

# ***REFORMING THE CIVIL SERVICE***

*The Efficiency Unit in the early 1980s and the  
1987 Next Steps Report*

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## About the author

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## Acknowledgements

Particular thanks are due to a number of former civil servants who were variously involved in the Efficiency Unit and with *Next Steps* and agreed to be interviewed for this project. I am sure most would not have minded being named, but I have chosen not to, for those who preferred to remain anonymous. Rodney Lowe was very kind in letting me see an earlier draft of his official history of the Civil Service. Thanks to my colleagues, Jill Rutter, Peter Thomas and Andrew Murphy, for help with drafting and comments on the text. Thanks, as ever, to Peter (now Lord) Hennessy, who put his customary red pen to work on an earlier draft. And thanks also to Dr David Halpern, who first put me to work on this subject. Any mistakes or omissions are the author's own.

# About the series: civil service reform – past lessons

The history of civil service reform in Britain dates back to the seminal 1854 report by Sir Charles Trevelyan and Sir Stafford Northcote. It introduced competitive examinations and promotion on merit.

Successive waves of reform attempts have occurred in the 150 years since. These have been characterised by the political and managerial concerns of the day, but with some recurring themes.

## Themes and issues in civil service reform

Today's Whitehall is vastly different from that of 150, 40 or even 20 years ago. However, a number of concerns and characteristics have resurfaced through different reform attempts:

- changes to recruitment and training, including practices, skills and culture
- the structure and constitutional role of the Civil Service
- performance, accountability and leadership.

The continuity of these issues makes it even more important that would-be reformers consider the successes and failures of past attempts.

Central to this are questions of **why** a reform initiative was begun, and **what** it aimed to achieve. But equally important is the question of **how** –the different methods of reform that are open to government. These are deliberate attempts begun with the specific aim of improvement, and differ from reforms that happen tangentially or consequentially.

The Institute has been analysing distant and more recent reform as part of its overall work on transformation and change in government. This case study forms part of that work.

# Introduction

Changes to civil service practices, culture and skills in the 1980s form an important stage in the development of the Civil Service. For many, this period saw a metamorphosis in civil service reform. However, the changes that occurred are complex, and the most visible and far-reaching of them actually have their origins in more localised initiatives. The era also provides important lessons about the way in which reform is attempted. Through certain initiatives, the 1980s saw a deliberate attempt to drive change from within, rather than examining from without as major reviews of the Civil Service had done previously.

The Efficiency Unit was established in 1979 election by Prime Minister Margaret Thatcher to look for ways of saving money in departments, but developed a pattern of work that would also seek to tackle skills and culture, with some hope of thereby reforming the system itself. This was change by practice, or by example, with a conscious intention to produce ripples of reform that would spread outwards.

Though not always successful, the Unit was certainly exceedingly productive. Looking at its methods and intentions in particular, the Efficiency Unit in its early years under Derek Rayner, and its subsequent role in the *Next Steps* report of 1987, is a classic example of the way governments have attempted to use reforming internal units to improve their own effectiveness.

The 1968 Fulton Inquiry into the Civil Service had concluded that the skills of the Civil Service needed to be improved, but also that they must continue to do so as the role of government changed.<sup>1</sup> However, for Clive Priestley, Chief of Staff of the Efficiency Unit under Rayner, there had not been enough progress in the development of the Civil Service since Fulton, which was still “instinctive... with not enough value placed on education and training” and little incentive for “determined management or cost control”.<sup>2</sup>

Likewise, for Kate Jenkins (another member of the Efficiency Unit and later its Chief of Staff and one of the authors of its most famous report, *Improving Management in Government: The Next Steps*) by the 1980s, the Civil Service was increasingly on the back foot coping with a changed environment, expectations and role.<sup>3</sup> This was made more acute as, with the cost of public services rising in the 1960s and 1970s, resources were even harder to manage. At the same time, advances in thinking about management in the private sector formed a relatively strong coalition for change.

Fulton, like other large-scale external reviews, had in some ways been an attempt to force change from without. The Efficiency Unit was more an attempt to change-through-action, driving change from within. It also laid the basis for the *Next Steps* reforms, which followed a similar method of review but moved more towards the underlying structural problems, and whose implementation would ultimately prove more far-reaching, even if not entirely achieving what the authors intended.

# The Efficiency Unit, 1979-83

## Origins

Even before they entered government, the Conservatives had developed a strong perception of the failures that needed to be addressed and of certain solutions they would attempt. Derek Rayner joined within days of the 3 May 1979 general election, in order to spearhead the new Conservative Government's drive against waste and inefficiency. Rayner, joint Managing Director at Marks and Spencer, had made his name introducing innovative management techniques, fostering enterprise among employees, driving down costs and bringing in improved financial management.<sup>4</sup> His role was to try to bring about the same in Whitehall.

Rayner and the Efficiency Unit were part of a wider reforming zeal in the new Government and an intention to make major cuts in public expenditure.<sup>5</sup> This was particularly true of the new Prime Minister, Margaret Thatcher. As well as the drive against waste and inefficiency, Thatcher's Government brought with it her critical view of the Civil Service as a bureaucracy, and a determination to bring about cuts to the overall numbers of civil servants and quangos.<sup>6</sup> Rayner came in to Whitehall in May 1979 as an adviser and was to work only one day a week, unpaid.<sup>7</sup> He had considerable government experience under the Heath Government of the early 1970s in reorganising defence procurement, and was aware of Whitehall's way of working. His role was in some respects "an old favourite in a new guise".<sup>8</sup> Heath had, through Rayner and others, sought to bring businessmen in to improve efficiency. But Rayner's new role was also to be more than that; he was not merely to advise, but given a powerful remit and political support to get results.

