The Civil Service Reforms of the 1980s

edited by
Dr Michael Kandiah &
Professor Rodney Lowe

CCBH Oral History Programme

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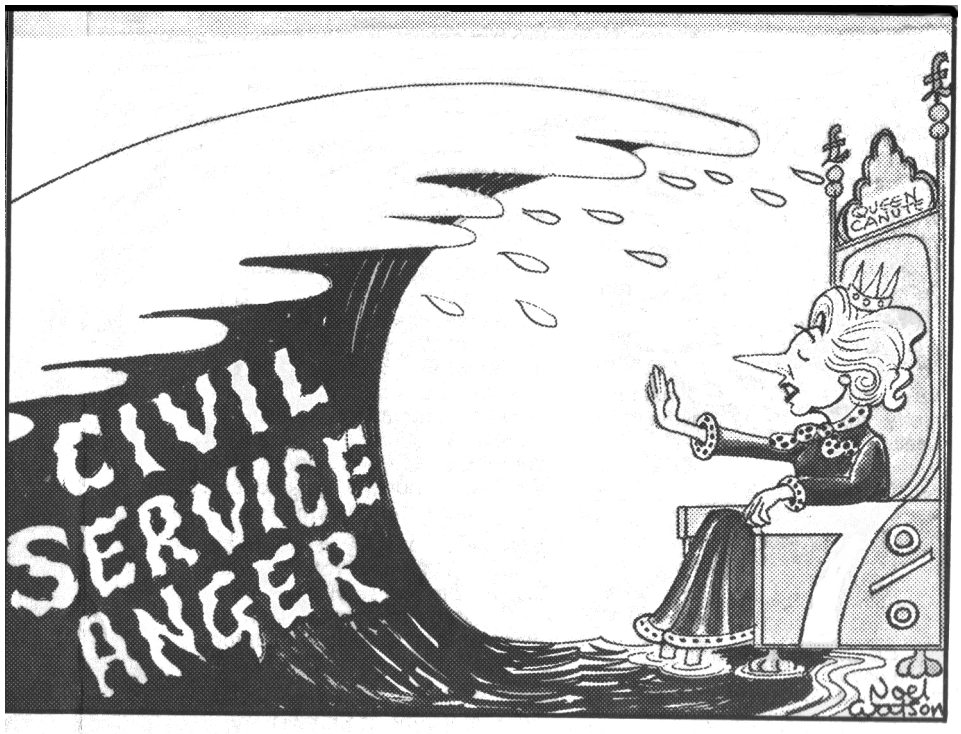

"NOT ONE CENT MORE!"

CCBH Oral History Programme
Programme Director: Dr Michael D. Kandiah

Cartoon on title page from *Campaign Report 9*, 11 June 1981, The Council of Civil Service Unions

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The Civil Service Reforms of the 1980s

Edited by Dr Michael Kandiah and Professor Rodney Lowe

Seminar held 17 November 2006
at Churchill College, Cambridge

This witness seminar was organised by the Centre for Contemporary British History, the Cabinet Office Histories, Openness and Records Unit and Churchill College Cambridge. It forms part of the official history of the Civil Service being written by Professor Rodney Lowe

Centre for Contemporary British History

Contents

Contributors

Editor:

MICHAEL D. KANDIAH	Director of the Oral History Programme, Centre for Contemporary British History

Background notes:

PROFESSOR RODNEY LOWE	Official Historian of the Civil Service since the *Fulton Report*

Witness details are given for their positions at the time of the events under discussion or other relevant position.

Session I **The 1981 Civil Service Strike**

Chair:

BRIAN GILMORE, CB	Principal, Civil Service College

Witnesses:

The Rt Hon LORD ARMSTRONG OF ILMINSTER, GCB, CVO	Cabinet Secretary, 1979-87.
LESLIE CHRISTIE	Assistant General Secretary of the Society of Civil and Public Servants
LORD CHRISTOPHER CBE	General Secretary, Inland Revenue Staff Federation, 1976-89
MIKE FOGDEN	Chairman, First Division Association, 1980-3
SIR ALISTAIR GRAHAM, Kt	Deputy General Secretary, Civil and Public Service Association, 1982-6
SIR JOHN HERBECQ, KCB	Second Permanent Secretary, Civil Service Department, 1975-81
SIR JOHN HOSKYNS, Kt	Head, No 10 Policy Unit, 1979-81
The Rt Hon LORD WILSON OF DINTON, GCB	Deputy Secretary, Cabinet Office, later Cabinet Secretary and Head of the Civil Service, 1998-2002

Session II	**The demise of the Civil Service Department and the resignation of Sir Ian Bancroft as Head of the Civil Service November 1981**
Chair:	
DR WILLIAM PLOWDEN	Director-General, Royal Institute of Public Administration
Witnesses:	
The Rt Hon LORD ARMSTRONG OF OF ILMINSTER, GCB, CVO	Cabinet Secretary, 1979-87, Joint Head of the Civil Service
The Rt Hon SIR JOHN CHILCOT, GCB, PC	Principal Private Secretary to Home Secretary, 1978–80; Assistant Under-Secretary of State, Director of Personnel and Finance, Prison Department, 1980–4; Under-Secretary, Cabinet Office (MPO), 1984–6
JEREMY COLMAN	Private Secretary to successive heads of the Home Civil Service, 1980–2
SIR JOHN HERBECQ, KCB	Second Permanent Secretary, CSD
SIR JOHN HOSKYNS, Kt	Head, No 10 Policy Unit
CLIVE PRIESTLEY, CB	Chief of Staff to Derek Rayner, Efficiency Unit, PMO, 1979-83
SIR ADAM RIDLEY, Kt	Special Adviser, Treasury, 1979-84
The Rt Hon LORD WALDEGRAVE OF NORTH HILL, PC	Minister for Housing, 1987-8, later Head of the Office of Public Service and Science, 1992-4
SIR CLIVE WHITMORE GCB, CVO	Principal Private Secretary to the Prime Minister, 1979-82

Session III	**The Genesis and Initial Implementation of *Next Steps***
Chair:	
PETER RIDDELL	Political Editor, *The Times*
Witnesses:	
The Rt Hon LORD ARMSTRONG OF ILMINSTER, GCB, CVO	Cabinet Secretary and Head of the Civil Service, to 31 Dec 1987
IAN BEESLEY	Deputy Head, Unit supporting Lord Rayner (Prime Minister's Adviser on Efficiency), 1981-3; Under Secretary and Official Head of the Prime Minister's Efficiency Unit, 1983-6

PROFESSOR PETER HENNESSY	Queen Mary, University of London
SIR ROBIN IBBS, KBE, Kt	Prime Minister's Adviser on Efficiency and Effectiveness
KATHARINE M. JENKINS	Head of the Efficiency Unit and joint author of *Next Steps*
SIR PETER KEMP, KCB	Second Permanent Secretary and *Next Steps* Project Manager, OMCS, 1988-92
SIR ROBIN MOUNTFIELD, KCB	Deputy Secretary, Department of Trade and Industry, 1984-92
SIR AUGUSTINE (GUS) O'DONNELL	Cabinet Secretary, 2005-
The Rt Hon LORD RADICE, PC	Labour Party member of the Treasury and Civil Service Select Committee, 1987-96
The Rt Hon LORD WALDEGRAVE OF NORTH HILL, PC	Minister for Housing, 1987-8, later Head of the Office of Public Service and Science, 1992-4
The Rt Hon LORD WILSON OF DINTON, GCB	Deputy Secretary, Cabinet Office, later Cabinet Secretary and Head of the Civil Service, 1998-2002

Citation Guidance

References to this and other witness seminars should take the following form:

Witness name, in 'Witness Seminar Title', seminar held [date of seminar], (Centre for Contemporary British History, [date of publication], [full internet address of seminar]), page number of reference [use the number given in the header at the top of the page referenced].

For example, Lord Armstrong of Ilminster's comments on civil service morale should be footnoted as follows:

Lord Armstrong of Ilminster, in 'The Civil Service Reforms of the 1980s: The 1981 Civil Service Strike', seminar held 17 November 2006, Centre for Contemporary British History, 2007, http://www.icbh.ac.uk/icbh/witness/civilservicereforms, p.42.

For Harvard reference style, use (CCBH Witness Seminar, date of publication) in the text, and the following style in the bibliography:

'Witness Seminar Title', held [date of seminar], Centre for Contemporary British History, [date of publication], [full internet address of seminar].

For fuller guidance on the citation of all types of electronic sources, please refer to the H-Net Guide at:

http://www2.h-net.msu.edu/about/citation/general.html

Chronology

1934		First government agency established, the Unemployment Assistance Board
1935	Feb	Ministers suspend UAB benefit scales due to demonstrations and Parliamentary pressure
1955		Priestley Commission – pay comparability introduced
1961		*Plowden Report*: first highlights the importance of management at the centre and 'down the line'
1962		First pay pause – public sector only
1968		*Fulton Report*: attack on the 'cult of the amateur' Civil Service Department created
1969	Jan	Staging of pay awards *In Place of Strife* published CPSA becomes first union to adopt a strike policy
1970-4		Creation of departmental agencies under Heath Government: Executive responsibilities 'hived off' to agencies e.g. CAA (1971) as well as creation of departmental agencies e.g. Defence Procurement Agency (1971) and PSA (1972). Labour government continues trend towards hiving-off e.g. MSC (1974) which assumed responsibility for Training and Employment Services Agencies
1971		CPSA establishes a fighting fund
1972		Union refusal to process pension award Industrial Relations Act
1973	Feb	One day strike (CPSA, SCS, C&E)
1974		Development by CSD/Treasury of financial information system
1976		Pay Research suspended (until 1978)
1977	Jan	Creation of Bureau of the Budget out of Treasury narrowly defeated
	Jul	English Committee recommends closure of CSD
1979		Lord Rayner heads Efficiency Unit, situated in No 10 'Lasting reforms' programme seeks improved management through changes in administrative culture and constitutional framework
	Feb	One day strike
	Apr	Settlement (9 per cent + staging)
	May	Election of Mrs Thatcher and the Conservatives Creation of the Efficiency Unit
	Nov	MINIS introduced in DoE

1980	May 1	Cabinet approves 630,000 manpower target (from 708,000) Council of Civil Service Unions formed Inflation at 22 per cent
	May 6	Rayner's 'lasting reforms' agreed and MINIS circulated to Cabinet Permanent Secretaries' less than successful dinner with the Prime Minister
	July	'Big 4' recommend abolition of CSD and Mrs Thatcher conditionally agrees
	Oct 27	Government unilaterally abandons pay comparability
	Oct	Annual Rayner scrutiny programme endorsed by Cabinet 'Operation backtrack' Hawtin-Moore Report rejects CSD-Treasury merger
	Nov	Mrs Thatcher rejects merger
	Dec	Treasury Select Committee (Du Cann) rejects merger Mrs Thatcher considers creation of a Prime Minister's Department
	Nov	Robert Armstrong succeeds Sir John Hunt as Cabinet Secretary
1981	Jan	E Committee accepts 7.5 per cent rise likely Alan Walters appointed economic adviser Departmental running costs up 20 per cent
	Feb 5	15 per cent pay claim submitted
	Feb 13	Cash limit of 6 per cent on pay announced
	Feb 23	Pay offer raised from 6 per cent to 7 per cent
	Mar 9	Strike starts (273,000 out) C&AG criticises internal audit
	Apr 1	Second one-day strike
	Apr 2	Herbecq strike formula rejected by Prime Minister (7.5 per cent; arbitration in 1982, independent enquiry)
	Apr 14	Half-day strike
	Apr 23	Improved offer made after Cabinets of 9/14 April (7 per cent; no predetermined cash limit 1982; independent enquiry)
	Apr 28	Cabinet Committee (MISC 54) fails to agree new principles for pay
	Apr	*Wardale Report* on chain of command criticised by Rayner
	May 19	Cabinet choose to escalate strike
	May 21	Mrs Thatcher agrees closure of CSD with Robert Armstrong
	May 26	CCSU consult members over tactics. Negotiations reopen (to 5th)
	June 4	Cabinet reject compromise (e.g. lump sum payment)
	Jun 29	Megaw Committee on pay appointed

	Jun	Control of Expenditure white paper foreshadows FMI
	Jul 2	CCSU majority reject all-out strike
	Jul 3	Vereker/Hoskyns peace plan (leading to improved offer of 7.5 per cent on 17th) Mrs Thatcher's approval rating at 25 per cent
	Jul 23	Cabinet split over deflationary budget
	Jul 31	Strike ends
	Sep 7	Mrs Thatcher decides to close CSD
	Sep 14	Soames sacked as Lord President (head of CSD)
	Sep 27	Mrs Thatcher interviews Bancroft
	Nov 12	Civil Service Department abolished. Management and Personnel Office (MPO) formed. Robert Armstrong and Douglas Wass appointed joint Heads of the Civil Service
1982		Financial Management Initiative launched, a central requirement to ensure accountable management in all departments
	Feb	Heseltine presentation of MINIS to Permanent Secretaries' and ministers
	Jul	The Megaw Committee reports
1983		Ibbs appointed head of Efficiency Unit *Griffiths Report*, starts managerial revolution in NHS
1985		Sir Kenneth Stowe recommends Civil Service Management Board (not acted upon) Plans for a cohesive centre to ensure improved management in the Civil Service is matched by improved management of the Civil service
1986	Nov	Mrs Thatcher commissions *Next Steps* (*NS*)
1987	Jan 27	Progress report to Mrs Thatcher on *NS*
	Feb 6	First protest from Treasury. Discussions with Permanent Secretaries
	Apr	IPCS agree long-term pay deal
	Apr 2-6	*NS* submitted and discussed with Mrs Thatcher
	Apr 6	Civil Service strike starts (until 17 July)
	Jun 11	Election
	Jul	Official discussions open on draft frameworks for potential agencies
	Jul 9	First ministerial meeting on *NS*
	Aug	Office of Minister of Civil Service replaces MPO
	Sep	Mueller Report, *Working Patterns*, recommending greater casualisation

	Oct 22	Second ministerial meeting on *NS*. Majority express 'wholehearted support'
	Nov	Mrs Thatcher backs Treasury objections to *NS*
	Dec 4	Middleton compromise memorandum, agreed with Armstrong 31 Dec
	Dec 8	*Times* leader on leaked *NS* report
1988	Jan	Butler replaces Armstrong as Head of Home Civil Service
	Jan 28	Third ministerial meeting on *NS*
	Feb 18	Cabinet meeting on *NS*; House of Commons statement; press launch Kemp appointed Project Manager
	May	Kemp predicts 75 per cent coverage in 10 years, to TCSC
	Jul 14	Kemp's first progress report
	Jul 25	Supportive TCSC First Report
	Aug	First *NS* agency (Vehicle Inspection)
	Oct	Fraser replaces Ibbs as head of the Efficiency Unit
	Nov	Government reply to first TCSC report
	Dec	Inflation doubled over year to 6.4 per cent
1990		Government Trading Act
	Nov 28	John Major becomes Prime Minister; Mellor replaces Luce at OMCS
1991		Making the Most of Next Steps (Fraser report)
	May	John Smith commits Labour Party to Next Steps agencies (following earlier meetings between Butler and Kemp and the Shadow Cabinet)
	July	Citizen's Charter published
	Nov	*Competing for Quality* recommends market testing
1992	April	Sir Peter Kemp ceases to be Next Steps project manager
	Apr 9	General election
		Office of Public Service and Science replaces OMCS; Waldegrave replaces Renton. Sir Peter Levene replaces Fraser at Efficiency Unit Civil Service Management Functions Act facilitates greater devolution to departments
1993	Nov	Oughton Report into Higher Civil Service
1994		Trosa report criticises the lack of autonomy granted agencies Chief Executive of CSA resigns *Continuity and Change* foreshadows devolution of pay and grading to departments
1995	Oct	Derek Lewis dismissed as Chief Executive of the Prisons Agency

The Civil Service Reforms of the 1980s

These witness seminars were held on 17 November 2006 at Churchill College, Cambridge.

