and the head of establishments branch. A structure of cost centres and the agreement of budgets and responsibilities for their managers is to be completed by the autumn of 1983 so that a new budgetary control system can start in 1984-85.

6. Agencies. The initiatives in paragraphs 4 and 5 will include a review of the agency costs referred to in paragraph 1. Decisions will be taken by October 1983 on the changes required in responsibilities and methods of control over agency costs.

7. Internal audit. Revised terms of reference have been agreed for the department's internal audit. A review of the structure of the internal audit branch is to be completed in 1983 to give more emphasis to systems based audit.

8. Staffing and training. The Board is closely linked for personnel purposes with MAFF. Subject to that, succession planning and career management are undertaken by the head of department and his establishment officer. The use of consultants has been limited to computer development. Training will follow the programme being prepared by MAFF. The department's staff are already highly motivated by the delegation of responsibility, reflected in the high turnover per head of £2.5 million a year; by the challenge of intensive

external audit; by their day-to-day contacts with industry; and by their participation at all levels in the continuing review of operations and performance. These factors will be reinforced by their contribution to the development of computer systems and programmes and by the opportunities for training and working with computers that will replace many routine and repetitive clerical operations under the development referred to in paragraph 3. Progress will feature in the department's future annual reports.

9. Costs. The direct staff cost of the initiative will be additional staff in the department's finance division (£15,000-£20,000 a year); further unquantifiable costs will be incurred indirectly throughout the department. It is the objective that the MAFF's MAIS system described in paragraph 5a of the MAFF summary will meet the department's requirements and accordingly the two departments are in close consultation.

HM CUSTOMS & EXCISE

The department is responsible under Treasury Ministers for collecting and administering customs and excise duties and VAT, for enforcing a range of prohibitions and restrictions on external trade, and for work on behalf of other departments such as the compilation of overseas trade statistics.

2. Responsibility for the management of the department lies with a Board comprising the Chairman, two Deputies (one of whom is Principal Establishment Finance Officer) and seven other Commissioners. Four Commissioners are responsible for the technical operations in VAT, customs and revenue duties and two for personnel and general administrative support. The seventh heads a network of 22 regions (outfield collections) which deal with the operational aspects of the department's work in their own geographical areas.

3. At 1 April 1983, there was a permanent staff of 25,439 of whom some 20,150 work in the outfield. It is estimated that of the total manpower 37 per cent is devoted to work on VAT, 30 per cent to Customs, 12 per cent on Excise, 11 per cent on administrative support services including personnel, office services and other back up to the practical operators, 7 per cent on accounting and computer services and 1 per cent on specialist investigation and legal work. The net cash limit for 1983-84 is £321.7 million of which 85 per cent relates to salaries and associated costs.

General approach to improving financial management

4. A review of the department's current practices showed that significant progress had already been made. Plans for further improvement have now been drawn up under four broad headings:-

- (a) Management planning;
- (b) Measuring achievement;
- (c) Control of resources;
- (d) Information systems.

5. Each plan has its own timetable for implementation but each is a part of an integrated structure and their development will be co-ordinated. Implementation is the responsibility of a Board member, supported by project teams. Co-ordination and guidance is provided by a project management committee and progress will be monitored by the Board and Treasury ministers.

Management planning

6. In May 1982 the Board issued to senior managers a management plan which stated its objectives for the major work areas, gave an account of the resources to be directed to each, and indicated relative priorities. This provided a basis upon which managers down the line could set their own objectives. In March 1983 the Board expanded the management plan to include the resources, aims and objectives of each directorate and major office, and the Board's main priorities between the various area of work. The management plan, together with the annual review of running costs, formed a report to Ministers comparable to MINIS.

7. In April 1983, within the framework of the revised plan, the managers of selected areas of Headquarters and the outfield started work revising or introducing their own management plans. Following the completion of these pilot projects guidelines of general applicability will be issued across the department to ensure uniform planning, to start in April 1984 and be fully implemented by April 1985.

Measuring achievement

8. Much is being done to improve the monitoring of the quantity of output and the quality of performance. Because of the diverse nature of the department's activities and the varying circumstances in which similar activities are undertaken in different locations, comparisons between offices are often difficult and assessment has to be on a local basis. Improved means of measuring how far objectives are being achieved are being developed. During 1983, concurrently with the projects on management planning, further ways will be established for local managers to evaluate achievement. The feasibility of collecting and reporting common measures will be tested with a view to developing a departmental system. In early 1984 options for a computer-based system will be worked out and a technical specification for all areas of work will be prepared by March 1985.

Control of resources

9. Each year, in a programme which is integrated with the public expenditure survey and supply Estimates bid, the Board reviews the department's resource requirements. Although headquarters maintains a central allocating and monitoring role, over recent years the Board has pursued a policy of delegating to the outfield responsibility for control of resources and operations. The programme of delegation of operational management is largely complete and the responsibility for complementing has been generally devolved to local management. Control of financial resources is currently devolved to a number of head office budget centres, each of which has overall responsibility for one or more items of departmental expenditure. However, responsibility for controlling running costs is increasingly being further delegated to local managers.

10. Work is in hand to refine the present system of accounting, costing and budgetary control so that managers will be able to control their resources more efficiently. Based on existing organisational units, a system of cost centres will be developed so that the costs can be ascertained and outputs measured. The department is studying how to create a net-work of local budget holders who will be responsible for the costs they incur and over which they can exercise control.

11. A start has been made on reviewing the current financial accounting system. The object is to identify the technical changes which will be necessary in order to analyse costs to the point of expenditure and provide information which is both timely and in a form suited to the needs of management at each level. Improved systems for controlling resources will be developed progressively with full implementation starting in April 1986.

Information systems

12. Statistics on operations, time spent on various activities, and manpower allocated to the department's functions are collected and made available to senior managers who decide priorities and allocate resources between functional groups. In recent years much work has gone into improving and rationalising these systems. But to obtain the maximum benefit from the developments on management planning and control of resources they will need to be improved further. The systems for local managers must provide information which is relevant and timely for the decisions they take. Those systems will be the foundation on which to build high level information systems to meet the needs of the senior officials and ministers, who will in the meantime be served by interim systems. Assessment of management needs will go on throughout the development programme and it will be well into 1986 before new systems are fully operational.

Management audit

13. Responsibility for ensuring that the financial management is fully effective and that delegated authority is properly and responsibly used will lie primarily with line management. The control exercised by local managers will continue to be tested by a recently enhanced and strengthened internal audit and by staff inspections, specialist inspections and specific reviews.

Staff commitment

14. It is a prime responsibility for line managers to motivate their staff. The Board has circulated its revised management plan to all staff, and will give priority to improving communications. Commitment at all levels will be strengthened by recognition of the usefulness of the job being done and the individual's contribution to it.

Training

15. The training programme for managers already deals with resource planning and cost awareness. Courses will reflect the changing emphasis in managers' responsibilities. Throughout the development programme training will be given to meet new tasks and develop awareness. For those personnel in key posts who require specialist training full advantage will be taken of courses at the Civil Service College.

Expected costs

16. It is estimated that over the course of three years development the manpower requirement for project teams will be about 50 man years. There will be a further transitional cost of involving managers in development work and implementing changes. It is intended to use consultants to supplement departmental efforts in designing the costing and financial and management information systems. The cost is likely to be in the order of £100,000 to £200,000. Computer options have still to be considered but the costs, including the involvement of the specialist staff, could be in the region of £200,000 to £300,000.

MINISTRY OF DEFENCE

The Ministry of Defence (MOD) is the largest department in Whitehall. It controls over 550,000 Service and civilian personnel; spends some £17.5 billion a year; and collects annual receipts of over £1.7 billion, mainly for goods and services provided to external bodies. Its task extends over the three Services and the Procurement Executive, covering such large industrial businesses as the Royal Ordnance Factories, the Royal Dockyards and the repair and maintenance organisations of the Army and Royal Air Force.

2. The department's main concern is with the direct management of physical resources rather than with legislation or the performance of advisory and regulatory functions. Its size and diversity call for a clear management policy. This is based on strong central control of defence policy and resource allocation; on delegation of executive authority, both to the three Service Boards and the Procurement Executive Management Board and as far as possible down the line to achieve the most efficient and effective use of resources; on the overall co-ordination, as necessary, of this management activity; and on the use of management audit to help achieve the best balance between effectiveness and economy.

General approach to the programme of improving financial management

3. Central control of policy and resource allocation is achieved through the Long Term Costing, a comprehensive annual projection of the defence programme over a 10 year period. The most important procurement decisions are taken centrally through a formal approvals procedure based on a step by step approach to the development and production of major equipments. Decentralisation of management to the Service and Procurement Executive Boards is well established. A comprehensive system of management inspection and audit is being developed by a new management audit organisation which has brought together the functions of central management services, staff inspection and internal audit. Substantial economies in the use of resources to undertake an expanding programme have been achieved in recent years, especially in civilian manpower, where the targets assume a reduction by the MOD of 19% over the 5 years to April 1984.

4. The initiative has brought together and given further impetus to a wide range of work aimed at improving financial management. Central control has recently been enhanced by the revised Ministerial structure of the department and by the new Chief of Defence Staff's organisation (described in Statement on the Defence Estimates 1982). With the same object the work of the central equipment committees has been concentrated on a smaller number of key projects. In the procurement field there has been emphasis on improving procedures, the flow of information between department and industry and, drawing on a major study completed in 1981 (Open Government Document 81/01 of 18 November 1981), the forecasting and control of expenditure. A programme of improvements in the management

of the department's repayment business has been set in hand. Improvements in the department's management tools, including investment appraisal and information systems, are being made, planned or examined; and the process of strengthening management audit will continue. Work is in hand to promote a greater professionalism in the department's approach to financial management, including greater attention to functional specialisation and career planning; and the encouragement of study for professional qualifications. Internal training is being restructured; attendance on courses will be mandatory for staff due to undertake finance work for the first time; and ways are being sought to create greater financial awareness in training generally. Better use is made of specialist staff, including economists, statisticians and management accountants.

Management information systems

5. Particular emphasis is placed on the clarification of responsibilities and improving control over costs. Ministers and senior management must ensure that the objectives and priorities of defence policy are translated into effective programmes of action throughout the defence organisation. Managers at every level must be aware of their functions and the value of the resources they manage. To improve this aspect of MOD management the MINIS system* is being introduced into the department. MINIS will record detailed information about MOD's activities, costs and performance to provide a basis for Ministers and senior officials to review the work of the department and to decide on future action, including studies leading to changes in organisation and the deployment of departmental manpower and other resources. Because the MOD is essentially executive, MINIS is being adapted so that it not only provides detailed information on the work of headquarters staff (including the Procurement Executive) but also covers essential aspects of the wide variety of executive support operations outside headquarters, such as the Royal Dockyards, stores, depots, workshops, maintenance units, training establishments and R & D establishments. The first, experimental, round of MOD MINIS will run from March to July 1983. About a quarter of a million servicemen and civilians and the resources they manage will be encompassed by the new system. The second, full round will take place from August 1983 to March 1984 and will be repeated annually thereafter. An important feature of MOD MINIS is the link it will establish between the Long Term Costing process on the one hand and the management information and control systems on the other.

6. Other current work contributes to these objectives. Cost and management accounts now cover about 70 per cent of the defence budget excluding procurement. The ABC system begun in 1979 has provided a link between the current year's cash (Acquisition)

*The Management Information System for Ministers and Top Management introduced into the Department of the Environment in 1980.

through stocks (Buffer) to the use of resources (Consumption) to meet the department's objectives: development of the system will continue within available resources. Steps are being taken in the supply field to simplify the provision of information to managers controlling stock levels. A comprehensive system of travel and subsistence budgets for both service personnel and civilians came into operation in 1982-83. A system of civilian staff budgets is under development which will be designed to give managers more freedom of action within the constraints of numbers and costs. Recent studies on the dockyards are planned to lead to the introduction of new forms of management information as an aid to decision-making.

Financial management and accountability

7. Other recent work, notably on the report of the Study of Financial Accountability completed at the end of 1981 (Open Government Document 82/25), has concentrated on ways in which responsibility is defined and distributed, including responsibility for controlling the costs of activities. Although delegation of authority is now an established feature of MOD organisation it has not always operated in such a way as to allow line managers to be called fully to account for their performance. In areas such as service training for example, where many interests interlock, no individual has sole control over all the resources consumed. One of the main recommendations of the Study of Financial Accountability was the introduction of a system of responsibility budgets which might eventually cover all the activities of the Services and the Ministry of Defence. The essence of the system, which would represent a significant extension of accountable management, is that selected line managers should accept responsibility for achieving a specified level of performance in a defined area of activity against a financial budget. This would involve the development of indicators against which managers' performance could be measured and a clear definition of managers' tasks and lines of responsibility. Managers would be made fully aware of the cost of the activities they manage and of their responsibility for controlling them; and would be given greater flexibility, within such constraints as annual cash limits, to manage the resources needed to achieve their tasks. To assess these proposals the department has instituted trials at a Naval aircraft yard, two Naval hospitals and the Institute of Naval Medicine, a REME workshop, three RAF basic flying training schools and an R & D establishment. There are plans for including other locations in the trials programme. The department is determined that firm decisions on the value and practicability of responsibility budgets should be taken not later than 1985.

8. In response to a further recommendation of the Study of Financial Accountability, the department has set the aim of issuing by 1 April 1984 to all service and civilian staff a "financial role charter" defining their objectives and responsibilities. Other important recommendations of the study on clarification of responsibility and improvements in cash management and resource control are being pursued within the same timescale.

Co-ordination

9. Development and execution of the department's programme of work is being co-ordinated by a Steering Group, chaired by the department's Principal Finance Officer, which reports directly to Accounting Officers and the Secretary of State.

Review and audit

10. The department regards the review and audit of its financial and management information and control systems as a most important element of its management policy. The Management Audit Organisation (paragraph 2) will continue to be developed as a constructive service to line managers to help them to tackle problems of organisation and management and thereby to improve the efficiency and effectiveness with which the department conducts its business.

Staffing and costs

11. The immediate staff cost of the initiative will be financed within existing cash limits. It is calculated at rather more than £500,000, which covers the establishment of a number of small teams principally to set up the first round of MINIS and the trials of responsibility budgets. In total these are expected to comprise about 30 officials working full time (about half probably for a limited period only). Full use will be made of computer systems already available to the department or planned, and of new investment concentrated on software and microprocessors.

12. In the longer term, work arising from the initiative is likely to call for increased staff effort within total numbers. No precise estimate can be made at this stage. An object of the work immediately ahead, particularly the trials of responsibility budgets, will be to assess the possible requirement for extra numbers and the extent to which they could be provided within available staff resources.

DEPARTMENT OF EDUCATION AND SCIENCE

The Department of Education and Science (DES) has about 2500 staff. Its role is to secure the effective provision of services and the execution of national policy by local authorities and others by the exercise of regulatory and other powers and through discussion, explanation and persuasion. The department is responsible for programme expenditure of nearly £1300 million, about three-quarters of which is expenditure by local authorities; most of the rest is by other independent bodies such as universities and research councils. The department's domestic expenditure is about £50 million.

Present arrangements

2. DES formulates policy through discussion between ministers, senior officials and Her Majesty's Inspectorate (HMI) and in consultation with its partners, and through a network of standing policy groups, at the top of which is the Policy Steering Group, chaired by the Permanent Secretary. These groups are supported by a Planning Division free from routine policy commitments. For management and organisational purposes DES is divided into 17 branches. The programme for each is reviewed annually in meetings between senior management and branch staff to discuss activities, priorities and objectives. The department has launched an annual staffing of functions exercise which provides a detailed picture of its activities and the staff resources allocated to each.

3. In 1982 DES took part in the Rayner scrutiny of departmental running costs, the recommendations of which are being implemented. Staff numbers and running costs are monitored centrally but budgets for specific items have been allocated to individual branches which incur substantial non-staff costs. Output measures are well developed in the few areas where the department has executive responsibility, notably in the administration of the Teachers Pension Scheme. For its own Vote expenditure DES has developed an accounting system which aligns financial and policy responsibilities and enables expenditure to be closely monitored.

The Department's Programme

Meeting the needs of Ministers and top management

4. Arrangements are being established for Ministerial reviews of priorities about twice a year. These will lead to the dissemination of Ministerial priorities widely within the department. The first review was held in spring 1983.

5. The staffing of functions return is being developed to include an examination of future staffing requirements. This will improve co-ordination of expenditure and manpower planning and help senior management to deploy staff more effectively. It will also provide

an input to branch programme meetings and facilitate the systematic review of branches' activities.

Control of administrative expenditure

6. The department plans to devolve to individual branches more responsibility for controlling their running costs. An experiment is under way using the University Grants Committee as a pilot cost-centre, and two more will be introduced in 1984-85. The objective is that staff should be informed of all costs relating to their work and accountable for those costs they can control. During 1983-84 a comprehensive financial information system will be developed to permit the attribution of costs to user branches and to extend the existing system of branch budgets.

Management of programme expenditure

7. More work will be done on the means of assessing output and value for money in education spending, and the results applied in policy development. Systematic procedures will be introduced for evaluating directly funded (and perhaps other) policy initiatives.

8. The Secretary of State proposes to take a limited power to make specific grants to local education authorities to encourage redeployment of resources to national policy objectives. The department is reviewing its arrangements for allocating and monitoring local authority capital expenditure. It is hoped that a report will be ready by December 1983 and that any new arrangements proposed will take effect in April 1985. DES is also developing work on the relationship between authorities' expenditure and the Government's assessment of their needs for the purpose of Rate Support Grant.

9. DES is reviewing the exercise of its responsibilities in relation to the Science and Engineering Research Council, with particular reference to financial management. This should highlight practices and improvements that might be applicable to other fringe bodies.

10. Day-to-day management of vote expenditure can be improved by better handling and distributing of financial information. A review of the use of such information in Finance Branch is in progress, as a first stage in a systematic mapping of its sources and flows.

Staffing and Training

11. Many of the ablest graduate entrants already spend some time in Finance Branch. Staff with significant financial responsibilities are sent on a specially designed course in financial management. The financial management content of the general training courses run by the department is being increased. These developments should provide a sizeable pool of staff with financial experience and encourage cost-consciousness throughout the

department. Succession planning has been introduced for senior finance posts. The department is implementing a recent recommendation that Internal Audit should be strengthened.

Implementation

12. Most of the work will be undertaken by staff within their existing responsibilities. The resource cost is estimated at around £300,000 mostly falling in 1983-84. The use of outside consultants, particularly to advise on a financial information system, is being considered.

OFFICE OF ARTS AND LIBRARIES

13. Paragraph 1 above applies to the Office of Arts and Libraries (OAL), which for domestic administration purposes is a branch of DES. OAL has a staff of 43 and an expenditure programme of £500 million (60 per cent of it the responsibility of local authorities). Progress and priorities are kept under continuous review by the Minister for the Arts. Special financial scrutinies of certain arts organisations are being undertaken and planned.

THE DEPARTMENT OF EMPLOYMENT GROUP

The Group

The Department of Employment Group's main functions are to improve the functioning of the labour market (notably through the provision of employment and training services and the improvement of industrial relations), to assist those with the most serious problems of unemployment (including the disabled), and to improve the health and safety of people at work.

2. The Group consists of the Department of Employment, the Advisory Conciliation and Arbitration Service (ACAS), the Manpower Services Commission (MSC) and the Health and Safety Commission (HSC). Separate plans for the MSC, for the HSC and for the rest including the Department itself are described in this section.

3. Employment Ministers are answerable for expenditure throughout the group, and the Accounting Officer of the Department of Employment, in addition to his responsibilities for the department's own expenditure, has responsibility for ensuring that MSC and HSC have adequate systems of control. Employment Ministers will monitor closely implementation of all three plans. They will also receive each year the recommendations emanating from all three top level management systems.

The Department of Employment

4. The department has 31,000 staff and administers the unemployment benefit service (UBS), redundancy and maternity fund payments, and some of the special employment measures. These measures include the Temporary Short Time Working Compensation Scheme, the Job Release Scheme, the Young Workers Scheme and the Job Splitting Scheme and cost in all £440 million (1983-84). The department also covers the costs of such diverse functions as race relations employment advisers, industrial tribunals, the Employment Appeal Tribunal, the Office of Manpower Economics, and specific grants to local authorities in England to fund specialist posts in the Careers Service.

Recent Developments in Financial Management

5. Under the Permanent Secretary an Economics Group was set up in 1979 to improve control over running costs. Regional cash limits for general administrative expenditure were introduced in 1980, and in the following year local budgets for travel and subsistence were applied within the headquarters offices. Several cost centres have been piloted since 1981-82, providing amongst other things for an inter-office comparison of support service costs in regional offices. The department participated in the review of running costs in the 1982 efficiency programme and this contributed significantly to its present approach.

6. In the UBS where over 80 per cent of the department's running costs are incurred there is a long-standing scheme of work measurement. In recent years simpler procedures (including fortnightly attendance by claimants), computerisation and economies of scale have significantly increased productivity. A range of output measures and performance indicators is used for both administrative and programme expenditure, and a computerised management information system was introduced in the UBS in the second half of 1982 to monitor the speed and accuracy of benefit payment.

New plans

- 7. There are five main elements in the department's programme:
 - (a) meeting the needs of Ministers and top management
 - (b) cost centre accounting and a resource information system
 - (c) the introduction of devolved budgeting
 - (d) improved management of programme expenditure
 - (e) improved staffing and training in financial management.

Meeting the needs of ministers and top management

8. A Senior Management Group (SMG) was established in April 1983 to carry out reviews of performance against objectives and of resource use for all the activities of the department itself. The SMG consists of the Permanent Secretary and the department's two policy Deputy Secretaries. The Principal Establishments Officer and the Principal Finance Officer attend its meetings.