It was decided early on that Rayner's "remit should run in parallel with, but separate from the main PESC [public expenditure spending committee] effort" for the reduction of public expenditure (PESC).<sup>9</sup> Initially, as set out by the Cabinet Secretary, Sir John Hunt, Rayner was to concentrate on "functions that can be cut out, wasteful work systems... [and] unnecessary demands on the public (forms, surveys, etc.) and less perfectionism and rougher justice in administration".<sup>10</sup> Hunt described him as a "hatchetman who will go for the things that the normal PESC process will miss".<sup>11</sup> A year later, in April 1980 Rayner recommended to cabinet three stages of action: "a short-term getting rid of paperwork; a medium-term getting down to individual activities or discrete parts of government and improving the way they perform; and thirdly, lasting reforms, bringing about the changes and the education and the experience" of civil service careers.<sup>12</sup> Over the course of his first year, Rayner had moved from Hunt's prescription of a combination of tidying exercise and reduction of bureaucracy, to something more comprehensive.

## Scrutinies

Rayner saw the value of a small and focused organisation, believing that a large one would only replicate the Treasury or audit bodies already in existence and would "add to bureaucracy rather

than lessen it".<sup>13</sup> A small team was less likely "to get bogged down doing 'studies'", but it also would be more likely to live up to its own efficiency brief.<sup>14</sup> Those involved were conscious of avoiding double standards, and so the Number 10 press office recommended that for any press conference on Rayner's appointment an "ascetic meeting (without drinks)" would be most appropriate.<sup>15</sup> He and his deputy, the aforementioned Clive Priestley – who took on much of the leg work – formed a small team, which was only gradually enlarged. Together they developed a review process that became known as scrutinies. This was the study of functions, systems or demands that could be cut, or were wasteful or unnecessary. To those that undertook them, the scrutinies were a way to "encourage people to look at what they did critically and with fresh eyes to try to find more effective and simpler ways of doing thing".<sup>16</sup>

It is clear that in devising the blueprint for how a scrutiny would be performed, Rayner soon saw himself as more than a mere hatchetman:

The purpose of scrutinies is action, not study. It is therefore (a) to examine a specific policy, activity or function with a view to savings or increased effectiveness and to questioning all aspects of the work normally taken for granted; (b) to propose solutions to any problems identified; and (c) to implement agreed solutions, or begin their implementation, within 12 months of the start of the scrutiny.<sup>17</sup>

These were not a comprehensive efficiency programme, but rather an "eye-catching demonstration" in a few choice programmes across all departments. Initially they were a one-off, to highlight the problem, and to demonstrate to departments the need, and potential solution, to tackle inefficiency more broadly.

The method Rayner and Priestley developed for the scrutinies, and the aims behind them, were therefore to have an impact beyond delivering a quick round of savings. It was an attempt to change the practices and behaviour behind the inefficiency and waste. The aim that Rayner himself set for the scrutinies; they were to focus on issues that related to the way in which government worked, neither on 'policy nor *ad hoc* anti-waste projects'.<sup>18</sup> The demonstration of successful impact would lead to cultural change, and the process would become internalised. This was seen in some of the characteristics of the scrutinies, including the choice of 'scrutineers', the way Rayner wanted them to work with departments, the method of the scrutinies, and the subjects to be analysed.

Not all of these characteristics were consciously or comprehensively thought through in the initial stages; some developed through trial and error, and some appear far clearer in retrospect. It is clear, however, that from the start Rayner saw the importance of both the choice of individual scrutineers and the importance of departments feeling involved if the project was to have any success.

## Role of the prime minister

Scrutinies were to be highly visible, and seen to be a high priority for the Prime Minister, so “even if [they were]... not wholly accepted by Whitehall, they could not just ignore it”.<sup>19</sup> First and foremost, however, it was getting the Prime Minister on board, and keeping her there, which was a priority. This was crucial to ensure that ministers took note and, through them, departments.

The Rayner experience has one thing in common with the Fulton experience – both demonstrate how absolutely and utterly crucial is the patronage of the occupant in No.10: Wilson lost interest; Thatcher did not.<sup>20</sup>

As Rayner stated, “a word from the Prime Minister, even if it was merely an expression of interest, could undo a logjam or encourage someone to think again”.<sup>21</sup>

The support was not guaranteed. Even in the earliest days, Thatcher expressed doubts as Rayner set out his plans. One of the biggest issues was that the scrutinies not be a repeat of the Programme Analysis and Review (PAR) process that had begun under Edward Heath. This was an attempt to systematically review government expenditure. But the process had become bogged down by inertia within Whitehall and was intensely unpopular. On one of Rayner’s earliest notes setting out his plans for the scrutinies, Thatcher had scribbled “this is like PAR! It got nowhere and took up top people’s time”.<sup>22</sup> Rayner had to make efforts to ensure she saw that he intended it to be very different, especially the speed and focus of the scrutiny process.