For details of the chairs and witnesses for all three seminars, please see p.9 above.

Seminar I:
The 1981 Civil Service Strike

Background Notes
Rodney Lowe

Fundamental principles at stake

> It is right and proper … that civil service pay should reflect such changes as take place in the outside world. If, however, changes were proposed in the civil service with the intention of giving a lead on such matters … in order to further a political or social objective, … pay negotiations would become involved with political issues and the non-political character of the civil service might well be impaired.
> Since the civil servant's … ultimate loyalty is to … the public, which casts a jealous eye on public expenditure, he is entitled to some guarantee that his just deserts will not be sacrificed to political expediency or to uninformed Press or public criticism
> *Priestley Report* (1955)

a) Pay comparability. The annual, retrospective uprating of pay 'in line' with private sector earnings, as established by an independent Pay Research Unit.

b) An 'ordered and agreed pay system', designed to both minimise the disruption of public services and enable union leaders to control their more militant members

Versus

c) Cash limits, to enable government to control public expenditure and thereby achieve monetary targets. Capped expenditure would encourage *inter alia* pay to reflect *local* market conditions (as measured by recruitment and 'wastage') and reductions in manpower to fund wage increases

d) Changed political perceptions. Government as a major employer to give a lead to other employers in fighting inflationary pay demands and to win public support for such action.

> 'One of those situations where the unthinkable was the only one worth thinking about'
> (Sir John Hoskyns, *Ju per centst in Time*, p.18)

IMMEDIATE ISSUES

a) Pay. The Unions demanded 15 per cent. They were initially offered 6 per cent and finally won 7.5 per cent (7 per cent + £30)

b) Pay comparability. Not restored, but a new pay system was not arbitrarily imposed. An independent enquiry (the Megaw Committee) was appointed to establish one. Megaw was an uneasy compromise. Comparability should be 'a much less decisive influence than in the past'; more market factors (including performance related pay) should be factored in; but there was to be no decentralisation of pay, and pay levels should be checked for comparability every four years.

c) Cash limits. The 6 per cent limit for 1981/2 was achieved. Further cash limits on pay were suspended until Megaw reported. It ruled that cash limits should be determined 'as far as possible. By realistic pay assumptions' and should 'not necessarily imply rigid control of pay increases'.

d) Arbitration. Permitted, 'over the Prime Minister's dead body', until Megaw reported. It ruled, in a change from practice since 1925, that arbitration had to be at the request of both, not just one side; and awards could be overridden by Parliament (not the government, as the Cabinet had earlier wished).

WINNERS AND LOSERS

The unions

a) Organisation. Exceptional solidarity. Individual unions (including FDA) cede autonomy to CSSU. Militants restrained. Organised return to work.

b) Tactics. Maximum disruption at minimum cost. 3 days of action but mainly selective action by c5000 computer operatives (Revenue Departments, MOD). Strike dues exceed strike pay by £2m. Public not alienated (e.g. by suspension of social security payments). The one mistake: strike action at GCHQ.

c) Results. Win the battle but lose the war?

Government

> 'It could not been seen as a famous victory, though it fell well short of disaster'
> (Lord Howe, *Conflict of Loyalty*, p. 221)

a) Organisation. Serious division between the managerial, economic and political objectives of CSD, the CPRS/Treasury and the No 10 Policy Unit.

b) Tactics. Cabinet badly split between compromise deals to secure early return to work (rejected 9 May and 4 June) and escalation of strike (including use of Temporary Relief from Duty Orders to suspend without pay those without work or declining to cover for strikers).

c) Results. Lose battle but win war? Better terms would have been secured by June formula, and then obliged to settle in July by financial pressure. £130m lost in revenue + £500m in interest charges (Treasury figures). But pay comparability greatly qualified after Megaw Report.

LONG-TERM SIGNIFICANCE

Industrial relations

Was this the end of 'agreed and ordered' relations as embodied in Whitleyism and the Civil Service Department?
Did union discipline ironically defuse the threat of militancy, as exhibited in the 1973 and 1979 strikes? Why was organisational strength and the greater market power provided by computerisation not used to secure greater short and long term gains

Was a major opportunity lost to strengthen union power by the failure to cede greater power permanently to the CSSU or to form a single civil service union?

Management

Did the disbandment of the Civil Service Department and the return of responsibility for industrial relations to the Treasury facilitate greater efficiency through, for example, improved management and greater responsiveness to market forces?

Political perceptions

Did, as was intended by some, the strike change public perceptions of the proper role of government and the efficacy of the market?

SELECTED QUOTATIONS

On the strike's purpose

> 'We should be using this dispute to challenge and then start to shift… conventionally woolly minded thinking' (Hoskyns, *Just in Time*, pp.193, 293, 304).

On government tactics

> 'An object lesson in how industrial relations should *not* be managed' (Sir John Herbecq).
>
> Lord Soames (as chief negotiator in June) 'being right cost him his job'.
>
> Mrs Thatcher (in rejecting the June deal) 'being wrong cost the country £500m' (Ian Gilmour, *Dancing with Dogma*, p.42).

On union strength

> 'It was dangerous to encourage militancy in the Civil Service unions. If they took industrial action, the government would have to give way almost immediately: and once they had tasted blood they would realise their own strength' (Roy Jenkins as Chancellor of the Exchequer, 1969).

Union reactions.

> 'No loyalty could be given to political prejudice' (Ken Thomas to CPSA conference, on rejection of pay comparability in 1980).

Seminar Transcript

LORD WILSON OF DINTON

Tessa Stirling has asked me to say a few words about the ground rules, and I shall begin by warmly welcoming everyone. It is a most impressive gathering.

The partnership that this seminar represents is important. Tessa is doing a terrific job at the Cabinet Office, but we are also indebted to Churchill College for bringing us together and to Sir John Chilcot and the Centre for Contemporary British History,* the third party at this gathering. Rodney Lowe's 'History of the Civil Service' is important. One of the last things that I did was to commission this official history in 2002. It is extraordinary how quickly memories evaporate. At the time, we think that they are solid, but actually they go in no time at all.

Sir John Chilcot is the chair of the Centre for Contemporary British History Advisory Committee.

The aim of our proceedings this afternoon is to reflect on the strengths and weaknesses of the Service before 1980, examine how it developed in the 1980s and capture the great pool of knowledge and have some real insights into what went on. The proceedings are under Chatham House rules,* which are not always as strong as one would wish. It is our intention to publish the transcript of the seminar, but only when all the participants have approved the record of their contribution. Until then, no comments are attributable.

For details of Chatham House rules, see http://www.chathamhouse.org.uk/ about/chathamhouserule/

The chairmen of the seminars may allow comments from the floor, but there are time constraints. If anyone is moved to comment and unable to do so, but absolutely bursting to say something, please send your contribution to Rodney Lowe. His contact details are in the pack and such contributions may be added to the transcript of the proceedings.

I come now to the unveiling of the box. I want to put you in the mood for remembering the 1980s. When I became Head of the Economic Secretariat under Robert Armstrong, I had half an hour's handover with Brian Unwin.* I was quite apprehensive about meeting Margaret Thatcher* and I asked him whether he had

Sir Brian Unwin, civil servant. Deputy Secretary, Cabinet Office, 1985–7.

Margaret Thatcher (Baroness Thatcher of Kesteven), Conservative politician. Prime Minister, 1979–90.

any tips for dealing with her. He said, in his rather patrician way, 'Well, you will be sitting next to her and she will put her handbag down between your chair and her chair. At the end of meetings, she likes to make a good exit so it is important that you do not get the legs of your chair mixed up with the straps of her handbag.' Can we unveil the handbag? Do you remember it? It is the real thing.

I shall now quote a meeting on the Community Charge which we knew was likely to be difficult. Everyone had come into the room, but the Prime Minister ran out and did not come back for ages. Conversation died down, but then Nick Ridley* said, 'Well, no Prime Minister – but we have the handbag so perhaps we can begin!'

Nicholas Ridley (Lord Ridley of Liddesdale, 1929–93), Conservative politician. Foreign Office Minister of State, 1979–81.

BRIAN GILMORE I have two more things to say about our ground rules. First, I understand that, although we have microphones, the poor people out there – the body of the kirk – have no speakers, so can we around the table please speak up if we wish to be heard by them? Secondly, I shall do my best to bring in the body of the kirk, but be aware that I have seven witnesses here for an hour and a quarter, and my eyesight is not the best.

We shall begin by getting the facts of the narrative out of the way, but before we do so let those around the table say who they are and what position they occupied at the time of the 1981 strike. I was Principal of the Civil Service College at the time of the strike, which means that I took no part in it whatever.

LORD ARMSTRONG OF ILMINSTER I was Cabinet Secretary at the relevant time.

SIR JOHN HERBECQ I was Second Permanent Secretary in the Civil Service Department under Ian Bancroft.*

Sir Ian Bancroft (Lord Bancroft of Coatham, 1922–96), civil servant. Head of the Home Civil Service and Permanent Secretary to the Civil Service Department, 1978–81.

LESLIE CHRISTIE I was the Assistant General Secretary of the Society of Civil and Public Servants at the relevant time. My main responsibility at that stage was computers and new technology, which would be called IT these days.

SIR ALISTAIR GRAHAM

Campbell Christie, civil servant. Deputy General Secretary, Society of Society of Civil and Public Servants, 1975–85.

John Sheldon. General Secretary, Civil Service Union, 1982-8.

Clive Brooke (Lord Brooke of Alverthorpe), civil servant. Deputy General Secretary, Inland Revenue Staff Federation, 1982-8.

I was Deputy General Secretary of the Civil and Public Services Association at the time. A year later, I was elected General Secretary. My job during the strike was with Leslie's brother, Campbell Christie;* John Sheldon;* and people such as Clive Brooke* from the Inland Revenue Staff Federation. We met each day to decide what area should come out on strike.

SIR JOHN HOSKYNS I was head of a very small No. 10 Policy Unit at the time of the strike.

FOGDEN I was Chairman of the Association of the First Division Civil Servants at the time of the strike.

LORD CHRISTOPHER I was the General Secretary of the Inland Revenue Staff Federation. I suppose that my job was to receive its requests for troops to come out on strike.

GILMORE Thank you. When our remarks are published, the background note will be made available. Can we take that as given? Does anyone have a serious problem with the facts and the narrative, paragraphs 1 to 4 of the notes?

CHRISTIE Paragraph 4 sets out the antecedents to the strike, but an area that was missed was in 1979 [the Winter of Discontent] when the CPSA and the Society had a strike of some six or seven weeks. It was selective action and we learnt the experience then that led up to 1981. I thought that that was relevant.

GRAHAM

I just thought that the document slightly underplays the significance of withdrawal from the 1956 [Priestley] pay agreement. As I am sure will come out, the loss of pay research was the motivating factor for individual civil servants. Leslie referred to the 1979 strike. I think that in terms of the actual tactics that were used during the strike, I and Campbell Christie, with whom I worked closely, were very much influenced by the success of selective strike action that had taken place at British Telecom (BT) in previous years in which we had taken selective action at the billing centres and affected BT's cash flow, which was a powerful weapon in an industrial dispute. Some of that earlier background was undoubtedly influential in the strategy that the trade unions developed during the strike.

CHRISTOPHER

The other factor was cost. Selective action could be afforded. Anything much larger than that could not be afforded.

GILMORE

The point about flavour is clear. The background note is a pretty austere account judging even from where I was in the pavilion. I thought that we could first put some flesh and flavour on the account of what actually happened. Let us start with Sir John Hoskyns, because the first thing that struck me – it is close to Alistair's point – was that, when the unions asked the Government for 15 per cent, instead of saying, 'No, consider 6 per cent', the Government said, 'You can't have a pay agreement at all. You can't have a comparability principle. And you can't have arbitration, which you have had since 1925.' That meant, 'You get what you are given', which read like a declaration of war. Was that the calculation at the time? Was it really as serious as that from the Government's point of view?

HOSKYNS

Geoffrey Howe (Lord Howe of Aberavon), Conservative politician. Chancellor of the Exchequer, 1979–83; Foreign Secretary, 1983–9 and Deputy Prime Minister, 1989–90.

It could be perceived like that, but the origins of the Government's position were really established almost a year before the strike began. I had a telephone call a week ago from Geoffrey Howe* who we had hoped would be here. He wanted to talk about today's

seminar. His opening remark was, 'I do hope that you are going to say something about the context for the Government at that time and the scale of problems and, if you like, the ambitiousness of the Government at the time of the strike.' I said that I certainly was proposing to do that because it was important. I wish briefly to paint in a little background because most of us, even of my generation who were involved at the time, forget what it was really like.

No one would argue that in the 1950s and 1960s there was anything but relative decline of the United Kingdom economy, gradually becoming more serious and more clearly recognised. A small part of the problem was industrial relations. In a sense, the trade unions had been in a special position in respect of the law since 1906. I am not an historian, but I think that someone in the House questioned the position in which the trade unions were then put. During the 1970s, inflation was above 20 per cent. There was the [1976] IMF crisis. Additional powers were given to the trade unions – the Trade Union and Labour Relations Act 1974 and the Employment Protection Act 1975. We had the First Division Association of the Civil Service associating with the TUC, although with an explicit political caveat. We had oil shocks following the fall of the Shah.* Civil Service comparability was becoming contentious because of the stagflation problem. It culminated in the winter of discontent. We were already looking back on a short period of great turbulence.

Muhammed Reza Shah Pahlavi, HM The Shah of Iran (1919–80). The Shah of Iran from 1941 to 1979.

We should also remember that the Cold War was alive and well. In the late seventies I had a conversation with someone who was certainly in a position to know. He told me that in about 1978 junior civil service staff – in other words, too junior to require positive vetting – had been travelling to East Germany for 'disruption training'. I do not know the numbers or exact timings. When I introduced myself to Sir John Herbecq in the early summer of 1979, I recounted that story to him and quite rightly he remained absolutely expressionless, but looked me straight in the eye and said, 'You don't surprise me.' That is probably enough background

to where we were in 1979-1980. The beginning of the strike was really in June 1980.