9. For the first round of SMG reviews, which will be completed by October 1983, the department has been divided into 40 management commands, mainly led by assistant secretaries. Each command is providing a statement covering organisation, activities, policy objectives, targets, output measures, performance indicators, proposals for increasing efficiency, quality or output, proposals for accommodating changes in resource allocation, and approximate current and planned resource use (both programme expenditure and administrative costs in staff and cash terms). The SMG will examine each head of command on his statement.

- 10. The main purposes of the 1983 SMG reviews are to:
 - (a) examine organisation, defining clear lines of responsibility both down the line within commands and between commands;

- 6/24
- (b) identify any necessary further work on performance/output measures to monitor attainment of the command's objectives; and
 - (c) review workload against use of resources as a first step towards budgeting by commands.

11. The SMG will report its recommendations to Ministers and review with them the deployment of resources across the department.

12. A small branch of 9 staff has been set up in the finance division to service the SMG and deal with other developments in financial management. The time of these staff, plus about 4 man years pa which are also being devoted to servicing the SMG by staff in other central branches, costs about £200,000 a year. Staff time spent in commands preparing for SMG reviews is also being recorded to enable total costs to be compared eventually with benefits.

Cost centre accounting and a resource information system

13. Cost centre accounting is being introduced comprehensively throughout the department to provide management at all levels with the accurate detailed information on resource use needed for future SMG reviews and delegated budgeting.

14. The network of about 1,000 cost centres will be serviced by a resource information system (RIS) which will contain financial and non-financial records of each centre's resource use, and in some instances will also hold information on outputs. The detailed design will be settled by a feasibility study, started in February, of the proposed cost centre network and associated RIS. The study will lead to a detailed user requirement for the RIS by August 1983. When the user requirement is available final decisions will be taken on the timescale for introducing the RIS. If the requirement specifies a system suited to an off-the-shelf accounting package compatible with the department's existing computers, the target will be live running from April 1985; and this is the preferred aim. If the feasibility and pilot studies indicate that much system design or programming work is required, however, the target would have to shift to live running by April 1986. Pending completion of the user requirement no firm estimate of computing costs is possible, but they are unlikely to exceed £300,000.

Devolved Budgeting

15. Budgeting responsibilities will be devolved to line managers, controlling groups of cost centres. Responsibility will be devolved as far as practicable down the line within the 40 management commands. Given the varied nature of the department's activities the levels of delegation will not be uniform. In HQ policy areas, for example, budget holders are likely to

be assistant secretaries; in the UBS they might be senior executive officers at area level, or senior principals at regional level. The aggregated budgets would form the basis for PES and Estimates provision.

16. Devolved budgeting is being piloted in 1983-84 in six management commands covering just under 10 per cent of all staff, to identify which costs can be attributed to potential budget holders with a reasonable expectation that they can be planned and controlled; and to test budget holders' abilities to monitor resource use and control any variances which develop between budgeted expenditure and outturn. The pilots also seek to show whether delegation leads to local efficiency initiatives. As responsibility is devolved, control by central divisions and departments will change to authorisation when budgets are submitted and monitoring to guard against significant variances from budget or from other centrally determined standards. Identifying the new freedoms and responsibilities to be given to budget holders is a major task, with implications reaching outside the department.

17. If the pilots are successful and the RIS is test run in 1984-85 it is intended to introduce devolved budgeting throughout the department so that budget holders prepare trial budgets for 1985-86, and go "live" for 1986-87. It is also intended to integrate the RIS with vote accounting for 1987-88 at the latest or sooner than that if technically possible.

18. Two SEOs in the branch described in paragraph 12 are working full-time on the budget pilots, assisted by other staff part-time. When devolved budgeting is adopted throughout the department 18 more junior staff might be involved - the precise number depends on the level at which budget holding is set. Running costs in 1984-85 could then amount to £300,000.

Management of programme expenditure

19. Programme expenditure is to be incorporated in all the proposed systems and is covered by the SMG reviews. Commands with programme expenditure are therefore including statements on related objectives, targets, outputs, and output measures, and their estimates for this expenditure are being reviewed. The intention is that the RIS will hold information on programmes which involve large numbers of separate payments like redundancy payments or special employment measures. Some final outputs for the department's programmes are less easily measurable than others, and the feasibility of regular monitoring will vary accordingly; for example, the product of grants for careers officers is harder to assess than that of the community programme. Where regular monitoring is not feasible ad hoc surveys are undertaken where relevant. For special employment measures as a whole in both the department and MSC - costing around £1.8 billion in 1983-84 - a special study of monitoring arrangements was commissioned in March 1983 and is due to report by the end of July.

Staffing and training

20. The team working on the RIS was assisted by a consultant who is a qualified management accountant, and the department has continuing close links with a senior consultant in the HMT/MPO FM Unit, to ensure that the systems contain the best features of both commercial and public sector practice.

21. A programme of six briefing seminars was completed by April for heads of management commands, their supervisors, and senior line managers within commands to explain the objectives of the Prime Minister's initiative, the department's plans, and the requirements of this year's SMG reviews. Two circulars have been issued, and the department's detailed plan was made available to all staff by distribution to all local offices. Discussions have been held with the trade union side which received the department's plan in draft in early February. In addition plans are being made to give internal training to budget holders before devolved budgeting is introduced. This will cover basic training in simple budgeting methods and the implications of devolved responsibility. At cost centre level there will also be a need for training in the interpretation and use of the information flowing from the RIS. This basic training will be required for up to 2,500 managers, of various grades from Executive Officer upwards.

Internal audit

22. An internal audit committee was established in the department in 1980 to conduct improved planning and reporting for audit. Since then further steps have been taken to strengthen the contribution internal audit can make to efficient management. A system-based approach is being generally adopted and effectiveness and efficiency are included within the scope of internal audit. The audit unit reports direct to the PFO.

Resources

23. Total development costs are expected to amount to £0.75 million, with running costs (when all systems are fully developed) of just under this sum each year. To some extent these running costs will replace conventional establishments and finance work.

THE HEALTH AND SAFETY COMMISSION

The Health and Safety Commission, established under the Health and Safety at Work Act 1974, operates through the Health and Safety Executive (HSE) and has an estimated expenditure of £88 million for 1983-84. The Executive has 3,700 staff, about two-thirds of whom work in the Inspectorates and the Employment Medical Advisory Service. The Commission takes steps to secure the health, safety and welfare of persons at work and to protect the public from risks arising from work.

General approach to financial management

2. Since 1979 HSE have reviewed their financial management systems and introduced further measures to improve financial planning and control. Each year divisions submit work plans to the Executive (consisting of the Director General, his deputy, and the Chief Inspector of Factories). The work plans include:

- (a) separate proposed allocations for all resources other than accommodation and office services (eg salaries, travel and subsistence, extra mural research, support and testing, agency agreements, capital costs etc)

and (b) aims, broad objectives, and priorities for each unit in the division.

These divisional work plans are consolidated into the Commission's plan of work which provides the basis for its public expenditure survey and Estimates submissions, and a yard-stick against which progress and performance can be reviewed. Once the grant-in-aid is fixed detailed operational plans are prepared for individual items within divisional budgets with sub-budgets for each laboratory site, the 21 area offices (headed by senior principal equivalent), and some parts of HQ. These detailed plans are monitored by budget holders and their line managers each month against expenditure information produced by a computerised accounting system. This information, suitably aggregated, is considered by the Executive both monthly and at year-end. The year-end review also involves comprehensive review of results by the Executive which ensures that value for money has been obtained. The Executive maintains a detailed register of all current projects undertaken within each division's work plan identifying objectives, justification, and timetable. This enables the Executive to review individual projects within the overall divisional plans and monitor progress.

3. Over the next 3 years about 850 of the 1180 staff at present based in London will be dispersing to Merseyside and progress on much of HSE's programme for further development of its financial management system cannot go much further until this has taken place. Among the sections dispersing are those responsible for accounting and authorisation, for computer systems and for internal audit and about 95 per cent of the staff in those sections

will be new and some 50 per cent new to the Civil Service. A heavy training programme has been planned but it is bound to be some time before these sections become fully effective.

Future programme in response to the financial management initiative

4. The Executive plans

- (a) improved accounting systems to provide further disaggregation of costs;
- (b) improvements to the project register;
- (c) development of performance measures for both administrative and programme expenditure;

and (d) training developments.

5. The accounting system which provides outturn information for HSE management should be replaced in about 3 years time. A new system will allow more detailed allocation of resources and further disaggregation of costs, in particular the attribution of direct costs to smaller units than at present. It will also enable indirect costs to be allocated. This information will provide the option of further delegation of budgetary control and this will be reviewed at that time. The target date for introduction of the new system is April 1986. However a new computer database covering manpower figures, which should be operational in April 1984, will provide much improved information for manpower planning and control.

6. HSE's Project Register will be expanded to identify more clearly the support given to the lead division or inspectorate by other parts of HSE and to classify projects and indicate high priority ones.

7. Further performance measures on accommodation and office service costs are being developed. First results of the studies are due in June 1983 but because of dispersal and the planned relocation of the London headquarters it will be possible to make only restricted use of these performance indicators over the next 3 years. Fuller information on travel and subsistence costs, which form a substantial part of HSE's salary-related costs and which can be influenced by budget holders, was produced from April 1983.

8. A study of the efficiency of the field activities of the inspectorates and the Medical Advisory Service is under way and will be completed by August 1983. The principal aim of this study is to identify performance indicators.

9. Work is in hand on ways of measuring the effectiveness of HSE's activities with particular emphasis on enforcement activities. It will include research carried out by Wolfson College Oxford in conjunction with HSE. An HSE working group with Treasury

Report is assessing the effectiveness of different types of enforcement regimes on health and safety. This will be a long term study but an interim report is planned for September of this year.

10. HSE's training programmes are increasingly including material on financial management for staff at all levels. In particular the senior management course for principal level and above is paying special attention to this element. Following a successful pilot in November a second seminar on the management of resources is to be held in July for higher level management.

Resources

11. Considerable resources are already devoted to the improved financial management system through the processes described in paragraph 2. Additional costs attributable directly to developments amount to about £30,000 a year over the next two years falling to £15,000 thereafter. There will also be an additional cost of up to £10,000 in computer systems in 1985-86 to provide more detailed information than originally planned.

MANPOWER SERVICES COMMISSION

Manpower Services Commission (MSC) spending amounts to £1.9 billion for 1983-84 and arises in two main operating areas:

- (a) Employment Division (ED) is responsible for the running of an employment service through its Jobcentre network. It also provides specialist employment and rehabilitation services for disabled people, and administers the Enterprise Allowance Scheme and Professional and Executive recruitment which operates as a self-financing agency for executive level appointments. In addition MSC administers several services on behalf of the Department of Employment including the Community Programme to provide temporary work for long-term unemployed adults (costing about £382 million), and the provision of sheltered employment for seriously disabled people through Remploy, local authorities and voluntary bodies (about £75 million).
- (b) Training Division (TD) is responsible for developing and delivering training programmes for adults and young people, and is committed to providing in 1983-84 at a cost of £873 million places for up to 460,000 young people on the Youth Training Scheme. The MSC's Skillcentres, which until 31 March 1983 were managed within Training Division, are now run by a Skillcentre Training Agency (STA), established as a separate management unit, with the aim of achieving better value for money for Skillcentre activities.

These operating divisions are supported by Corporate Services Division (CSDn) and Manpower Intelligence and Planning Division (MIPD).

2. The Estimate of expenditure for 1983-84 (including services administered on behalf of Department of Employment) and the projected numbers of staff employed in each division at 1 April 1983 are as follows:-

	<u>Administrative expenditure</u> £ million	<u>Programme expenditure</u> £ million	<u>Total expenditure</u> £ million	<u>Staff numbers</u>
Employment Services Division	160.5	475.2	635.7	12,450
Training Division	158.0	1,080.4	1,238.4	10,580
Support Services	26.1	5.5	31.6	1,200
	373.9	1,531.8	1,905.7	24,230

Basis of financial management in MSC

3. Financial management in MSC has always emphasised the need to operate and develop on the basis of management units with devolved responsibility and accountability for resource budgets and output targets. This is supported by inspection and review systems to ensure efficiency and effectiveness, training of staff in resource management and the availability to line managers of specialist support, eg from accountants, economists and statisticians. The planning and setting of performance targets is conducted in MSC at both corporate and divisional level. The corporate plan is a 4 year strategic plan drawn up annually and submitted to the Secretary of State for approval. At divisional level a one year operating plan is prepared by the two operating divisions.

4. To monitor performance, regular monthly expenditure, staff numbers, and performance figures are presented to senior management in each division. For the MSC as a whole, monitoring is carried out monthly by the Chairman's Management Committee (CMC), by the finance sub-committee of the Commission and the Commission itself.

5. The Principal Finance Officer will be accountable to the CMC for developments throughout MSC following the Prime Minister's initiative and will report progress regularly to MSC top management, the Department of Employment and the Treasury. Additional costs of £100,000 a year could be incurred in support costs.

MSC's programme of action

6. A review of MSC financial arrangements has identified a number of areas where improvement is possible. The main elements are:-

- (a) Corporate management information system (COMIS)
- (b) Financial and management accounting system
- (c) Budgetary control
- (d) Performance measurement
- (e) Establishment of a Skillcentre Training Agency
- (f) Internal audit
- (g) Financial management training.

Corporate management information system (COMIS)

7. Following detailed studies, a corporate management information system (COMIS) has been designed to permit top level scrutiny of MSC's activities by bringing together in a more efficient way a number of strands of MSC's planning and performance review activities. COMIS will provide for two top level review processes each year, one related primarily to

strategic issues of planning, organisation and performance in the spring, and one in the autumn related to the emergence of operational plans and related estimates of proposed expenditure for the forthcoming financial year. Management commands will be expected to review performance against plans for the preceding 6 months or year and to put forward plans for the coming year and beyond. The COMIS reviews will enable the Chairman and Director supported by the PFO and Director of MIPD to undertake a detailed scrutiny of who does what and of the related costs and value for money of each task.

8. The CMC has set up a 4 person implementation team and a steering group to prepare for a first exploratory COMIS round in the autumn of 1983 (relating to 1984-85 plans) and for full operation in the following year. Arrangements are to be made by July 1983 for this first round. The costs of the implementation team and its continuing role as co-ordinator of the COMIS process are estimated at about £90,000 per annum.

Computerised financial and management accounting system (FMAS)

9. MSC management have been aware that the existing FMAS system, which has been running since 1976, would need to be updated. To take matters forward the following developments are in hand:-

- (a) the installation of mini-computers throughout the new Training Division to speed up the processing of payments and the transmission of expenditure information to a central processor;
- (b) a project team has been set up to redesign and implement a revised FMAS which will provide on-line access to various parts of the MSC field network. The aim will be to have the system tested and running by April 1985.

The additional costs associated with the redevelopment of FMAS are difficult to quantify accurately before the option for meeting the user requirement is determined in August 1983. They will include the project team of 4 (including an outside consultant), which is likely to cost over the 2 year period £250,000. More speculatively, the systems hardware and software may cost about £700,000.

Budgetary control

10. Since April 1982 a decentralised budgetary control system, based on management units responsible for budgets related to cost elements which they can control (mainly administrative costs excluding salaries) has been operating in support divisions and in the Employment Division down to regional level. The level of devolvement, the cost items covered and the degree of flexibility given to budget holders in these arrangements will be kept under review. An HEO with management accounting training has been appointed in each region of Employment Division to contribute to Training Division down to the 56 Area

Offices and a 3 man project team (with support from management accounting specialists) has been set up to develop a system to cover both programme and administrative expenditure. The exercise was launched in April 1983 and budgets for 1984-85 will be established by December 1983.

11. Until now manpower in MSC has been budgeted in staff numbers rather than money but a pilot scheme in the use of salary budgets will operate in TD Regions for 1983-84. This pilot will be kept under review with a view to extending to other parts of MSC.

12. In view of the size of network and the average spend of each Area Office (£30 million) in Training Division, the administrative costs of the budgetary control system might be of the order of £700,000 annually.

Performance measures

13. Wherever possible MSC seeks to measure output targets and the related unit costs for its activities. Many such measures are in use, eg cost per placing for ESD, cost per trainee completion or YOP entrant for TD. However, the Commission is constantly reviewing what more can be done and further actions (some related to the developments in planning and information systems mentioned earlier) are already taking place or scheduled:-

- (a) Performance assessment and other internal management issues will form the main agenda items for the Chairman's Management Committee at least once a month;
- (b) The COMIS planning system will, as part of its first round in 1983, identify gaps in both programme and administrative performance measures (including the analysis of administrative costs in multi-functional offices) and establish firm lines of action to fill those gaps;
- (c) the redeveloped FMAS will provide a greater range of analysis codes so that the costing of programme activities can be refined and, for instance, the ability to analyse the same cost information in several different ways (including linking costs with units of output) will be more readily available;
- (d) As well as the intention to develop performance indicators for TD, MSC plans to extend its performance indicators on the ED side by developing a comprehensive set of cost-efficiency ratios for regular use by April 1984;
- (e) From 1983 onwards the Commission will be developing key ratios, unit costs and other performance measures for administrative costs, including those incurred in the two support divisions.

Establishment of a Skillcentre Training Agency

14. The MSC Skillcentre network was hived off from Training Division and established as a separate management unit on 1 April 1983. It is accountable for training provision to other parts of MSC (eg for adult and youth training programmes) and to outside customers on a trading account basis. Under the arrangement skillcentre managers have delegated responsibility and accountability for their operations. Success in recovering their costs by raising revenue will be a prime measure of performance. The first STA trading account will be prepared for the financial year 1983-84.

Re-organisaiton of internal audit unit and its methods and scope

15. The major review of the organisation, methods and scope of internal audit has been completed with the aim of developing and implementing systems audit comprehensively over MSC activities on the basis of risk and materiality. Systems audit will be progressively introduced during the next two or three years (to be completed by June 1986) as audit studies of particular areas of work are completed and the associated audit documentation produced for use in the field. The audit complement has been increased from 43 to 63 posts including the addition of a senior principal (a qualified accountant) as Head of Audit and 4 new SEO level positions of which 2 will be filled by professionally qualified staff. It is intended that a large proportion of auditors shall undertake training for the Institute of Internal Auditors' diploma. Plans are being made to send 6 nominations for places on approved 2 year courses for each of the next 3 years. Other staff will attend courses on internal auditing and related subjects. The estimated additional costs of these developments are £450,000 per annum for staff salaries and travel costs and £70,000 for training costs.

Training

16. MSC provides internal training to lower and middle levels of management relating to planning, organisation and control aspects. Senior levels of management attend relevant external courses. In recognitiion of the need for financial management training an additional modular programme of in-house training is being developed for middle and senior managers and these are expected to cover 800 staff in 1983-84. The tuition costs are estimated at £250,000 and the opportunity cost of trainees' time £340,000.

DEPARTMENT OF ENERGY

The Department of Energy (DEn) is responsible for general policy on energy matters. It regulates the development of oil and gas resources in Great Britain and on the UK Continental Shelf; handles the Government's relations with the oil industry; finances energy research and development; promotes economic efficiency in the use of energy; and is responsible for testing of gas quality and of gas and electricity meters. The department also sponsors the energy nationalised industries, the British National Oil Corporation, the Atomic Energy Authority, the civil nuclear construction and services industry and the offshore supplies industry.

2. The department has about 1,100 staff. It is responsible for expenditure in 1983-84 of some £945 million, of which £625 million is in support of the coal industry. Receipts from petroleum royalties total some £2 billion. The running costs of the department are about £27 million a year.

Approach to improving financial management

3. The department's plan for improving financial management includes the following main elements:

- (a) a statement of strategic aims
- (b) an annual Programme Expenditure Review
- (c) development of the Department of Energy Management Information System (DEMIS)
- (d) extension of divisional responsibility for administrative costs
- (e) expenditure reports to top management and Ministers
- (f) examination of the scope for use of performance indicators or output measures
- (g) developments in staffing policy and training.

Implementation of the plan will be supervised by a group under the Principal Establishments and Finance Officer.

Strategic aims

4. A statement of strategic aims for the department has been prepared. It will form the background to the Programme Expenditure Review and DEMIS.

Programme Expenditure Review

5. To enable relative priorities to be considered in a more informed way, the department proposes to define and review objectives for each significant area of programme expenditure in the annual public expenditure survey. From 1984, the objectives of the areas of expenditure will be cross-referenced to the department's strategic aims. The first review was put in hand early in 1983.

6. The annual review will also enable the department to consider whether to initiate fuller, strategic, reviews of the policy governing certain areas of programme expenditure.

DEMIS

7. The department's management information system (DEMIS) was introduced in 1982 to review in a more systematic way how manpower resources are deployed. A forecast of activities and objectives is built up every year on the basis of statements prepared by section heads (Principal and equivalent). From this year, each division will provide a statement of its overall objectives, cross-referenced to the department's strategic aims, and will report on the extent to which objectives stated in last year's DEMIS have been met. Top management and Ministers will scrutinise these reports in time to take into account implications for 1984-85 Estimates and the 1984 public expenditure survey. Where possible, actual rather than apportioned costs will be used in informing divisions of their administrative expenditure.

8. During the past three years, a gross reduction in staff of about 17 per cent has been achieved, despite intensification of work in some areas. Progress in reducing overheads has also been made. Following the introduction in 1980-81 of divisional budgets for travel and subsistence and tighter rules on overseas travel, expenditure was reduced by 11 per cent.