On another occasion, Rayner was more fortunate in the support of the Prime Minister. Having travelled to Japan – only a few days into the appointment and with many particulars still to be sorted out – Rayner’s secretary sent a note, explaining that the newly appointed waste-reducer had signed a letter to go to the Thatcher, but she (the secretary) was not sure this would arrive, so had sent a telegram as well, and asked that that be forwarded. Ken Stowe, the Prime Minister’s Principal Private Secretary, was less than impressed by the methods of communication, minuting that “this does not commend itself as an example of efficiency and avoiding waste!”. But Thatcher was more forgiving – scribbling in the margins, “Agreed. But it does demonstrate foresightedness and contingency planning”.<sup>23</sup> Thatcher’s scepticism remained, however, until the first round of scrutinies were complete, when the “it was the style of the Rayner projects as much as their actual achievements which attracted the Prime Minister”.<sup>24</sup>

## Relationship with departments

Another important and calculated technique for the Efficiency Unit was the manner of their engagement with departments. This was apparent from the earliest days, as Hunt stressed to Thatcher:

Careful launching of the operation will be very important in order to get maximum co-operation at top level and avoid shutters going up... He [Rayner] will need to be ruthless but to work with the grain and not against it.<sup>25</sup>

The importance of “ministers and their officials making – and taking responsibility for – all changes” was a reason why Thatcher made it clear to her cabinet that she was fully behind the programme.<sup>26</sup> But it was also something that was addressed in the way in which Rayner went about forging his and his scrutineers’ relationships with departments. In the initial announcement of his appointment, Rayner was keen that it be stated that he was “to assist departments’ to give the impression that he is to help rather than to interfere”.<sup>27</sup>

The main danger was in being seen by the department as “meddling”.<sup>28</sup> Departments chose the area of scrutiny, the people undertaking it were from there, and the eventual report was in the department’s name. Rayner, Priestley and the Efficiency Unit focused on support and quality assurance - in the template for the work, in guiding and offering advice and in providing both support and challenge on the overall direction, analysis, conclusions and recommendations. The scrutinies worked best if departments recognised that something was wrong.<sup>29</sup>

The importance of departments undertaking much of the work themselves was, to Rayner, crucial if the impact of reform were to be lasting.

The reasoning behind the scrutiny programme is that Ministers and their officials are better equipped than anyone else to examine the use of their resources for which they are responsible. The scrutinies, therefore, rely heavily on self-examination. The main elements are the application of a fresh mind to the policy, function or activity studies; the interaction of that mind with the minds of those who are expert in the function or activity; the supervision of the Minister accountable to Parliament for its management and for the resource it consumes; and the contribution of an outside agency in the shape of my office and me.<sup>30</sup>

Of course, not all of this came about without some bumps in the road. For the first round of scrutinies, Rayner had allowed departments freedom to choose topics and devise their own methods, only giving them a deadline set by the Prime Minister. Topics chosen included “regulation of radio frequencies” by the Home Office, “arrangements for paying social security benefits”, by DHSS, teachers pensions, and “the procurement of non-warlike stores” by the Ministry of Defence. The differences in breadth of topics – and some departments had more than one area under scrutiny – saw varied numbers of officials tasked with the job. And the results were disappointing on one level, with potential savings revised downwards and delays to their implementation.<sup>31</sup> However, the scrutinies “had other virtues”.

They focused, and kept focused, attention (and particularly Prime Ministerial attention) on administrative reform. This marked the first, albeit tentative, step towards the acceptance by Ministers and officials alike of a management ‘culture’.<sup>32</sup>

For Kate Jenkins the Rayner attempt to reduce the number and size of forms, a separate but related Rayner effort, as “a classic of the treatment every government needs regularly”; a shake-up and re-examination of the status quo.<sup>33</sup> In some cases topics chosen were little details that actually had big ramifications, for example, in analysing the Treasury typing pools. Fundamentally, as they progressed, it was about understanding the nature of the problem from the inside out and means to find out where actual problem lay.

As the process developed, the Efficiency Unit developed a system of seminars with the Prime Minister on “value for money”, facilitated by the Unit but involving the relevant department, where the scrutinies would be presented and discussed. The aim was that the relevant permanent secretary and minister were forced to tackle the detail and think about the issue by presenting back to the Prime Minister themselves. These had varying results. As one interviewee recalled, some permanent secretaries and ministers struggled with the presentations the meetings required, and would have to turn to the Efficiency Unit for help.<sup>34</sup> This had the added benefit of increasing the feeling of the Unit being a source of aid, thereby helping deepen the relationship between department and unit.

### Scrutineers

As the process of doing scrutinies gathered pace, another deliberate feature that developed was to have relatively junior, but talented, civil servants undertake them. This was similar to the Marks and Spencer method of having members of staff conduct reviews of their area’s practices. The aim was to bring about wider change by creating a generational groundswell of young civil servants who thought differently not only about efficiency, but also about challenging the status quo and that this would ripple outwards into the wider Civil Service.<sup>35</sup>

Unusually they were generally serving civil servants with some knowledge of the organisation they were dealing with which gave them an extra edge both with their colleagues and with their ministers. It was a sign of the value to be gained by using internal talent – people who knew where the problems might be – to find solutions.

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This knowledge and cultural understanding was to be balanced by the quasi-external challenge wrought by their being junior but clever. They were given the freedom to think differently, to challenge and to be able to offer radical solutions, something that was hugely liberating for many of those involved.<sup>37</sup>

‘Rayner’s Raiders’, as they became known were “working to a strict timetable and reporting to him as well as to their Permanent Secretary”.<sup>38</sup> Ian Beesley, one of the scrutineers and later Chief of Staff for the Efficiency Unit, described the empowerment felt from the way that Rayner set them loose on the department.