GILMORE I saw Geoffrey Howe a couple of nights ago. He had been reading the papers, and said to me rather musingly how surprised he was to discover how much of it was bureaucratic games at the time, but the one thing that he did remember about it was that he simply had to get control of the Government's cash situation, including civil service pay. John, you were surprised?

HERBECQ I was not surprised because we knew that a group of Trotskyists at the central office at Newcastle were the bane of the life of their union, never mind anyone else.

GRAHAM I can confirm that.

HERBECQ What really stuck in my craw was the fact that not only were they there, but that we were paying them to do it. They were on four or five days a week facilities' time, which meant that they were drawing pay from us and putting in no work for us at all, but spending their entire life disrupting the Civil Service. I asked you [Sir John Hoskyns] why we should put up with that, and you organised a meeting at which Paul Channon,* our Minister, and Jim Prior,* the Secretary of State for Employment attended. I thought then that we would get to grips with the situation.

Paul Channon (Lord Kelvedon), Conservative politician. Minister of State, Civil Service Department, 1979–81.

James (Jim) Prior (Lord Prior of Brampton), Conservative politician. Secretary of State for Employment, 1979–81.

Prior was supported by his Civil Servants who, if I may be slightly controversial, seemed to be pretty wet, and nothing else happened. I have never understood why there was no follow up. At that stage, I had rather given up hope of a new Administration who would grasp the problem and do something about it.

CHRISTIE Anyone who thinks that Trotskyists went for training to East Germany has it the wrong way round! If they were Trotskyists, they more likely to be disposed of in East Germany than trained.

CHRISTOPHER Leicester University was more likely.

GILMORE I suspect that we may be going too far from the main story.

CHRISTIE They were disruptive; there is no question about that, but why should they have a major impact on 500,000 civil servants who had been absolutely fair, above board and had worked for the Government all their lives? That is what led to the dispute. I am sure that Mike Fogden will bear out what I am about to say. You do not get the FDA often overexcited about what had happened. It was the abolition of comparability, which everyone in the Civil Service saw as being fair and the abolition of arbitration that started it. It was not Trotskyists; it was not Communists. It was just the sheer unfairness of everything. I understand the point about cash limits, but one of the points of comparability was that, before we ever received anything, other people had to have it before us. That is why we were always catching up. We were never ahead. It was always a catching-up exercise.

GILMORE Can I take this back to you, Sir John. There were a few militants. They were nowhere to be seen in the strike incidentally and nowhere to be seen afterwards.

HOSKYNS This was not the high point of the Trotskyists.

CHRISTIE No, no.

GILMORE You cannot really be suggesting that it was because of those people that the strike was taken on deliberately.

HOSKYNS Absolutely not.

GILMORE Why was it?

HOSKYNS

I was just touching on some of the things that had happened in the period running up to the 1979 election. As Sir John Herbecq is here, I thought that it was a good opportunity to mention that extraordinary exchange.

As for the Government simply saying, 'No, we are not giving you what you are claiming and, indeed, we shall abolish this and that', it is important to know that the Government had done a lot of thinking, in particular Geoffrey Howe and his Treasury team, both before and after the election. Let us consider the problem during the stagflation years. It is worth remembering a point that Nigel Lawson* made: in the period 1973 to 1979, if we exclude North Sea Oil, which was beginning to come on stream, the growth rate on average over that period was half of 1 per cent per annum of GDP. We had stagnation. We had quite high taxes and inflation that averaged 15.5 per cent over that same period. It was a serious business.

Nigel Lawson (Lord Lawson of Blaby), Conservative politician. Chancellor of the Exchequer, 1983–9.

The Government had to face the dilemma. All the participants in the economy, such as those working particularly in the large companies in the private sector, the nationalised industries, the public services and the Civil Service, were all in a way linked and performing a stately dance to the music of comparability. 'I had my award, so the man on my left looks and said that last August he received this, so we really do not expect less than that and sure enough the man next to him saw what he had received so he felt that he had to do something.' The Government who were not concerned with anything at that point other than trying to get hold of an unsustainable situation, which had totally defeated previous Governments, somehow had to break into the stately dance and say, 'This particular dance must stop and we must do something different.*

Sir John Hoskyns commented: 'My speaking notes included the Plowden Convention for public expenditure planning, a further link in the self-sustaining inflationary circle. I decided to omit Plowden in the interests of brevity.'

It was not unreasonable that the Government then decided that the sensible place to start, which also fitted the calendar constraints, would be the Civil Service because that was the heart of the public sector. It had the closest relations to the Government with people working in the Government's machine. On 26 June 1980, I remem-

ber attending an E Committee [the Cabinet's Economic Committee] and grappling with the problem. The conventional view of many people in the Cabinet was, 'Well, last year it was about 14 per cent on the total pay cost of the Civil Service.' At that time, the Civil Service unions had not put in its demand; that would have happened later.

Robert [Armstrong] will remember the same conversation around the Cabinet table when it was said, 'Well, we ought to do something like 12 per cent. We can then get through the coming year in peace.' The numbers had, in fact, already been constrained by an important innovation called the 'medium term financial strategy', which had been unveiled in the 1980 Budget. It was rather arcane to the outside world. It probably did not mean anything at all, to most people, but it was a deliberate and very important set of numbers. It was not really a strategy, but a set of objectives that the Government had to achieve roughly during the next four years in order to get public spending and inflation properly under control.

GILMORE

Sir John Hoskyns commented: 'I'm not sure what the Chairman was referring to; I assume this refers to my *Just in Time*.'

In your background notes to the book,* you say that there was a point to be put across to the public perception, which was that comparability had to stop. It was decided deliberately to take on the Civil Service unions to stop comparability.

HOSKYNS

That was where we had to start. The actual number was a bit of a shock to many E Committee members. In a perfect world, which of course we are never in, if it were possible one would be looking at a figure of 6 per cent. Okay, it might be a little more, but if it were anywhere near 12 or 14 per cent, we could virtually take the medium-term financial strategy and put it in the bin, a matter almost of weeks after it had been announced.

GILMORE

Alistair, now that you know that that was in the mind of the Government, and that comparability had been suspended more often than not since 1973, why did you respond in such a way?

GRAHAM

I do not think that one had any illusions at the time that they were a fresh Government with a lot of energy and some radical economic policies to put the ills of country right. To take on the Government on a central issue of their policy was not the most sensible thing to do. That was very much at the back of our minds. We did not have any illusions about it. It is interesting that a few years later when I was General Secretary of the CPSA and it came to the banning of trade unions at GCHQ,* after we had seen Lord Armstrong, who said that the announcement would be made in the House of Commons, we made a decision not to use strike action as an attempt to change policy. We decided to take a longer term strategy of trying to win the debate.

General Communications Head Quarters is the centre of the UK's signal intelligence operation.

I do not think, however, that we thought that was an option in the circumstances. It was a central tenant of civil servant thinking that if we did not have a pay mechanism that had been built into how the trade unions operated for reflecting what was happening in the rest of the labour market, we would be severely disadvantaged. The strength of feeling among civil servants, as Leslie has identified, was so strong that we would have been dramatically undermined and lost members on a massive scale if we had not chosen to put industrial pressure on the Government, even though we knew in constitutional terms that it was extremely difficult for Civil Service trade unions to be seen to be taking on the Government on a central issue of policy.

It is interesting that yesterday we were almost in a similar situation on police pay. In fact, the Government have been forced to accept an arbitration decision that went against them on police pay so the police are receiving an increase of 3 per cent from September 2006. The Government have immediately set up an inquiry rather like they did in the 1980s to devise a new way in which to determine police pay. I suspect that they will build up the same antagonism in the police as the Government did in the Civil Service in 1981.

GILMORE Before I move on from how it started, I have two quick questions. Mike Fogden, your members were those to whom the rescue from the militant unions might have come as a salvation. Why did the First Division Association join in?

FOGDEN I am not sure that that is the right perspective. I do not think that we saw them as militant unions. It is fair to say that the membership of the First Division Association was astounded by the audacity of a Government who could unilaterally revoke an agreement that had been in place for a long time without a mature discussion or consultation. At the time, the FDA was in a big dilemma – which admittedly it still has – in that the executive committee in 1979 had decided to support the strike that took place then. The membership was upset about that because it was not consulted. I became Chair after that event and, as a consequence, we put in place a mechanism whereby we would consult our membership before we ever suggested taking strike action. We did so.

In the nature of the FDA's membership, there was always the tension that is self-evident to those here between maintaining ministerial confidence in our political neutrality. At the same time, however, as individuals we hoped to gain recognition and respect, albeit in the pay system or whatever. That was seen as though we were being de-privileged. Ultimately, we had a vote on whether we should participate and the interesting thing was that it was passed by 53 per cent to participate in a one-day strike. It was felt by the FDA, which traditionally had never been in such territory, that the concept of participating with fellow trade unionists was still finely balanced.

GILMORE Those are the views of the parties to the strike, and Robert and John are in the middle. You will have to form judgments and advise about such matters. Do you want to add anything, Robert?

ARMSTRONG No, I do not want to add very much. John Hoskyns has described the thinking about such matters very fairly. I remember the feeling that the pay research system had become circular. It was felt that the Pay Research Unit looked back at what had happened in the comparable groups over the period and recommended accordingly for the Civil Service groups concerned. What was recommended was then played back in the places where comparisons were made, so that bred the increases in the next round. The Government and No. 10 had a strong element of feeling that that had to be broken – even if it meant destroying the pay research system – because it was simply perpetuating wage inflation.

John may remember better than I do, but the decision to withdraw arbitration followed from the decision to abolish pay research. The Government's stance was one that did not allow for arbitration on the outcome. It must be said that Mrs Thatcher was instinctively opposed to arbitration!

CHRISTIE That is a fair comment.

GILMORE John, do you want to add anything before we move into what puzzles me about the sequence of events?

HERBECQ We have probably gone as far as we need.

GILMORE What puzzles me about the cause of the strike is why it lasted so long. Obviously, the numbers are nothing to do with it. For example, 7 per cent had been offered by the end of March, if not earlier. In a sense, comparability did not have much to do with it, because Megaw* had been decided on, and was out in public fairly early on. Yet it dragged on until the end of July. What went on and why? I am not sure where to begin. Is it fair to begin with you, John?

Sir John Megaw (1909–97), lawyer. Chairman., Committee of Inquiry into Civil Service Pay, 1981–2. The Megaw Committee of Inquiry into Civil Service Pay. It reported in July 1982, Cmnd. 8590: Research Finding Cmnd. 8591.

HERBECQ What caused the bad atmosphere was not just the repudiation, but how it was done. There was no consultation. That left us with a bad

situation, not one where there could be a gentle little strike for a week and things would then be back on board quickly after that.

The key to the matter was the withdrawal of arbitration. The settlement for the current year was not a problem; 7 per cent was on the table, 7.5 per cent settled it. The long term was in the hands of Megaw. Other witnesses will correct me if I am wrong, but I believe that the unions were quite content to leave that and see what Megaw produced. The difficulty was what to do in 1982, which was the forthcoming year, by which time Megaw would not have reported. Pay research had been abolished. If arbitration were denied, we were simply saying in effect that you will get in 1982 what the Government will decide you will get in 1982 – no discussion, no negotiation, no nothing.

Why did it drag on so long? Immediately after it started, we were asked in the CSD what would settle it. The key to that was the loss of arbitration, which had been around since the 1920s. It had survived the economic depression of the 1930s and the war, so it was not a wrecker of the economy. When I went along with Soames* to see the Prime Minister and mentioned arbitration, she immediately said, 'Over my dead body.' And there we were.

Christopher Soames (Lord Soames, 1920–87), Conservative politician. Lord President of the Council, Leader of the House of Lords, Ministerial Head of CSD, 1979–81.

Not surprisingly, the unions were not prepared to go away and say, 'All right. We will take whatever you give us. We will forget about next year.' The Government were not willing to make any move at all. I talked to Soames about it and said that it would land us in great trouble.

GILMORE Let us go back to the unions. Tony, Was it all about arbitration?

CHRISTOPHER Arbitration was a substantial factor. It was the clincher. We recognised that there would have to be change. Listening to what Sir John Hoskyns said, the tragedy was that no one looked ahead at the potential consequences of taking an arbitrary line in relation to Civil Service pay. We must bear in mind, too, Leslie's point – that we followed, but never led, on pay. That was not unimportant in the

context of Civil Service pay.

There was a determination to go on for ever if nothing happened, but the money ran out. The strike was financed collectively by the unions. It became increasingly difficult for some of them to collect the money that was required. The Inland Revenue staff would have gone on indefinitely, but I had to tell the executive that we would not have any more money beyond the next week, and that we had a responsibility to tell the troops that that was the case and to say that the strike was effectively over. However, there was no problem. The feelings were as high then as they were in the beginning. Indeed, in most strikes they become higher. The first days are the worst in a sense, but it then becomes very progressive.

I can speak with knowledge and depth only about the Inland Revenue, which is not in a much better position today, but John Hoskyns has not referred to the wastage rates in certain grades of the Civil Service. I was seeing a wastage rate in some grades of 30 per cent. Those factors were not taken into account. Why? It is difficult to say that it was not effectively a political decision, which up to a point can be justified by the economic arguments that have been advanced, but it destroyed the Whitley system and it has never returned.*

The Joint Whitley Council System of Industrial Relations within the Civil Service that had maintained orderly industrial relations since 1920.

GILMORE

Perhaps I should just add for the record that a wastage rate of 30 per cent means that one in three of all the staff at the Revenue at the beginning of the year are not there at the end of the year.

GRAHAM

I agree entirely about the issue of money, certainly for the CPSA. That was not because we represented lower paid staff; we did not have as well-organised a machine as the Society of Civil and Public Servants and the Inland Revenue staff, which were tightly organised in one Government Department. We were much more loosely organised and, thus, collecting the levy to pay people on selective strike was a difficult task.

I was always keen on selective strike because it always seemed a way

in which to develop a strike that did not create the sense of bitterness that, for example, there was in the Post Office workers' strike when Tom Jackson* brought them all out on strike. The sense of bitterness and industrial relations at the Post Office have been pretty grim ever since. Selective action would not hit the strikers' pockets in the same way. The rest in a solidarity sense were funding that form of action.

Tom Jackson (1925–2003), trade unionist. General Secretary, Union of Communications Workers, 1967–82.

CHRISTOPHER We did not receive public objections. We received public support, especially for my people.