Responsibility for administration costs

9. The department was one of six departments which participated in a scrutiny of running costs in 1982. Following the recommendations of the scrutiny, some changes will be made. As a general principle, location of control of administrative expenditure will be determined by where the different elements can most effectively and efficiently be controlled. From 1 April 1984, divisions will assume greater responsibility for certain administrative costs, including expenses of independent members of committees and conference fees. Staff and accommodation costs will continue to be controlled centrally, but divisions will have discretion to deploy staff as they think best within agreed manpower budgets. The department will periodically review whether the ambit of divisional budgets for administrative costs should be widened.

The Electricity Meter Examining Service and Gas Standards Branch are run as self-financing trading accounts. The scope for making these or other relatively self-contained areas into cost centres will be explored.

Expenditure reports

11. Expenditure monitoring reports, comparing actual and forecast expenditure in the current year with Estimates provision, are now made regularly to the department's top management and Ministers.

Performance indicators and output measures

12. The Operational Research Division of the Treasury is helping the department to explore the scope for using performance indicators or output measures in the field of non-nuclear R & D. In the light of their report, the department will decide this year how this work should be carried forward.

Staffing and training

13. Career management is being developed to strengthen professionalism and expertise in financial management. The frequency of postings in key policy areas is being reduced. Outward secondments to merchant banks and private sector companies are being integrated into career development plans. The inward secondment of business advisers will be maintained. Use of outside consultants for specific tasks will continue.

14. The department's training programme emphasises the efficient use of financial and manpower resources. Training requirements of posts with financial responsibilities have been identified with the aim of mounting a comprehensive programme to improve professionalism over 3-5 years.

15. Following a review in 1980, a new head of Internal Audit has been appointed on secondment from a leading firm of accountants. The organisation and methods of operation of Internal Audit have been revised; and a training standard has been established for staff working in this field.

Costs

16. Implementation of the plan is likely to result in additional running costs of about £200,000 a year in the short term.

DEPARTMENT OF THE ENVIRONMENT

The Department of the Environment (DOE) has responsibility for policy on housing, town and country planning, the protection of the environment, sport and sponsorship of the water, inland waterways and construction industries in England. It also has the general responsibility for the organisation and finance of local government. The Property Services Agency, dealing with the construction and management of the Government's property estate, has a separate programme of financial management work. Central DOE (ie excluding PSA) employed 8,414 staff at 1 March 1983.

2. The expenditure for which DOE has responsibility falls into 3 main categories:

- (a) Direct expenditure by DOE itself on administration and research;
- (b) expenditure by public bodies sponsored by DOE, including regional water authorities, the Housing Corporation, and a wide variety of small bodies;
- (c) expenditure by local government. Expenditure under these heads in 1982-83 was as follows:

	Gross Expenditure by bodies concerned (inc. expend financed by fees, charges, rates, sales, rents etc)	£ billion	
		Of which DOE provides or controls finance as follows:	
		DOE Voted expenditure (direct expenditure or grants)	Net External borrowing
DOE direct expenditure	0.115	0.115	-
Sponsored bodies	4.3	0.8	0.9
Local authorities total gross expenditure	33.0	11.2	0.6
(of which DOE services account for)	(11.7)	n.a.	n.a.
Total	37.415	12.115	1.5

Financial Management in DOE

3. The different types of expenditure in DOE's field require different forms of financial management. Direct expenditure by DOE needs to be subject to a comprehensive financial management regime. Objectives and responsibilities of the different units of the

Department under Ministers need to be clearly defined. Performance needs to be monitored systematically. Allocation of resources needs to be carefully planned.

4. Expenditure by local government and by other sponsored bodies raises different issues. They themselves have the primary responsibility for managing their expenditure and giving value for money. DOE's responsibility here is more indirect. The department must ensure, so far as it can, that the bodies operate under a regime which includes clearly defined objectives, and which encourages strong financial discipline and value for money. The department must also ensure that its own systems for supervising, regulating and grant-aiding sponsored bodies operate economically and effectively as systems, and encourage efficiency and effectiveness in the sponsored bodies.

5. Under the present Government major new policies and systems have been developed to strengthen financial management throughout DOE's areas of concern. The most important are:

- (a) the introduction of the Management Information System for Ministers (MINIS) which has provided Ministers and senior officials with a comprehensive system for the regular review of each part of the department's work and expenditure assessments of priorities and allocation of resources;
- (b) the strengthening of the Permanent Secretary's Policy and Management Group which inter alia co-ordinates under Ministers all aspects of financial management in the department;
- (c) the establishment of a system of cost centres responsible for managing their own administrative expenditure within a planned budget, and supported by a computerised accounting and monitoring system (MAXIS);
- (d) for indirect expenditure by sponsored bodies, the development of corporate planning processes and the setting of financial or other targets, or performance measures where possible;
- (e) the introduction of a regular annual system within each such body for reviewing manpower performance and budgets on MINIS lines;
- (f) strengthening of the arrangements for auditing these bodies;
- (g) the establishment of a new statutory framework for controlling total capital expenditure and influencing the total of current expenditure by local authorities;
- (h) reduction of detailed specific controls, advice and influences by central government over local government;
- (i) publication of more information about local authority output or performance, particularly on a quantitative and comparative basis;

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- (j) strengthening the audit arrangements for local government with a much greater emphasis on value for money with the formation of the Audit Commission.

6. Most of these developments were initiated in DOE before the Prime Minister's initiative was launched in 1982, and are now well established. The MINIS system in particular attracted favourable attention from the Treasury and Civil Service Select Committee in 1981-82 and provided a model for the Government's general financial management initiative launched in Cmnd 8616. The following paragraphs explain the present position on each of these developments.

MINIS

7. MINIS provides for an annual detailed review by Ministers and senior management of the work of every part of the department. There are three main stages. Firstly every autumn each directorate prepares a detailed statement of its work, and how much each task costs. The statement must say what has been achieved in the first six months of the financial year, what is expected to be achieved in the following six months and what objectives might be appropriate for the next financial year. Secondly, the statements are considered at meetings during the winter and early spring with senior management and Ministers. Decisions are made about each directorate's work. Suggested objectives are probed, endorsed or rejected and further reviews of policy or management issues can be set in hand. Appropriate resource allocations for each directorate are determined. Finally action is taken following the meetings, to ensure the Minister's decisions are implemented, the Trade Unions are kept informed and the statements are published.

8. The system has been successful not only in revealing substantial scope for economies in the department but in enabling Ministers to ensure that resources are allocated in accordance with their priorities and objectives. The disciplines of the system have also helped develop in line management a more acute awareness of the need to manage well the resources for which they are responsible.

Development of financial management in DOE

9. The Permanent Secretary's Policy and Management Group consists of the two Permanent Secretaries, the Chief Executive of the Property Services Agency, and the 6 Deputy Secretaries. It is supported by 3 central divisions responsible respectively for MINIS, MAXIS and for general studies. Under Ministers the group guides the general development of financial management in DOE. It has also commissioned a number of specific studies or reviews of particular aspects of financial management. Recent or current reviews include general studies on the role of the Finance Divisions in the department, training for financial management, the flow of monitoring information to senior

management, and studies on a variety of specific topics such as monitoring and evaluation of the urban programme, value for money in external research, future policy on housing improvements etc.

10. The group has also recently commissioned studies of the way in which the MINIS system could be further developed and linked to the system for planning and monitoring the whole of DOE's public expenditure programmes.

11. The reports of these studies are considered when they come in, and may lead to further improvements in detailed aspects of financial management within the department. For example, following the recent study of value for money in external research an improved system for monitoring and reviewing research projects will be introduced during 1983. This will include the development of regular research audits involving an analysis of projects against objectives, and a standardised information system.

12. In 1983, the Policy and Management Group has also taken on the function of an Audit Committee for the Department. It receives reports from the recently strengthened Internal Audit unit, and considers the future programme of audit work.

MAXIS

13. A computerised system of cost centre accounting and budgeting (MAXIS) for DOE administrative expenditure - about £80 million gross in 1982-83 - has been introduced as from 1 April 1983. Individual cost centre managers are required to make estimates of resources required based on past expenditure patterns and assessment of future needs. Final budgets for each centre are then established as part of the MINIS round. Cost centre managers (who vary in grade from Senior Executive Officer to Deputy Secretary) are then responsible for managing their expenditure with these budgets.

14. As the system develops it is hoped to give cost centre managers greater responsibility for ensuring value for money in management of the resources within their command, including freedom to vire between different items of administrative expenditure, thus further strengthening their financial responsibility and accountability.

Sponsored bodies (other than local government)

15. In order to improve the department's management of its relationships with sponsored bodies, and to strengthen financial management within those bodies the present Government

have pursued four main themes, with appropriate variations to suit the particular needs of the different bodies:

- (a) clarification of the objectives given to the body, particularly the financial objectives. Financial targets have been introduced where appropriate, eg in the water industry, and appropriate bodies have been encouraged to develop a corporate planning process intended to lead to the identification of quantified targets or objectives over a period of years worked. As this planning process develops the department intends to relate it more directly to the public expenditure planning process, and would hope in return to be able to provide the bodies with a greater degree of assurance about their likely level of resources over the medium term 2 to 3 years ahead;
- (b) strengthening the management of the bodies, and encouraging them to adopt internal methods of financial planning and control similar to DOE's MINIS system in order to ensure that they give value for money. Most bodies have made some progress and several, with assistance from the department, have already introduced their own systems, eg the Nature Conservancy Council, the Housing Corporation, the London Docklands Development Corporation and New Towns Development Corporations. A consultant is currently exploring with the water authorities the scope for development of manpower control systems on MINIS lines;
- (c) the audit arrangements of all the department's sponsored bodies have been reviewed under the present Government, and the auditors have been given an additional remit to consider and report on value for money aspects of the bodies concerned. This should provide valuable material both to the bodies and to the department for improving efficiency over time.

Local government

16. Local authorities are elected bodies with a range of statutory powers and functions. They are responsible for their own internal organisation and management; and for providing services economically, efficiently and effectively. They are accountable to their electorates and ratepayers for the discharge of their functions.

17. Central government is however concerned with many aspects of local authorities' work:

- (a) it promotes the legislation which defines the areas of authorities, establishes their electoral arrangements, their functions and duties, and their powers to raise rates, to borrow money and to spend it;

- (b) it is concerned with the overall level of current and capital expenditure by local government as part of its management of public expenditure and control of the economy;
- (c) in providing financial support for local government, central government has responsibilities ranging from rate support grant, where no specific condition can be imposed on the use of the finance, to highly specific grants and agency payments;
- (d) in relation to some services it has more specific statutory responsibilities to set and monitor standards of provision (including various statutory duties); to offer advice on methods and objectives and to influence the way in which the service is provided or in which investment is made;
- (e) it has established arrangements for authorities to publish their accounts and other information about their performance and for effective audit of local government.

18. Under the present Government a number of important legislative and other changes have been made which are relevant to the interface between central and local government and to the Prime Minister's initiative. These changes include the creation of the block grant system, and the new capital expenditure control system. They also include the formation of the Audit Commission, with its duty to undertake comparative value for money studies of local authorities' services; the publication provisions of the Local Government, Planning and Land Act 1980; and the reduction of specific controls and of the number of departmental circulars.

19. In the context of the current initiative further discussions are proceeding with local government on a number of aspects of central/local relations, including:

- (a) more emphasis on medium term expenditure planning for long-term capital programmes as a basis for improved financial management;
- (b) the operation of the general systems for influencing total current expenditure through the RSG, and total capital expenditure through the capital expenditure control systems, which are already kept under regular review in the RSG and PESC cycles;
- (c) specific controls and specific grants. These are needed for a number of services. But they tend to involve additional administrative effort both at local and central level. All such controls and grants need to be scrutinised periodically therefore to see whether their administration could be simplified and made more efficient;

- (d) continuing efforts to develop more quantified measures of performance. The improvement of such measures could improve financial management both in central and in local government. Even though final outputs may often be very difficult to define, the measurement and publication of inputs, activity measures and intermediate outputs of various kinds will gradually help to clarify objectives more precisely.

Costs

20. The annual cost of operating the various financial management initiatives within DOE will be about £290,000 for MINIS and £590,000 for MAXIS, and a further £85,000 for a specialist unit; a total of about £965,000 (in 1983-84 prices).

PROPERTY SERVICES AGENCY

The Property Services Agency (PSA) was set up in 1972 with responsibility for 'the provision to other Government Departments of property management services, building construction and maintenance, and the appropriate supplies (Hansard 5 May 1972, col 217). The Agency's task is primarily one of managing the estate, including new works and major repairs; building and construction work is placed with private contractors; all property disposal work is placed with private agents once the preparatory work has been done, and an increasing proportion of new works is designed by consultants.

2. The Agency has some 29,000 staff, of whom half are industrial and half non-industrial. Their work is widely dispersed throughout the UK and overseas. Over 60 per cent of the non-industrial staff, and almost all industrials, are employed in the Regions, of which there are 14; 10 in the UK (including Scotland and Wales) and 4 overseas. The Regions' primary tasks are to manage and maintain the estate and to control minor works services and those major projects delegated by Headquarters Directorates. The HQ Directorates are responsible for overall programming and financial control, for most of the larger new works projects, and for specialised professional and technical services.

3. PSA is responsible for expenditure of some £1,600 million on the provision of works and estates services. In addition PSA Supplies, a Trading Fund, has an annual turnover of about £200 million*.

Present Arrangements

4. Work on the FMI is co-ordinated by the Principal Finance Officer. The Agency has been able to build on much work already done, in particular on resource costing systems and arrangements for setting objectives and priorities for the Agency:

- (a) PSA uses a computerised resource costing system (PATOCAP) which identifies and monitors all PSA resource costs on works services in the UK, including such imputed costs as superannuation and accommodation at market rents, and relates these to cost centres, specific activities, projects and clients. Resources for major new works projects are budgeted and controlled through the system. Monthly and quarterly print-outs are issued to various levels of management. These include a series of performance ratios;

* PSA Supplies is discussed separately below, paras 8-12

- (b) Overall objectives for the Agency are set by the Chief Executive. These are translated by Directors into more detailed objectives for their own operations. The PSA Executive Board reviews annual and half yearly reports assessing progress towards these objectives.

5. PSA operates the MINIS system which provides management information for the Secretary of State and enables him to conduct regular reviews of the Agency's work and use of resources.

General Approach to Improving Financial Management

6. Major proposals for structural change in the PSA have been developed. The aim is to have final decisions by the end of June 1983, with a view to implementation over a period from April 1984. These proposals are intended to bring about radical changes in the Agency aimed at improving efficiency and value for money: they involve a reduction in the tiers of management in the Territorial Organisation and the possibility of separating the Defence and Civil activities; a radically revised approach to property responsibilities; and the development of commercial property accounting systems for the civil estate. A reshaping of the design activity is also under study. These changes will involve a far reaching programme of work. In addition to detailed studies of how best to achieve the structural changes, they will require the development of new commercial accounts and management information systems (the latter already underway), a review of delegations throughout the Agency, and new procedures to achieve a sharper focussing of responsibility at all levels.

7. There are several important areas in which work is required to tighten and expand control and monitoring systems, and to improve other aspects of the Agency's operations. Work in these areas will be linked with the development and implementation of the restructuring proposals, but is separate from them. The main areas are as follows:

(a) Control of Administrative Costs

At present, Directors have local budgets for funds for those services which are within their direct control. Of the 1982-83 Cash Limit for the Administration Vote, some 39 per cent was allocated to Directors in this way. The aim is to extend these arrangements. Work is in hand under the Principal Establishment Officer to examine the possibility of local budgeting for postal services, stationery and printing, and telecommunications services. It is intended to introduce new arrangements progressively from 1984-85.

(b) Management Information Systems

The Agency is fully satisfied as to the value of a system such as PATOCAP, described above. But the system requires improvement, both to extend the scope

and quality of the management information produced (particularly to the District Works Office level) and to improve turnaround time. An earlier project for a new in house costing system had to be abandoned because of problems in computer development. The PSA Computing Committee has initiated a review led by the PFO, supported by his Management Information Division and by Computing Division, of the options for meeting the Agency's future resource costing requirements. Stage I (broad confirmation of the requirement and a review of the options for handling) should be completed by September 1983; Stage II (detailed development and implementation) will follow.

(c) Financial control and estimating

The Agency recognises that there are major problems in the systems for the estimating and control of works expenditure, notably maintenance expenditure. Two major exercises are in hand:

- (i) on the estimating side, it has not yet been possible to set specific cost targets for the bulk of maintenance expenditure, as has been done for the maintenance of married quarters on the Defence estate. The development of unit costs more widely is crucial to improved estimating. The Agency is employing consultants to help carry forward work on this problem. As results emerge for particular areas they will be incorporated into the budgeting process. The full exercise will take some years, but some further applications should be available from April 1984.
- (ii) The Agency needs greatly improved management information, other than resource costs, on a property by property basis, as an aid to budgeting and financial control. To this end, the Agency is developing UKTOMIS, a distributed computerised information system. The final form of the system will depend on decisions on restructuring of the PSA. The current target is to develop an interim Estates system by June 1984, and to achieve full development of the complete system by 1987. The project team is also studying an interim works system.

(d) Major works projects

A team has been set up under the PFO to monitor the quality of investment appraisals carried out in the Agency, and the extent to which investment appraisal is used. Revised instructions to staff have been issued. The position will be reviewed in the light of the team's experience in April 1984.

The long term aim of these and other exercises is to improve the general quality of financial estimating for the Votes controlled by the Agency, and hence the overall use made of the funds available.

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(e) Management Services and Responsibilities

The PSA is to participate in the 1983 Rayner Review of consulting, inspection and review capabilities. Two particular issues are to be examined: the relative responsibilities of the PFO and PEO for the control of the Administration Vote, and the needs of PSA for its own management services team. At present, PSA relies for O&M and Operation Research facilities on common service provided by DOE (Central).

(f) Internal Audit

A joint Treasury/PSA Review of Internal Audit, and of Computer Audit, was conducted in 1980-81. The recommendations were accepted, and implementation is well advanced. The full strengthening of Internal Audit recommended by the Review will be completed in the course of 1983. Changes in auditing methods are being brought in over the next two years.

PSA Supplies

8. PSA Supplies has operated as a Trading Fund since 1 April 1976. Its task is to provide government departments and other public sector bodies with furniture, furnishings, equipment, materials, heating fuels, transport and selected services related to their domestic and operational needs as efficiently and economically as possible. In doing so it takes into account the need to help industry to operate more efficiently, improve the standard of design and promote the exploitation of successful new materials and technologies. In 1981-82 the turnover of the Trading Fund was £205 million; assets employed were £40 million; and the current cost operating surplus before long term interest was £4 million (10 per cent against a target of 5 per cent).

9. The creation of the PSA Supplies Trading Fund required the introduction of a comprehensive management accounting system and a set of commercial accounts compatible with the standards required from the private sector and nationalised industries. The Fund operates 16 separate trading accounts with 70 budget centres and 260 cost centres. Each budget centre manager is personally responsible for controlling the costs charged to his budget centre and performance is continually monitored against budget. The Supplies Management Board receives monthly financial reports and quarterly and final accounts. Annual Accounts, audited by E and AD, are presented to Parliament by the Comptroller and Auditor General. These include comparisons of price performance against external commodity prices. To a large extent therefore the Trading Fund has already achieved the aims of the Financial Management Initiative.

payment

10. The introduction of repayment arrangements for most government departments on 1 April 1983 will help to make them more conscious of the costs of the goods and services which they consume. Supplies prices and standards will have to be fully competitive to retain a satisfactory level of business. A detailed marketing plan, based on consultants' advice, is being prepared aimed at attracting a wider spectrum of public sector clients.

Purchasing

11. Supplies Purchasing has been examined and a number of changes are planned to improve efficiency and reduce manning. The main organisational changes will be introduced during the summer of 1983.

Accounting and Information Systems

12. The accounting systems in use date from the inauguration of the Trading Fund. For speed and economy they utilise systems and programs used by the PSA parent body. This arrangement inhibits development for both organisations and it is planned to end them by 31 March 1984. Complete accounting separation from the parent body will enable other business systems to be updated to take account of modern technology. An internal review has highlighted the need for an on line computing system for ordering, stocking and delivery of goods. Marketing consultants have delivered an interim report which stresses the need for an improved information system. Detailed proposals will be completed by 30 September 1983. It is expected that implementation will start from 1 June 1984. The requirement for fast response to client demand and improved information flow to increase management effectiveness will require extensive change to current systems. It is proposed to employ consultants to advise on the design of new systems and subsequently to implement them. Present indications are that the new systems are unlikely to be completed before 1986 or cost less than £2.5 million.

EXPORT CREDITS GUARANTEE DEPARTMENT

Under the terms of the Export Guarantees and Overseas Investment Act 1978, the Export Credits Guarantee Department (ECGD) gives credit insurance cover to UK exporters against the risks of non-payment, and provides guarantees to banks to facilitate the financing of UK exports. In addition, ECGD administers the fixed rate export financing facility. This involves equalising the difference between the floating market rate of interest charged by the banks and fixed export credit rates determined in accordance with international agreements. During the financial year ended 31 March 1982 ECGD issued guarantees and made refinancing loans and interest rate grants in support of UK exports and overseas investments to a total value of £29,632 million; at the year-end the cumulative outstanding liabilities under all guarantees amounted to £32,900 million. Total income on the export credit insurance trading operation was £319.9 million; administrative expenses for the year were £28.5 million. The total net public expenditure cost of the fixed rate financing facility was £5866 million. The department employs about 1800 staff.

2. In addition to its statutory objective of encouraging trade, the department has a financial objective of operating its credit insurance activities at no net cost to public funds.

Existing Financial Management Systems

3. The department operates its credit insurance facilities as far as possible on a commercial basis. An extensive financial and management accounting system has been developed, culminating in the production of annual trading accounts and balance sheets which present the trading outturn of each underwriting year's business. The determination of the appropriate level of provisions for loss for each underwriting year is a major feature of this work.