It was exhilarating... you knew you had an opportunity to show that the Civil Service could improve itself and that that was a fairly rare opportunity. The second thing was that you were asked to apply your own judgment to a situation. You were asked to look at a topic. You were asked to write a report. It would have your name on it. It would go in front of the Minister with your name on it. Nobody would be allowed to alter those words... What he [Rayner] said... was “let the facts speak for themselves and then the conclusions will follow”. That was very rare because it was an exercise in personal responsibility [and] it was done under a timescale that was fairly tight.<sup>39</sup>

Rayner was himself was an important figure to the scrutineers; he and Priestley were closely involved in supervising the work and providing challenge as well as a source of support, not least because he carried the authority of the Prime Minister.<sup>40</sup>

### Template for scrutinies

The initial round, largely completed by July 1979, did not produce great results. In examining the various initiatives beyond the scrutinies, and particularly the ministers’ replies, Rayner and Priestley concluded that there had been movement, but it did not “yet amount to an orderly campaign”.<sup>41</sup> If there were not such a “campaign” the Government’s “determination” to reduce waste and inefficiency would not “be well directed or sustained”. Thus it was to longer-term and more comprehensive success that Rayner directed his methodology. He asked the Prime Minister for support in making this “patchy” response into a substantial and prioritised task.<sup>42</sup> Thus, the scrutinies turned from a one-off demonstration into a regular process, and the unit began to hone its techniques.

After this, Rayner gave departments a template for how to plan the scrutiny. They were to be completed by a small group (two to five members) of individuals whose experience meant they were concerned with, but not necessarily from, the area being looked at, with “emphasis on information and a fast report [90 days], decisions, implementation and results”.<sup>43</sup> His initial reluctance to prescribe the process was that there was a danger that some clung to the process as a “lifeline rather than a guide”.<sup>44</sup> As the waves of scrutinies continued, this certainly occurred, and even in the earlier days the files suggest that some departments were merely going through the motions.

### Savings

Though the scrutinies, and later Efficiency Unit, probably benefited from the general sense of reform and urgency that accompanied the incoming Conservative Government in 1979, it also was somewhat damaged or undermined by association with wider Thatcher reforms. Jenkins believes that the scrutinies were closely connected in many civil servants’ minds with the drive towards reducing the size of the Civil Service.<sup>45</sup> When the Efficiency Unit reviewed its own work in the mid-

1980s the importance of permanent secretaries to departmental engagement and the success of the scrutinies was clear.

The message was clear: if the Permanent Secretary took a grip on what was happening, there was some genuine action. If the scrutiny was delegated, however high its political profile, it was less likely to be implemented fully and successfully – the boss had to be and had to be seen to be, behind implementation, and the most effective boss in implementing policy was the Permanent Secretary.<sup>46</sup>

But this was not just the responsibility of the civil servants, but also ministers, who had been given oversight of the projects since May 1979.

Ministers should be in the lead in seeing that the scrutiny was taken seriously while responsibility for effective implementation should rest with the Permanent Secretary.<sup>47</sup>

The incentive for ministers was, in theory, that it could increase their “specific responsibility”.<sup>48</sup> Scrutinies could be especially valuable for a junior minister as it meant they could be directly involved in something in which the prime minister was interested. This gave them a clear political pay off. However, there was also supposed to be another incentive, which formed part of the outcome that the scrutinies and the Efficiency Unit were to achieve. This was to demonstrate the value of making the change – an immediate pay off – in being better able to implement policies, or in making savings.

There was a danger of the Efficiency Unit giving the impression that scrutiny was the only way of getting change – it was not a tool for all areas. To those that were doing the scrutinies, there seemed to be some progress. When looked at from the perspective of the overall programme, however, the nature of the various scrutinies, and the wider complications of the public expenditure cuts, all meant that genuine, sizeable cash savings were not so easy to identify.<sup>49</sup> Even Rayner, when asked in 1981, felt that there had not been “any real change”.<sup>50</sup> These comments were however, in the middle of ‘midsummer blues’ as the Civil Service Department (one of Fulton’s legacies) was being disbanded and the impact of cuts to public expenditure was starting to take hold.<sup>51</sup> In this, Kate Jenkins’ summary of the scrutiny process is quite valuable.

[It] had been designed to deal with institutional inertia. It was deliberately rough and ready, aimed at shaking traditional approaches to difficult issues. Many scrutiny teams had found it difficult to balance a critical look at how a programme was organised and delivered while accepting the policy as a given. It was easier to make policy changes rather than to understand the detail of how operations should

be organised if the current policy was to be implemented effectively. In the longer term my view was that effective policy would have to recognise the possibilities as well as the constraints of implementation, but we were a long way from persuading politicians as well as most civil servants that implementation as well as policy was important.<sup>52</sup>

The Rayner reforms of the early 1980s, and particularly the drive to reduce waste and inefficiency, had mixed results. Some of those involved at the time will point to the overall failure to elicit real cash savings or to achieve lasting change to the practices and behaviour of government in creating waste and inefficiency.<sup>53</sup> In his memoirs, Nigel Lawson, commenting on the role of Rayner and the drive against inefficiency, cited a figure of £1 billion in savings by 1986, but he was referring also to cuts in the civil service payroll (which had gone down by nearly 20%) and other significant economies separate from the scrutinies themselves.<sup>54</sup>

In 1986, the National Audit Office (NAO) conducted its own study of the Rayner scrutiny programmes. It calculated that by 1983, when Rayner departed, 155 scrutinies had been conducted, identifying *potential* savings of £421 million a year. But these were only potential; the NAO investigated 20% of those scrutinies to see what savings they had actually made.<sup>55</sup> They concluded that, compared to the £421 million, only £171 million had so far been achieved, though an extra £100 million might be expected when all the recommendations that had been accepted were fully implemented.<sup>56</sup>