GRAHAM Yes, because we concentrated particularly on the cash flow aspect. A few years after the strike, my wife and I were invited by Lord Howe to Chevening for Sunday lunch. Christopher Soames was there. I had hardly got into the room and introduced myself before he started. He spent all Sunday lunch talking in bitter terms about the Civil Service strike and saying how it could have been settled for an extra 0.5 per cent. He had said to Margaret Thatcher that the dispute could be settled for an extra 0.5 per cent and she had said, 'Under no circumstances.' He said, 'I am sorry, Prime Minister, but I want to go directly to the Cabinet on this.' When he got to the Cabinet, he noted with wide-eyed surprise that they had all been stitched up. He was sacked a few weeks after the strike. However, the sense of bitterness that still existed was interesting in political terms while, for me, life had moved on and I was doing other things. He was still extremely bitter about what had happened during the strike.

GILMORE Robert, it was obviously not you who had stitched them all up. You wanted to add something.

ARMSTRONG Christopher Soames had ceased to be a close associate of the Prime Minister. He was seen as part of the wets, an old-fashioned type of Minister. I do not think that the Prime Minister disliked him partic-

ularly, but she was not on the same wave length.

We must not leave out of the analysis what happened in 1981 and the Prime Minister's sense of annoyance when the service at GCHQ was interrupted. That was one of the aspects that most upset her, and we reverted to that three years later. If we are making a record of what happened in 1981, the Prime Minister's reaction was significant.

HERBECQ

Bill Kendall, former General Secretary of the CPSA and Secretary General, Council of the Council of the Civil Service Unions. The Council was the joint negotiating body for the Civil Service Unions, formerly called the National Staff Side of the Joint Whitley Council.

The moment that that started at GCHQ, I was clear that it was an own goal by the staff association. I got on to Bill Kendall* and said, 'If you have any sense, you will call that off or you will be attacked for putting national security at risk. You will be making a huge mistake.' He did. The relevant union leader was on the telephone to me quickly thereafter to whom I said much the same thing. The action did not in fact last any length of time. That was the only intervention I made.

CHRISTOPHER

No, it did not last very long.

CHRISTIE

The decision to involve GCHQ was merely meant to show that there was no part of the Civil Service that was not affected by what was happening. I was not involved in GCHQ at the time, but you asked why the strike lasted so long. The Government either did not care or deliberately set out to break an ethos of the Civil Service. It was the easiest dispute that I have ever had to keep members out, and I have tried frequently! For my members of the SCPS and the middle management, you had to have a convincing case. It was the easiest issue. Keeping politics out of the Civil Service is what Priestley was about and on what we were sold fair comparisons. That was deliberately broken. It has changed the whole ethos of the Civil Service. I believe that, as an observer.

My biggest problem was telling the selective strikers at the end of July that they had to return to work. It was not a matter of keeping them out. It was because we had run out of money. As Alistair said,

it was easier for us to collect the money than it was for the CPSA or the CSU. We could have kept going, but the money was not there. Not defending the workers from the ravages of the Government wreaked havoc with people's faith in senior civil servants. The finger pointed at senior civil servants at the time.

GILMORE

I shall come later to the results, but I wish to summarise matters because I have found a couple of puzzles. You are saying that matters went on so long from the Government's side because of the iron will of the Prime Minister, particularly about arbitration and the offence of GCHQ. I notice that historians are puzzled that the unions did not do a lot better, given the sensitivities of IT and their extraordinarily good organisation. It seems that the money ran out and that no more could be raised.

John Hoskyns, now that you have heard that, would you have done anything differently?

HOSKYNS

I do not think that we had any choice. We were expecting trouble almost immediately after that June 1980 E Committee meeting [which announced the cash limit within which the pay settlement would have to be reached], after which the decisions were taken by the Chancellor. I cannot comment on the handling of the decisions. Perhaps it could have been done differently, but that presupposes that the decisions would then have led on to different arrangements, increases in what was being settled and so on. The Chancellor's view, which in my judgment was correct, was that there was not any room for anything of that kind.

The last thing to bear in mind was the beginning of trying to break out of the circular process to which Robert Armstrong and I have both referred. The perfect example of not understanding what it was all about was the comment from Ian Gilmour's* book when he said that Christopher Soames lost his job for being right, and that she got it wrong and it cost the country £500 million. However, it was not just another strike, albeit an unusual one with very unusual

Sir Ian Gilmour (Lord Gilmour of Craigmillar, 1926-2007), Conservative politician. Lord Privy Seal, 1979–81.

participants, as people have said. It was an investment of a great deal of political credibility, good will turning to bad will and everything else, in order to break and dismantle an absolutely futile charade that had been going on for years.

We must recognise that, if the Chancellor had missed that clutch point, we would have been saying, 'Okay, we shall be going through this agonising decision process in June 1981'. We would not know what else might be happening by then, but we would not have actually grasped the nettle. Already people would have been saying that they have been there a couple of years and, in a couple of years' time, there will be an election and, suddenly, anyone who was really studying form would say that they had blown it and that they were just another failed Tory Government.

GRAHAM Except, of course, such arrangements were kept elsewhere. I do not think that they were withdrawn from the police or fire services.

HERBECQ Yet the strike was settled on terms that could have been made available at the start. The Government had got nothing out of the strike that they could not have had at the beginning.

UNIDENTIFIED That is absolutely right.

GILMORE Are you saying that, if the Government had said straightaway that you had asked for 15 per cent, but that they will give you 7.5 per cent, all your members would have gone back?

CHRISTIE No.

UNIDENTIFIED They would not have come out, if we go down John's route.

CHRISTIE I do not agree.

UNIDENTIFIED Well, 7 per cent was on the table and that was not accepted, but 7.5 per cent was, so the trouble was not over the pay for the current year. No one was fighting to the death for 0.5 per cent on pay.

GRAHAM It would have put the unions on the wrong foot.

UNIDENTIFIED Absolutely.

UNIDENTIFIED We would have got ourselves into our usual divided muddle.

GILMORE Leslie, I am not sure what you did not agree with.

CHRISTIE I did not agree with the fact that, if 7.5 per cent had been offered in April or March and arbitration was still being withdrawn, that would not have been a settlement.

GILMORE That is back to arbitration.

CHRISTOPHER I am not sure that Inland Revenue staff would have been out. It is not simple figures. It may or may not have been the arbitration issue, with Megaw coming along.

HERBECQ People were more worried about the following year than that year. They could have had some sort of settlement without too much difficulty for 1981. It was the fact that 1982 was completely at large. Megaw was to look after what came after 1982.

GRAHAM From the then Council of Civil Service bulletins that were produced at the time, Soames's letter said:

'I believe it is right to make the position clear by setting the pay agreement to one side for this year.'

That was in November 1980, though everyone believed that they were withdrawing from the pay agreement for all time and that we were going into a more anarchic type of bargaining situation.

GILMORE

What Sir John Hoskyns said implies that that is so because the pay agreement was all about comparability. If the intention was to change what Sir John called the comparability charade in the economy, did it do so? I do not negotiate pay any more, but I should be surprised even now if they were not still arguing about who else received what.

GRAHAM

They could have been more clever. There is something in the point that Robert Armstrong made about the circularity in the impact on pay settlements. There is no doubt that the Civil Service pay settlement then became a trigger for a series of other pay settlements. What pay research produced for the Civil Service was influential in the labour market. It had become a rather insular, inward-looking issue. They could have been much cleverer to say that they want to look at some aspects of how they were dealt with under the pay agreement, such as pension issues.

There were always arguments about annual leave comparisons, so they could have taken some of the key elements of the pay research system and said that they wanted to take a fresh look at them to see if the system was operating fairly in the broader public interest. That would have been much more difficult for the trade unions to have handled because it would have been a separate argument. In the end, it was the unilateral withdrawing from a longstanding agreement that was the key grievance.

CHRISTOPHER

William Pitt the Younger (1759–1806), politician. Prime Minister, 1783–1801, and 1804–6.

It was a crude decision. I think that I am correct in saying that the Inland Revenue had never had a strike since William Pitt.* It was the sort of situation that was simply discarded and no one thought about. What Alistair said was perfectly reasonable, the pay comparison system had certainly become mechanistic. It did not serve anyone very well at that point. It fed on itself, when it could have been examined.

ARMSTRONG The other point to make is that that was one of the occasions when the Prime Minister was not interested in settling for half or three quarters of a loaf. She would settle for 99 per cent of the loaf, but not much less.

GILMORE What about the other results of the strike? The first and obvious question to ask was how did it affect national industrial relations, which by implication it intended to do? Is the answer that it did not affect them at all?

HERBECQ I do not think that it affected industrial relations in a beneficial way because it was absolutely clear that there would be a succession of strikes by the more familiar suspects, those who really would cause the Government trouble. In July 1979, Christopher Foster* who is here today and I were having private meetings with one or two other outsiders and Michael Portillo,* (who was special adviser to David Howell* at Department of Energy) about a miners' strike. It actually took until the scare of the spring of 1981 to get the Government to grapple with preparing for a miners' strike, which conservatively we reckoned would take two years. I remember being told by one union leader that, if we did not destroy Scargill,* he would never forgive us. That was also the attitude among other parts of the trade union movement.

Sir Christopher Foster, economist. Had been adviser to many Labour minister and a director of Coopers & Lybrand. He was a member of the Megaw Committee.

Michael Portillo, Conservative politician. Special Adviser to Secretary of State for Trade and Industry, 1983.

David Howell (Lord Howell of Guildford), Conservative politician. Energy Secretary, 1979–81.

Arthur Scargill, trade unionist. Leader, National Union of Mineworkers, 1981–2000.

GRAHAM In the Civil Service, it was from that time onwards that we started to become aware of the Militant Tendency developing very strongly. It fed on industrial unrest during the period. Over time, the CPSA was described as the Beirut of the trade union movement. During the four years that I was the General Secretary of the CPSA, it felt like the Beirut of the trade union movement! There is no doubt that some of the left wing groups – mainly, the Militant Tendency – had a very strong hold. I agree with John; it used to irritate me to death that those at the Newcastle office at Longbenton would have hours

and hours to compile the most dastardly resolutions seeking my resignation, and that it was being done at taxpayers' expense.

FOGDEN I want to make a contribution wearing another hat. In the early 1980s, I was the Director of Establishments at the Newcastle central office at Longbenton. There was no doubt that there was a lot of festering among the Militant Tendency. The one lesson that the militants thought that they had learnt was that selective action could bring the Government to heel, based on the experience of the Revenue. Yet we know that, in the mid-1980s, the group at Newcastle that were outwith the CPSA attempted to hold the Government to ransom in terms of computer selective strikes, retirement books, child benefit books and goodness knows what else. I make no judgment but, for the record, the Government stood firm and it cost them millions of pounds. The whole issue that the militants raised at the Newcastle central office was an archaic nightshift allowance, which could have been settled easily. However, one of the lessons that the Government had learnt was that, if necessary, they could ride out selective strikes. They brought in a lot of emergency measures at post offices to allow retirement books to be cashed, after all the little tokens had finished. It went on for weeks.

GRAHAM It took ages to sort out afterwards.

HERBECQ Wrong target.

GILMORE Let us pause for a moment. I have two other questions about results, one being the effect on the Civil Service management and the other being the effect on attitudes of civil servants. I shall take them in reverse order because Alistair and Tony have to get away slightly early. Let us deal with the Civil Service attitudes. Leslie, what was the effect of the strike on civil servants' attitudes towards their employers, their jobs and their superiors?

CHRISTIE My background was not Whitehall. I started in the Civil Service at the workface in a DHSS local office and then Customs and Excise. A senior civil servant to someone in a DHSS office was a principal, a grade 6, or whatever such a person might be called as the world moves on. Whitehall was way up there, but there was a faith in the executive grades that they would stay out of politics, if politics stayed away from them. They looked to their leaders, the senior civil servants, to fight their corner. After the 1981 dispute, they lost their faith in that set up, and that was the beginning of the politicisation of civil servants. To this day, I am not convinced that senior civil servants fight the corner for their workforce at the plants.

Alistair was right about the militants in Newcastle. My union became very committed to mergers of Civil Service unions. The concept of nine or 10 unions all trying to work together changed, and we were much more enthusiastic about bringing them together. However, I shall leave the matter there because I know that you want to discuss the concept of civil servants, not unions. The 1981 dispute was a big push to mergers to what has happened now.

GILMORE Robert Armstrong, you became Head of the Civil Service after the strike. What did you consider were the effects of the strike on the attitudes of civil servants to their employers and jobs and, for that matter, to themselves?

ARMSTRONG I think that I became even more aware than I might already have been of the issues that Leslie has raised. The confidence that civil servants had in their seniors was impaired and we had to set about restoring it. There were great difficulties because it is difficult for senior civil servants to go public about some matters. We were conscious of the effect on morale.

GRAHAM It is interesting that the issue of politicisation touched on by Leslie became part of a continuing argument. In my present role as Chairman of the Committee on Standards in Public Life, we are still

discussing whether we should have a Civil Service Act to embody values that have been important because there is still a feeling that there has been a politicisation of the Civil Service.

GILMORE In a sense, the strike was intended to achieve a political purpose.

HERBECQ I used to make it my business to visit local offices. I had been due to visit DVLC in Swansea and, as soon as the strike was over, I was anxious to fulfil the engagement. I had a session with the trade union side. It was a very cold meeting. Everything was pre-arranged. Each person around the table asked me a different question. They did not touch on the strike at all. The last person in was obviously the Militant Tendency man and he launched an attack on the Whitley system. He said that, as far as he was concerned, free collective bargaining was how to do such things.

I thought that I would risk it and said that I understood the person's point of view, but that it was not the point of view held by his union. It was not my point of view, but I said that I knew that such a view was held by some of the more right-wing members of the present Cabinet. For about 10 seconds, there was total silence and I thought that I had blown it. Then they all burst out laughing.

That happened a few months before we finished. After we packed up in the CSD, Ian [Bancroft] received a letter from the director saying that the chairman of the trade union side had told him that the staff felt that they had lost two good friends in Ian and myself. We at the top did our level best to see that the civil servants throughout the country understood that we were not hostile to them. We did not fail totally in putting that message across.

GILMORE Do you have anything to add, Mike?

FOGDEN I do not know whether I have anything pertinent to offer in terms of the morale of the senior Civil Service. We felt bruised. We felt a little unloved, but life goes on. If that was the regime in which we

had to operate, we had to come to terms with it and work out a solution whereby we could move forward. I remember one of the FDA conferences when John and Ian had left. Someone said that it had come to a sorry pass when we see Permanent Secretaries being treated rather like football managers.

FOGDEN To some extent, that encapsulated the feeling in the sense that people were very upset, but they could still come to terms with it.

GILMORE We talked earlier about GCHQ. I agree that in 1981 senior civil servants were going to carry on dealing with the change. It felt different from the later GCHQ episode. Perhaps the most surprising thing that happened to me as a civil servant was the response to the GCHQ protest when I was the Principal Establishment and Finance Officer at the Treasury. Large numbers of Treasury civil servants who were quite high up in rank came in and registered with me as being absent, then went into their offices and did a hard day's work. Was that similar where you were?