4. The department conducts an annual financial review, using a computer model, to assess current and projected cash outturn over the next 5 years in order to determine the appropriate level of premium rates for future business.

THE DEPARTMENT'S FINANCIAL MANAGEMENT PLAN

Trading Objectives

5. As explained, the department's basic financial objective is to operate at no net cost to public funds. A more specific financial objective, to maintain a set ratio between reserves and amounts at risk, has for a variety of reasons been found wanting. The plan looks to an early conclusion of current work by the department and the Treasury on an alternative, and more realistic, measure.

Improved Underwriting Performance

6. Because the level of claims paid under its guarantees (£303m in 1981-82 against premium income of £237m and administrative expenditure of £28.5m) is a major determinant of its financial outturn, the department's plan gives priority to the establishment of a management information system designed to improve underwriting performance. This will provide individual underwriters with detailed and up-to-date correlated information about the performance of the facilities and markets for which they are responsible. This system should enable better-informed decisions to be reached about future exposure on buyers, markets and facilities and will enable a comparison to be made between the actual outturn for different classes of business and that projected in the annual financial review. The information made available will also assist Ministers in undertaking an annual review of ECGD's trading operations.

7. The development of this information system will be achieved through additional computer facilities. These will also enable the newly formed Financial Analysis Unit to carry out improved analytical and interpretive work using more complete financial and statistical data than has been available hitherto.

Administrative Costs

8. Another major element in the Plan is to develop and fully computerise the department's management accounting system. The existing system which relates administrative costs to individual credit insurance facilities will be refined to relate the costs to organisational units. This will represent the first step in the creation of cost and budget centres within the department, ensuring a tighter control of administrative expenditure both centrally and by line managers. It is also hoped that this system can be further developed by the introduction of output measures for the cost centres.

Underwriting Efficiency

9. In the longer term it may prove possible to link the management information system with the enhanced management accounting system to determine an overall indicator of underwriting efficiency. However, in view of the long horizon of risk on some business and the changes in economic conditions both generally and in particular markets, this may be difficult to achieve.

Public Expenditure

10. The Department is computerising the fixed rate export financing facility to improve operating efficiency, audit control and public expenditure forecasting. The plan also envisages steps to produce a more detailed analysis of expenditure and thus provide an improved measurement of the value of the scheme.

Implementation

11. In view of the continuing world recession, the department's plan places most emphasis on measures designed to improve its underwriting performance. The enhanced management accounting system, which will lead to better control of administrative expenditure and to increased efficiency, will also help in improving financial control. The timetable for implementation of the plan envisages early completion of the review of the department's specific financial objective (see paragraph 5). The management information system will be introduced in stages; the first stage will be undertaken this year, but completion is not expected before end-1986. The enhanced management accounting system is expected to be ready this year but cost centres can only be introduced on a gradual basis over the next 2-3 years. The full range of improvements will not be realised until 1988. Four posts have been allocated to oversee implementation of the plan, but in view of its phased nature the full staffing and cost implications can not yet be fully assessed.

REIGN AND COMMONWEALTH OFFICE

The Foreign and Commonwealth Office (FCO) (Diplomatic Wing) is responsible for all aspects of the Government's foreign policy, for conducting diplomatic relations with foreign governments and for representing the UK in major international organisations, such as the United Nations.

2. Its public expenditure amounts to about £600 million a year, of which 53 per cent is the administrative costs of the diplomatic service both at home and abroad - eg salaries and allowances, accommodation and travel. Other major elements are £130 million on the overseas information programme (including grants-in-aid of the BBC External Services and the British Council), £70 million on international subscriptions, £20 million on the running costs of the Passport Office and £13 million on military aid (to cover courses in the UK and training teams abroad).

3. The FCO maintains 214 diplomatic posts in 131 countries. UK-based staff total 9,469 (of whom 2,792 are posted abroad) and there are 6,875 locally employed staff overseas. In addition to conducting official government-to-government relations and reporting on political and economic developments in overseas countries, the diplomatic service provides services in the fields of export promotion, consular and visa work, aid administration, information and cultural work and specialist activities (such as scientific or civil air attaches).

General approach to improving financial management

4. The FCO has in the past regarded the principal task of financial management as being to ensure that public moneys have been properly spent. With financial resources diminishing, it became clear that this was inadequate and a radical new approach was needed. The FCO took part in the centrally co-ordinated review of the control of running costs that was included in the 1982 efficiency programme and added to a growing awareness that better quality (and qualified) staff and technological innovations were required. A financial information and monitoring system has been in use since 1980 and the accounting system of the FCO was fully computerised in 1982.

5. The two most significant steps in the department's efforts to improve its financial management will be the evaluation at all levels, and especially at the top, of objectives in terms of resources in order to set priorities; and the devolution of financial responsibility from the centre. The Principal Finance Officer is responsible for co-ordinating this work.

Management and financial information systems

6. A top level financial planning group has been set up to consider the deployment of FCO financial resources and make recommendations to Ministers. It is normally chaired by the permanent under secretary. Its main functions include supervision of the FCO's annual public expenditure and Estimates proposals; the allocation of resources between the department's programmes; and the review of programmes to ensure that they are meeting their original objectives. To enable the Group to do its job properly a management information system (MIS) will be set up. It is planned to come into operation by 1 April 1986. It will need to be linked with the existing financial computer systems in the FCO, providing facilities for expenditure profiles, as well as details of regional, functional etc., costings. Consultation and planning have begun. The FCO is discussing with the Treasury the creation and application of performance indicators such as output measures and key ratios where applicable; there is little prospect of devising satisfactory output measures for political and economic reporting.

7. In the shorter term the assumption in April 1983 by the FCO of the responsibility for the Diplomatic Estate Overseas (previously administered by the Property Services Agency of the department of the Environment) has required swift action to rationalise the old PSA vote expenditure to FCO systems. A new computer system is being introduced, to be ready by 1 April 1984, providing both accounting and a specialised information system for property acquisition and development.

Delegated budgeting

8. The most far-reaching proposal, for what has traditionally been a tightly-centralised financial administration, is to delegate responsibility for progressively greater proportions of their total costs to line managers. This will enable them to know their costs and to deploy their resources more effectively. Each overseas post will progressively become the equivalent of a cost centre. In 1983-84 the sums devolved represent about 20 per cent of all local costs: this percentage will increase as experience is gained. The scheme is expected to promote more efficient local management, and will within a couple of years enable posts to play a more informed and crucial role in the determination of their own annual budgets. Similar measures of delegation within the FCO itself will be considered in the light of experience with local budgeting overseas.

Programme Expenditure

9. The FCO is responsible for relatively little programme expenditure and much of that is given in the form of grants-in-aid or international subscriptions. However, to the extent that this can be achieved without infringing the independence of institutions such as the BBC External Services and the British Council, the FCO intends to apply FMI principles in

his area, notably when decisions are taken about the relative priorities for FCO expenditure.

Internal Audit

10. The two wings of the FCO (diplomatic and aid) share a joint internal audit unit. It has been strengthened by the appointment as its head of a partner in a leading City company, and by increasing its staff and scope. Internal Audit is now an important part of the management team.

Staffing and training

11. A policy decision has been taken to switch higher calibre people into financial work, and to increase the use of qualified staff. Training in financial management is now a standard feature of FCO management training at all levels. The FCO uses specialised Civil Service College courses, but is also giving much more in-house training on financial topics and specialist subjects such as investment appraisal. Before the inception of the local budgets scheme for posts on 1 April 1983 and the concurrent assumption by the FCO of the responsibility for the Overseas Estate, a series of 11 seminars for post managers was held in London and at regional centres overseas.

Costs

12. In staff and training terms, the effort will be met from existing resources. The cost of the MIS and associated computer facilities is expected to be small.

DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Most of the 95,000 staff of the Department of Health and Social Security (DHSS) deal with social security.¹ This involves the payment of £31 billion a year in benefits, either direct by departmental staff or by the Department of Employment (Unemployment Benefit) or local authorities (housing benefit) acting as agents; and the collection of £18 billion in National Insurance contributions. The staff are widely dispersed in a network of central, regional and local offices, with administrative costs of £1.1 billion a year.

2. The department is also responsible for programme expenditure of £12 billion a year on Health Services in England:

- £8.9 billion on hospital and community health services, managed by 192 District and 14 Regional Health Authorities within policies and guidelines set centrally
- £2.8 billion on family practitioner services provided by independent professional staff under contracts administered by Family Practitioner Committees
- £545 million on centrally financed services (CFS) - health and personal social services, managed direct by the department or by non-departmental public bodies (NDPB's).

In addition, the department sets national policies and guidelines for the provision of personal social services by local authorities (expenditure of £2.4 billion a year, funded mainly by rates and the Rate Support Grant). The annual administrative costs of the department's health and personal social services responsibilities amount to £78 million.

General approach to improving financial management

3. The department's work on improving financial management is being overseen by a steering group of the senior officers responsible for finance, manpower, and management building on previous management reviews and on work already in hand. The main elements of the plan to improve management of the department's administrative resources are:-

- (a) The introduction of a formal annual review of functions, tasks and use of resources through a new system of divisional management accounts (DMAs)
- (b) A system for the budgeting and control of administrative costs
- (c) Restructuring of the Social Security Regional Organisation to clarify responsibilities and to increase delegation to local management
- (d) Training of staff in financial management.

¹ Figures are for 1982-83

A small central unit has been set up in the department to act as secretariat for the DMA and to monitor progress.

4. At the same time, the principles of the initiative are being applied to the management of the National Health Service as a development of the 1982 restructuring by the introduction of annual accountability reviews for Health Authorities, by the wider use of performance indicators, and by an independent enquiry into the management of the hospital and community health services. There will also be a systematic programme of reviews of the management of the centrally financed health services.

5. Management of the social security programme is being strengthened by the development of output measures and of a standard framework for the appraisal of policies, and by a joint programme of work with the Treasury and other Government departments to improve the forecasting of expenditure on benefits.

Top management: priority setting

6. Major issues relating to the organisation and efficient running of the department as a whole are considered by the Departmental Management Board, composed of the 3 Permanent Secretaries, the Principal Finance Officer and the Principal Establishments Officer and directly accountable to Ministers. The First and Second Permanent Secretary chair two Strategy Committees which consider major strategic issues and advise Ministers on priorities in relation to health and personal social services, and social security respectively. Supporting these are a Cross-Sector Committee examining the interaction of policies across the different responsibilities of the department, and a Research and Development Committee. The day to day running of the department is overseen by a Management Team of senior officers under the Principal Establishment Officer; under it are equivalent bodies overseeing the management of the social security regional organisation and the two central offices, and departmental computer development.

Divisional management accounts

7. To provide Ministers and top management with an overview of the department's work, its current objectives and the allocation of resources, a new system of Divisional Management Accounts (DMA) is being introduced. Each division (under-secretary or equivalent command) is dealt with as an accountable unit and has its own management account which is a short statement covering:

- (a) basic functions
- (b) specific objectives over 12 months
- (c) manpower and non-manpower budgets

- (d) the cost of programmes for which the division is directly or indirectly responsible.

After the first year the account will also include a "stewardship" report on progress towards previously established objectives.

8. These accounts will be discussed with divisions on an annual cycle with the aim of ensuring that the continuing work of the department correctly reflects Ministerial priorities, and of ensuring that objectives and the resources available to achieve them are compatible. One possible development of the DMAs would be less frequent but more detailed reviews on a selective basis of the functions and related organisation and manpower of units within the department concerned with particular blocks of work. Such a review was undertaken for the department as a whole in 1980, with the aim of achieving a 20 per cent reduction in Headquarters staff by April 1984.

Budgetary control

9. The department introduced computerised central accounting in April 1981. Building on this, a budgetary control system (being developed with the assistance of management consultants) is being introduced in phases from 1 April 1983 to cover all expenditure on the department's administration vote. Some 800 cost centres have been identified and the manager of each will be provided with a monthly financial report detailing all expenditure charged against his centre. In 1983-84 the system will cover a limited range of expenditure; in future years managers will submit bids based on past experience and forecast changes in demand and budgets will be agreed with Finance Division through line management. Cost centre managers will be responsible for keeping expenditure within their budget for supplies and services over which they can exercise control. Development of the system to bring as much expenditure as possible - including the costs of manpower and accommodation - under cost centre control will continue. The intention is that ultimately cost centre managers should have the flexibility to operate within a single budget for all administrative costs.

Management information

10. The divisional management accounts, and the monthly financial reports on budgetary control will supplement existing flows of management and programme information, and others under development. On the operational side, the Management Team receives monthly summaries of social security activity and performance and of the use of manpower and of money. The heads of the three main operational commands produce their own annual reports, as do the Chief Scientist and the heads of operational research services, management services and audit. Increasingly, micro-computers are being used to process management information.

11. The extensive information available on Health and Personal Social Services programmes is brought together in the department's programme budget analyses, in summary fact sheets prepared for Ministers and in more detail in the papers prepared for regional reviews (paragraph 14) as well as in national reviews of particular issues. The supply of manpower information has been improved and accelerated, and a major review of the information needs of the NHS covering activity, finance and manpower will be completed during 1983-84.

Restructuring of the social security regional organisation

12. A major study of the shape of the social security regional organisation, and of the handling of work in regional and local offices, was carried out by a departmental team in 1980-81. They concluded that there was too much movement of work between different management tiers, that levels of responsibility were often not sufficiently clear, and that there was overwhelming support among local office managers for greater delegation of responsibility to them. Ministers decided to accept the main thrust of the report towards devolution of authority in a number of areas including recruitment, personnel function and training, casework on supplementary benefit, contributions and compliance and decisions on legal action. Another important change flowing from the report is a reduction in the number of regions from 12 to 7. Implementation of these proposals is well under way, with a target of complete implementation by autumn 1983.

Application of the principles of the initiative to the National Health Service

13. The restructuring of the Health Service in 1982 was very much along the lines of the Prime Minister's initiative, with a strong emphasis on maximum delegation of responsibility, on strengthening management at the local level and on simplification of lines of command. The role of Chairmen, members and officers of Health Authorities is now to be studied with the aim of clarifying responsibilities and sharpening up accountability.

14. A new system of annual reviews has been introduced to call authorities to account for the way they use their resources, to ensure that these are used efficiently and effectively in accordance with the Government's priorities, to review progress against agreed plans and to develop action plans for the next year. Performance indicators are being developed for use in these reviews, to point to areas where standards of provision of efficiency need to be scrutinised. Comparable arrangements will be introduced for Family Practitioner Committees when they are set up as independent authorities in 1984.

15. Management within the Hospital and Community Health Service is to be made more effective by an independent enquiry. This will complement the review of NHS information

eds already mentioned (paragraph 11), and an experiment in four Regions into an independent Management Advisory Service.

The Centrally financed services

16. Three improvements are planned:

- (a) a feasibility study of computerising the vote accounting system for the health and personal social services as a whole and of providing individual budget holders with regular feedback;
- (b) a systematic programme of reviews of services not already covered by the standard review system for non-departmental public bodies;
- (c) strengthening of the annual budget cycle for all services to identify objectives and to review past performance and cost effectiveness.

Training

17. A special working group under the Departmental Training Officer has been set up to supervise the training of departmental staff in the principles of good financial management. The main elements of the department's plans have already been explained to senior staff at a series of meetings, and a briefing pack has been prepared and circulated to help dissemination of the message throughout the organisation. The principles of the initiative are being incorporated into the department's existing management training programme. In addition, arrangements are well in hand for training in special aspects such as budgetary control.

Expected costs

18. Work to achieve the aims of the initiative involves a wide variety of activities across the department, and the costs are not easily isolated. The main identifiable costs of the work reported here arise from:

- (a) the introduction of budgetary control, involving one-off expenditure of some £300,000 in 1982-83 and a rather lesser sum in 1983-84, and running costs estimated at perhaps £42,000 a year once the system is fully established;
- (b) some £75,000 a year on the production and scrutiny of the Divisional Management Accounts;
- (c) some £30,000 on preparation of the department's response to the initiative.

19. The most directly identifiable benefit will come from the restructuring of the Social Security Regional Organisation, which should lead to a net reduction in staff of at least 1000, and substantial savings on administrative costs.

HOME OFFICE

The functions of the Home Office and the resources for which it is responsible are extremely diverse. The rather more than £4 billion for which it provides in public expenditure plans falls into three large blocks. Some £3½ billion (80 per cent) is incurred in the first place by local authorities, on a variety of services of which the police is the largest. Of the remainder, two thirds (£½ billion) is spent on the prison service. The rest (about £¼ billion) is expenditure on central administration (including some support services for the police) and relatively small items, eg the criminal injuries compensation scheme. The department employs about 35,000 civil servants, of whom all but 9,000 are in the prison department.

2. The Prime Minister's initiative occurred when the Home Office was already giving attention to improvements. Much continuing work is relevant; but the initiative has also stimulated fresh thinking and further studies in a number of areas. The emphasis is on the clear definition of task and area of responsibility and on improvements in management information.

Expenditure planning and performance review

3. In recent years internal arrangements for the public expenditure planning of Home Office services have been enhanced to enable ministers and senior management to take a more strategic view of requirements. Since 1981, senior officers outside the finance and manpower department have been more fully involved in discussing priorities for programmes for which they are responsible.

4. The Annual Performance Review (APR) was introduced in 1982. Together with clearer designation of responsibilities, it provides management information about functions, objectives and costs, as a basis for divisional work plans and systematic review of performance and plans by senior management. The system, as it develops, will represent the Home Office response to the Government's commitment in Cmnd 8616 to introduce such systems.

Prisons

5. Since its reorganisation in 1980, the Prison Department has pursued a management strategy which has given high priority to the more effective and efficient use of resources. The main relevant elements of continuing work are:

- (a) better and more timely financial and management information, from a computerised activity costing system which was introduced in April 1983;
- (b) improvements in monitoring and control systems, and in procedures;

- (c) developments in accountable management at prison establishments; and
- (d) bringing to fruition the next stages of several major reviews: of resource control; of manpower (jointly with the Treasury); and of the management structure of prison establishments.

Other directly incurred expenditure

6. The expenditure which the Home Office incurs directly (outside the prison department) was the subject of a series of preliminary studies in selected areas during autumn 1982. These were designed to describe existing systems and to illuminate questions about the arrangements for financial management, including the respective roles of central divisions and local management. The evaluation of these studies, the information requirements of the Annual Performance Review described above, and some general questions which the evaluation of the first APR has raised about the nature of divisional responsibility for expenditure, have generated a programme of work for the next eighteen months and beyond. Its main elements are:

- (a) a review of the expenditure concerned and of the nature of existing responsibility for budgets;
- (b) systematic appraisal of the arrangements for managing administrative expenditure, including the scope for decentralisation of budgetary authority and involving the construction and introduction of model budgets for several of the preliminary study areas; and
- (c) the development of more detailed cost information, to support both the APR and the activity described above at (b).

This work has already begun. The intention is that sufficient progress should be made by the end of 1983 for new budgetary arrangements to be piloted in the selected areas in 1984-85.

Local authority services

7. In the local authority field, the focus has so far been on police expenditure. An approach has been developed which takes account of the respective responsibilities of central Government and police authorities. These have been discussed with representatives of the authorities and with chief officers of police. The principal features of the approach are:

- (a) the linking of national and local objectives and priorities with manpower review and allocation;
- (b) the enhancement of estimating procedures, in time for the 1984 public expenditure survey; and

- (c) the development of a financial information system for use by the Home Office and HM Inspectorate of Constabulary, to be operational in time to make a contribution to the 1984 inspection round.

Associated with this programme will be a review by the Home Office research and planning unit of the literature on the use of output measures for non-profit service agencies and their applicability to the measurement of police efficiency. Similar, and linked, steps are being taken in relation to metropolitan police expenditure.

8. The Home Office's intention is to explore successively the extent to which this general approach is capable of application to the other services in which it has an interest, bearing in mind the respective responsibilities of local and central government.

Internal audit

9. The internal audit unit has been relocated in central London, bringing it physically and organisationally closer to the central management of the Office. Audit strategy has been reoriented to give emphasis to systems audit and systems review, and other special project audits are being initiated. The enhanced status and role of audit as a management service has been reflected in a revised complement, with the unit's staffing structure upgraded. For the future, there are programmes for establishing a more precise assessment of audit needs, for the setting of audit plans, and for improving the training of the unit's staff.

Staffing and training

10. Activity flowing from the initiative continues to be given high priority. It is a central preoccupation of senior officials in the relevant parts of the office. The work is being co-ordinated by a steering group under the chairmanship of the Principal Finance Officer, which will from time to time report on progress to the permanent and deputy secretaries and, through the permanent secretary, to the Home Secretary and his ministerial colleagues.

11. A programme of financial training is being developed. It has three main elements:
- (a) the improvement of general awareness of financial matters; a series of seminars for senior staff has already been held, and plans are in hand to introduce a two day middle management course by the end of 1983;
 - (b) training in investment appraisal, both in house and using the Civil Service College; and
 - (c) training related to changes in procedures described in this annex; the prison department undertook a major programme prior to the introduction of the new management information system (paragraph 5 above), and the financial

information system for HM Inspectorate of Constabulary (paragraph 7) is likely to generate training requirements.

12. A systematic study is being undertaken of requirements for specialist skills in finance and accountancy.

Costs

13. The cost of the programme will be substantial, but is difficult to quantify, not least because much of the activity is integral to the work of the department. It is estimated that the direct staff costs of the programme for 1983 will be of the order of £150,000.

