6. Planning and resources

Introduction

6.1 In order to advise Ministers and to implement their decisions and policies, Departments needed appropriate resources and management systems. But funds and staff were not available on demand. There was a regular and time-consuming annual cycle, known as the Public Expenditure Survey (or ‘PES round’), which involved:

i. internal debate on future priorities;
ii. bidding for resources from the Treasury and preparing detailed programme-by-programme Estimates;
iii. presenting these to Parliament, which voted funds accordingly; and
iv. reporting back on how the voted funds had been used.

By November of each year, the level of resources for the following financial year had usually been settled, with indicative figures – ie, set out in principle but not yet approved – for the two years after that.

6.2 There was competition for resources, both within and between Departments. This was refereed by the Treasury, which was committed at the time to obtaining reductions in public expenditure and in the number of civil servants. The watchwords were ‘accountability’ and ‘cost-consciousness’.

6.3 Public spending was also scrutinised by Parliament, through the National Audit Office (NAO) and the Public Accounts Committee (PAC). Accounting Officers (departmental Permanent Secretaries or Agency Chief Executives) had a personal responsibility to ensure that public funds were used properly, prudently and with regard to value-for-money. On this, they had to account directly to Parliament, by appearing before the PAC.

6.4 Throughout the period, Departments constantly developed their budgeting, accounting and management information systems. They operated within structured plans and priorities approved by Ministers, determined on a rolling three-year basis, within overall budgets. During the 1980s and 1990s, resource allocation was tied more closely to Ministers’ chosen policy aims than it had been in the past.

Accountability

The Treasury

6.5 Headed by the Chancellor of the Exchequer (one of the three most senior Cabinet Ministers), the Treasury was responsible for all aspects of the national

247 The accounting year for Government Departments ran from 1 April to 31 March
finances. Apart from fiscal and monetary policy and regulation of financial institutions, it had two other key responsibilities:

i. the control of public expenditure and value-for-money in the public services – overseen by the Chief Secretary to the Treasury, who reported to the Chancellor but was also a Cabinet Minister; and

ii. the formal procedures whereby Parliament voted funds for specified purposes – overseen by the Financial Secretary, who was not a member of the Cabinet.

6.6 As guardian of the public finances, the Treasury’s role was to appraise and agree the expenditure plans of ‘spending Departments’ (ie, all other Government Departments and Agencies). No such plans could be implemented without prior authorisation by the Treasury and by Parliament, and Departments were not allowed to overspend their approved budgets without such authorisation. This was not obtained easily. Powers to transfer allocated monies between expenditure programmes, and between different expenditure heads within programmes, were usually closely circumscribed. However, in a national emergency – for example, an outbreak of war or a major natural disaster – the Treasury could make resources available from the Contingency Reserve of unallocated funds for which provision was made annually in the Budget.

6.7 Negotiating for resources always involved tough bargaining, heavily occupying senior officials and culminating in bilateral meetings between departmental Ministers and the Chief Secretary to the Treasury. If agreement could not be reached, the issue was considered by a Cabinet committee, usually comprising Ministers who did not themselves have significant responsibilities for public expenditure programmes.

Parliament – the Public Accounts Committee (PAC) and the National Audit Office (NAO)

6.8 The need to account to Parliament for the way funds were used was a key preoccupation of departmental financial managers. Historically, the role of the PAC was to examine Departments’ accounts. In practice, this task was delegated to the Comptroller and Auditor General (C & AG), who was an officer of the House of Commons and headed the NAO. The PAC investigated issues drawn to its attention in reports by the C & AG, taking evidence from Accounting Officers and from other officials and from Ministers as appropriate. It would then issue its own report, and the Government had to respond to its recommendations. Such investigations were taken very seriously by all concerned, and provided an extra incentive for proper stewardship and seeking value-for-money.