FOGDEN It was. People's breath was taken away by the arbitrary act. At the time, I was then in the Department of Employment when Tom King was the Secretary of State. I and several senior colleagues went to make a protest to him and said that the issue will run and run – as it did. Whether or not it was tactically right as John said earlier for GCHQ to be involved is another matter, but subsequently to withdraw its right to belong to trade unions so long afterwards is my point. It was not as though it had just happened as one of the aftermaths of the strike. That would have been one of the outcomes that we would have to put up with.

GRAHAM When the Government was offered a no strike agreement.

FOGDEN Absolutely. When someone rang me up and told me about it, I could not believe it. I thought that I was being wound up.

CHRISTOPHER

Lionel (Len) Murray (Lord Murray of Epping Forest, 1922–2004), trade unionist. General Secretary of the Trades Union Congress, 1973–84.

That accelerated the retirement of Len Murray.* He was bitter. He felt that the entire action of the Government had been demonstrably anti-trade union.

HOSKYNS

Sir Brian Tovey, civil servant, Head of Government Communications Headquarters, 1978–83.

It was done on the recommendation of the director of GCHQ.* He came to see me just before I retired and told me that he would press for that to be done. I told him not to do it because it would be a mistake. But he did.

GRAHAM

Let us be clear. I was on the committee with John Sheldon that set up the strike action at GCHQ. It was meant to be the tiniest token. No one ever thought of it as anything different. We knew that we could not organise –

CHRISTOPHER

Or want to.

GRAHAM

It was meant to demonstrate the strength of feeling in all sections of the Civil Service. It was not designed as anything other than that. Whether or not it was tactically wise, that was the intention.

GILMORE

Having rather misled us into the later GCHQ problem, let me take us back to 1981. One interesting question about the results is the notion that what the strike did to that rocky solidity of civil service pay and grading was the necessary clearing away that made subsequent management reforms possible. Do we think that that is so or would those management reforms have proceeded anyway? Mike Fogden, early on in the *Next Steps* programme, you became Chief Executive of the Employment Services Agency, the largest agency at the time. Did you consider that your management of that agency was helped, hindered or not affected in the slightest by the 1981 strike and the consequences thereafter?

FOGDEN

I do not think that I should draw a link between the strike and the consequences, but there is no doubt that the introduction of pay

flexibility into executive agencies of the Government was an enormously important management tool. I would not want to overestimate that.

Let me give an example. We all know the rigidity of jobs and grades. The Employment Service ran Jobcentres. They were more or less the same size throughout the country and were manned by HEOs, irrespective of the Jobcentre, with usually 20 to 30 members of staff. Let us compare and contrast the challenge and difficulties of running a Jobcentre in Brixton with running one in a market town such as Banbury where the HEO manager probably goes home to lunch. In Brixton, the HEO manager probably could not put his head outside the door. He would be trying to manage a tough, inner city office in a deprived area. What did they receive by way of remuneration?

The same executive agencies were given the opportunity to differentiate and to recognise and reward. The only way in which we could staff places such as Brixton was to say that it would be all right in the fullness of time and that we would value people in good stead when it comes to promotion boards and so on. However, that was way down the track when the post had to be filled at the time. It was important to be able to incentivise individuals by giving them more money. I know that it sounds crude, but we had to reflect the difficulties of particular posts. Pay flexibility was a tremendous management tool for an executive agency.

GILMORE Robert Armstrong, as Head of the Civil Service, did you consider that the process of management reform in the Civil Service was harmed, eased or not affected by the 1981 strike and what it cleared away?

ARMSTRONG I do not remember thinking that it was harmed or helped. Such matters were going forward almost independently.

As for GCHQ, if you will forgive me for saying so, I had never had an easier negotiation. The unions were desperate that they should

stay in GCHQ and were prepared to sign up to a no-strike agreement. Having achieved the agreement, I reported it to Geoffrey Howe who was the Foreign Secretary and thus the Minister in charge of GCHQ. He would have signed it, but the Prime Minister would not.

CHRISTOPHER The post-strike era created a springboard for the introduction that progressively became the norm of macho-management. I look at the Civil Service today, particularly the Inland Revenue – or Revenue and Customs, as it is – and I do not see a Department that I recognise. I do not see the co-operation that used to take place not on pay, but on work. There is no co-operation to solve problems. That has gone. I am not the least bit surprised that so many Departments are in trouble nor am I the least bit surprised that so many of the IT things are getting into difficulty. We cannot bring senior outsiders in unless they have some comprehension of Civil Service culture. I am told that we are not supposed to use the word 'culture' in terms of the Civil Service, but it is important. The culture of the Service and the reason why so many people have joined it over the years has been swept away. It has been a serious loss to the country and I do not know how it can be recovered.

CHRISTIE When I became General Secretary of the SCPS, I used to negotiate pay and announce that we had a settlement. Every Executive Officer, HEO and SEO in Britain had received a settlement. Suddenly, the process was broken up into agencies and everyone negotiated their own pay. That meant that the trade union side had to create an organisation. Mike Fogden's area was a big area for unions, so we were well organised but, in the smaller agencies that were created, we had to create an active structure to become involved in pay negotiations where they had never been involved in such negotiations before. In my life at employment tribunals, I keep meeting on the employers' side people who have made their fortune from the creation of agencies. They advise the agencies on

how to negotiate pay because they were so small that they had no such expertise. I live in the hope that I might receive my knighthood some day for creating centralised Civil Service pay again, as a system.

GILMORE Before I come to the interesting task of formulating a summary when we do not have a summariser I should like to turn to Richard Wilson or Robin Butler who were also Heads of the Civil Service after Robert to ask them how they feel that what we have talked about in respect of the strike affected attitudes in the Civil Service, or the management reforms in your tenure.

WILSON A lot of this will probably come up in the following session on *Next Steps*. It coloured all the future development of discussions with the unions through the late 1980s and the 1990s. I was trying to remember the last meeting of the National Whitley Council. I cannot remember if Robert was in the chair or Robin. I think that it was Robin, but as an institution the Council was dead. It was no longer alive because most of the discussions were beginning to move into *Next Steps* Agencies and the strength and power of the unions at a national level were no longer what they had been. I do not want to anticipate the third session, but it was the beginning of a big change in the conduct of management and the relationship with the unions throughout the Service.

GILMORE I am happy to leave such matters until the third session. I turned to you simply because, having done so much on pay research in my time, intellectually it does not seem to me that there is any connection. You could have had any of the reforms matched with a well-structured comparability system, certainly with an arbitration agreement. Yet somehow, something inside me tells me that along with the comparability structures went the rigidities of grading to which Mike Fogden has referred. The powerful pressures towards national pay rates really were inimical to management reforms.

WILSON You cannot just see it on its own. It is also about the role of the Treasury in the management of the Civil Service. It is part of a piece, but it just coloured many other things that followed.

GILMORE Yes. At this point we should have turned to the wise Geoffrey Howe for a summary. I have been wondering as you spoke what we would do about a summary, and have decided to propose a conclusion for you to pick to pieces. I shall end by asking John Herbecq and Robert Armstrong, as the centre of the spectrum of views, for their views.

My summary, which is in part serious and in part to encourage comments, is that none of what happened actually mattered very much. The historian of the Civil Service has hit on something important by ending volume one in 1981, but that was not because the strike was powerful. Sir John Hoskyns refers to it as thinking the unthinkable.* The more that I listen to you and think about it, the more it seems that not the unthinkable, but the unavoidable happened. The limitations on what was happening have come through fairly clearly. Both parties – the Government and the unions – were goaded in a way into the row. I remember vividly how much employers were goading the Government to show them the way and get the numbers down. I think that much the same was happening with the unions, perhaps less so, but they wanted to be seen as proper unions and changed their name [from Staff Associations] in order to be so.

The 'unthinkable' was to respond to 15 per cent with 6 per cent and end comparability. The strike was, in turn, the understandable response to *that* response!

The strike was a hinge; it was a symbol rather than a cause or an effect. It was a hinge between the Priestley-Fulton Civil Service* and what came after. By 1981, very much through the terrible industrial relations at the national level and inflation of the 1970s, Priestley had worn out. The proposition that civil servants should be remunerated by a retrospective count of what was going on could not be applied. The Government could not do it without regretting the effect on other employers, as we have heard, and

The Report of the Priestley Royal Commission on the Civil Service (Cmd 9613, 1955) established the principal of pay comparability between the public and private sectors. *The Report of the Fulton Committee* (Cmnd. 3638, 1968) was the major blueprint for the modernisation of the expanding post-war civil service.

without begrudging the money. I am fairly sure that pay research after 1973 was withheld or postponed more often than it was allowed.

Fulton, it is perhaps unfair to say, had not so much worn out as been found out. The *Fulton Report* seems an extraordinary document in retrospect in the sense that it was a document for expansion and eliteism. It was extremely expansionist, and we discovered that we could not afford its recommendations as a nation. It was also a specification for a rule by the elite. It had bitterly got rid of the elite that had studied classics and mathematics and clearly wanted to install the elite that had studied economics and statistics because they would at least know all the answers. It was a report for a Whitehall that knew all the answers. By 1981, no one thought that Whitehall knew many of the answers.

By 1981, the Priestley-Fulton Civil Service was over. There simply had to be changes, essentially management changes in which industrial relations became tied up. The shapelessness of the following years, which can dearly be seen in the background notes for the third seminar, is a symptom of how something was over. Everyone knew that it had not worked, but there was not a clear idea of what would be put in its place.

Well, for debate that would be my summary of the importance of the strike and its part in the history of the Civil Service. It really played no important causal part, but it had to happen. It was a symbol of an age that was over and the beginning of an age to come. Given that you have talked so feelingly about it, can that really be true, Mike?

FOGDEN What we have probably learnt this afternoon is not what was done, but how it was done. We were not treated like grown ups when we could have had a proper civilised adult conversation. John has articulated the economic situation as perceived by the Government. The trade unions could have been brought alongside to discuss it.

You said yourself, Brian, that pay research had been suspended in the past. It was not a matter of establishing a precedent. Let us think what would have happened if the Government had engaged in a serious discussion and explained the concept that had been part of what Tony [Lord Christopher] called the culture of the Civil Service. HMG was to some extent an exemplar in the labour market. They set the standards. They were the first with equal pay. They were first in the treatment of minorities and in the gender area. At that time, however, to some extent they were abrogating from that role. They would no longer be an exemplar, but would operate like other employers.

There were things that could be discussed, but it was always a myth that we could trust the Government to ensure that we were not treated ignominiously. People felt that that was the case as a result of the 1981 incidence. The one thing that came out from the union side to which John [Herberq] referred was that Whitleyism was dead in the water. Do you remember that we used to talk about the National Staff Side, and that the trade unions were a proxy for representing all the staff? The trade unions shifted their ground quite specifically and said, 'No, we are just representing our members. People who are not members will just have to manage on their own.' Those are my basic thoughts on your summing up. I probably subscribe to what you said in that it did not matter all that much, except for its rather nasty aftertaste.

HOSKYNS I do not have anything much to say. As for the comment that it does not matter, it obviously mattered a lot tactically and in terms of human relations at the time. It is interesting that once it was over it was certainly very quickly forgotten by the people who put it in place. I cannot answer for those who were on the receiving end, but it is literally a footnote in Margaret Thatcher's memoirs.

FOGDEN Absolutely.

HOSKYNS In Geoffrey's book, it probably takes up a couple of pages at the most and it is probably a similar size in Nigel Lawson's memoirs.

What we have to remember in terms of working at No.10 at the time is that, if we had lost in the strike, had actually harrumphed for ages and eventually had to pay 14.5 per cent instead of 15 per cent or something, it would have dealt an enormous blow to the authority of the Government. One of the things that I felt strongly about at the time, and I have no doubt that Margaret and Geoffrey did too, was that there was a general, almost mortal, damage to the authority of the Government generally during the 1970s as a result of all sorts of things. Some were their own mistakes; some were those of trade union militants. We would have to win unequivocally whenever we had to take a strike if anyone was to believe that, in the end, we had moved from the situation of the 1960s and 1970s when the economy ran the Government back to the idea that the Government were meant to run the economy.

CHRISTIE Your [Gilmore's] summary was fair, but I do not think that it reflected the discussion. If you had told us about it at the start, we would have arrived at it. However, that is one of the arts of being a top civil servant, and I admire you for it.

Looking back after 25 years, how vital was it? When we consider what has happened in the world, in Britain and in the Civil Service, it was probably not all that important – except for two issues. First, I still believe that it fundamentally changed the view of civil servants – all of whom have now mainly retired – of how the Government would treat them. They were treated abysmally. Secondly, it had a motivating factor in the trade union movement so that there are now only two or three Civil Service unions, when there used to be 12 or whatever. It created the impetus for trade union mergers.

GILMORE I promise that the summary came from listening to you, but at the same time I related it to other things that had been going on.

HERBECQ One of the interesting things was that it was not fought out by either side. The Government did not really take on the Civil Service. They could have gone to Parliament and asked, 'Who governs Britain: the civil servants or us?' That would have been pretty fateful for the Civil Service side.

Equally, the trade unions could have paralysed the Government by going flat out. They made a half shot at the revenue collecting computers, but they did not press that as far as they could have done. Both sides shied away from allowing the strike to get out of hand out of a sense, I hope, of proportion and responsibility. The rest of it has been swept away in the huge changes and position of trade unions generally in this country. It leaves a small ripple on that surface.

ARMSTRONG I stand with John Hoskyns. Pay research had had its day because of the rate of inflation. It simply did not stand up when inflation was running at 20 per cent or whatever it was at the time. It could not survive. It was part of the drive by the new Government – who were still fairly new in 1981 – to re-establish the control of the Government over key points in the economy. In that sense, the Civil Service strike marks a hinge between the old days and what followed. It was an inevitable hinge. If it had not come in that way, it would almost certainly have come in another way. It had consequences as we have discussed, many of which would have followed if we had reached the same end by other means. We could say that means that it did not matter very much, but I am not sure that that is historically true. It did matter at the time, and has mattered since.

GILMORE I am grateful to you all. Thank you.

Session II:
The demise of the Civil Service Department and the resignation of Sir Ian Bancroft as head of the Civil Service, November 1981

Background Notes
Rodney Lowe

Twenty five years ago this month (November 2006), the Civil Service Department was abolished; and both the Head of the Civil Service (Sir Ian Bancroft) and his deputy within CSD (Sir John Herbecq) took early retirement.
In the short term:

> What did the decision-making process reveal about the style of Mrs Thatcher's Government, particularly in relation to administrative reform?

In the longer term

> The CSD had been established in 1968 to 'professionalise' management within the Civil Service. How successful was this?
>
> The organisation of the 'centre' of government had been a live issue since the Plowden Report of 1961. Would government have been better served by dividing the Treasury into a Ministry of Finance and a Bureau of the Budget?