DEPARTMENT OF INDUSTRY

The Department of Industry is responsible for programme expenditure totalling about £1,100 million a year. About 40 per cent consists of regional development grants. The rest is mainly made up of various forms of selective financial assistance (mainly for R&D projects and for certain investment projects): support for BL, Rolls-Royce and shipbuilding has also been substantial. The department sponsors four nationalised industries (British Shipbuilders, British Steel Corporation, British Telecoms, and the Post Office), with net aggregate external financing of about £400 million in 1983-84.

2. Annual administrative costs are about £132 million, £27 million of which is recovered from the Department of Trade for common services. Staff total about 8,000 including those in common services shared with the Department of Trade. There are seven regional offices as well as the headquarters establishment and four research establishments.

General approach to improving financial management

3. The department is working to an eight-point development plan. Responsibility for co-ordination lies with the Finance and Resource Management (FRM) division, reporting to a steering group chaired by the Principal Establishment and Finance Officer (PEFO, a Deputy Secretary). The elements of the plan are:

- a. promotion of the department's strategic aims;
- b. the development of annual exercises to review priorities at senior levels;
- c. the introduction of the Activity Costing and Targeting (ACT) management system;
- d. the extension of cost-effectiveness analyses;
- e. progress in the attribution of administrative costs to spending units and changes in responsibilities for them;
- f. the introduction of responsibility cost centres;
- g. action stemming from a study of the department's requirements for a management information system; and
- h. parallel modification in staffing and training arrangements and access to expert advice reflecting the emerging financial management needs.

4. Much of this work was in hand. A study by consultants in 1981 led to more formal arrangements for priority setting, the extension of work on cost-effectiveness and on the

attribution of costs, and initiatives on cost centres and information requirements. Work on strategic aims was begun in early 1982 and a possible management system was being tried out on three divisions. The Prime Minister's initiative added impetus and helped to bring these various initiatives towards a coherent whole.

Top management priority setting

5. Departmental aims and resources are overseen at official level by the Resource Management Group (RMG), chaired by the Permanent Secretary and supported by two specialist management groups dealing with selective assistance under the Industry Act, and scientific and technological assistance. The Secretariat for these groups is provided by FRM division. The RMG was established in March 1982, and about the same time a Policy Planning Unit (PPU) was set up on the initiative of the Secretary of State to work on departmental objectives and priorities. Its work has led to the formulation of 'strategic aims', which are being related to activities at the divisional (Under Secretary command) level through the ACT system.

6. Annual conferences with the participation of industrialists have been held since 1980 on priorities for R&D support to particular technological areas, and these are supplemented by discussions of longer-term issues. Surveys with sponsorship divisions of the possible support needs of industries or technologies are also carried out jointly by FRM Division and PPU. It is intended that the findings of these and other exercises, for example a review of regional policy, should be discussed by the RMG prior to submission to ministers, so that guidance can be provided for the public expenditure and ACT management exercises for the following year.

The ACT management system: improvements in information supply

7. The activity costing and targeting (ACT) system is a management system designed to provide Ministers and officials at all levels with the data needed to allocate resources according to priorities and to decide the actions necessary to achieve specific objectives. The first ACT round covering 1983-84 was launched in January 1983. Divisions were required to set out their work by main activities and to attribute costs and prepare performance targets for the coming year. Divisional returns were considered initially by the RMG and then by Ministers and action plans were agreed for the following year. In subsequent years actual performance will be assessed against the previous action plans, including the targets which divisions had set themselves. The operation of ACT is being reviewed in the light of experience this year.

8. In April 1982, with the assistance of management consultants and in conjunction with the Department of Trade the department launched a wide-ranging study of management

information requirements. This was completed early in 1983. The main conclusions were that:

- a. there was a need to improve the information systems supporting departmental management processes, such as those described above;
- b. a strategy was required to allow an integrated and co-ordinated approach to a comprehensive system; and
- c. given the scale of programme spend and running costs, even a small improvement in effectiveness and efficiency resulting from better management information would more than justify the costs.

9. Implementation involves establishing integrated computer systems covering financial, human and physical resources, sponsorship including assistance, and summarised information for departmental management purposes. In the latter context, one feature will be the provision of regular reports to managers on the same basis as the ACT system (and its Department of Trade counterpart). Access to the computer systems will be through about 400 terminals. The first components of this system will be introduced from 1984.

Administrative expenditure: responsibility cost centres

10. The department is developing its expertise in the analysis of administrative costs. Quarterly attributions of staff pay costs on a divisional basis have recently been introduced. Attributions of other running costs, together with the introduction of management ratios and other performance indicators, will follow as improvements in management accounting information allow. This work should enable divisions progressively to be given financial responsibility for their direct costs.

11. A steering group chaired by the PEFO has directed a feasibility study of responsibility cost centres based on three pilot cost centres - the Yorkshire and Humberside Regional Office, the Business Statistics Office, and the Laboratory of the Government Chemist. The object was to examine the implications of devolving control by setting budgets for administrative costs and delegating more powers to take decisions within those budgets. Pilot centre managers were allowed to vary their staff complements, for example, on condition that they did not exceed their respective cash limits for wage and salaries or ceiling for manpower numbers.

12. After a review in April 1983 it was concluded that the principle should be extended to other areas of the department, starting with self-contained units such as the remaining

regional offices and research establishments. It is intended that they should receive full delegated powers in April 1984. This will cover some 50 per cent of the department's manpower. The team will carry out further work in 1983-84 to examine how far it would be practicable and beneficial to extend the approach to central policy divisions.

Programme expenditure

13. As explained above the various priority exercises are being drawn together in the autumn to provide guidance for the subsequent PES and ACT exercise. It is intended that bids for additional public expenditure on support measures should provide more data on the associated administrative costs. The linkages between the ACT exercise (which covers the immediate year ahead) and the PES exercise (which covers the 3 years after the ACT year) will be reviewed in the light of the first year's experience of the ACT system.

14. A key aspect of the department's support measures is the evaluation of their effectiveness, and several studies have been carried out. The department recognises the importance of the link between ex ante and ex post evaluation and proposes that all new schemes should incorporate 'quantified objectives' against which performances may be compared. A recent scrutiny of the cost-effectiveness of selective financial assistance has also pointed up the need for a more systematic comparison of the eventual outcome of projects with the forecasts and judgements made at the time of the appraisal. More generally, the department is carrying out a substantial exercise to introduce output measurement more widely across its existing support measures by October 1983. A further area which will be examined in 1983-84 is the department's oversight of its nationalised industries and other non-departmental public bodies, and the framework for monitoring their performance.

Review and audit

15. The system for controlling and monitoring administrative expenditure will include procedures (developed in the light of the pilot studies) for the review by senior line managers, assisted by establishments and finance staff, of the performance of the units under their command. A major programme of improvement to the department's Internal Audit (which also serves the department of Trade) has been in train since 1981. An Audit Committee has been set up and the post of Head of Internal Audit upgraded to Assistant Secretary in February 1981. The accountancy and computer expertise of the Branch is also to be strengthened.

Staffing and training

16. The department recognises the importance of adequate staffing and training for the successful implementation of its programme for improving financial management. This may involve further use of consultants, perhaps working in teams under the direction of departmental staff to ensure the maximum transfer of knowledge and experience. The department is also considering whether to use more outside advisers to look at the cost-effectiveness and assist with the administration of particular industrial support measures.

17. Arrangements are in place for succession planning down to Principal level in finance work. Existing and potential FRM Division staff are being sent on courses at the Civil Service College and business schools to study financial management and related subjects and the division includes qualified accountants.

18. The implementation of the development plan will require new training efforts for staff in all divisions. As a first step the department is extending its course in the control of public expenditure to cover budgeting and monitoring of running costs. It also intends to draw up by July 1983 a schedule of enhanced training for line managers.

19. The principal costs of the development plan arise on:-

- a. the implementation of the management information study: these have been tentatively estimated at £2-3 million capital costs (for computer hardware, software and telecommunications facilities) and an annual running cost of over £250,000 a year for both departments;
- b. the operation of the ACT system: this will principally be the costs of the ACT team of three officials and the work done by liaison officers and other senior staff in each division: it is intended to assess these costs at the end of the first ACT round this summer;
- c. training: it appears likely that the cost of the present training efforts associated with the plan (£50,000 a year) will be considerably exceeded when a new schedule of training is introduced.

CENTRAL OFFICE OF INFORMATION

The Central Office of Information (COI) is a common service department providing home departments with publicity services in the UK, and the Foreign and Commonwealth Office and the British Overseas Trade Board with information services overseas. Programmes of work are agreed with client departments at the beginning of the year within a total public expenditure ceiling and expenditure is met by COI on behalf of each department. Charging for these services will be introduced on 1 April 1984. Some work for non-exchequer bodies is already on repayment. The total gross vote for 1983-84 is £62 million of which £13 million is on repayment.

2. Staff will be reduced to 949 by 1 April 1984. There are 6 specialist divisions - advertising; films & television; publications; exhibitions; overseas press & radio; overseas visitors and information studies - some extra-divisional sections and 7 regional offices together with the establishment & organisation and finance & accounts divisions. The department is headed by the director general (who is the Accounting Officer) supported by 2 controllers, one responsible for home and the other for overseas publicity. This organisation is currently under review.

Role and Objectives

3. The COI is responsible for advising client departments on the most cost-effective solution to their publicity needs and carrying out the necessary work. It assesses the relative merits of in-house production and commissioning from the private sector to achieve the best outcome. When Ministers decided that COI should recover its costs the department commissioned management consultants to design a management accounting system. It brings together and enhances the existing management controls and makes more delegation possible.

Programme for future action

4. From April 1984 COI's performance will be measured by its trading results, and management performance at all levels will be judged by the ability to perform tasks to predetermined budgets. A review of the management structure and organisation of COI has been undertaken to meet the demands of the new system of control. The major objectives are to shorten lines of communication by bringing heads of operational divisions more directly into the overall policy management of the department. It is intended that day-to-day financial control will be largely delegated to line management. The central finance branch, now headed by a qualified accountant at principal level, will concentrate on monitoring the overall trading and financial position of COI.

19

5. Under the management accounting system, administrative costs will be allocated to jobs and services as far as possible on the basis of usage. Time-recording is being introduced wherever possible in production areas and processed by the computer on calculated daily rates to provide details of actual costs for each job. Accommodation will be charged on the basis of space occupied and similar arrangements are being made for other costs such as telephones, postage, stationery, etc. Responsibility accounting is fundamental to the system and will be introduced to the maximum extent possible. All the major steps, including the management reorganisation and the introduction of the management accounting systems, should be brought into effect by 1 October 1983 to allow adequate running-in time before the repayment system goes live the following April. To report progress, the COI plans to produce an annual report at the end of each financial year, based on the trading account.

Training

6. A first series of training seminars for managers of all levels has explained the detailed operations of the management accounting system and the new responsibilities have been discussed. Further internal training on the management accounting system will follow later in the year. A number of key staff will attend the management appreciation courses at the Civil Service College during 1983-84.

Measuring performance

7. One major performance indicator under the new repayment arrangements will be the financial viability of each service. This alone will not necessarily indicate optimum efficiency and a study has been started to develop output measurements for each service. These will be introduced by April 1984.

8. The department's Research Unit regularly undertakes market surveys to measure the results of publicity campaigns in the UK. On the overseas side, COI has established with the Foreign and Commonwealth Office a detailed system of annual reporting from overseas posts on the effectiveness and use made of all COI information material and services. These reports are analysed by computer and provide valuable guidance for future information policies and methods.

Internal Audit

9. The effectiveness of the financial control systems will be monitored by a small internal audit team headed by a qualified accountant. A full programme of training in computer audit will be completed by the end of 1983.

Costs

10. The cost of introducing a full computerised management accounting system including the computer and the services of the management consultants is expected to be about £500,000 over the two years it will take to set the system up.

Review

11. It is proposed to review both the management accounting system and the departmental management structure after two years' operation (ie, mid 1986).

INLAND REVENUE

The Inland Revenue employs about 73,000 staff. The great majority of these - over 90 per cent - are in more than 1,200 local offices throughout the United Kingdom. Total running costs in 1983-84 will be about £900 million a year. The department is responsible for collecting about £60,000 million a year.

2. The main functions of the department are the administration of the direct taxes and duties (income tax, corporation tax, petroleum revenue tax, etc): and the provision of rating and other valuations. Networks of tax and collection offices assess and collect the principal taxes, with a management line running through regional offices and the Director of Operations to the Board and Treasury Ministers. A network of valuation offices reports similarly through the Chief Valuer.

Foundations

3. In drawing up its programme of work, the Inland Revenue has been about to build on several initiatives already in hand. A review of the line management system in the taxes and collection networks had already been set up by the department: an internal study had led to a decision to engage consultants to help develop the financial information system; and work over a period of years had prepared the way for early improvements in the taxes information system.

General approach to improving financial management

4. The Inland Revenue has developed plans on four major fronts:

- (a) objectives and targets;
- (b) management information;
- (c) budgetary control and financial information; and
- (d) management audit

Although each of the plans has its own implementation timetable, the department sees them as parts of an integrated structure for the management of resources. The aim will be to combine into a single statement information about objectives, targets, resources and performance.

5. The department has set up a small central co-ordinating unit to assist the Principal Finance Office (PFO) in overseeing the implementation of the various exercises, and to act as a secretariat to the senior management system described below. The PFO will chair a steering group with members drawn from the Finance, Manpower and Operations divisions

(Under Secretary commands) and from the central services making up the management and function.

Senior Management System (SMS)

6. The Board of Inland Revenue is a statutory body responsible for the care and management of the direct taxes. Its Chairman is the Permanent Secretary. The Board directs the department's work and reviews and co-ordinates the plans of individual divisions. The department therefore sees the need for a senior management information system that will allow the Board:

- (a) to decide priorities and objectives;
- (b) to allocate targets and responsibilities accordingly;
- (c) to measure performance against target;
- (d) to monitor costs; and
- (e) to reveal areas where change is or may become necessary.

7. The proposed system for senior management will operate on a cyclical timetable. It will involve around July each year a broad overview of the main areas of concern to senior managers; the formulation around November of detailed plans; and in-year monitoring and, if necessary, corrective action, based on regular reports from managers and from the Management Information System and the Financial and Management Accounting System (see below).

8. The process will require the collection of information about past and present activities, performance, and resources; and about planned activities, targets and resources. The information will be presented to senior management for collective consideration so that departmental objectives can be translated into plans for transmission down the line.

9. The Inland Revenue is committed to linking the various elements of financial information, management information, and management audit, etc. The proposals are designed to provide a flow of information in sufficient detail to enable the Board and Treasury Ministers to take an overview of the department's resources and operations.

10. A pilot exercise for the SMS was mounted between November 1982 and February 1983, and development will be carried forward in 1983-84. The department is committed to a programme of development covering several years.

Management Information System (MIS)

11. Inputs to the SMS will be provided by the Management Information System (MIS) and the Financial and Management Accounting System (FAMAS). The Management Information System for local office networks is being developed to provide the following categories of information:

- (a) current responsibilities of managers and the targets they are expected to achieve;
- (b) progress achieved against the targets, in terms both of volume and of quality;
- (c) staff available to the operational unit; and
- (d) indicators of the efficiency of the unit - the relationship between the outputs achieved and the staff used in achieving them.

12. The department envisages that systems designed to meet the specific requirements of the networks will be in full operation according to the following timetable:

<u>Taxes</u>	1985
<u>Collection Service</u>	
- PAYE audit offices	1985
- accounts office	1985-86
- recovery offices	1986-87
<u>Valuation Office</u>	1985

Financial and Management Accounting System (FAMAS)

13. Consultants reported in March 1983 with recommendations for the development of an improved Financial and Management Accounting System (FAMAS). The system proposed will improve the recording of costs and budgets by cost centre and vote sub-head. It will therefore:

- (a) enhance awareness of costs;
- (b) held managers to be aware of exceptional expenditure or departure from expected patterns so that they can take corrective action if necessary;
- (c) allow comparisons to be made among different units;
- (d) reveal year-on-year changes in the relative costs of different items; and
- (e) provide the means for monitoring managers' use of the resources allocated to them.

To ensure that there are common reporting channels and information flows for resource use and performance monitoring, it is proposed to develop close links between MIS and FAMAS.

14. A project team has been established to carry forward the detailed design and implementation of the FAMAS with a view to live running from April 1984.

15. Once implemented, FAMAS will enable the department to develop its budgetary control system. This will be based on the principal of identifying who has the authority and ability to control costs with a view to giving him budgetary responsibility for those costs. The department envisages a rolling programme of implementation in which responsibility for different categories of cost will be transferred in stages to budget centres, leading to complete implementation by 1986. To help determine where and at what level responsibility for each cost category should lie, a pilot exercise will be undertaken during 1984-85.

16. From April 1984 the FAMAS will report current costs to local managers. In 1985-86 it will report both current and the previous year's costs, distinguishing costs within the manager's control from those outside it. The results of the pilot exercise will then be evaluated, and trial budgeting introduced. The first full year of operation of the extended system for delegated budgeting will be 1986-87.

Review and Audit

17. The management audit functions in the Inland Revenue are grouped under the command of a single Under Secretary, the Principal Finance Officer and Director of Manpower, who co-ordinates the central manpower section, staffing inspectors, management services and internal audit. He also oversees the programme of Rayner scrutinies and similar reviews.

18. A group has been set up under the chairmanship of the PFO to co-ordinate and, where appropriate, combine the programmes of work of the management audit services. The group will meet regularly to discuss and co-ordinate forthcoming inspections and visits, to review the results, and to discuss follow-up procedures. An operational review into one area of the department's activities involving representatives from each of these services has now been launched. This is a pilot exercise for a more extensive programme of such reviews. The group will report to senior management on the outcome of the reviews, and in addition present regular reports on management audit as part of the SMS.

Staffing and Training

19. As noted above (paragraph 5) the department has set up a small central unit to help co-ordinate implementation of its plans. Their job will include co-ordination of the training

and education needed for staff engaged in finance work, and for the managers at all levels who will be using the improved financial management system.

20. The main training effort will be concentrated on the two fronts of induction training (introducing staff to the principles of financial management) and specific training (related to the running of the system itself). Detailed specifications will be drawn up as implementation proceeds.

21. Induction training will fall mainly to line managers themselves, assisted by manuals and training packs provided by Finance Division. Group Controllers and Assistant Group Controllers will be given early introductions to the development plan.

22. Training plans will be discussed with the department's Training Section and with operational managers as soon as outstanding decisions have been taken on the plans, to agree a programme to start in 1983. Ways of explaining the plans to managers, and of feeding their views back to the centre, will be considered. Plans have already been made for a users panel of line managers to advise on the development of MIS, FAMAS etc. General awareness of financial management will be spread through explanatory kits, backed up by seminars, courses and visits.

23. Further consideration will be given to personnel and career development in the department in the light of the findings of the Review of Personnel Work. This will include such issues as the scope for further delegation of authority to local managers, and a more open system of staff reporting.

Costs

24. Implementing these plans will require a substantial investment. Additional computer hardware and software will be needed; outside consultants will continue to be used; and departmental staff will be needed to implement the SMS, FAMAS, and MIS. Some increase in review and audit staff is also planned. The department's provisional estimate is that, including training, the resource cost of setting up and running the improved systems over the initial years will be about £2 million a year (representing some 200 staff); this is equivalent to about $\frac{1}{4}$ of one per cent of the department's running costs.

HM LAND REGISTRY

The main function of HM Land Registry is registration of title to land in England and Wales and of subsequent transactions in the land. Registration is compulsory on sale in areas containing 75 per cent of the population and this work is carried out by the Registration of Title department at 13 district land registries. The very much smaller Land Charges department, based at Plymouth, registers encumbrances and other matters which relate to land where the title is not registered and which might not appear on an abstract of title. On 1 April 1983 there were 6529 staff in post, of whom 159 were land charges personnel, and the department's vote provision for 1983-84 is £64.9 million. Costs are covered by fees. The Land Registry reports to the Lord Chancellor.

Existing arrangements

2. A management accounting and information system (MAS) was introduced in April 1975 to meet management planning and control requirements. It incorporated techniques of budgetary control and standard costing, comparing actual manpower and financial resources used with planned resources for the equivalent output.

3. The system uses a hierarchy of accounting, budget and cost centres in each of the 13 district land registries and the land charges department. Accounting centre managers submit bids for manpower. Budgets for non-staff costs are drawn up by the appropriate headquarters divisions and apportioned among the accounting centres and to individual functions among them. All budgets are considered by a budget committee chaired by the chief executive. Manpower budgets are translated into financial terms by the headquarters finance division and this information, together with non-staff costs, is disseminated by means of quarterly financial accounts. For budgetary control purposes, work for which daily output standards have been quantified is classed as "direct". Other work is classed as "indirect".

4. In parallel with the MAS a system of job guides has been devised. These contain performance indicators for each job from executive officer upwards. In addition to providing a clear understanding of what is expected in terms of, for example, output, quality, speed of service, communication and staff development, the guide provides the means of periodically reviewing performance and, where necessary, agreeing plans for improvement. The operation of the system has developed differently in individual district registries.

Managerial responsibility

5. The HQ organisational structure was changed earlier this year to provide a single management line throughout the department. The new structure provides for a policy committee which will be responsible for a continuous forward look. A co-ordinating group will also be set up under the chairmanship of the chief executive to monitor the progress and effectiveness of financial management procedures.

6. To make accounting centre managers responsible in the fullest sense, their budget responsibility will be enlarged to include all the costs they can control, both staff and non-staff. To have an individual budget instead of apportionments from centrally-controlled non-staff budgets should provide an incentive to seek more cost effectiveness. A working party will report to the budget committee by 31 May 1983 on the changes needed in the information provided by the MAS to support this move. The target date for implementation of the delegation of non-staff costs is 1 April 1984. Delegation of staff costs will follow later, and for the time being accounting centre managers will continue to bid for staff in terms of manpower.