6.9 The NAO was statutorily responsible for the annual audit of the accounts of all Government Departments (around 30) and Executive Agencies (of which there were 129 by 31 December 1996). The NAO also audited some 150 ‘non-departmental public bodies’ (NDPBs) and some international organisations. Once public money had been spent by a central government body, the C & AG was free to report on the regularity, propriety and value-for-money with which this had been

248 Hence MAFF had to obtain Treasury agreement before it could introduce the slaughter and compensation policy, in 1988
done. As indicated above, the PAC could investigate further on the basis of these reports. Even if no report was considered necessary, the C & AG could send to the body a ‘management letter’, proposing improvements to its accounting systems.

Cost-consciousness

Departmental planning

6.10 Within each Department, the Permanent Secretary led a top management team (or Board), comprising senior officials including the Chief Finance and Personnel/Management Services Officers. One of this team’s key tasks was to prepare and secure approval from Ministers for the departmental corporate plan, and the priorities set within it. The object was to provide a consistent basis across Departments for allocating staff and money. Departmental plans were used as a basis for the annual bids to the Treasury for resources, as part of the Public Expenditure Survey (PES) round outlined at the start of this chapter.

6.11 During the 1980s and 1990s, the Government sought to improve financial accountability within the civil service by developing management information systems to focus attention on the costs of Departments’ programmes and of administration generally. It imported a business approach – for example, requiring Departments to charge for services such as advice and research. It reviewed whether government needed to perform certain functions itself and also whether traditional civil service organisation was as suitable for ‘factory’ functions as it was for providing ‘think-tank’ policy advice.249

6.12 This review process resulted in a shift of executive functions and staff into Executive Agencies, and the contracting out and privatisation of many functions. How this came about, and the impact on Departments (especially MAFF and DH), are described below and in the next chapter.

Pressure on costs and staff numbers

6.13 During this period, there was constant pressure on officials at all levels to reduce public expenditure generally and administrative expenditure in particular. This meant cutting back provision for Departments’ ‘running costs’ (ie, their expenditure on themselves) as well as for their expenditure on policies and programmes. Painful choices had to be made, and taking on new tasks might require existing ones to be postponed or even abandoned.

6.14 All Departments were required to find ways to reduce their running costs. For example, DH was required to make an annual 5 per cent saving in costs from 1979 to 1984.250 Pressure on running costs naturally led to a reduction in the number of civil servants. Both MAFF and DH reduced their staffing levels by approximately 25 per cent between 1979 and the mid-1980s,251 and the number of staff continued

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249 The analogy used to distinguish executive from policy functions in Dr N J B Evans and P W Cunliffe, Study of Control of Medicines, DHSS, December 1987 (M39 tab 12), p. 17, para. 3.23
250 S112 Slowe para. 5
251 S112 Slowe para. 5, S281 Andrews para. 10
to decline thereafter. In 1985/86, MAFF had 11,393 staff; the equivalent number in 1996 was 9,993, a reduction of approximately 12 per cent. 252

6.15 These reductions were accompanied by (and often resulted in) changes in working practices, and some functions had to be scaled down or discontinued. Several witnesses commented on the effects of this. Mrs Attridge explained how MAFF managers operated:

Within . . . the Ministry we were under considerable pressure to reduce staff, and it was therefore very difficult to make out a strong enough case to get additional staff, and we therefore first started to look to what resources we could bring to bear within our own command to put the troops in where the line was thinnest. Only then would we as it were put up a plea for additional staff.253

6.16 Dr Roger Skinner (a senior Medical Officer) commented on the day-to-day effect of a later round of DH staffing reductions, following the integration of administrative and medical divisions in 1995:

While the integration was in itself a sensible reform, it was combined with a 21% reduction in staffing levels. In my view, the reduction of staff meant that at times we were not able to respond quite as flexibly and speedily as we would have wished. With all staff present, it was probably a cost efficient way of working. But when staff were absent through illness or periods of leave, resources were undoubtedly over-stretched. 254

6.17 Budgeting, reviewing and downsizing took up a great deal of the time of managers, including the most senior. Sir Donald Acheson commented:

All I can tell you is I am amazed that we have any service from the Civil Service in Whitehall that is of any good at all because the cuts which have taken place starting in my time, right through to the present time, have been radical, and yet . . . the need for the same service and the complexity of the work has increased . . . I had to take at least 20 to 25 per cent of my work defending my people from further cuts throughout my years in office. And that would be . . . a conservative estimate. It was incessant. 255

Management information systems

6.18 The initial impetus for greater efficiency after 1979 came from the programme of ‘Rayner Scrutinies’, named after the head of the Government’s Efficiency Unit, Sir Derek (now Lord) Rayner. These were one-off reviews of selected policy areas or activities within a Department, with the aim of achieving savings and increasing efficiency.