THE NATURE OF THE DECISION

The decision appears a strange mix of **hesitancy** and **ruthlessness.**
Hesistancy. The closure of the CSD had been long canvassed before 1979. Mrs Thatcher (perhaps in reaction to the Heath Government) initially rejected organisational change for fear it would impede policy delivery, especially the reduction in size of government. Its closure was agreed in principle in July 1980 with the 'big four' (Derek Rayner, Robert Armstrong, Ian Bancroft, Douglas Wass). There was then an uncharacteristic u-turn, with a reprieve over Christmas 1980. This in turn was reversed in September 1981. Lack of pre-planning (Lady Young was not informed when succeeding Lord Soames as its head) suggests hesitancy even then.
Ruthlessness. Lord Soames's dismissal was abrupt. Closure of CSD might 'more naturally' have awaited the retirements in 1982 of Sir John Herbecq (due May) and Ian Bancroft (due December).

Mrs Thatcher, as minister for the civil service, was nominally head of the CSD**.** Why was it never built into an instrument to effect her desired reforms (as urged by Rayner in the autumn of 1979 and Sir John Hoskyns in the summer of 1980)? The CSD had long suffered from lack of strong ministerial leadership. Here was a Prime Minister with a continuing interest in, and commitment to, reform.

Was abolition, as claimed at the time, essentially an 'act of spite' after the civil service strike; an act of haste, given Rayner's desire to step back from the Efficiency Unit; or an act of desperation after the perceived series of administrative failings in the spring of 1981 (see chronology)?

Who were the principal advocates of abolition within Whitehall?

What were the various options:

(1) the 'deep integration' of the CSD?

(2) the Treasury; coalition – the CSD to act within the Treasury as a 'bureau of the budget';

(3) partial transfer – all controls over resources (including pay) to be concentrated in the Treasury, while a separate 'public service commission' (ultimately MPO attached to the Cabinet Office) remained responsible for the 'human side' (personnel management, training etc);

(4) rejuvenation of CSD under a proven manager (given the appointment of Sir John Cassels to CSD in July 1981).

Was the choice of Option (3) the most logical and durable solution?

THE CSD AND 'PROFESSIONALISM'

> *An amiable coterie of cynics – who know nothing of management and despise those who do'*. Derek Rayner on senior officials, *The Unfinished Agenda* (1984).

Mrs Thatcher's conviction about officials' managerial shortcomings was arguably confirmed by a disastrous dinner with Permanent Secretaries on 6 May 1980 – 'one of the most dismal occasions of my entire time in government' (*The Downing Street Years*, p.48).

> Is this what essentially sealed CSD's fate?

A serious attempt to define the desired management culture, and the constitutional/political framework in which it could thrive, was made by Sir Derek Rayner in his programme of 'lasting reforms' (endorsed by Cabinet on 1 May 1980). There was to be 'less government, using staff better'. An Inspector General was to be appointed to ensure good management information systems in all departments; clear definitions of responsibility for all senior staff for all departmental expenditure (including that on common services); and a promotion system which encouraged management expertise. In contrast the CSD was criticized for being less than zealous ('ladylike') in the dissemination of best practice; the development of performance criteria to monitor comparative efficiency; and the insistence on clear timetables for the achievement of results.

> Was this criticism of the CSD fair? Had not the pre-1981 Civil Service sought to develop the skills/reforms to be championed by the Inspector General? There had been consistent attempts since Fulton to develop them (e.g improved management training; the development of computerised management information systems since 1974)
>
> Had not the CSD and the pre-1981 Civil Service achieved as much as was possible under existing constitutional/political conventions?

The constraints included, and in many cases continued to include:

> **Lack of political support from the top for administrative reform**. 'Since Sir William Armstrong's interest in CSD business faded in 1971-3, the underlying philosophy of CSD and its official heads has been generally quietist, pragmatic and cautious. To a degree this is quite understandable: weak political leadership does not inspire adventurousness among officials.' Derek Rayner, 29 June 1981

Lack of interest amongst departmental ministers, even after Mrs Thatcher's encouragement of 'minister-managers'. '*Unhesitatingly I see myself as a politician not a staff manager*' John Nott (heading a ministerial revolt against the concept in 1981). In September 1981 and February 1982, Mrs Thatcher (with the help of Michael Heseltine) held meeting with senior ministers and their Permanent Secretaries to extol the virtues of FMI and MINIS. They were less than successful.

Lack of central authority, given the convention of ministerial responsibility, and the constitutional autonomy of each government department. The CSD lacked, and the Inspector General would have lacked, the authority to enforce.

Cynicism about the cost of management reform, even amongst Mrs Thatcher's special advisers '*An annual bureaucratic jamboree which consumes more resources than it will ever save*' Sir John Hoskyns on Rayner's annual scrutiny of departmental running costs (January 1981).

Lack of Parliamentary support. Familiar problems with the priority to be accorded equity over efficiency and risk-aversion over risk-taking (arising e.g. from parliamentary questions and the work of the PAC). The 'lasting reforms' programme challenged, and sought to minimise, these 'costs of democracy'.

In consequence, was the CSD – as a symbol of the pre-1981 civil service – unfairly pilloried because of the framework within which it had to act? Did this, in turn reflect:

Competing perceptions of efficiency? Efficiency did not just mean the cost-effective delivery of a given policy but also: the avoidance of political embarrassment; the consistency of joined-up policies; the cost effectiveness of public expenditure in aggregate. Management techniques derived from the private sector were not necessarily appropriate for the achievement of each.

Political confusion over the inherent capacity of government to intervene? The institutional capacity of government to intervene; and the personal capability of government officials to deliver interventionist policy.

ORGANISING 'THE CENTRE' OF GOVERNMENT

Most Western democracies, given the postwar growth in interventionist government, became exercised by the discharge of three tasks at the centre of government: provision of expert advice to the head of government/prime minister; co-ordination of economic policy; management of the civil service/policy delivery.

The 1961 Plowden Report recommended that, to halt the neglect of civil service management, there should be three posts. The headship of the civil service should no longer be held by either the head of the Treasury (with his responsibility for economic policy) or Cabinet Secretary (the Prime Minister's effective chef du cabinet).

Before 1968, there were considerable reservations about placing the headship of the civil service in a separate department. Lacking the economic clout of the Treasury and daily contact with the Prime Minister, the department would acquire a 'dowdy image' (Sir Lawrence Helsby) and its head become a 'pale unhappy ghost' (Sir Frank Lee).

Why was the alternative of a Bureau of the Budget (strongly advocated by Sir Douglas Allen and Sir John Hunt in 1976) not pursued? This would have created a single minister dedicated to the planning and delivery of public expenditure programme. Was this too radical a challenge to the pre-eminent position of the Treasury? Would it have opened economic policy to Cabinet debate (unwanted by 1981)?

Was the creation of the Efficiency Unit and the planned appointment of an Inspector Gen-

eral a move towards the creation of a Prime Minister's Office (as in Australia)? Its role would be to advise the Prime Minister and ensure the implementation of agreed policy through its control over the management of the civil service.

Might, in retrospect, the creation of the CSD be adjudged a mistake? In particular, by dividing control over financial and manpower resources, did it in fact weaken central control and so delay administrative reform? 'I have never known a business organisation with two headquarters at opposite ends of the street. It's crazy'. Derek Rayner, *Sunday Telegraph*. 1 February 1981.

Was a return to the pre-Plowden position preferable to these two radical alternatives? Had the Treasury either the expertise or the time to drive through managerial reform? 'The Treasury has very little experience of large-scale management and practically none of dealing with the unions. Even in its own bailiwick it has not exercised any noticeable influence on the efficiency of the Inland Revenue Department'. Sir Anthony Part to the Treasury Select Committee (1980).

In short was it the constitutional position, not the quality of its officials, which lay at the root of CSD's perceived problems? Did the division of its responsibilities between the Treasury and the 'rump' of the MPO resolve this issue, or the dilemma, at the heart of government?

Seminar Transcript

WILLIAM PLOWDEN I ask the witnesses to introduce themselves. To remind us again, Robert:

ARMSTRONG I was Secretary to the Cabinet when the matter began and emerged as Joint Head of the Civil Service with Douglas Wass* after the Civil Service Department was brought to an end.

Sir Douglas Wass, civil servant. Permanent Secretary to HM Treasury, 1974–83, and Joint Head of the Home Civil Service, 1981–3.

SIR JOHN HERBECQ I was Second Permanent Secretary in the Civil Service Department under Ian Bancroft.

JEREMY COLMAN I was Ian Bancroft's Private Secretary.

CLIVE PRIESTLEY I was Derek Rayner's* Chief of Staff. He had three staff at the start. I was official Head of the Efficiency Unit.

Derek Rayner (Lord Rayner of Crowborough, 1926–98), businessman. Adviser to Prime Minister on improving efficiency and eliminating waste in Government, 1979–83.

SIR JOHN HOSKYNS I was Head of the No. 10 Policy Unit.

SIR CLIVE WHITMORE I was Principal Private Secretary to the Prime Minister at the time.

SIR ADAM RIDLEY I was Special Adviser to Geoffrey Howe.

PLOWDEN Like Brian Gilmore, I wrote to members of the panel, proposing to divide the discussion into three chunks: first, to get the narratives straight; secondly, to investigate the motivation and the reasoning behind the events that we shall be talking about and, thirdly, to answer the question: what difference did it all make? Unlike Brian, I wish to invite any members of the audience with burning points to make under any of those headings. If people feel that, before we move on to the motivation, we have left something crucial out of the chronology, I invite them to make such comments. I turn first to the narrative of events that are described in the chronology. Are

the key events that led up to the abolition of the Civil Service Department set out in reasonable order? At what point does the chronology begin? The man from Mars or indeed the man from almost anywhere might wonder how it came about that in July 1980 the big four recommended the abolition of the CSD without it having been apparent that any preceding events raised doubts in anyone's minds. I invite members of the panel to say whether there are parts of the chronology that are not set down that we ought to amend?

RIDLEY

I wish to offer, in addition, an important short political element. I imagine that it is general knowledge that the 1981 Budget was not a popular event. When it was presented in the usual way to the Cabinet, shortly before it was delivered, there was a fair amount of shock. Afterwards, the Prime Minister, Geoffrey Howe and possibly others said that they must in future prepare their colleagues better for major strategic decisions; and that they should do something that the CPRS used to press previous Governments to do, which was to intermittently discuss at Cabinet level the nature of the Government's economic strategy.

An arrangement was then made to have what was known at the time as an 'eco-Cab', which I think was in June or July 1981. If we go back to the memoirs* of Geoffrey Howe and look at what happened then or if we talk to him, he would say that it was not a great success, and that was to put it mildly. The half a dozen individuals who are pretty well known and who had expressed anxieties at the time of the 1981 Budget itself continued to do so, but in a more aggressive way and said specifically that they did not want to take part if they could humanly avoid it in further public expenditure cuts, which was an important issue.

See the memoirs of Geoffrey Howe and Nigel Lawson for their discussion of the eco-Cab.

Other individuals who were slightly more unpredictable showed their predictable unpredictableness in the course of the discussion at the "eco-Cab". I am thinking in particular of those named in

Sir John Nott (Conservative politician. Secretary of State for Trade, 1979–81; Secretary of State for Defence, 1981–3.

John Biffen (Lord Biffen of Tanat, 1930-2007), Conservative politician. Chief Secretary to the Treasury, 1979–81; Secretary of State for Trade, 1981–2; Lord President of the Council, 1982–3.

Geoffrey Howe's biography: John Nott* and John Biffen.* that was an extremely serious moment for the Prime Minister, and I therefore suspect that it was when she resolved that she had to get on with a reshuffle.

Going back to what was said earlier, let us not forget the wider context, and that we had the debates that John Herbecq and others described in the earlier session, and in discussions with Christopher Soames about 7.5 per cent versus 7 per cent for public sector pay increases, and so on. One of the crucial issues in understanding the proximate history, if not the earlier stages, is to look at it against the background of that debate about changing the system for determining civil service pay. I sense that, given that she decided to have a reshuffle and had made up her mind that Christopher Soames had to go, it was only inevitable that Margaret Thatcher looked at these wider issues. They were being pressed on Ministers anyway, not merely because of what Douglas Wass and others had suggested the previous year, but because of the overall issues of economic strategy about which we have heard something already, and to which I should like to return. My own feeling is that that eco-Cab was one of the most important political triggers for the CSD's abolition.

COLMAN I took over as Private Secretary in July 1980 and have a clear recollection of being told by my predecessor that the matter of abolition was not on the table, although there might have been press speculation in early 1980 that it was under discussion and had been quietened in some way. So it came as a surprise to me when I took up the job to find that it was on the table. Something preceded the events in July.

PRIESTLEY The story starts in the 1970s when Mrs Thatcher became Secretary of State for Education. There are two relevant points about the 1970s. There was extreme hostility in the press against the size and the so-called feather bedding of the Civil Service. That was brought

to a head in 1978 by the publication of *Your Disobedient Servant* by Leslie Chapman,* which of course Mrs Thatcher read. That something must be done about the Civil Service was part of the background.

Leslie Chapman, *Your Disobedient Servant* (London: Chatto & Windus, 1978).

In her early years in the Government, Margaret Thatcher both liked and hated civil servants. In her Ministry, she clashed with senior civil servants notably Bill Pile* and Richard Jameson, but liked many others, so she took on the role of Prime Minister with very mixed views that were strongly coloured by the waste book that Chapman had written.

William Pile (1919-97), civil servant. Chairman, Board of Inland Revenue, 1976-9.

If you will allow me the indulgence, I shall leap forward to 1982. One person whose name does not appear in the papers is that of General Leopold[o] Galtieri.* The Falklands War made all the difference to Mrs Thatcher's standing. Up to that point, she was fading with her colleagues; she would probably have fallen without that intervention. After that, as we know, she walked on water and much of the opposition disappeared. I always think of Leopold being the patron saint of efficiency in Whitehall.

General Leopoldo Galtieri (1926–2003), Argentinean solider and leader. President, 1981–2.

WHITMORE

I very much endorse what Adam Ridley said about the wider politico-economic background to the fate that befell the CSD and, with it, Ian and John. The discussions on economic policy in Cabinet and in smaller groups in 1980 and 1981 were extremely fraught. I well remember the Prime Minister summing up a major economic issue on one occasion as though she was in the majority, when she was clearly in a minority. She was looking round the table, challenging the wets to form an instant, effective coalition there and then to challenge her – and, of course, they did not. The meeting broke up; people went their way and she continued to behave as though she was commanding a majority of the Cabinet in support of the economic policies that she and Geoffrey Howe were leading.

One of the eminent wets in the majority group opposing Margaret Thatcher was Christopher Soames, as Adam said. Ian Gilmour was

Peter Walker (Lord Walker of Worcester), Conservative politician. Minister of Agriculture, Fisheries and Food, 1979–83.

another, as were Jim Prior, Peter Walker* and so on. I endorse what Adam said in that she had already begun to make moves in her first reshuffle to show her displeasure with some of those who were less than fully supportive, but after the discussions in the summer of 1981 she decided that the time had come to move in on some of the bigger dissenters. You all will no doubt have read what she said in her memoirs about the interview in which she told Christopher Soames that he was to go. He looked as though he was being dismissed by his housemaid!