7. An explanatory booklet has been prepared to provide the basis for a more uniform approach to the arrangements for job guides and performance reviews, involving managers at all levels. The revised system will be in operation by October 1983.

Management information

8. At present, the processing of financial information is manual; consequently, information as to costs etc contained in the quarterly accounts is about four months old when it reaches line managers and is inadequate in terms of detailed analysis. The question of computerising the management accounts to achieve a more flexible and timely system is being considered. A provisional target date for implementing such a system is 1 April 1985.

9. The system of budgetary control described in paragraph 2 was not initially applied to the Land Charges department. However, the first stage of such a system, defining units of work and daily output standards, was implemented on 1 April 1983. Standard costing will be introduced by 31 October 1983 so that by 1 April 1984 there will be a system of budgetary control in operation.

10. On 1 April 1983 the range of 'direct' work for budgetary control purposes was extended when output standards were introduced for HEOs, SEOs and lawyers engaged on casework. The work of all staff engaged on casework is now subject to measurement. Output standards were also formulated for 230 "indirect" staff employed in the Registration of Title

Department. A review of the remaining "indirect" work areas will be undertaken during 1983-84 to establish output standards wherever possible.

Internal audit

11. A strong internal audit team is being developed with direct responsibility to the chief executive. Emphasis is being placed on the effectiveness of operational and financial systems and controls throughout the department, with special regard to value for money.

Staffing

12. The need to train and develop managers is recognised and career management is designed to ensure that staff are familiar with most aspects of the department's work. There is a succession plan for most senior posts and arrangements to gain proper levels of experience. The first seminar for senior staff on the developments in financial management was held in March 1983 and more are planned. All management courses are being modified to emphasise the latest developments and how they will provide a positive stimulus to improve performance even further.

Costs

13. Because the department already had a comprehensive management accounting system, the changes are largely a natural development of present procedures. The extra computer costs would be only about £80,000 and most of the extra work can be absorbed with present tasks.

ORD CHANCELLOR'S DEPARTMENT

The Lord Chancellor is responsible for the administration of all courts in England and Wales above the level of magistrates' courts; for civil and criminal legal aid; for legal advice and assistance; and for costs from central funds (mainly prosecution costs). His other responsibilities include judicial appointments, civil law reform and various associated offices such as the Law Commission, the Council on Tribunals and the Public Trustee.

2. The work of the department is interwoven with that of the judiciary, a separate and constitutionally independent arm of Government. It is a prime responsibility of the Lord Chancellor to safeguard that independence. Judges and judicial processes exist to protect the rights of the individual. Court work is, and must be, governed by procedural requirements which have the force of law and by judicial decisions and directions. The main administrative task is to provide the framework within which judicial processes can operate effectively and economically. This requires a close working relationship between the judiciary and the administration.

3. The present organisation was set up following the Courts Act 1971. Management of the Crown Court and the county courts is decentralised to 6 Circuits, the management line running from the Chief Clerk of a court through his Courts Administrator and his Circuit Administrator to the Deputy Secretary (Legal Administration Division) in Headquarters.

Control of running costs

4. Gross annual running costs (1983-84 Estimates) can be divided roughly into civil business (8,200 staff, £123 million) and criminal business (2,200 staff, £71 million). Much civil business, particularly in the county courts, does not involve court hearings and is required to be largely self-financing. Criminal business is court (trial) related. Thus it is more straightforward to apply normal resource management considerations in the civil courts than in the Crown Court.

5. About 400 offices in England and Wales have been established as cost centres. Each Chief Clerk is given information about the costs incurred by his office, shown under individual expenditure items, but he has no powers of financial virement and his delegated authority is limited. The aim now is to provide for greater delegation to and within the circuits, with powers of virement within fixed budgets and powers of complementing and staff allocation within controlled ceilings. The target date for decisions is late 1983.

6. In order to make the most effective use of greater delegation, local managers will require more comprehensive information to be readily available to them. The first aim is to ensure that all accountable units in the department have management accounting systems

which bring together running costs, personnel numbers, and receipts (where appropriate) related to volumes of business under defined activities. A start will be made with civil business, the new systems being introduced in July 1983 for county courts and district registries and by April 1984 for the remainder of civil business. For the Crown Court the development work should be completed by December 1983 and systems introduced by July 1984. Training has already begun with a pilot course that emphasised the relationship between funding, control and accountability, and a programme of courses is being introduced for all staff who will carry the greater degree of delegated responsibility.

7. The flow of information from the individual cost centres to the centre of the department needs a more effective channel than the present separate management information systems. These need to be co-ordinated so that they are working to common criteria and catering for separate needs (eg for policy and procedure development, for control of resources and for operations). A preliminary investigation has been completed, and proposals will be put forward in July 1983 on the course of action to be followed.

8. Gross programme costs (1983-84 Estimates) include costs from central funds (£5 million), criminal legal aid (£127 million), civil legal aid and its administration (£80 million), legal advice and assistance (£48 million) and the court building programme (£29 million). Developments in these areas include:

- (a) Costs from central funds. Following the report of the Royal Commission on Criminal Procedure a Home Office working party is now studying prosecution arrangements. Whatever the outcome a change in the funding and control arrangements will almost certainly be required;
- (b) Criminal legal aid. A major change has recently been made through the Legal Aid in Criminal Proceedings (Costs) Regulations 1982 which prescribe rates and scales of payment for both solicitors and counsel. They will provide a base for closer monitoring and improved information. A micro processor pilot scheme is also being tested at one Crown Court centre;
- (c) Civil legal aid and the legal advice and assistance scheme. Expenditure is demand related and can, therefore, be most readily influenced either by restricting or expanding the scope of the schemes or by changing the financial limits governing eligibility and contributions. These powers must be exercised in a way which reflects the social objectives of legal aid without prejudice to the proper administration of justice. The Solicitor General is leading discussions with the Law Society and Bar Council on ways of improving control over civil legal aid and its administration. Meanwhile, to provide better information, an improved computer system for civil legal aid is being developed and

micro processors are being introduced in Law Society Area Offices to process cases and to provide management information;

- (d) Court Building Programme. Decisions on the siting and building of individual courts are subject to investment appraisal techniques developed jointly by the department, the Treasury and the Property Services Agency.

9. Programme costs could also be affected by the outcome of deliberations on procedural matters, as follows:

- (a) Conciliation. An inter-departmental working party has been studying the extent to which public money might be saved by a more integrated approach to the provision of facilities and services to assist the parties to matrimonial disputes to reach a settlement, or at least reduce the area and intensity of conflict between them;
- (b) Matrimonial procedures. A committee is examining the extent to which the procedure and practice of the High Court and county courts might be changed to achieve greater simplicity and thus save costs through reducing the scale of disputes.

Internal Audit

10. The Internal Audit Service has responsibilities which extend beyond the department. It audits the accounts of Magistrates' Courts as an agency service for the Home Office and has access to the legal aid administration where it works in concert with the Law Society's own auditors. In addition it now undertakes, on an agency basis, the internal audit of the Treasury Solicitor's Vote and that of the department of the Director of Public Prosecutions. This gives it an effective oversight of most aspects of the court service in England and Wales, covering both administrative and programme expenditure. This arrangement has proved effective in the identification of common problems which concern separate administrations.

Headquarters and Senior Management

11. The Head of Finance Branch will shortly become responsible for resource management policy and for scrutiny and analysis of all resource management information. His staff will be strengthened by the addition of a Principal to take forward the Prime Minister's initiative. He will ensure that there is effective co-ordination of all analysis routines; that the policy branches and circuits are aware of the resource implications of proposed changes in court procedure; and that no proposal is put forward without resource costing and, where appropriate, the consideration of costed alternatives.

12. Regular reports and proposals on resource management will be submitted by Finance Branch to the Lord Chancellor and his senior management at appropriate points in the financial calendar. These papers will be considered at one of the Deputy Secretary (Legal Administration Division) regular meetings with Circuit Administrators and senior staff at Headquarters or by one of the regular meetings held by the Accounting Officer with his senior staff or by both. Other questions on financial management will be considered as they arise.

Costs

13. The new systems outlined are improved versions of established systems of local budgets and flow from work already in hand. The additional cost attributed solely to the initiative is one Principal post in Finance Branch (£22,000 a year) and an enhanced training programme (about £30,000 a year for 2 years).

MANAGEMENT AND PERSONNEL OFFICE

The Management and Personnel Office (MPO) promotes the efficiency and effectiveness of government departments; maintains a service-wide framework for the development of personnel policy and practice; and provides certain central services.

2. It employs about 1,240 staff and comprises four discrete areas: central MPO (including management and efficiency, personnel management and the Establishment Officer's group), the Civil Service College, the Civil Service Commission and the Medical Advisory Service. The MPO vote (Central management of the civil service) also covers the Prime Minister's Office, the Whips' Offices and the Office of Parliamentary Counsel. The 1983-84 net Estimate is £30.7 million, nearly all for running costs.

3. In 1982 the MPO participated in the multi-departmental review of running costs. The MPO study identified shortcomings and recommended action. The main criticisms were that:

- (a) there was no direct link between activity planning, estimating and monitoring;
- (b) the delegation of responsibility for estimating and monitoring expenditure varied widely in the department; and
- (c) the existing system, although adequate for vote accounting purposes, did not fully meet the needs of the minister or senior management in providing information for long-term planning or the day to day management of the department.

It was recognised, however, that the Civil Service College and the Civil Service Commission in particular had done much in recent years to develop their own information systems.

Outline of MPO's programme

4. To clarify responsibility for budgeting, monitoring and controlling costs, the MPO has from April 1983 been divided into 7 responsibility centres at under secretary level and 2 at assistant secretary level. No. 10 Downing Street, the Whips' Offices and the Office of Parliamentary Counsel have also become responsibility centres. Where appropriate, responsibility centres are supported by lower level management blocks termed budget centres (mainly at assistant secretary/senior principal level) and cost centres (mainly at principal level).

5. A closely linked system of activity planning, resource allocation and financial monitoring will be introduced over the next two years. The annual cycle will begin each April with a long-term strategic planning exercise by top management to provide an input to

the preparation of the public expenditure survey bid and to help determine the department's major objectives for the next financial year. This will be followed in the autumn by detailed planning of the activities to be undertaken during the next financial year and the resources/budgets to be devoted to them, thus providing the main input to the preparation of the Estimates.

6. A full trial run of the new system will take place during 1983-84. Responsibility, budget and cost centre managers will be required to bid through their line management chains for the total resources (including centrally provided services such as typing and reprographics) they will need for their proposed activities in 1984-85. The outcome of this process will be an agreed set of activities and an agreed budget for each centre manager for 1984-85.

7. Performance and costs will be monitored at monthly intervals. Cost statements, showing actual costs against budgets, will be produced from 1 April 1984 by the Treasury's computer-based management accounting system (MAISY). As the MAISY system is being redesigned, information will be presented to central managers during 1983-84 in stages as it becomes available. Measures of output will be specified by 1 September 1983 for inclusion in the control mechanisms for 1984-85 onwards. One objective will be to relate inputs to outputs so that better value-for-money assessments can be made.

Role of the Principal Establishment Officer/Principal Finance Officer

8. The role of the PEO/PFO and his staff in relation to that of line managers is being reviewed (for completion by end-October 1983). This is the first step in a process aimed at transferring responsibility for certain staffing and budgeting matters to line managers.

Programme expenditure

9. The MPO is not directly responsible for any programme expenditure. It does, however, make grants of £2.1 million net to a number of organisations, mainly in the welfare field. The basis on which these grants are assessed and the associated control systems will be reviewed during 1984-85.

Internal audit, inspection and efficiency initiatives

10. An internal audit unit which will also cover the Cabinet Office and the Privy Council Office will be established by the end of June 1983. New arrangements were introduced during March/April 1983 for the selection and authorisation of management services work, new technology proposals and staff inspections.

Staffing and training

11. The MPO's succession planning arrangements will pay particular attention in future to those posts that have significant financial or resource management responsibilities. The basis on which staff records are held in the department will be reviewed by the end of July 1983 to ensure that staff with financial experience or expertise can be readily identified.

12. All MPO managers should be wholly familiar with the new system by 1 April 1985. Specialised training will be provided for the 40 or so responsibility centre and budget centre managers, concentrating initially on those with the most significant resource management responsibilities. Other staff at SEO level and above will receive a one day domestic training course covering the broad aims and objectives of financial management; the principles of cost and budgetary control as they will operate in the MPO; and the new MPO management and information system. These courses will commence in Autumn 1983.

Implementation

13. Progress towards full implementation will take place throughout 1983-84. There will be experiments as well as development work, and the new system will not be regarded as fully operative until April 1985. A detailed timetable for implementation has been agreed by senior management.

14. The cost of the implementation team during the period November 1982-March 1985 will be approximately £188,000. Additional costs relating to training and the time that will be devoted to the new system by the minister, senior management and line managers cannot be quantified at present.

DEPARTMENT FOR NATIONAL SAVINGS

The functions of the Department for National Savings (DNS) are to ensure as far as possible that it meets the borrowing targets set for it by Treasury Ministers and to ensure a satisfactory service to national savings customers. The department is responsible for looking after a stock of savings of some £23 billion. The net inflow of new money plus accrued interest is about £3 billion a year. The stock of existing savings, the outflows and the intake of new money involve about 60 million transactions a year and a gross cash flow of some £10 billion a year in 1982-83. DNS has a total administrative vote of some £145 million, of which some £53 million is spent on services provided by its selling agents, the Post Office and the banks. Staff at 1 April 1983 numbered 8335, all but 180 located in operating divisions at Durham, Glasgow and Lytham St Annes.

Existing management information systems

2. The system for managing the net intake of money provides daily information about the main intakes and repayments and weekly information for all of them: this is available to managers who require it for their work. Information about vote expenditure for each of the three operating divisions, for publicity, and for other HQ expenditure is issued monthly to senior management as well as information about transaction numbers and cash flows, to provide the basis for any necessary corrective action. A monthly reporting system to senior management compares the volume of transactions with capacity as measured by staff numbers and work rates derived from staff inspections. Measures of output for each product (eg savings certificates, income bond) have been developed which relate aggregate transactions to staff numbers and to costs. A first round of MINIS on a trial basis was completed for 1982-83 and a second round is in progress. Capital expenditure is evaluated by the application of investment appraisal techniques.

General response to Prime Minister's initiative

3. DNS's programme for improving its financial management is based on four main lines of development: cost centres; management information; internal audit; and monitoring of services supplied by the Post Office. A small unit has been established to work on the development of the initiative.

Cost centres

4. DNS's expenditure is already controlled internally on the basis of five areas corresponding to the Assistant Secretary-level commands of the three operating divisions, publicity and HQ Finance. The department, with assistance from the Operational Research Division of the Treasury, has started a study to determine how best to establish cost-centres which build on these areas. It will aim:

- (a) to integrate
 - (i) the formulation of objectives and expected workloads in the 6-monthl / MINIS rounds;
 - (ii) the existing assessments of workloads and resources required which go into the Estimates procedure; and
 - (iii) the existing cash limits control systems;
- (b) to derive formulations of explicit responsibilities to the extent that these need supplementing or do not already exist;
- (c) to specify the information required to allow managers to carry out those responsibilities and recommend how it should be provided; and
- (d) to make any necessary improvements in performance measures and key ratios and the use made of them.

The study will also make recommendations for the training and staffing needed. The report of the study is expected to be complete by the end of October. The present aim is to have the cost centres working at least on a trial basis for 1984-85.

Management information

5. In addition to the management information required for the development of cost centres, the department also requires information for management purposes on the performance of individual products; the aggregate net intake in relation to target; the flow of transaction money; and the workflows of transactions and correspondence. DNS intends to develop information of this kind, in some cases to improve its coverage and quality, and in all cases to ensure that it is made regularly available to appropriate levels of management, including Ministers, in order to improve the standard of reporting, supervision and control. It is expected that this process will take 12 months to complete.

Internal audit

6. The service-wide programme for the strengthening of internal audit is being followed within DNS, both through intensified training, and through the gradual upgrading of posts over a period of years. The audit programme is controlled through a quarterly Audit Committee chaired by the Director. Implementation of internal audit recommendations is reinforced by a strong Headquarters interest and intervention when needed.

Post Office

7. The department is developing with the Post Office a programme of work to ensure that it receives value for money in the agency services provided by the Post Office and that

he service to customers is improved. A new liaison unit has been created to handle this programme and to work out priorities and a timetable.

Costs

8. The cost of implementing DNS's programme is difficult to estimate since its final shape will depend on the outcome of the study recently started. However, it is likely that the once-for-all costs will be in the region of £250,000 (computer £100,000 and staff £140,000). Direct running costs may be under £50,000 a year.

NORTHERN IRELAND OFFICE

The Northern Ireland Office (NIO) was created in 1972 at the advent of direct rule. The department is responsible for programme expenditure of the order of £390 million almost two-thirds of which consists of grants to non-governmental bodies. The largest is to the Police Authority for Northern Ireland with a 100 per cent grant of £241 million. The department employs some 4,324 staff (including 2,796 prison staff). Its running costs amount to some £98 million a year (including some £73 million for the Northern Ireland prisons).

2. The greater part of the NIO's resources (and expenditure) are employed in law and order and relate to security policy, policing, the treatment of offenders, compensation and other "home affairs" subjects. The Office also assists the Secretary of State in the development of policies for constitutional and political development in Northern Ireland and bears the costs of 5 ministers who assist the Secretary of State for Northern Ireland in supervising the 6 other Northern Ireland departments.

General approach to improving financial management

3. The department's organisation, vote structure and arrangements for budgeting, monitoring and controlling expenditure have developed on lines amenable to analysis by cost and responsibility centre. An annual review of objectives, priorities and assumptions for programme expenditure is included in the internal procedures of the public expenditure survey cycle.

4. A new management information system (MIS), is presenting from 1983 onwards information on programme and administrative expenditure for the whole department by cost and responsibility centres. It provides a statement of the functions and objectives of each responsibility centre, the resources of money and manpower it uses and controls and, where appropriate, quantified measures of output.

5. A second phase has the following main elements:

- (a) systematic annual review of objectives, functions, allocations and use of resources based on the MIS reports, culminating in a meeting of senior management chaired by the Permanent Under Secretary and a report to the Secretary of State;
- (b) computerisation by 1985-86 of the department's financial and accounting systems and their development to allow full attribution of administrative costs to responsibility and cost centres;

- (c) a continuing programme to increase the amount of useful management information on output and resources;
- (d) examination of the scope for greater delegation of financial responsibility;
- (e) a programme of training and career development in finance and related matters.

The management information system

6. The information on output and resources in the MIS report relates to the forthcoming financial year and the two preceding years. The second MIS round, beginning in Autumn 1983, will be integrated with the preparation of Estimates. Consideration is being given to the development of MIS to assist resource planning over the public expenditure survey period. In the second and subsequent rounds the MIS reports will also include an assessment of performance against targets set in the previous round.

Administrative expenditure: responsibility/cost centres

7. Managers of certain responsibility centres are already responsible for budgeting, monitoring and controlling administrative costs attributed to them in the vote. A pilot study is in hand to explore the merits of delegating to them greater discretion over the use of resources within a budget and manpower limit. In the light of this study consideration will be given to the scope for more general delegation of responsibility for administrative costs. For some responsibility centres, it is unlikely to be practicable or cost effective to attribute administrative costs for budgeting, monitoring and accounting purposes without a computerised accounting system. In the interim an apportionment of administrative costs will be assigned to them in MIS.

Programme expenditure

8. The MIS provides a synoptic view of programme expenditure and a framework for the systematic selection of areas for programme review and the development of output measures.

9. It is intended by 1986-87 to develop a financial information system for prisons which will provide a more comprehensive analysis by functions and cost for each prison establishment. The Police Authority for Northern Ireland is committed to applying the principles of the Prime Minister's initiative to its own administration. Its statutory independence and its size make separate arrangements appropriate, but there will be regular liaison with the NIO about implementation. Application of the principles to other grant-aided bodies is being discussed with them.

Internal audit

10. The organisation and functions of internal audit have been revised and appropriate formal training has been instituted. An audit committee, chaired by the Principal Establishments and Finance Officer, directs and monitors the audit programme.

Staff training

11. Departmental training and career development programmes have been instituted for both home and NI civil servants and will be further developed to give staff at various levels the skills and awareness required for improved financial and resource management. The project team for the computerisation of financial and accounting systems is receiving training to assist the definition of user requirements, but consultants will be employed to provide specialist advice.

Expected costs

12. At this stage in the computerisation programme it is not possible to make reliable estimates of the costs of the NIO financial development plan. A preliminary estimate suggests, however, that the implementation costs of computerisation over 1983-84 and 1984-85 will amount to about £390,000 for project team staff and training (including staff for the prisons project team), £60,000 for consultants and £110,000 capital costs for computer hardware. Continuing staff and computer maintenance costs thereafter might approach £50,000 a year. These figures do not take account of additional work falling on operational divisions, or the costs of the general programme of financial training. It is not possible yet to estimate costs for the Police Authority or other NIO grant-aided bodies.

ORDNANCE SURVEY

The Ordnance Survey (OS) is responsible for the official survey and mapping of Great Britain including geodetic survey and associated scientific work. On 1 April 1983 3000 staff were employed of which 1900 were surveyors and draughtsmen. Fixed assets - buildings, vehicles, plant and equipment - are worth about £29 million; net current assets about £4 million, giving a total capital employed of about £33 million. Expenditure in 1982-83 was about £45 million, of which some £20 million was recovered from sale of maps and services. Financing is by vote but a Trading Fund is under consideration. OS operates within interim financial guidelines and aims to recover 30 per cent of cost on large scale mapping, at least full cost on small scale mapping and repayment work, and 45 per cent of its total costs overall.