6.19 One such scrutiny resulted in the setting up, in 1980, of the Management Information System for Ministers (known as MINIS) in what was then the

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253 T43 p. 35. The same was true where more funds were required; initially, these were sought from within the budget of the relevant command. If commitments meant that there were no spare resources, a bid would be made to the Finance command.

254 S118 Skinner R p. 6 para. 16

255 T79 pp. 103-4
Department of the Environment (DoE). This brought together information about activities, past performance and future plans across DoE, with the objective of tying resource allocation more closely to Ministers’ chosen policy aims. In 1983, MINIS was complemented by a computerised accounting and budgeting system based on cost centres, known as MAXIS.

6.20 At that time, information about the costs of administrative activities and options was not readily available to departmental managers. It was difficult to budget accurately or to compare actual against projected costs, so lines of responsibility for the effective use of resources were unclear. To address this, the Financial Management Initiative (FMI) was launched in 1982.256 Civil service managers were to have clearly defined objectives and responsibilities, the means of measuring their performance against these, and support, information and training to achieve them.

6.21 Each Department was encouraged to adopt a system that met its own particular needs. DoE’s MINIS became a model for others, notably MAFF’s MINIM (Ministerial Information in MAFF) system. Better information and the ability to relate objectives to costs allowed the development of devolved budgeting, from the Treasury to Departments and from finance divisions within Departments to operating divisions.

6.22 The MAFF Permanent Secretary at the start of the BSE story, Sir Michael Franklin, told the Inquiry that:

I regarded it (MINIM) essentially as an internal management tool . . . Their intention fundamentally was to allow Ministers to see whether what we as a Department regarded as our objectives were in fact what Ministers wanted to happen. That was the first part of it, so that spelling out rather clearly what the programme was – what we thought the programme was intended to do – and then, secondly, to set alongside that what the resources involved in actually running it [were] . . .

[I]t enabled ministers, I think, to see more clearly what the Department thought it ought to be doing, to decide whether they agreed with that and to relate the resources to that.

I recall, on occasion, that kind of material, information, was helpful not only in the way I have described but in the annual public expenditure discussions. It . . . did indeed throw up areas where it seemed to all of us that perhaps the resources were excessive and we could make some savings here which would enable us to persuade the Treasury to give us a little more in another area which seemed to us more important in relation to this balance of purpose and cost. That was the intention of this tool and I think it was a useful one.

He added that it was a tool for officials as well as for Ministers.257

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257 T22 pp. 53–4
Changing the public sector

Reviewing Departments’ functions

6.23 In the early 1990s, the Government reviewed what Departments did and whether it needed to be done at all. The aim was to concentrate their activity on essentials, introduce more competition and more potential providers of services, and achieve the best combination of cost and quality. A number of options were considered, including ‘abolition, privatisation, contractorisation, including market testing, and rationalisation’.

6.24 Three questions were asked about each executive activity or function

i. Should it be done at all? If not, the function and organisation should be abolished.

ii. Should government still be responsible for it? If not, it should be privatised. Many departmental support services (eg, catering and photocopying) were handed over to private contractors.

iii. If government retained responsibility, should the work itself be done by the private sector? If so, should it be ‘contracted out’ or should the civil servants currently responsible be asked to compete with the private sector (through ‘market testing’)? ‘Market testing’ required civil servants to prepare a business plan for the work they were doing and to submit a tender for consideration by departmental management alongside bids submitted by private sector or other public sector contractors. In many cases, the in-house bid won, but the exercise could lead to a more efficient and effective service. If an alternative bid was successful, the work was contracted out and the civil servants who had previously done it were either redeployed or made redundant.