Speaking personally and frankly, there was an underlying feeling on Margaret Thatcher's part that there were people sitting round the table who, despite all that she had done to get the Conservative Government elected, despised her. Christopher was one of those who had to go for personal and wider politico-economic reasons. Robert, you will correct me, but I do not remember her paying a lot of attention to the future of the CSD in the run up to the autumn of 1981. It was an issue that surfaced from time to time. Derek Rayner used to tell her that the CSD was not his favourite Department.

There were other straws in the wind, but the chronology, with which I am perfectly content, refers to the hesitancy that characterised the process that led up to the decision. It was not something that was by any means at the forefront of her mind, but as Margaret Thatcher came to the point of the reshuffle and the personal future of Christopher Soames as the Minister in charge of CSD came into focus, so the other organisational issues that had been bubbling around were brought together. She saw that as an opportunity to deal with the CSD issue, which had been wallowing around, while dealing from her point of view with the much more important question of the reshuffle-and Christopher Soames's part in it.

ARMSTRONG On the matter of the chronology, the dinner that Mrs Thatcher gave for Permanent Secretaries is an element in the story. I cannot remember the date.

PRIESTLEY 6 May.

ARMSTRONG Which year?

PRIESTLEY 1980.

ARMSTRONG As has been said, the abolition of the CSD was in the air months before it happened. There was some hesitancy and, as far as summer of 1981 was concerned, that hesitancy stemmed from the Budget and the problems to which that gave rise. Mrs Thatcher thought that it would have been inappropriate to go ahead with it while the Civil Service strike was going on. I differ from Clive Whitmore in the sense that she probably wanted Christopher Soames out of the way so that she could turn to the abolition of the Civil Service Department. I do not think that abolition was the result of Christopher's resignation. It was part of the process. However, Clive may disagree.

HERBECQ I should like to record the view that the Civil Service Department should never have been created!

PLOWDEN That is a view, rather than an episode.

ARMSTRONG How do you get that into the chronology?

PLOWDEN Was there a point at which you felt the ground shaking under your feet, which has not otherwise been recorded?

HERBECQ No, the chronology is right.

PLOWDEN Does any member of the audience wish to speak?

SIR JOHN CHILCOT

Sir William Armstrong (Lord Armstrong of Sanderstead, 1915–80), civil servant. Permanent Secretary, Civil Service Department, and Official Head of Home Civil Service, 1968–1974.

Sir Edward Heath (1916–2005), Conservative politician. Prime Minister, 1970–4.

The ground started to shake when William Armstrong* as the first Head of the CSD became, at Ted Heath's* demand, in effect Deputy Prime Minister – as the press would have it. That was the point at which the management of the Civil Service dissolved. The opportunity went and with it went the power and standing of the Department that William headed. Thereafter, it was in a long, slow decline.

ARMSTRONG

I think that William lost interest in Civil Service reform and welcomed the opportunity to become involved in helping the counter inflation policy.

COLMAN

Yes. That was the point at which Ian Bancroft joined the CSD as Second Permanent Secretary and was able to give 100 per cent of his time to it, whereas as William had been giving less and less – down to almost nothing.

HERBECQ

Douglas Allen (Lord Croham) civil servant. Head of the Home Civil Service and Permanent Secretary, Civil Service Department, 1974–7.

We had Douglas Croham* before Ian took over.

COLMAN

Yes, before Ian took over as Permanent Secretary of the CSD, but Ian was Second Permanent Secretary from 4 June 1973 while William was still in place.

ARMSTRONG

Generically, Mrs Thatcher distrusted the Civil Service as an institution, and distrusted civil servants as a generic group, but it did not stop her liking quite a lot of individual senior civil servants. There were some who did not fall into that category, but there were a number whom she did like and who were in her favour.

PLOWDEN

Does any other member of the audience wish to suggest any other episode along the lines of that mentioned by John Chilcot?
Well, may we take the narrative as given? One point that has come

up is to remind us of the significance of individual personalities, whether civil servants, Ministers or others in such chronologies.

Let us move on to the second set of questions: the motivation of those concerned. Clearly, we shall need to look separately at the motivation of politicians, the motivation of Mrs Thatcher and that of political advisers such as John Hoskyns and Derek Rayner. We must, of course, consider the motivation of other parts of the bureaucracy, most notably that of the Treasury. Does anyone on the panel want to suggest where the motivation for the abolition of the CSD began and say what forces were at work that combined with the presence of individuals in particular places to bring about its eventual disappearance?

HOSKYNS I am only a marginal contributor to the debate about the CSD as it was not something with which I was really involved. I suspect however that Mrs Thatcher fairly or unfairly thought that the CSD could have played a more positive pro-Government role during the strike, which we discussed earlier. That might have been nothing to do with it, but I just wonder whether that was one of the things that helped to crystallise her view. She was very simple about such matters. Things, organisations or people were either thinking the way that she thought, not necessarily agreeing with her – that is a different thing – but thinking in a very positive results-orientated way. If she thought that they were not, rightly or wrongly she would say, 'They can't help me'. There is that aspect to her temperament.

HERBECQ That is right. You know better than I, but the CSD in her eyes – not unreasonably – carried the blame for not resolving the strike earlier.

ARMSTRONG In the way that she wanted it resolved.

HERBECQ Indeed. Not in her way, and we suffered for that.

PRIESTLEY The papers inevitably give the impression that there was some sort of theory at work and that we could derive a constitutional answer from what happened. That is not the case. Mrs Thatcher was no more a constitutional theorist than Mr Blair. She had a strong instinct for what worked and, as has been said, who would help her deliver.

Let me pick up Robert's reference to the infamous dinner. That came about in an interesting way. Early in 1980, the Prime Minister had a meeting in the Cabinet Room at which Robert was present along with Michael Pattison*, who is here, Christopher Soames, Paul Channon and Derek Rayner. She asked them how she could get the senior civil servants on her side and whether she should have a special meeting of the Secretaries when the Permanent Cabinet could all sit round at the back. Christopher Soames said, 'Oh no, they wouldn't like that at all.' She then went from that to the idea of the dinner. The dinner took place the day after the raising of the Iranian Embassy siege by the boys in black [the SAS*]. You will recall that she went and sat at the feet of the boys in black who had done that wonderful deed. Again, she got –

Michael Pattison, civil servant. Private Secretary to the Prime Ministers, 1979–82.

The Special Air Service Regiment.

ARMSTRONG The nearest thing to Queen Elizabeth at Tilbury!

PRIESTLEY She got the impression that the young could do it; whether they were soldiers, Special Services or young civil servants. The next day she gave the Permanent Secretaries dinner with six or seven briefing notes in her handbag, including one from the Efficiency Unit and one, no doubt, from John. In essence, her message to the assembled civil servants was, 'You and I together can beat the system.' Their reply was, 'But we *are* the system'. A great truth lies in there, because the first effort was to make the system, as inherited, work. She and the Efficiency Unit had the mistaken view that what we wanted were Minister-managers who would make it work, Department by Department. Over the period covered by today's seminar were two great phases: first, learning how the system works

and managing it better. The second phase began after the Galtieri episode and, was essentially changing the system, both organisationally and in terms of personnel and pay.

Mrs Thatcher's opening shot was, 'How can we get together to make this work?' She was bitterly disappointed that the message that she thought she was receiving from the system was, 'Actually you are on your own, dear. We are not all that interested in this.' She was getting a contrast all the time from what she perceived to be the attitude of some Heads of Departments and what their youngsters were doing, not least in the Rayner programme. She was looking for allies who would make things work, but she did not feel in her heart of hearts that the CSD was among them. The irony was that many people in the CSD had really laid the foundations for Raynerism. But again we cannot expect a Prime Minister to see that. She saw what she saw – in an extremely busy life, full of terrible crises one after the other. My conviction is that, in the end, she decided that she wanted a change in personnel and structures to help her to deliver what she wanted to do.

ARMSTRONG As we went into the dinner after having drinks, she whispered to me, 'They are all against me, Robert. I can feel it.' That mood was exacerbated round the table. Not very many people spoke. Clive, were you there? I cannot remember.

WHITMORE Yes, I was.

ARMSTRONG Frank Cooper* was pretty outspoken, however, and that did not contribute to the happiness of the occasion.

Sir Frank Cooper (1922–2002), Civil Servant. Permanent Secretary, Ministry of Defence 1968–70.

WHITMORE No – we are getting into personalities now, but that was a big element – but curiously Frank was regarded by the Prime Minister as one of those individuals whom Clive has just described as someone who could get things done. Indeed, you will all recall the famous story, which showed that that was how his colleagues saw him, too.

At the dinner, as Frank got up to go to the loo at the height of the tirade, someone said, 'Thank God, Frank is going to get the SAS to get us out of here.'

I do not want to put too much weight on the pivotal effect of individual events, but Robert was right initially to mention the dinner. At the outset, Mrs Thatcher saw it as an opportunity to get, as she would put it, the Permanent Secretaries on her side. Much later, when I was still working for her, she said on one occasion after a particularly bad Cabinet meeting, only half jokingly because she was not very good at jokes, 'Clive, why do I have to have Cabinet Ministers? Why cannot I just have Permanent Secretaries running Departments and I will tell them what to do? In that way, the Government would be so much more efficient.' That comment was not to be taken totally seriously, but it was an indication of how her mind worked at times.

The dinner had the potential to go seriously wrong. I remember talking to Ian beforehand since he was regarded as the shop steward for such purposes and saying, 'If it begins to unravel – whatever happens – live to fight another day. Don't let the thing turn into a head-on confrontation.' That, I fear, was in effect what happened. As you said, Robert, Mrs Thatcher already had the premonition when going in, and after coming out, she believed that it had been completely confirmed. I accept that I am dwelling on personalities, but I fear that she identified Ian very much with the failure of that dinner. I believe that from thereon in his fate had been determined.

IAN BEESLEY What preparation did the Permanent Secretaries make for that dinner? What did they think they were going in to do? What impression did they want to make on her?

PLOWDEN Robert, you may have been instrumental in this.

ARMSTRONG I do not remember any preparation. I think that they thought they were going in to be harangued and invited to come on side. They

had various reactions to that. The younger ones were more sympathetic than the old shell backs.

WHITMORE Yes, I think that that is true. To reinforce what Clive Priestley said, the result of the dinner was that she wrote off some Permanent Secretaries and others she saw as offering a good deal of hope for the future. She very much saw senior civil servants as either being those who would help her and who would really put their backs into making policy work in their areas of responsibility and deliver management reform, or those who were not going to help her and who were to be weeded out as quickly as possible.

PLOWDEN John, have you any recollection what the Permanent Secretaries who attended the dinner thought would happen?

HERBECQ Judging from the Wednesday morning meetings, I think that, on the whole, Permanent Secretaries were careful not to concert a Civil Service-wide policy. I am sure that they were right not to do so. I do not suppose for a moment that it entered their heads to prepare themselves in that way for the dinner.

PRIESTLEY There is an important point to which attention must be drawn. It is the simple fact that the Prime Minister is and was a woman. She found herself dealing not only with terrible events throughout the country and in the world, but regarding some of her colleagues with great suspicion, as has been said. She did not feel that they were on her side. Therefore, she wanted to give people who were on her side opportunities to do things. That is essentially what she brought Rayner in to do. She gave him a free rein.

Subsequently, having stayed with that policy in a way that neither Harold Wilson* nor Edward Heath had, partly because she found it recreational, she gave Robin Ibbs and Kate Jenkins similarly a free rein to come up with good ideas and, after some hesitation, battled that through too. It was the extraordinary fact of being the embat-

Sir Harold Wilson (Lord Wilson of Rievaulx, 1916–97), Labour politician. Prime Minister 1964–70 and 1974–6.

tled woman, taking on the system, looking for allies and staying with that as the policy.

PLOWDEN Jeremy, can you remember anything about that from the Bancroft point of view?

COLMAN Only that when I started working for him as Private Secretary shortly after the dinner, Ian Bancroft was under no illusions that it had been a disaster. People were not saying, 'Bancroft had made a mess of the dinner'; he knew that the dinner had gone badly.

PLOWDEN We have been talking about the general view of Margaret Thatcher about the Civil Service being suitable for whatever purpose she might have in mind for it, without regard to a particular policy area.

RIDLEY I wish to go back to some of the more subterranean policy issues and refer, as Clive Priestley did, to an earlier era and talk about a dog that did not bark. Those of us who remember 1968 onwards will remember that the then Conservative Opposition was extremely managerial. Lots of people were interested in modern techniques. Teams of young people were sent around the world, such as David Howell and Mark Schreiber,* to look at how to do things. They and other special advisers were excited by the thought of the new Fultonian CSD and that they could all leap into it together. There was tremendous excitement when the new CSD arrived after the 1970 election victory. We used to have extremely intensive salads and drinks. We felt thrilled at what was going on. The young CSD people were equally excited, I must add, but that is by the way.

Mark Schreiber (Lord Marlesford). Conservative Research Dept, 1963–7; Director, Conservative Party Public Sector Research Unit, 1967–70; Special Adviser to the Government, 1970–4.

The important thing is that in the subsequent period of Opposition (1974-79), many aspects of policy were being carefully worked on, but the machinery of government was not. Margaret did not like to discuss it much herself. If she did, she did so very intimately because it was extremely delicate given her relatively weak position

vis-à-vis her colleagues in Opposition and the implications of that in all sorts of ways. I am sure that John [Hoskyns] talked to her about it. I certainly did at the time. The only time when I recall that there was any serious discussion about the machinery of government [amongst some senior party figures] was when there was an inquiry by a sub-committee of the House of Commons Expenditure Committee under Michael English in 1975-76.* A lot of important issues came out then, in which my cousin Nick Ridley became very interested. A few of us burrowed away on these issues, but all of that was put on one side before long because there were other far more important issues.

The Committee's report was published as the *11th Report of the Expenditure Committee of the 1976/7 session* (HC535).

In all the agreed policy positions that were stuffed in the dossiers for incoming Ministers there was zero about the CSD. When we asked people like Geoffrey what had to be done, he said that that was totally secondary and that he had much bigger fish to fry. He wanted to get on with it. He wanted to get the macro economy right and perhaps one day other matters could be dealt with. That point of view changed for reasons that I shall come to later, but I want to say first that there was no prior [ie: pre-election] preparation.

My second point is something very different. Not merely was there not a great managerial revolution being brought about, but the individuals concerned with senior policy making in my view were, with one or two exceptions such as Michael Heseltine,* emphatically anti-managerialist. One or two good comments to this effect are scattered around, such as John Nott saying to the Prime Minister, 'I am a politician; I am not a manager'.