This meant that, as well as only half of the savings envisaged proving to be 'acceptable and attainable', implementing them was proving to be a problem. Also, the NAO judged that in many cases, savings were in areas in which there were tight budgetary controls or the savings were already earmarked anyway, but the scrutiny process still used. So it was difficult to discern precisely what savings were a result of the scrutinies and what down to general "budgetary pressures".<sup>57</sup>

Perhaps more importantly for some, was that the scrutinies were still only a limited foray into promoting efficiency and reducing expenditure. According to Sir Robin Ibbs, the Prime Minister's adviser on efficiency and effectiveness between 1983 and 1988, the scrutinies were valuable, but their savings still "did not amount to a row of beans against the general level of total expenditure".<sup>58</sup>

Nonetheless, the efficiency scrutinies were achieving some degree of success – on a limited scale in monetary terms, but also as part of a wider drive towards a greater focus on management. The NAO argued that "the scrutiny process is a useful means of examining closely the effectiveness of individual administrative functions" and other "benefits which are less susceptible to quantification".<sup>59</sup>

As well as many specific examples of tangible changes to practices, the NAO noted, that “the scrutiny technique appears to have heightened the awareness of senior management in some of the departments examined of the scope for securing improved efficiency”.<sup>60</sup> From this, the NAO were able to conclude that, alongside other efficiency efforts such as the Financial Management Initiative, the scrutinies have “increasingly been developed as a valuable weapon for securing rapid and positive response to problems”.<sup>61</sup> For the official historian of the Civil Service, Rodney Lowe, “the importance of the projects lay not so much in the short-term economies they achieved but in the basis they laid for more lasting reforms”.<sup>62</sup>

There were improvements going on in Whitehall, including changes in culture and practice, but, despite the feeling of success in those undertaking the scrutinies, the overall feeling of the unit was increasingly that of frustration. The transformative effect would, if it came, take too long. As the 1980s wore on the desire grew to tackle the structure of government and the way it worked more comprehensively. Using the same methodology, the Efficiency Unit turned its efforts towards the management of government as a whole. The consequent report, *Improving Management in Government: the Next Steps*, produced one of the most substantial changes to the form and functions of government in the last half century – turning half of Whitehall into executive agencies by 1994.

Perhaps the Efficiency Unit’s greatest legacy, was the way in which those steeped in the culture of the Efficiency Unit, and using its tried and tested methodology, brought about this far greater shake-up of Whitehall through decentralisation. Certainly, for Kate Jenkins, one of the *Next Steps* authors, these two stages can be viewed as part of an overall period of reform, as the “first part of the 1980s saw the ground being prepared; the mid- and late-1980s took the process of reform one stage further”.<sup>63</sup>

# The Next Steps report, 1987

## Origins

By the mid-1980s, the Efficiency Unit had a fairly well developed procedure. However, departments had become used to the process; it was not as much a shock to the system as initially. It had got to the point where permanent secretaries were misusing their choice of topics – one seeking to analyse why the fare of the departmental canteen was not up to their standards – rather than challenging departmental practices and seeking to question their procedures on a functional basis. Bringing about meaningful cultural change was perhaps not so clear an aim, and frustration existed.

The scrutinies were increasingly subject to outside criticism, including academics.<sup>64</sup> The NAO had looked at the success of the programme in 1986.<sup>65</sup> Even internally, there was a wider feeling of the need to renew efforts. Even before the NAO report the unit attempted to find out for itself what made for a successful scrutiny. The subsequent 1985 report, *Making Things Happen*, emphasised the implementation stage and made recommendations for improvements.<sup>66</sup> According to Jenkins, by 1986, the Efficiency Unit felt their impact, and wider change in Whitehall, was stagnating. Even within the Unit there was the same grumbling as elsewhere in Whitehall about new methods and new equipment (such as computers). Some in the Unit wanted new impetus and direction.<sup>67</sup>

*Next Steps* began life as an attempt to understand why the scrutinies were not delivering longer-term change, but it was also part of a wider view that change was needed. The reforming zeal of Thatcher and Rayner in 1979 had not brought about the hoped-for deeper change.<sup>68</sup> For others, there was a feeling that the earlier 1980s attempts to get Ministers to focus on management – through the scrutinies, but also through other parts of the efficiency strategy such as the 1982 Financial Management Initiative (FMI) – had not worked.<sup>69</sup> For those under pressure to improve management, the demand for results was only made worse by, as it seemed to them, yet more barriers.

There was a great bubbling up of frustration, particularly with the Treasury but with the centre generally, about the degree of control that was operated over Departments, not only at the centre over Departments but within Departments of people at the centre and in the line. I remember a conference that Kate Jenkins attended at which someone wrote, “We must free the managers”. It represented a strong feeling in a lot of operations in the Service.<sup>70</sup>

Despite all this, at the start the study was "a relatively modest proposition".<sup>71</sup> It was only as the team behind it began to collect their evidence that they came to the conclusion that more radical recommendations were needed.