If after considering these ‘prior options’ it was decided that an executive activity or function should still be carried out within government, it was to be reorganised in line with ‘Next Steps’ principles – ie, as described in the following section, set up as a business under a Chief Executive rather than run along traditional civil service lines. Some research and advisory facilities (eg, parts of ADAS) became Agencies, but after further review were subsequently privatised.

Executive Agencies

6.25 The concept of ‘Executive Agencies’ originated from the conclusions in a 1988 report by the Prime Minister’s Efficiency Adviser, Sir Robin Ibbs. He observed that most civil servants were concerned with the delivery of public services, but that most senior managers had a background in policy formulation and relatively little experience of management or service delivery. His view was that insufficient attention was paid to results, and that the civil service was too large and diverse to manage as a single entity. He recommended that ‘agencies’ should be established to carry out ‘executive’ (ie, service delivery) functions of government. These would have considerable internal autonomy while operating within a policy
and performance framework, including specific targets and objectives, set by the appropriate Minister and Department.\textsuperscript{261}

6.26 Agencies were conceived as being run along business lines by a Chief Executive. Their tasks and functions were set out in a ‘framework document’ for each Agency, agreed with the Department and the Minister. Ministers were answerable to Parliament for the activities of their Agencies, determined the policies within which these operated, and approved their strategic and annual plans. Departments advised Ministers on the policy and performance frameworks and monitored Agencies’ performance. They retained strategic control, but Agency managers were to be free to recruit staff and to develop appropriate pay, grading and organisational structures. Agency Chief Executives were to be personally accountable for the achievement of the agreed targets and objectives.\textsuperscript{262}

6.27 These recommendations required a radical change to traditional civil service ways of doing things. The possibilities were reviewed Department by Department. By 31 December 1996, 129 Agencies and two Departments were being run on ‘Next Steps’ lines, employing almost 390,000 staff (74 per cent of all civil servants).\textsuperscript{263}

6.28 Following the ‘Next Steps’ report, many casework, research and licensing functions were transferred to Executive Agencies. The impact on Departments varied. For example, the scale of the Department of Transport’s licensing, regulatory and research functions meant that when these had been transferred to Agencies, the resulting core Department was relatively small. For DH, on the other hand, the impact of its four Agencies was less dramatic; the management of its main executive focus, the National Health Service (NHS), had already been reorganised along not dissimilar lines.

6.29 The MAFF and DH Agencies relevant to the BSE story were:

i. MAFF – the Veterinary Medicines Directorate and the Central Veterinary Laboratory (both becoming Agencies in April 1990), the Central Science Laboratory (April 1992), the Pesticides Safety Directorate (April 1993), the Meat Hygiene Service (April 1995) and the Veterinary Laboratories Agency (October 1995 – amalgamating the CVL and the Veterinary Investigation Centres)

ii. DH – the Medicines Control Agency (April 1989) and the Medical Devices Agency (September 1994).

6.30 These, like most Agencies, were created by reorganising existing functions of central government. However, a few Agencies acquired functions previously exercised elsewhere. An example was the Meat Hygiene Service (MAFF), which took over the abattoir inspection functions previously exercised by local authorities, and also the staff who had carried these out.

6.31 Once established, Agencies were subject to periodic reviews that reappraised the ‘prior options’ previously considered. Also, all public sector research establishments (most of which had become Agencies) were subjected to a multi-

\textsuperscript{261} M18 tab 1 paras 19–24
\textsuperscript{262} M18 tab 1 paras 19–27
\textsuperscript{263} Next Steps Agencies in Government – Review 1996 (M18A tab 4), Foreword and p. 30
department efficiency survey in 1994/95, and then to a wider (second) review in early 1996:

Our task was to consider whether the function carried out by these bodies was any longer needed, or whether in its absence the research would be done by the private sector. If the function was still needed we went on to consider whether privatisation was appropriate or feasible.  