2. The organisation is headed by a professionally qualified Land Surveyor of Under Secretary rank who is the Accounting Officer reporting to the Secretary of State for the Environment. The operational organisation is structured in two main Directorates - Surveys and Production and Marketing and Planning - each headed by an Assistant Secretary equivalent.

Foundations

3. OS has already developed comprehensive budgetary control systems for management and charging purposes. Computer-based management information and accounting systems have been in use since the early 1970s. The department's programme of work builds on and improves these existing systems.

Long-term planning

4. Departmental objectives are set out in the OS Five Year Plan which is revised annually and presented to Ministers for appraisal in July. Demand levels and resource requirements are analysed in a detailed programme, which forms the base on which managers frame annual budgets covering manpower, equipment, rate of working, sales and revenue. Plans and resource allocations are reviewed throughout the year and management action taken as necessary. The present computer based manpower modelling system will be improved by October 1983.

Finance and Accounting

5. The financial aspects of production, marketing and administration are summarised periodically by the management accounting system which also provides the annual vote appropriation accounts. Annual accounts are prepared under the Historic Cost Convention

with Supplementary Current Cost Accounts. MINIS is used to summarise information for Ministers.

6. A financial general ledger computer software package will be introduced during 1983-84. This will permit earlier presentation of financial reports and will lead onto financial modelling.

Budget and cost-centre structure

7. The department is divided into 17 budget and about 80 cost centres, reflecting departmental functions. Operating costs and overheads are allocated to budget and cost centre managers, who are held responsible for operational and financial performance and for the assets assigned to them. A study by consultants of management information needs was completed in April 1981. The short term improvements recommended have been carried out. Longer term developments, which involve substantial changes to existing computer based systems or the introduction of new ones, are scheduled to be finished in 1986.

Marketing and sales

8. Costs of sales are analysed by products on the basis of usage of resources using management accounting techniques. Sales are analysed by products sold. Overall performance is summarised in the Annual Trading Accounts with Balance sheet and Statement of Sources and Application of Funds. Periodic management information compares actual costs with budgets, analyses variances and forecasts outturn. Extensive non financial data and performance indicators are produced covering, for example, manpower utilisation, production rates, job state, marketing analysis, vehicle usage and stock levels. The department is considering further developments to these systems, to improve sales forecasting and reporting.

Survey and production control

9. Extensive developments to management information systems providing data on production flowlines and survey information are underway, using the ICL OMAC 29 software package. An on-line production control system providing work-in-progress tracking for all flowlines, should be effective from October 1983. A capacity requirements planning module is scheduled for November 1983, to monitor work in progress. Enhancements, planned to be complete by December 1984, provide for the monitoring of production standards, elapsed times, throughput times etc. The computer based systems, which will replace largely clerical procedures, should provide more data more quickly and ultimately permit financial modelling of flowlines.

10. The present HQ work recording and performance monitoring system, which provides job costing and productive and non-productive time analysis, will be improved by April 1984 to give earlier reports. The system, which will interface with the on-line production control system should be fully revised by October 1986. In addition a common Field Control System to provide management information on regional survey costs and achievement, will be introduced by April 1984.

Staffing and Training

11. Through its staff selection and development strategy OS aims to provide the necessary skills and expertise for all levels of management from within the organisation whenever possible. Development projects on the technical aspects of computer assisted map production, management information and financial systems are carried out by OS staff, although consultants have been used to carry out reviews of management systems and operational efficiency. Internal Audit is currently being strengthened to include specialist computer skills.

12. The department is committed to a continuing programme for training surveyors and draughtsmen. Training Branch also carries out extensive management training. Modules developed to meet the needs of the various management levels include sections on financial management. Most training is carried out in-house, but OS staff also attend courses at the Civil Service College and external institutions.

Costs

13. OS does not expect that its programme for improving financial management will lead to any increase in operating costs or specialist staff numbers.

OVERSEAS DEVELOPMENT ADMINISTRATION

The Overseas Development Administration (ODA) of the Foreign and Commonwealth Office (FCO), in consultation with other government departments, formulates and carries out British policies to help the economic and social development of developing countries and is responsible for the management of the British aid programme. It also manages the payment of 60,000 Colonial and Indian service pensions and is the sponsoring department for the Crown Agents and the Commonwealth Development Corporation. On 1 April 1983 ODA had 1,849 staff in post. Just over one third of them were in its four scientific units (which undertake research directed at the needs of developing countries, for example in tropical agriculture, pest control, etc). ODA has three Votes:

- (a) the overseas aid vote (£1,027 million net in 1983-84), finances direct British bilateral aid (60 per cent of the total) and aid channelled through multilateral agencies (40 per cent);
- (b) the superannuation etc (overseas service) vote (£111 million in 1983-84) for pensions;
- (c) the aid administration vote (£25 million net in 1983-84) covers the costs of ODA's staff and accommodation, purchase of agency services and most other administrative costs for managing the other two votes.

What has already been done to develop financial management

2. As part of a long-standing system, objectives are clarified and reconsidered each year in the Aid Framework which plans and co-ordinates allocations to individual countries, UK development institutions and multilateral aid organisations for four years ahead. This rolling programme is considered and approved by Ministers. Systems and procedures for appraising proposals before new spending decisions are made, for monitoring the implementation of projects and for selectively evaluating completed projects and programmes are well developed.

3. One outcome of a Management Review in 1980 was to consolidate all financial planning and control responsibilities for the aid programme within a division under the Principal Finance Officer, directly responsible to the Permanent Secretary; subsequently an improved system of current year financial control was developed.

4. The scientific units are being re-organised and reduced in size. New arrangements for financing their work are being made to make them more directly responsive to aid policy and the needs of individual developing countries. Memorandum trading accounts will be drawn up as appropriate.

5. A project to establish a comprehensive computer-based Management Information System (MIS), particularly for aid programme funds, began in January 1979. The first phase will be in operation from April 1984. The intention is that the whole system will be fully operational by the end of 1985. It will replace a number of separate systems, some computerised and some manual. It will cover all aspects of expenditure and manpower paid for from the overseas aid programme. It will also produce statistics on British aid and will handle the payroll for aid-financed staff working overseas. There will be links with computer systems operated by the Crown Agents and the British Council for ODA funds handled by them. The accounting system will also cover in due course the aid administration and pension votes. The introduction of the MIS, which is given the highest priority by ODA management, should improve the quality of decisions about new financial commitments; ease the task of keeping programme spending in line with the cash available in each financial year; and facilitate better monitoring and control of spending on individual projects or programmes which extend over a number of years.

Three further proposals

6. Three further proposals are now being developed.

7. First, data will be produced to link selected elements of programme spending to the UK administrative costs of delivering it. The aim is to assess whether such information will help improve the efficiency with which the administrative resources are used. A pilot exercise probably covering two Under Secretary commands, and producing the fullest cost data possible will be completed by April 1984. Depending on the experience gained, data for other cost information centres may be produced for all segments of the aid programme. An assessment will also be made of the extent to which it would be appropriate to transfer to cost centre managers formal control for administrative resources used by them.

8. Secondly, the ODA and the Treasury will consider whether further delegations of authority are feasible from the latter to the former over both programme and administrative resources. The ODA will also review delegations of authority within ODA, and the scope for defining more precisely the tasks and responsibilities of individual officers, especially below Assistant Secretary level.

9. Thirdly, ODA intend to compare running costs of like activities in different parts of the office and to look at trends in them through time. In 1983-84 senior and line management will be given data on the aid administration vote, sub-divided between divisions and departments. This will run in tandem with the pilot exercise linking administrative costs and programme expenditure.

Staffing and training

10. Particular attention is being given to the introduction of the right mix of ability and personal qualities into the finance and personnel areas. Following review of training needs (with MPO assistance) work has started on developing training profiles for each grade. Short financial management courses have been re-established and all appropriate staff will be expected to participate. The training required for using the new management information system is in hand.

Costs

11. A new unit staffed by a Principal and an EO and costing £55,000 a year will carry out the exercises on cost centres and internal delegations. No additional costs arise from the remainder of the work described, which was already in hand.

PAYMASTER GENERAL'S OFFICE

The Paymaster General's Office (PGO) is a small agency department without a major policy role. The work carried out is determined by statutory requirements, Treasury rules and the policy of pension-awarding departments and much of it has to be completed within tight deadlines. The staff of 872 supported by computers pay 1.1 million public service pensions, provide banking services for government departments and produce expenditure analyses to aid Treasury monitoring. The Accounting Officer (at Assistant Secretary level) is responsible for two votes covering administration (£10 million) and civil superannuation (£1,092 million).

Present position

2. A central pay and accounts section administers the domestic vote. The need to pay each pension by its due date and to clear each day's flow of banking work means a close watch is kept on output and performance throughout the Office. A large number of quantity and quality checks are used. Overall performance is currently measured by the unit cost of paying a pension and of a banking transaction.

Plans

3. It is proposed to identify cost centres within the Office based on line managers at the level of Senior Executive Officer. Each will be informed of the costs of his centre (both those he can control and those that have to continue to be administered centrally.) He will be responsible for analysing variances. He will report to a central coordinator and, through him, to senior management. Each line manager will thus be better able to relate costs to his agreed objectives and tasks. Comparisons between cost centres will over time highlight any areas of poor performance and aid improvement.

4. Control of resources and performance measurement in computer systems and programming areas has been a problem for which an automated project control system was designed and introduced in October 1982. A project management technique will be introduced in 1983-84 and an annual review of running costs and variance analysis, timed to coincide with the scrutiny of Supply Estimates, will be carried out.

5. The financial management system will be subject to systems appraisal when fully operational, and the internal audit team will be involved during all stages of systems development.

Staffing

6. A job description is prepared for each member of staff. Performance is measured through the completion of annual reports, job appraisal reviews and promotion boards. Aptitudes and skills of potential promotees are identified early and these personnel placed in key jobs with succession planning in mind. Discussions are in progress with the Treasury's departmental staff records unit at Chessington Computer Centre to provide, during 1983-84, an automated system which will produce up to date and speedy personnel analysis to replace the present manual recording system. In a department with limited promotion opportunities it is difficult to plan career development ahead. However, a restructuring of the financial organisation is planned which should provide more scope to develop specialist career planning in this area. Interchanges with other departments of staff with high potential are under consideration. Staff are all in one building so that communication lines are short. Top management is in constant touch with supporting staff, both personally and through Whitley/TUS/management briefing/discussion meetings, Office and Establishment Notices. The financial management system will share understanding by making staff aware of the resources consumed at individual cost centres as well as in total. Consultants are used whenever appropriate. Coopers and Lybrand are currently studying the pension paying function.

Training

7. The main training objectives are to emphasise the need for efficiency and cost awareness and to instruct managers in the preparation of budgets, setting objectives, interpretation of data and output measurement. The department is in discussion with the Civil Service College about "FMI concept" training. Training staff will attend suitable courses and draw up an in-house training programme. The precise content of these courses will be designed when the final shape of the PGO system for financial management is known.

Timetable

8. The fully automated system is planned to be operational by 1 April 1985. User requirement and feasibility reports are now being prepared and a manual MINIS type system will be introduced by stages from May 1983. Procurement of software/hardware, installation and changeover is planned from October 1983 to January 1985. Training will commence in June 1984. Annual system reviews and regular progress reports for the Minister are planned. Computerised stock control and accounting systems are also planned for later introduction.

9. The initiative is expected to cost a total of £135,000 in 1983-84 and 1984-85.

THE OFFICE OF POPULATION CENSUSES AND SURVEYS

The Office of Population Censuses and Surveys (OPCS) is a small department employing about 2,000 permanent staff. It is responsible for the administration of the Marriage and Registration Acts and the local registration of births, deaths and marriages. It maintains a central record of the events registered and provides certified copies of, or extracts from, that central record. The department also supplies demographic statistics for national, regional and local planning; supplies statistics on the medical condition of the population; conducts social surveys for other government departments; carries out and reports on the Census of Population; and maintains the national health service central register.

2. In 1982-83 the estimated gross expenditure of OPCS was about £26 million, with receipts of about £6 million.

Developments to date

3. Much of the current work to improve financial management continues previous plans. OPCS has however re-appraised these plans to ensure consistency with the aims of the Prime Minister's initiative.

4. Since 1978 there has been a deliberate effort to make more use of management accounting techniques and to provide appropriate specialist advice and assistance to management. At the centre of recent developments is a computerised management information system, installed in 1981. Interlocking with the department's accounting system, it is being developed to provide management with information essential to effective planning and control. It also provides information for the head of the Government Statistical Service, for the public expenditure survey, Estimates, etc.

The Programme

5. OPCS is seeking to achieve the main aims of the FMI through a 7-point programme:
- (a) a small group of senior OPCS officials reporting directly to the Director & Registrar General was given responsibility in January 1983 for co-ordinating and developing financial management; in this context it reviews departmental strategies and plans in order to assist the Registrar General in exercising his overall responsibility for approving budgets, Estimates and the public expenditure programme;
 - (b) OPCS plans to improve and develop budgetary control procedures in stages. Budgets are already used to control expenditure on social surveys, and wider introduction of budgetary control is planned for 1983-84. A significant boost to these developments is expected on 1 April 1984, when various improvements to

the management information system are due for implementation (see (c) below). OPCS plans to move progressively towards greater delegation of responsibility for resources where appropriate;

- (c) the management information system and the accounting system upon which it depends are being further developed to ensure that information will be timely and will give the right degree of detail. A project team is co-ordinating the development of a new computerised accounting system which is due to go live on 1 April 1984;
- (d) a review is in hand to clarify the objectives of managers at all levels and to eliminate any weaknesses in the responsibility structure. Initially the review is concentrated on the Establishment and Finance Division. Other divisions will be brought in as soon as possible. This work is of fundamental importance to the decentralisation of responsibilities that it is hoped will follow later in the programme;
- (e) a working group will be studying problems of output measurement during the summer with Treasury/Management and Personnel Office support. As a first step costs will be matched with projects and outputs identified;
- (f) a training programme is being developed which aims to give managers an understanding of the changes that the Prime Minister's initiative is likely to bring, and where necessary to develop their financial management skills. Some of the training - particularly for junior and middle management - can be provided from existing internal facilities. For more senior managers external courses will be needed. The possibility of sharing training resources with other small departments is being investigated. In the meantime, short introductory seminars for senior managers are being arranged;
- (g) to improve management information systems and to provide managers with the access to expert advice that they need, OPCS has sought to recruit more specialist staff such as management accountants. If progress with the programme is to be maintained it may be necessary to seek assistance from outside consultants.

Costs

6. The cost of developing the management information and accounting systems is estimated at about £100,000 over the first 3 years and about £5,000 a year thereafter.

SCOTTISH OFFICE

The Scottish Office consists of five departments and a group of central services divisions. The departments are:

Department of Agriculture and Fisheries for Scotland (DAFS);

Scottish Development Department (SDD);

Scottish Economic Planning Department (SEPD);

Scottish Education Department (SED);

Scottish Home and Health Department (SHHD).

Each department is under the charge of a Secretary (Deputy Secretary rank) who is responsible to the Secretary of State for its work. The Permanent Secretary is general adviser to the Secretary of State and directly supervises the work of the central services divisions (Finance, Establishments, Scottish Office Computer Services etc) assisted by Deputy Secretary (Central Services). Under the chairmanship of the Permanent Secretary, the heads of departments, and Deputy Secretary (Central Services) constitute a Management Group to ensure coordination of work and to consider common problems across the whole field of Scottish Office responsibilities. The total staff of the Scottish Office was 10,318 on 1 December 1982, including 3,151 in the prison service and State Hospital. The total expenditure for which the Secretary of State for Scotland is responsible is around £6.3 billion in 1982-83, of which around £3.5 billion is incurred by local authorities. The cost of directly managed departmental operations including the prison service runs to about £170 million a year. In addition to their direct management responsibilities, Scottish Office departments have responsibility for 76 non-departmental public bodies with executive functions and 132 with advisory functions, for relations with three nationalised industries (South of Scotland Electricity board, North of Scotland Hydro-Electricity Board, Scottish Transport Group) and 15 Health Boards and for financial relationships with local authorities in Scotland (including the control of capital programmes and the operation of the rate support grant and housing support grant systems).

Recent developments

2. Over recent years the Scottish Office has been moving in the direction now signposted more definitively by the Prime Minister's initiative and has developed a management structure and management systems in which:-

- (a) the Management Group exercises overall responsibility for the management of resources, the systematic development of common strategies and the allocation of priorities for public expenditure and civil service manpower;

- (b) within the framework described at (a), each departmental head - and, down management line, each line manager - is responsible for the management of specific blocks of public expenditure programmes, his use of manpower resources and the setting and monitoring of objectives;
- (c) managers review their functions for the forthcoming year in annual management plans in relation to manpower and other constraints;
- (d) departmental reviews of policies for a range of expenditure programmes are regularly undertaken in depth;
- (e) a management accounting system for prisons expenditure has been set up and is being further developed; and
- (f) travel and subsistence is managed by a system of tight budgetary control.

Meeting the needs of ministers and top management

3. A review will be completed by December 1983 of the way top management and ministers obtain a clear view of objectives and can review policies and allocate priorities and resources for expenditure programmes. At the same time the management planning system is being redesigned as a better basis for the review of departmental activities and the allocation of manpower and other resources. The redesigned system will operate from Autumn 1983 and will perform the same functions as MINIS.

Control of administrative expenditure

4. Despite the progress already made the Scottish Office recognises the need to improve the accountability of managers for the resources which they consume. It has therefore set up a financial management review team to:-

- (a) review the structure of departments to achieve lines of management responsibility which are invariably clear;
- (b) establish by mid-1984 a system of budgetary control for departmental administrative expenditure which gives each line manager a budget for a defined block of expenditure over which he can exercise direct control and for which he will be held accountable;
- (c) institute by April 1984 a management information system to give managers relevant, reliable and regular statements of the value of resources consumed by their units;
- (d) devise objective measures of performance, regularly assessed and incorporated from April 1984 in the management information system;

- (e) ensure that the revised management planning system is used to review the tasks and objectives of each unit in relation to available resources.

Management of programme expenditure

5. The structure of responsibility for the management of programme expenditure in the Scottish Office is fundamentally sound and meets the needs of the department. But the approach to financial management by each expenditure division has been reviewed and a programme of further work drawn up. This will include the clearer definition of objectives, the wider use of output measures and investment appraisal and the assessment of effectiveness of expenditure. This work has begun and substantial progress will be made in 1983-84, but given the wide range of Scottish Office work and the number of bodies for which they have responsibility, it will not be completed before 1985-86. Arrangements have also been made for a more rigorous and consistent approach, from 1983, to the annual internal review of expenditure proposals in the early stages of each public expenditure survey and to expenditure reviews by top management and ministers.

Internal audit

6. The Scottish Office has for many years had an internal audit team. It is now supported by computer and capital audit specialists. A review in 1981 was satisfied with the unit's organisation, methods of operation and planned future performance: its detailed recommendations have been implemented. A training programme prepares auditors for membership of the Institute of Internal Auditors and they are encouraged to take full accountancy qualifications. More resources will be devoted to this from mid-1984. The posting and career development policy for auditors takes full account of the needs of the department for effective audit.

Staffing

7. Good financial management is the concern of all staff and efforts are being made through management circulars, and otherwise, to ensure that the objectives are clearly understood. The successful development of financial management depends crucially on the staff of the central services divisions - especially in finance divisions - and on staff at Executive Officer level and above exercising financial responsibility in operational divisions. Priority is being given to ensuring, eg by career planning and training, that such staff can carry out their role effectively.

Training

8. The Scottish Office recognises the importance of training in improving motivation. Seminars have been held for senior managers. Training courses for managers at all levels

below assistant secretary start in September 1983. They will cover the management public expenditure, including the determination of policy, policy reviews, top decision making, objectives and effectiveness, monitoring, investment appraisal, the management of non-departmental public bodies and local authority expenditure. They will also cover changes in management responsibility, management plans and the management information and budgeting system for operational costs. In January to March 1984 courses will be held for staff directly involved in the handling of management information and budgeting systems.

Expected costs

9. The principal identifiable costs arise on the implementation and running of the management information and budgeting system for operational expenditure. Implementation is likely to cost a total of £450,000 (including the purchase of computer hardware) to 1984-85. Running costs should be of the order of £150,000 a year thereafter. The costs include training staff in the operation of the system. There will be additional work for divisions throughout the department in the management of both operational and programme expenditure and for finance divisions and the training unit in the training of staff. These will be met by changes in working methods and the diversion of resources from other areas of work.

DEPARTMENT OF TRADE

The Department of Trade coordinates Government policy on overseas trade, helps to promote exports and tourism and is responsible for competition policy, standards and the protection of the consumer. It provides for the regulation of trade through registration of companies, patenting and insolvency services, marine safety (including the Coastguard) and reform of the law in these fields. It answers within Government for the interests of the shipping and civil aviation industries and co-ordinates airport policy. It sponsors British Airways, the British Airports Authority and the Civil Aviation Authority, and supports or contributes to a range of (mainly small) bodies which help to implement Government policy in the fields for which the department is responsible.

2. The department is responsible for net public expenditure of about £290 million in 1983-84 and its staff is planned to number 6,700 by 1 April 1984. The majority are employed in the regulatory services, much of the cost of which is recovered in charges. Non-regulatory expenditure includes international subscriptions (eg to GATT), support of tourism (£32 million) and promotion of exports (£23 million). It pays the Department of Industry for its use of the common services organisation, which provides many support services.