### Undertaking the review

At that stage the Efficiency Unit consisted of about eight to 10 people.<sup>72</sup> The team behind *Next Steps* consisted of Kate Jenkins, Andrew Jackson, and Karen Caines, under Sir Robin Ibbs, the then (part-time) director of the Efficiency Unit and adviser to the Prime Minister, who had replaced Rayner after the 1983 General Election. Being well versed in the scrutiny process, they set about using its methods to plan their approach. It had to have clear terms of reference, but a wide enough scope to properly look at the problems. It needed the engagement of departments and political and official endorsement (both of which they got). It also, by abiding to the 90-day scrutiny timetable, needed to be focused. The team therefore wanted a clear methodology and good management for the study. As bits of the study and interviews would occur separately, or in pairs, it was important that the team knew what the others were doing. Caines developed a system by which the team could keep in touch with what issues and new avenues emerging.<sup>73</sup> The study also required a clear and achievable outcome, including a process for implementation.<sup>74</sup> For Jenkins, *Next Steps* was at its heart a scrutiny report of "what the obstacles were to better and faster progress with management reform".<sup>75</sup>

The team had the support of Downing Street and the "constructive", if wary, support of Sir Robert Armstrong, the Cabinet Secretary.<sup>76</sup> But, though they kept the Prime Minister's office informed, they were largely allowed to get on with the work. They also sought to keep the Civil Service engaged and informed through meetings with permanent secretaries, which also allowed them to get some feedback on how the project was viewed. The answer was they didn't think much. The permanent secretaries, Jenkins felt, "thought it a pedestrian topic, unlikely to come up with anything of substance".<sup>77</sup> This might even have been a benefit, however; the "bore not a threat" view helped them to get access.

As part of their preliminary work, Jackson undertook an assessment of earlier reviews<sup>78</sup> of the Civil Service which tended "to follow a similar pattern":

A committee of "the great and the good" would be convened and then evidence, in formal terms, was invited openly or by specific invitation. Formal evidence was recorded, painstakingly reviewed and formal conclusions drawn out.<sup>79</sup>

Because of the pressure of time the team avoided the well trodden path of academic work in the area, or of making international comparisons. Instead, they wished to address what they saw as a "significant gap" in most reviews that had not tended to look at the view of "the Civil Service itself", which was only seen from the point of views of particular senior figures in the Civil Service (mostly former civil servants), and the trade unions.<sup>80</sup> The, anonymous, interviews were mostly

limited to those inside government, though they also consulted “some chief executives of nationalised industries, senior people in business and Derek Rayner”.

The greater focus on insiders was because the “confidentiality” of much of government, whereby knowledge is compartmentalised, meant that only those inside had information on how the system worked. At the same time, this meant there were few individuals who had access to enough information to be able to see the whole thing.

Though they were on a short timescale, the interviews that were conducted with the Civil Service were fairly extensive. The team conducted over a 150 individual interviews including 21 ministers, which included most of the cabinet, 26 permanent secretaries, all heads of departments; and 26 grade 2 or deputy secretaries. They asked questions about how effective progress was in improving management, what measures were most successful, what obstacles remained and – inspiring the name the report would come to be known by – what next? The responses from civil servants and ministers covered similar areas, but there were key differences between the two groups.

There were conflicting views about whose role it was to push through change, both often seeing it as falling to the other. The team also found that for quite a few civil servants “getting on” in their career was more about how they handled politicians.<sup>81</sup> Management was less (or not at all) relevant. An overall theme was a lack of personal responsibility; the machine was so big as to be frustrating, but at the same time they still wanted to get things done.<sup>82</sup>

The *Next Steps* team also spoke to civil servants based outside London. Here they found a greater strength of feeling about the weight of the machine, being further from the centre of government. However, at the same time, there was frustration because these officials were closer to the end result and could at least see what it was they were trying to achieve.<sup>83</sup>

One of the biggest issues the team found was the lack of knowledge about changes to working practices, some of which had been wrought by the Efficiency scrutinies. There was awareness outside London of big government interventions on the Civil Service, like the cuts in head count and privatisation of utilities, but there was less knowledge of other internal changes, such as the Financial Management Initiative, personnel management, and training. These had not spread outside the Whitehall core. This suggested poor internal communications in most reform programmes.<sup>84</sup>

The similarities to answers in the interviews and subsequently the team’s conclusions became clear from a relatively early stage. Their main conclusion was that Whitehall too often consisted of a monoculture resulting from standardised, central recruitment. By contrast the Civil Service function of delivering often a range of very different public services required various skills and cultures.<sup>85</sup> At the heart of this was the issue of implementation. They found that it was all too often easier to make a policy change than to make good policy implementable.<sup>86</sup>

In writing up their report the issue of how to implement changes was a central concern. Fulton was considered far too long by the *Next Steps* team and had meant that “the Civil Service managed the

recommendations by focusing on 'implementing Fulton' rather than reforming the Civil Service".<sup>87</sup> This issue was especially important as they recognised success depended on the need for permanent secretaries to take responsibility for implementation. "A critical question [for the team] was whether changes could be made to this elaborate structure without the whole system going out of control."<sup>88</sup>

Instead, their report style was more influenced by the brevity of the 1854 Northcote-Trevelyan report which had laid the basis for the UK's permanent, impartial Civil Service: short and simple. *Next Steps* covered four areas: an explanation of what they had found; the conclusions they had drawn; the recommendations; and what they thought results should be.

The three main themes of the report were on the need to focus on the "job to be done", on having the "right people" and in "maintaining a pressure for improvement".<sup>89</sup> The main recommendation, and the one for which it is best remembered, was the need for arm's-length agencies to take on more of the role of delivery, thereby focusing on the job to be done (though they did debate at length the consequences of the term 'agency'). At the heart of the Minister-agency relationship was to be a "framework agreement", with specifics on "policy... targets and... results", as well as budget.<sup>90</sup> Accountability and responsibility for these bodies was crucial, but also where independence of action was to lie, especially on politically sensitive issues. This required again the need to be specific and for formal understanding about "the handling of sensitive issues and the lines of accountability in a crisis".<sup>91</sup>

There were other important recommendations, not least the need for a better mix of management and policy in the skills of the senior Civil Service. There was also a call for a "constant and sustained pressure for improvement", though for some this raised concerns that there would be initiative after initiative on reform.<sup>92</sup> All of it was hopeful stuff, but it was also a step too far for many interested parties, particularly the Treasury.