6.32 For example, the CVL’s Framework Document specified that a prior options review should be conducted within three years of its launch as an Agency, and repeated at intervals of not more than five years. The first review was in 1993, and concluded that the CVL should remain an Agency. Following its merger with the Veterinary Investigation Service in 1995 to create the Veterinary Laboratories Agency (VLA), a further prior options review (part of the wider review mentioned above) was conducted in 1996. This recommended that the organisation should remain an Agency.

6.33 Few of the areas of work with which this Inquiry is concerned were in fact privatised between 1986 and 1996, but the various reviews inevitably consumed management time:

We were also under considerable pressure from the repeated and seemingly continuous ‘prior options’ investigations of public sector research laboratories conducted at that time.

Fees and charges

6.34 The effort to improve awareness of, and control over, administrative costs led to an increased emphasis on the principle of charging for appropriate services. Departments were expected to charge for goods and services they provided to other Departments and public and private bodies, except where the costs of doing so would outweigh the benefits, or if other exceptional circumstances applied. The view was that requiring Departments to charge for services would lead to a more accurate presentation of the costs of a policy and encourage value-for-money.

6.35 There were three kinds of government activity for which charges or fees could be levied: (a) for statutory (normally regulatory) services – eg, for certificates or licences; (b) for commercial services offered on a discretionary basis to the wider public sector or private sector – eg, printing or photocopying; and (c) for services provided by Departments to other Departments, or to the wider public or private sectors, including information and advisory services. Many Departments also introduced internal charging regimes for typing, photocopying, and financial or IT consultancy services during this period.

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264 [S463 Watts para. 20]
265 [CVL Framework Document, April 1990 (M56 tab 14), para. 10.1]
266 [As recommended by the Lebrecht Report (Stage 3) (referred to in Chapter 4 above) (M25 tab 3), p. 26, para. B.37]
267 [S426 Morris paras 9 and 13]
268 [But privatisation remained an option: in 1996, the functions previously performed by seven Agencies were transferred to the private sector (Next Steps Agencies in Government – Review 1996, M18A tab 4 p. 27). None of these was a MAFF or DH Agency]
269 [S73 Blundell para. 17. Between 1991 and 1996, Professor Sir Thomas Blundell was Director-General of the Agriculture and Food Research Council and Chief Executive of its successor, the Biotechnology and Biological Sciences Research Council]
270 [Reforms in the Civil Service Since 1982: memorandum from the Office of Public Service (DO01 tab 2) p. 9]
271 [DO01 tab 2 p. 9]
6.36 If, following the ‘prior options’ review process described above, it was decided that a function should remain in the public sector, government policy was to move towards full recovery of its costs where there was an identifiable customer. In practice, therefore, consideration of fees and charges was often bound up with a move to Executive Agency status.

6.37 If this had not been done before, charging regimes were sometimes introduced to test the market. The calculation of fees and charges required assessments of their impact on take-up (the willingness or otherwise of customers to pay) and, bearing this in mind, assumptions about what standards of service would be appropriate in future. This development had considerable implications for the ways in which Departments regarded themselves and their relationship with their customers.

6.38 Two MAFF functions will serve as examples of this trend: those carried out by the Agricultural Development and Advisory Service (ADAS), and by the Meat Hygiene Service (MHS). A review of ADAS in 1984 said that its functions had a substantial public service element (including statutory and regulatory work) but that:

The possibility of charging should, however, be examined in the case of each scheme so as to reveal where recoupment of costs could be made without prejudice to the public and national interest.272

Fees were subsequently introduced for the provision of ADAS advisory services to farmers.

6.39 The setting and level of charges for the MHS, when in 1995 it took over the abattoir inspection responsibilities previously exercised by local authorities, was a major negotiating issue. There were concerns that high charges could hasten abattoir closures.273

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272 Report of a Study of ADAS by its Director General Professor Ronald Bell, MAFF, September 1984 (YB84/11.13/1.1–1.29), para. 79
273 The charges for meat inspection undertaken under the Fresh Meat Regulations. The cost of Specified Bovine Offal (SBO) enforcement was met by MAFF. See S96 McNeill paras 1.8.1 and 2.1.1