Action to improve financial management

3. Responsibility for implementing the department's plan lies with the Finance and Resource Management (FRM) division of the common services organisation of the Departments of Trade and Industry. Some developments, notably the high level review of resource allocation and the management of the larger regulatory services as discrete units, build on long-standing practices. For example Deputy Secretaries currently have manpower budgets for their commands. The main elements of the plan are:

- a. setting objectives for all areas of the department's work;
- b. the introduction of a Resource Allocation Review (RAR);
- c. the establishment of responsibility cost centres;
- d. reviews of the control arrangements for external bodies;
- e. work on targets and output measures;
- f. improved management information systems; and
- g. revised staffing and training arrangements, reflecting the department's changing needs.

The clarification of objectives

4. A statement of departmental aims has been agreed with Ministers and sets the frame within which managers are setting objectives for all areas of the department's work. This has been an important part of the initial Resource Allocation Review. It is expected that the systematic attempt to set detailed objectives will itself lead to questioning and refinement of the department's statement of aims and it is proposed to review it at least once a year in the Resource Management Group (RMG) prior to discussion with Ministers.

The resource allocation review (RAR)

5. It is intended that the RGM which consists of the Permanent Secretary, the department's deputy secretaries and the Principal Finance and Establishment Officer will develop its corporate interest in resource management through the Resource Allocation Review. Under the department's Ministers, this links the setting and review of managerial objectives with decisions on resource allocation. The first, partly experimental, RAR cycle will be completed by mid-Summer 1983 and then be reviewed critically by the RMG. It is intended to integrate RAR with the annual manpower and public expenditure survey exercises. This will be examined further in the review.

6. The cost of the first round - mainly in the time of line managers diverted from other tasks - will rise sharply in its last phase (of intensive meetings between Ministers, RMG members and divisional managers). So far management have found the RAR experiment useful and will build on it. But if it is to 'pay its way' it will have to yield significant savings or the more efficient deployment of resources, not otherwise achievable.

Responsibility cost centres (RCC's)

7. An important feature of the department's effort to improve the control of administrative expenditure is to be the formation by 1984-85 of Responsibility Cost Centres giving major increases in formal delegation of financial authority to four main managerial areas - the Patent Office; the Insolvency Service, the Companies Registration Office and Marine Division (including the Coastguard and the Marine Surveyors). This development will be based on the pilot exercise in the Department of Industry and a scrutiny in 1982 of the control of running costs in the Department of Trade. RCC's will cover some 70 per cent of the department's staff. The development will build on the substantial financial and management autonomy enjoyed in these areas for many years.

8. Detailed work involving significant costs will be needed if, as intended, the 1984-85 financial and manpower estimates are to be produced on the new basis in the autumn and full responsibility for control is to pass to the RCC's on 1 April 1984. The team of 3

allocated to this task in FRM division will also be responsible for the extension of the RCC principle in the Department of Industry with which the department is sharing experience. Most of the net cost of this management change will however be in the cost of diverting line management from other duties.

9. Parallel with this major development in the regulatory areas of the department, it is proposed to have in place by April 1984 a new system for the regular reporting of administrative costs to policy and other central or HQ divisions. The scope for extending budgetary control to these divisions will be examined during autumn 1983.

Control arrangements for external bodies

10. It is proposed to complete, by mid-Summer 1983, a review of the methods of departmental control over the non-departmental public and other bodies which the department supports wholly or in part. Prospects for the privatisation of British Airways and the British Airports Authority continue to be kept under review. In the meantime control over these bodies and over the Civil Aviation Authority (which is treated like a nationalised industry) is the subject of continuing review with the Treasury.

Targets and output measures

11. A further important element in the RAR is the attempt, right across the department, to set tactical targets for as many as possible of its functions. Difficulties have been found in areas when work is responsive to externally determined needs or largely consists of policy analysis for Ministers. Coupled with setting operational targets is the identification, again where practicable, of usable output measures. Final output measures (eg in terms of the health of British exports) are hard to specify or to attribute to specific departmental acts, but progress is being made in devising intermediate measures eg in the regulatory services. Progress in this field will be assessed in this Summer's review of the first round of RAR by the RMG.

Information systems

12. Many of the developments sketched above can only be carried through in the longer term if the ADP based information systems which the department in part shares with the Department of Industry are improved. Plans for this area based on the shared Management Information System study described in the Department of Industry's summary. The first components of this system will be introduced from 1984. The initial cost (shared with DOI) of the total set is estimated at £2-3 million spread over a number of years.

Staffing and Training Review and Audit

13. Under the common service arrangements these areas are dealt with jointly with the Department of Industry.

DEPARTMENT OF TRANSPORT

The main functions of the Department of Transport (DTp) are:-

- (a) development and management of the national road system;
- (b) sponsorship and regulation of, and financial assistance to, public transport; and sponsorship and regulation of road haulage;
- (c) allocation of resources and guidance to local authorities for their transport functions;
- (d) road safety, including regulation and licensing of vehicles and drivers;
- (e) sponsorship and regulation of the ports industry.

The department's responsibilities for railways, the regulation of public transport and road haulage, ports and road safety extend to Great Britain: the other responsibilities apply to England only. In association with its licensing functions, the department assesses and collects Vehicle Excise Duty on behalf of the Treasury and maintains registers of vehicles and drivers to assist law enforcement agencies.

2. the expenditure programmes associated with these functions, and the amounts provided by the department's votes are as follows:

	Public expenditure £ billion	Vote provision £ billion
(i) construction and maintenance of motorways and trunk roads	0.7	0.7
(ii) local authority expenditure on roads and public transport	2.2	0.45
(iii) grants to nationalised industries (chiefly British Railways)	1.0	1.0
(iv) ports, licensing and research	0.3	0.3

The department employs about 13,000 people and has running costs totalling about £230 million a year. About 70 per cent of these costs are in areas where the department provides services to the public for a fee - eg driver and vehicle licensing, driver testing, goods vehicle and bus licensing. Memorandum trading accounts for these services provide a basis for fees and for monitoring efficiency and economy.

4. For trunk roads the department has developed sophisticated procedures for assessing the costs and benefits of new schemes, which are subject to financial and economic appraisal; and also systematic techniques for measuring road condition and residual life so that maintenance can be planned effectively.

5. Basic responsibility for the use of money by local authorities and national industries lies with the spending organisation, but a variety of means is used to influence these elements of transport expenditure. For British Railways and the National Bus Company, they include investment appraisal, submission of corporate plans and monitoring of financial objectives and performance indicators. Publicly financed port investment is also subject to financial appraisal. Local authorities' transport plans and investment proposals are appraised as part of the process of accepting expenditure for Transport Supplementary Grant; and the Transport Act 1983 provides for the Secretary of State to give guidance to the Greater London Council and metropolitan county councils on appropriate levels of revenue grants for public transport.

6. In addition to the annual consideration of priorities for the public expenditure survey, the department carries out or commissions reviews and studies to inform the development of policy. Recent or current examples include the Serpell report on railway finances, and studies of the comparability of appraisals of road and rail investments, of the values of time and physical risk, and of the benefits of public transport subsidies.

Developments in hand

7. Effort is currently concentrated on:-

- (a) a review by Ministers of objectives and costs of the activities of the department; and
- (b) financial management of administrative resource use.

The management of programme expenditure is already well developed but it is also intended to carry out

- (c) a review of systems for controlling it and to adapt existing practice where necessary.

Objectives and costs

8. For this review, activities have been grouped into 19 main areas. Information about objectives, functions, administrative costs, programme expenditure and manpower in each area will be reviewed by Ministers. The basis will be an aggregated presentation addressing broad questions about the value of particular activities and the balance between them. The first review is under way. Further developments will depend upon how valuable Ministers and senior management find it.

Resource management

9. Building upon experience with manpower budgeting, the department is introducing a unified resource management system which will cover all categories of administrative expenditure. The main features of system are:

- (a) the department is divided into about 120 cost centres based on the management structure;
- (b) each cost centre prepares an annual budget covering all categories of administrative expenditure and any revenues in the next financial year. The budgets are agreed through the line management hierarchy in the light of the expected functions and workload of the cost centre concerned. Where possible, the budgets are supported by performance indicators or output measures for these functions and workloads;
- (c) expenditure in aggregate and for each category is monitored against budget by a computer-based management information system to which every cost centre has direct access via a computer terminal

Items (a)-(c) comprise the system known as MAXIS which is being implemented jointly with the Department of the Environment.

- (d) linked to MAXIS, each of the department's main executive activities will have a management accounting system. Ten systems (covering over 90 per cent of running costs) will provide information for fee revisions and, where appropriate, assessment of output, performance and cost effectiveness.

10. The resource management system came into operation on 1 April 1983. It represents a very substantial investment in hardware and staff resources. Initial running costs are estimated to be £0.5 million a year, mostly on staff costs.

Management of programme expenditure

11. Arrangements for financial management of programme expenditure are most developed for trunk roads where the department has direct responsibility. Further effort is being directed at extending the measurement of outputs and the assessment of value for money. Where the department is less directly involved, it is planned to review financial management procedures against the general criteria of the Prime Minister's initiative, after ministers have set objectives for these areas. The review will begin in summer 1983. It will aim to assess the scope for improving current procedures. The opportunities for change are however likely to be limited.

Organisation

12. A new Finance Management division has been set up to co-ordinate the arrangements for financial management and to implement the new systems. It services a new Resource Management Committee chaired by the Permanent Secretary which will supervise the development of the new systems and maintain regular scrutiny of resource use.

13. Nearly all managers of cost centres have attended a 1-day seminar on the new arrangements and the liaison officers who assist them and operate the computer terminals have attended a 2-day training course. A central budget unit has been established and its staff trained in the use and maintenance of the MAXIS accounting system.

Internal audit

14. Internal audit is being extended to include examination of systems of financial control, effective use of resources and value for money and the unit is being strengthened. Consultants have been commissioned to assist with the development of computer audit at the Driver and Vehicle Licence Centre at Swansea.

Costs

15. The costs of the new Finance Management division are about £160,000 a year and the department's share of the cost of the computer system itself about £1 million. Many costs are, however, indirect - for example, the time of staff in cost centres, and diversion of staff effort into designing and operating new control arrangements.

HM TREASURY

The core of the Treasury is a policy-oriented central organisation concerned with financial and economic policies and the control of public expenditure. Its net administrative costs in 1983-84 are estimated to be £27.8 million. But the bulk of the Treasury's staff, some 2,500 out of just under 4,000, and some 90 per cent of its total expenditure is deployed in three separate, and largely executive, businesses, viz

	Average Staff No's 1983-84	Estimated Expenditure 1983-84 £million	
		Gross	Net*
<u>Central Computer and Tele-communications Agency (CCTA)</u> which operates a complex of control, advice and assistance to departments to promote the efficient use of computer, telecommunications and electronic office systems	585	244.2	11.4
<u>Civil Service Catering Organisation (CISCO)</u> which advises on, implements and monitors catering policy in the Civil Service	1473	21.5	0.3
<u>Chessington Computer Centre (CCC)</u> which provides payroll and other services for some 60 government departments and non-exchequer bodies	434	5.5	4.6

*Following recoveries from government departments, other bodies and individuals on account of equipment procured and services provided.

2. The costs of the National Economic Development Office are carried as a subhead on the main Treasury Vote. It is not, however, managed as part of the Treasury and the possibility of its being financed by grant-in-aid is being considered.

Existing Financial Management Systems

3. These different sorts of operation have required different financial management systems. In the central Treasury the small size of the department; the short lines of command; the frequent contact of most areas with Ministers; and the external commitments to which most work is directed, have provided the framework for the

management of work in the operational line, while for economy financial and manpower control has been exercised centrally. Both CISCO and CCC have developed systems appropriate to their more readily measurable outputs. CISCO has a break-even objective and, within this, each catering unit works to an annual budget. Managers receive each month a trading account, enabling them to compare performance with budget, and other management statistics (eg sales value per member of staff). In CCC, performance against detailed operational timetables and productivity targets for payroll and other services is closely monitored, and expenditure control is delegated to four functional commands. Parts of CCTA have the characteristics of central Treasury policy divisions, but its more operational areas have developed supplementary management information: in procurement division summary statistics of contracts handled, and work-recording in the technical services organisation. Financial and manpower control has been exercised as for the central Treasury.

4. The existing computerised accounting system provides both Vote and operational accounts but its coding structure is not extensive or flexible enough for current management accounting needs.

Future Development of Financial Management

5. Taking account of the increase in its size and functions following the reorganisation of the central departments in December 1981, the Treasury intends to develop a system of management which will give Ministers and their senior managers sufficient information to enable them, through an annual planning system, to consider more systematically the intended balance of effort between activities and the appropriate allocation of resources. This will involve the preparation of work programmes by responsibility centres (normally Under Secretary commands) identifying priority tasks for the year ahead and the resources required to fulfil them; setting budgets for those centres, within the control of their managers (subject to the constraints necessary for the orderly management of the department as a whole); and full attribution of costs to those centres. The system is to become fully operative for the financial year 1985-86.

6. To develop this system the Treasury intends:

- (i) to introduce in April 1984 a more flexible and comprehensive management accounting system to give managers timely information in sufficient detail to control costs in a devolved management structure. Work on this began in July 1982;

- (ii) to establish by April 1984 a structure of responsibility and cost centres across the Treasury with the aim of ensuring that responsibility for control of costs, and the organisation of the work to which they are directed, rests where it can most effectively be exercised. Such a structure has been formulated for the central Treasury and CCC, and already exists for much of CISCO;
 - (iii) to define by April 1984 the respective responsibilities of central and line management for the planning, control and monitoring of the use of resources, primarily through budgets;
 - (iv) to develop further performance indicators and output measures in suitable areas of the Treasury (mainly CCC and CISCO);
 - (v) to carry out a programme of training and familiarisation designed to ensure that:
 - (a) those who have central responsibilities for operation of the system have their training requirements individually identified and met;
 - (b) managers with control of budgets have the knowledge to do so;
 - (c) staff generally are familiar with the principles of financial management and their specific application in the Treasury.
- It is planned to complete (a) and (b) before the 1985-86 planning round begins in the summer of 1984, and (c) before the system comes into full operation in April 1985;
- (vi) to keep under review existing training to meet the requirements of financial management work.

Review and Audit

7. The annual planning system will enable Ministers and senior management to review the past performance of line management. They will have at their disposal existing procedures for investigation and review, including Internal Audit (which is being improved and extended) and staff inspection, and the Treasury will be collaborating with certain other departments in the examination of consultancy, inspection and review capabilities.

Costs of Improvements

8. In addition to the demands on the time of Ministers and senior management, and the resources required for training and familiarisation, both as yet unquantified, the main costs of introducing the changes to financial management are:-

	<u>Staff</u>	<u>Non-staff</u>
(i) introducing the new management information system	£130,000 (including 2 full time management accountants and part-time consultant)	£90,000 (software) £35,000 (hardware)
(ii) establishing the planning and work programming system	£30,000 (1 full-time Principal and part-time assistance)	
(iii) setting up an improved management information and control system in CCTA, and support for the Director's review. (These exercises go wider than the Agency's financial management needs.)	£95,000 (including staff at Principal and HEO level, consultancy assistance and the time of senior staff)	

Reviews of CISCO and CCTA

9. Both CISCO and CCTA are presently the subject of fundamental reviews which may affect the structure of their management and financial control systems. Catering policies are being reviewed following a Rayner scrutiny; meanwhile CISCO has been given increased control over bill payment and accounting work previously handled centrally. The new Director of CCTA is undertaking a fundamental review of the Agency's objectives, role and relationship with departments, to be completed this autumn; in the meantime, work is going ahead on developing a structure of budgets and project costing and an outline budgeting system will be operating for the financial year 1984-85.

WELSH OFFICE

The Welsh Office is a multi-function department, covering within Wales agriculture and fisheries, industry, tourism, roads and transport, housing, education (except for terms and conditions of service, student awards and the university), the Welsh language and culture, local government, water and sewerage, environmental protection, sport, land use (including town and country planning), countryside and nature conservation, new towns, ancient monuments and historic buildings, a range of matters affecting the career service and activities of the Manpower Services Commission, the urban programme, European Community matters, and health and personal social services. In 1983-84 the total expenditure within the Secretary of State's responsibility is planned to be £2,528 million of which £1,293 million is provision for local authority expenditure (current and capital). The number of staff in post in the Welsh Office on 1 April 1983 was 2,225 and the total running costs of the department in 1983-84 are expected to be £31.4 million.

The general approach

2. The department has been engaged for some time in developing a coherent system of financial management and this work has been given added impetus by the Prime Minister's initiative. In broad terms developments are in:

- (a) clarifying its aim and objectives;
- (b) improving control by top management;
- (c) improving the quality of line management.

The position at 31 March 1983

3. A separate rate support grant has been operated in Wales since the Local Government Planning and Land Act 1980. From about the same time over 90 per cent of the expenditure within the Secretary of State's responsibility has been managed by the Welsh Office as a block. The Estimates have been restructured accordingly, and the opportunity taken to align them with the organisational structure of the department. A wide range of delegated authority has been negotiated with the Treasury.

4. To see how cuts in staff should be applied within the department two sets of reviews were launched in April 1981. One was carried out by line management to clarify the purposes of each group and identify overlaps, whilst the other was undertaken by an individual officer (reporting to the Permanent Secretary) to identify tasks to be shed and to suggest the best way of carrying out the remainder within the resource constraints. These reviews showed the need to establish stated aims for the Welsh Office as a whole and the

individual groups within it. These have been drafted and are under discussion. They form the framework for the objectives to be set for line management (see below).

5. Control by top management has been strengthened by the establishment of a Business Group, to provide a forum for the central planning and management of resources. It meets every other week under the chairmanship of the Permanent Secretary and works to a planned cycle of reports and submissions, related to the annual public expenditure survey.

6. The well-established internal audit unit works to a long-term audit plan (based on risk assessment) covering the whole of the Welsh Office and a number of its fringe bodies. It envisages an audit cycle of 3-4 years (some areas being audited more than once in this span). The plan will be reviewed annually.

7. The introduction of the block arrangements for programme expenditure (paragraph 3) provided the opportunity for first steps in improving the quality of line management by giving the more senior managers a chance to influence resources allocated to their services. Each year an "internal survey" is run in parallel with the inter-departmental survey. Policy Groups are required to submit bids and options for reductions. When the size of the Welsh Office block for the coming year is known, at the end of the inter-departmental survey, the PFO prepares advice to the Secretary of State on the allocation of resources: the business group as a whole endorses or amends it as necessary; and the Secretary of State reaches his conclusions at a meeting with the business group and all the heads of policy groups. Each head of group is required to review and justify the baseline provision for his services and present the case for any increases he may have proposed. In future the meeting will also cover each group's bid for its running costs.

8. A general guide to financial procedures has been drawn up and issued to all staff, with subsidiary instructions on detailed operations. Formal delegations are being made by the Permanent Secretary to appropriate grade levels with specified value limits for the authorisation of payments against specified vote subheads. As each delegation comes into force, the officers receiving it become fully responsible for the payments they authorise and the finance programmes division which previously authorised the payments switches to a post-payment monitoring role. Special financial material is being developed for inclusion in HEO training courses, and more senior staff are being placed on finance courses run by the Civil Service College.

Forward plans

9. The further work to be undertaken involves the setting of objectives and further improvement in line management, with the subsequent introduction of a cycle of policy reviews.

10. Once the framework of aims (paragraph 4) has been agreed, work will proceed on the formulation of objectives within service areas. This will be done by working downwards through the line management chain from each of the two deputy secretaries, each manager discussing, formulating and setting objectives with his subordinates. Wherever possible objectives will be time-limited and have an associated output measure or performance indicator. Once set the objectives will be reviewed, and revised as necessary, at the conclusion of the annual internal survey mentioned in paragraph 7.

11. Work is in hand on developing the financial information supplied to managers. They already receive quarterly reports of their programme expenditure against predicted profile, and of their travelling and subsistence expenditure (for which they have annual budgets). These reports have hitherto been produced manually but will in future be produced by micro-computer. A cost centre coding structure has been developed for this purpose, reflecting the management structure of the department and reconciled with PES and Estimates. The intention is to add data on running costs in the coming months, together with manpower data and textual material listing functions for each cost centre and agreed objectives. Non-financial figures of output measures and performance indicators will be added as they become available.

12. With improved information line managers will become better able to manage their financial responsibilities, covering both programme expenditure and running costs. It is intended to extend the present travelling and subsistence budgets to cover as many running costs as possible; the size of the budget will then become one of the matters for review and decision at the end of the annual internal survey (paragraph 7).

13. Following these improvements it is intended to start a regular cycle of deeper reviews of discrete policy areas. There will be one or two such reviews a year so that each area will be reviewed every three years or so. The starting point will be the existing aims and the record of objectives and their achievement, the programme expenditure incurred and planned, and the running costs of the staff concerned for the period since the last review. The review will cover both the policy itself and the instruments for carrying it out.

Costs and timetable

14. Staff numbers are and will remain tightly controlled, and as a general principle staff are being required to carry out the improvements outlined as part of their jobs. Net additional resource costs are therefore limited to capital costs and specific studies. These costs are expected to total just over £250,000 to the end of 1983-84 with an ongoing annual cost of at least £75,000 thereafter. An additional capital cost will be incurred when the present finance group microcomputer system mentioned in paragraph 11 has to be enhanced, perhaps in two or three years' time.

15. The main milestones in the further work are as follows:

	<u>Objective setting</u>	<u>Information and budgeting system</u>	<u>Policy reviews</u>
1983			
Q2	First round		
Q3		First full report	
Q4			
1984			
Q1		1984-85 Budgets Set	
Q2		(Quarterly reports thereafter)	
Q3			First review
Q4	First review	1985-86 budget set	