As Jenkins recounted, it was only towards the end of the process that some permanent secretaries realised what conclusions the team had drawn, and what they meant:

I... told him what we had found. He said that he recognised all that. I asked him what we should do about it and he said, "Well, it has always been like that. There is nothing you can do. "We said that we had thought about the possibility of certain solutions. He said, "Good Lord, but that would completely change everything. We can't deal with that in a half-hour meeting."<sup>93</sup>

For Nigel Lawson, then Chancellor of the Exchequer, there were two main reasons for objections. The first was parliamentary accountability, placing so much of government in the hands of "an autonomous executive agency, whose head was, according to the original Ibbs blueprint, effectively accountable to no-one". The second issue was more of directly treasury one – that of "maintaining effective control of the agencies' expenditure". In part, Lawson objected because he preferred

privatisation. At any rate, a “long battle ensued”, delaying publication of the report by a year and eventually leading to a written concordat between the Treasury and No. 10 that set out clearer lines of accountability.<sup>94</sup>

### Implementing *Next Steps*

Having produced the report, the team spent the summer of 1987 drawing up plans for a pilot programme creating 12 agencies, proposed by departments, and a proposed timetable for implementation. But still the report was only a private one to the prime minister. Thatcher was cautious when guiding her cabinet through agreement on it during the autumn and spring of 1988 and it was also not the only potentially controversial issue they were dealing with.

It went through, but it was at a time when so many other things were happening for the Cabinet, such as NHS reform, introduction of Community Charge, electricity privatisation and the national curriculum. All such things were crowding on to the agenda. The proposal was only one item and it just went through.<sup>95</sup>

It was following this cabinet meeting, in February 1988, that the report was finally published. But even then, the team behind it knew that:

The most difficult issue that had to be resolved was how to establish the process of implementation so that it would be effective and not die of neglect... we concluded that only someone with real power inside the system could hope to have any impact.<sup>96</sup>

It is important to remember the two faces of *Next Steps*: the report itself, and the waves of agency creation, which continued right through the 1990s. The lessons learned in earlier analysis of scrutinies, that there needed to be ownership of the implementation of change at the top, was also true of implementing *Next Steps*. But the difference was that the report itself had a section on implementation, recognising its importance. For this, the action manager was to be the Cabinet Secretary – initially Sir Robert Armstrong but soon succeeded by Sir Robin Butler. But implementation itself was to be undertaken by Peter Kemp, a Permanent Secretary as Project Manager, of sufficient authority to carry through the changes.

For some observers, Peter Kemp was hugely successful in implementing the early stages of *Next Steps*, a tricky process. Indeed, his early successes were surprising to some, given that during the year long pre-publication debate over the Government’s response he had been one the key negotiators for the Treasury, seeking to challenge and disrupt the process. When he turned to the other side he did so with equally as much enthusiasm, and “in a way that was marvellous to behold”.<sup>97</sup>

However, for others, Kemp appeared to rub against the grain.<sup>98</sup> When the report was being produced, the need to work with the grain was important; in its implementation, and the battles it generated, certain resilience may well have been essential. Peter Kemp continued in this role until 1992, when he was replaced and responsibility for implementation fell to Richard Mottram, who took up the role of *Next Steps* Project Manager with, for some, a much more conciliatory manner.<sup>99</sup>

The first stages of implementation saw departments analyse their functions and identify areas where agencies could be created. It took some years for the several waves of agency creation to occur, and for many departments the speed was still too fast, with too little consideration of the consequences for government.<sup>100</sup> But in the period of 1988-9 the initiative “caught alight ... in a manner which took many observers... [including the then journalist Peter Hennessy] by surprise”.<sup>101</sup> A decade after the report some three-quarters of civil servants were employed by agencies. Butler’s influence throughout this time was important, not least because he helped ensure, at a crucial stage, the push for early implementation.

Butler was also instrumental in ensuring that when a change of prime minister dramatically occurred in November 1990, this did not undermine or reverse the progress made. Butler had to sell to it to the new Prime Minister, John Major, who had himself been Chief Secretary to the Treasury when the report came out. For Butler, making the *Next Steps* reforms relate to Major’s own interest in increasing transparency and accountability through the Citizen’s Charter programme (something which deserves examination in its own right) was important. Indeed, the issue of transition had been something that concerned the original report team. At a much earlier stage, prior to the June 1987 general election, there had been strenuous efforts to convey the importance attached to it to the Labour opposition, that it might not be dropped if they formed the next government.<sup>102</sup>

The impact of the creation of executive agencies, and their subsequent history are best dealt with elsewhere, however there are a number of points worth considering in terms of the methods of reform. A recent Institute for Government publication by Kate Jenkins looked at the changes that have happened to executive agencies since *Next Steps* and also considered how effective, and how revolutionary, the changes actually were.<sup>103</sup> In it, Jenkins identified a number of continued problems including in relationships between agencies and departments, the relationship with those who use the agencies’ services, and over the role of the centre in directing how agencies work.

However, perhaps the most interesting conclusion for this study was that *Next Steps* was as much about the impact agencies would have on changing the ways of working for what remained of Whitehall. That she feels it did not have as transformative an effect as was hoped is another reminder of the complexity of civil service reform and the potential for its reformers’ ambitions to become distorted along the way.<sup>104</sup>

# Conclusions

Neither the early Efficiency Unit scrutinies nor the *Next Steps* report should necessarily be considered the archetype of reform. However, both provide a number of points to consider about how change is attempted. The importance of the Prime Minister is one – though that should always be considered in the context of the particular style and personality of the Prime Minister in question, not as a generic rule of thumb.

Another is the way in which both sought to work *with* departments. This is significant; not because it was defensive fear of upsetting departments, but because it reflected the reality of Whitehall departmentalism, understood the role of the centre in the current UK structure, and recognised the motivations of different players. It is also a general rule of implementing change: that it is better if those being changed feel a sense of ownership about the process. Conversely, Thatcher's insistence to her ministers in 1979 that the scrutinies would go ahead, the battle with the Treasury over *Next Steps*, and the manner of Peter Kemp's approach to implementation, suggest some single-mindedness was useful.

Another potential lesson is the difficulty of reform. The efficiency scrutinies did not achieve the degree of changed behaviour as was hoped. If it had, *Next Steps* would not have been needed. Likewise the fact that those who proposed the reform of the Civil Service through the creation of executive agencies still see reform as only partially delivered shows the limitations, even with something now considered as a substantial reform.

Perhaps the most interesting thing to consider in all this is the impetus for reform. Kate Jenkins saw the momentum for change in *Next Steps* as a valuable force in itself, and one which outweighed worries about the consequences of change.

The pragmatic solution to a problem is not often the stuff of political theory and much of what happened [in the 1980s] may appear, especially with hindsight, incoherent or damaging to the constitutional or political theorist. In the longer term, as solutions shake down, they may prove to be impractical or of short-term value or the right answer. A flexible system should be able to try out different solutions and accept what works most effectively or reject what does not without blame. By the mid-1980s what was emerging was not the significance of any one or a combination of 'initiatives', but the possibility of changing how things were done. The development of a modest degree of flexibility was an important basis for wider changes later.<sup>105</sup>

Others might argue that this goes too far, that there are risks to government in excessive disruption or overhasty changes, or through the unintended consequences of ill-thought-out change. In fact, the time between the initial efforts of Rayner in 1979 and final publication of *Next Steps* in 1988 (let alone the continued creation of agencies in the 1990s) show how long civil service reforms can be to 'shake down'. The right speed for reform versus the right kind of change was something Thatcher herself thought in 1979. Rayner acknowledged as much, when he set out his own vision for the scrutinies with the assurances about the kinds of results he was seeking: "I know that you are keen to avoid buying short-term benefits at the price of forgoing lasting reform."<sup>106</sup>

It would be wrong to view the whole period of Efficiency Unit to *Next Steps* as an automatic evolution from one stage to the next. Yet there were continuities of people and practices which link the Rayner era with *Next Steps*. The *Next Steps* report's own conclusions about the Efficiency Unit's impact are revealing not only of how those on the inside saw it, but also in that there was some coherence in the overall efforts.

The main themes which have emerged from our discussions in the course of the scrutiny suggest that the changes of the last seven years have been important in beginning to shift the focus away from process towards results. The development of management systems, particularly those which cover programme as well as administrative areas, forces senior and junior management to define the results they wish to achieve. But this also produces frustrations because of the lack of freedom to vary the factors on which results depend. The new systems are demonstrating how far attitudes and institutions have to change if the real benefits of the management reforms, in the form of improvement in the way government delivers its services, are to come through. It was striking that in our discussions with civil servants at all levels there was a strong sense that radical change in the freedom to manage is needed urgently if substantially better results are to be achieved.<sup>107</sup>

This is important, as it is fascinating to wonder whether the greater impact and more comprehensive efforts of the later era were based on the foundations of earlier efforts; that there were two stages in the change process. The point does not bear excessive weight. There were many other initiatives related to the scrutinies that were of equal, if not greater, importance, both positive and negative – not least the Financial Management Initiative in bringing greater information and transparency as a tool for control, the psychological effect of manpower cuts, or the impact of policies such as privatisation. On the other hand, whatever the ongoing debate about the future of arm's-length bodies and how successfully they are operating, there is no denying that the changes achieved by that report and its implementation were significant.

Questions about the merits of the changes that were attempted or achieved – valuable in themselves – do not detract from lessons about *how* the change was attempted. Whether taken as two individual methods of change, or as two stages in a reform process, the institutions, people, methods and support of the Efficiency Unit and in its application to the overall structure of government in *Next Steps* provide fascinating insights about how governments attempt reform.

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<sup>69</sup> Robert Armstrong, in 'The Civil Service Reforms of the 1980s: Session III: The Genesis and Initial Implementation of Next Steps', seminar held 17 November 2006 (Centre for Contemporary British History, 2007), p.103. The strategy behind Rayner's scrutiny programme had been brought together in a 1982 White Paper, *Efficiency and Effectiveness in the Civil Service* Cmnd 8616 (London: HMSO, 1982). It set out principles of management which required clear information. FMI was a cross-Whitehall attempt to improve the systems of financial management. But it also required decentralised cost information, which itself ran contrary to the kind of centralised decision-making that *Next Steps* would attempt to tackle. See Metcalfe and Richards, 'The Efficiency Strategy in Central Government: an impoverished concept of management', *Public Money*, Vol. 7/1 June 1987 pp.29-32, p.30; Metcalfe and Richards, *Improving Public Management*, (London: Sage, 1990), esp. pp.177-210

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<sup>102</sup> Interview – former Senior Civil Servant

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