Michael Heseltine (Lord Heseltine), Conservative politician. Secretary of State for the Environment, 1979–83 and 1990-2, for Defence, 1983–6; President, Board of Trade, 1992–5; First Secretary of State and Deputy Prime Minister, 1995–7.

ARMSTRONG

He said that at a meeting in the State Dining Room in No. 10. I remember that exchange happening very much in those same words. I was still in the Home Office at the time and Willie Whitelaw,* the Home Secretary, said, 'Look, I am not a manager.

William Whitelaw (1st Viscount Whitelaw, 1918–99), Conservative politician. Lord President of the Council and Leader, House of Lords, 1983–88.

You manage the Department. I am here for the policy and the politics. You support me on that, and I will support you.'

RIDLEY

Against that background, you did not have a long run policy position to determine what would happen to the Department. There were sensible mechanical discussions such as the group of four.* There were important decisions about public expenditure control to which we shall return. But that was not driven by a view about how to organise or manage efficiency in the Civil Service, as far as I can detect. There were endless Treasury ministerial meetings with advisers* [over 600 while I was Special Adviser] each morning, but I cannot remember a single discussion along those lines.

The 'group of four' was composed of Derek Rayner, Robert Armstrong, Ian Bancroft and Douglas Wass.

Prayer meetings were held by Geoffrey Howe and Nigel Lawson with their Junior Ministers and Special Advisers, for which brief minutes were kept.

ARMSTRONG

I do not believe that Margaret Thatcher thought it really mattered. She thought that it was policy that mattered and then the people, and that the policy could be delivered whatever the machinery. She thought that she should not be reorganising machinery and changing it as a substitute for dealing with policy.

LORD WILSON OF DINTON

A small footnote. It is also worth remembering at the time that Margaret Thatcher was going on tours of Government Departments and meeting senior officials. That coloured her views certainly of some individuals. My Under-Secretary went to sleep; he soon disappeared!

PLOWDEN

John, did she go round the CSD?

HERBECQ

Yes, she did. She had lunch with us. One thing that we were warned about was that she constantly complained about Government offices being overheated. It was January, so we therefore worked out the course that she would take and turned off the radiators in every corridor and room. She was overheard to say – possibly to you, John – that 'at least this place is not too hot.' So we won on that one, if we did not win on anything else. I sat next to her at that

lunch and had what seemed to be me to be an agreeable discussion with her about what we were trying to do.

WHITMORE That visit was quite early on in her programme.

HERBECQ Yes, it was.

WHITMORE She then went to others. I remember her going to the Ministry Of Defence and meeting the Chiefs of Staff on their home ground for the first time. It was a bit of a shock to their system. She went to the Department of Health and Social Society.

ARMSTRONG Her visit to the Department for Education was a disaster, as was Employment.

WHITMORE Just to round off matters, it was an element that contributed to the general impression that she was building up about Civil Service management and the leadership of the drive to improve management. She got all the help that was coming from Derek Rayner and Clive. The manpower reduction programme had been set out. What was it: from 730,000 to 630,000, something like that? It was ambitious and very much imposed from the top down. It was not derived from studies by Departments saying that what they could do. Wherever she visited, when the question of reductions came up, there was clear resistance. People had good reasons why they could not deliver.

Margaret Thatcher got a sense from listening to Derek and Clive during those visits that there was no one out there who was really going to take a grip of the programme and drive it through for her. Adam, you are absolutely right: for her, it was really a second order issue because there were much bigger problems to deal with, such as those to which John [Hoskyns] alluded in our first session. It is easy to forget now just how disastrous the economy was going in those first 18 months or so, with no clear horizon, when the clouds

would lift. If we put that together with the dinner and other day-to-day signs of a lack of grip in the implementation of the efficiency programmes, I think that she concluded that the CSD – made up of about 5,000 people, if we add in Civil Service Commissioners – was a pretty expensive overhead and was not achieving a great deal in improving the Government's efficiency generally.

ARMSTRONG I remember her saying that the Civil Service Department had no one who knew anything about management – a gross exaggeration – and that it could not even manage itself. She said that it was seeking to impose management jargon on the Civil Service without experience and understanding. When she saw papers, she said that they were airy fairy or guffy stuff.

HERBECQ But we did deliver the manpower target. At least, we were halfway there when we were abolished.

PLOWDEN Can we move on to consider the other streams of influence? Is there anything to be said about the role and attitudes of the Treasury? Traditionally, it was resistant to other Departments being set up to interfere with what it regarded as its proper sphere of activity.

RIDLEY At the risk of repeating what has already been covered, I wish to go through quickly the process that lead to a Treasury review. In 1956, there were Whitley, Priestley: independent, fair, uncontroversial and non-political pay research. That system collided with incomes policy in the early 1970s and pay research was suspended. It was suspended for a second time in the middle 1970s. Each time, there was a major explosion. The second explosion in 1978 confronted a very weak Government, which did what everyone would do and buy peace in our time as fast as humanly possible. That was one of the most unbelievably irresponsible acts of a Government, but I shall put that on one side.

The Conservative Opposition in the last hectic days before the

1979 election recognised the grave dangers of what was going on with Clegg,* but in their haste, given the imminent prospect of the election, with the confidence vote and other things that were looming they were unable to adopt and discuss a coherent enough position to deal with the obvious political challenge that Mr Callaghan* threw out within days of the campaign, namely 'Will you honour the Clegg awards?' It was possible to devise an answer. Some of us had done just that, but it was not possible to sell it and teach people how to give it. So effectively the Prime Minister said that 'we will honour more or less everything, subject to cash limits' – whatever that might have meant at the time.

The Commission on Pay Comparability chaired by Professor Hugh Clegg (1920-95) of Warwick University.

James Callaghan (Lord Callaghan of Cardiff, 1912–2005), Labour politician. Prime Minister, 1976–9.

The outcome was little appreciated for a long time in Whitehall, but Nigel Lawson summarised it in his book. I draw attention to what the figures meant. Public sector pay, which covered something like 25 per cent of the labour force, went up by 25 per cent between 1979-80 and 1980-81 and private sector pay went up by 12 per cent. If we take that differential and work out what it meant as a percentage of GDP, something like 2 per cent of GDP shifted into the pockets of public servants. Whether rightly or wrongly is neither here nor there. If we work it out as a percentage of the Government's revenue, it is 5 per cent. We can then turn it into an income tax increase if we like.

We were confronted with this extra public spending at the last moment, three or four weeks before the election. It had the most appalling, staggering impact on all our internal thinking. I remember when poor Terry Burns* joined the Treasury [later that year] and we had a private discussion about matters. He said, 'God, you mean to say that you have allowed all that through?' The figures were staring him in the face.

Terence Burns (Lord Burns of Pitshanger). Chief Economic Adviser to the Treasury and Head of Government Economic Service, 1980-91.

In those circumstances, we must ask what motives lay behind it when subsequently the debate got going. When we looked at what the unions wanted, namely pay research restored on top of those astonishing Clegg awards, it was like restoring Moritz C. Escher's

Bruno Ernst, *The Magic Mirror of M. C. Escher* (Taschen 1994), particularly see 'Waterfall' pp.93, 95.

famous engraving* of a surreal aqueduct with water flowing uphill – on top of a lovely raised base. I am sure that everyone here knows Moritz Escher who painted such impossible physical events. He used to have water flowing up hill in perpetual motion. That is what one felt was the weakness of pay research. To some extent, it was echoed even earlier. Ministers felt that they were seeing that.

Let us go back to 1981 when there was a controversial Budget of which Medium-Term Financial Strategy was the foundation stone. Cash limits were being set at a demanding level. There were equally demanding inflation targets. There was a micro-economic debate going on about restoring comparability and public servants keeping the premium over the private sector that Clegg awards had won, a goal that the union representatives did not mention earlier. We then had a more political process again with the unions on the left that basically wished to refresh the instruments of union power that were essential to maintain their role in the cost push process.

PLOWDEN Adam, bring us back to the CSD.

RIDLEY The final thing was that they wanted to have their finger on the jugular with the authorities as they were able to do. Under those circumstances, it was asked, 'What is the instrument by which we, the Treasury or the centre, can control such things?' The policies for manpower, the pay and other matters that perhaps were being handled sensibly felt out of control, with separated the two Departments [the Treasury and the CSD]. That is a discussion that I remember vividly. Setting the decision about the CSD's future in a such wider context is absolutely crucial. Indeed it must also be borne in mind that the specific issue of the future of the CSD therefore became wrapped up almost in the question of whether or not there were u-turns in the offing.

HERBECQ I said a moment ago that the Civil Service Department should not have been created. It was neither one thing nor the other. If we

were going to split the Treasury – I am a great believer that that is what should have happened – we did not have a great span of activity. The result was that until paradoxically enough we had Soames, we never had an effective Minister. Believe me, running a Government Department without an effective Minister is not easy. It can be very difficult. I shall not name names, but one or two of them were absolutely hopeless.

ARMSTRONG Go on.

HERBECQ You have never worked with a hopeless Minister. I have.

ARMSTRONG I am lucky enough not to have done.

HERBECQ Soames was the man who could have done something with it. However, it was misbegotten. I had no personal regrets when it was put down.

PRIESTLEY There are two issues. One is very much the constitutional resource control issue. I did not realise that John was a closet Raynerite on the matter until recently, but a lot of people, Derek Rayner included, believed that the splitting of control must be wrong. The other issue was the working of the system, which was very relevant. I remind you that, in 1979, the proposition was that the system could improve itself with outside help. One strong element was financial management. Part of the resistance of the system was entirely understandable, given the record to which Adam has just referred: "Will the Ministers stay interested in the subject? Shall we expose ourselves and damage our positions? Let us wait and see."
As for the Treasury in respect of financial management, I remember at the end of 1980 Derek Rayner giving Douglas Wass and Anthony Rawlinson dinner to talk about financial management and saying that he had a tiny unit and wanted them to do something. He was very persuasive. Douglas Wass, at the liqueur stage, banged the

table and said, 'Management's hour has come.' From that moment, the work that the CSD had started on financial management flowed in together with the Treasury. It was a critical moment.

PLOWDEN What events led up to your being eventually part of a meeting at which you decided that the CSD must go? It was set out in the chronology. Douglas Wass, who has left the room, was also present.

ARMSTRONG All of us felt to a different degree what John Herbecq has said in that the creation of the Civil Service Department had been a mistake and that we should undo it. Douglas Wass certainly agreed with that. Derek Rayner was strongly in favour of it. I too was in favour of it, although I thought that the resource thing should go back to the Treasury, but that the non-resource issues ought to be kept separate. Among the big four, there was unanimity of view that the CSD had not proved to be a useful development and ought to be unscrambled.

There was then the issue of timing because of the various considerations that people have mentioned, such as the controversial Budget of 1981 and the fact that Mrs Thatcher's popularity polls were very low and because of the Civil Service strike. Matters were then deferred. It says somewhere, 'Why didn't she wait until Ian went of his own accord?' I had hoped that she would, but she did not.

COLMAN Can I just question that a bit? In 1980, the very unusual step was taken of the Government asking the Treasury Select Committee to look into the future of the CSD. The Committee reported that the CSD should continue. The Government published a response to that, possibly in December 1980, when they said that they CSD should remain in being for now – or words to that effect. It was seemingly quite a definite decision. Yet within a few months, the opposite was announced.

ARMSTRONG Well, quite a lot of things happened. The Civil Service strike did not help.

HERBECQ It was like that during the last 18 months or a couple of years from all directions. We knew that it was happening. We had reason to think that the press were being encouraged to have a go at us. It was difficult trying to run the Department in that sort of atmosphere – to keep up morale and keep the chaps motivated.

PLOWDEN Clive, can you tell us something about the role of Derek Rayner in all of this?

PRIESTLEY The quotation attributed to him on page 5 of the Green Paper is wrong. He is quoted as saying, in effect, that *all* civil servants are a 'coterie of cynics who know nothing about management and despise those who do.' That is not the case. He said that there was *some* senior officials of whom that was true, but from his time at the Ministry of Defence under Edward Heath at the beginning of the 1970s when he created the Defence Procurement Executive he had the highest possible regard for many officials of all ages. He came into his job in 1979, part-time on day release from Marks and Spencer, with the conviction that the British people were fortunate to have among their officials people of high quality and who wanted at all levels of responsibility to be accountable for what they did and to do the best job.

Derek Rayner's opening pitch to which Mrs Thatcher added, 'Help me and my Ministers to be managers', was that the system could improve itself. His scrutiny programme was intended to show both strengths and weaknesses in an Administration. The exercise on 'paper' was yet another of those exercises used from time to time to reduce the burden of forms, but most important there was the programme of lasting reforms [agreed by Cabinet on 1 May 1980].

In that, the machinery of Government issue about the CSD and the Treasury was stated from the beginning. It was on the cards. It was

not a covert thing. Derek Rayner had no conviction that the split model could work. All those who worked with him will agree that he was an extraordinarily straight chap, who said what he thought. He concealed nothing. In giving his advice to the Prime Minister, he bent over backwards to be fair. There were people in the CSD whom he liked and admired and on whose work he drew, and he was at pains to acknowledge that much of his work was derived from good people in the CSD, such as unsung heroes like Johnny Walker, for example.

Derek Rayner was very conscious that any system could be made to work and thus was conscious of the mixture of forces created by structure and people. In his observation, he became increasingly convinced that the mixture of people was not robust and that it could not carry the weight that was being laid upon system reform. His conviction therefore was that it would be sound to rejoin control but, of course, as has already been said, it was no good just thinking that Treasury officials could do the new job untrained. There had to be an element of familiarisation and training.

HERBECQ I wish to make a point about the quality of people involved, which has been criticised at times. We had four deputy secretary posts. We lasted 13 years, and eight occupants of those four posts went on to be Permanent Secretaries at other Departments. They were brought in from outside. There was no question that we had able people in the Department. They may not have done the job well, but they were able people who did well enough to become promoted to heads of other Departments.

PLOWDEN At what point did Derek Rayner's package of lasting reforms including the abolition of the CSD intersect with Mrs Thatcher's general feeling that something was wrong with how the machine worked?

PRIESTLEY 6 May 1980 [the Permanent Secretaries' Dinner].

WHITMORE There was a gathering stream of unease in the Prime Minister's mind about the CSD. Adam used the term 'subterranean' in a slightly different context. Sometimes the stream went subterranean when there were much bigger issues on her plate. But then it would surface again. As I said, the point came when her acceptance that something had to be done about the CSD coincided with the wider, political changes that she wanted to make in the Cabinet.

The Prime Minister had acute antennae. Other Government Departments on the whole took a rather jaundiced view of the CSD. I am thinking of the big Departments such as the Ministry of Defence. They felt that the CSD was not giving them anything in the way of managerial leadership. They all recognised that the real clout – the real power – lay with the Treasury and that the CSD was very much the poor relation at the centre of the Government. Seen from the big management areas, the CSD really lacked credibility.

COLMAN The entire time that I was Ian Bancroft's Private Secretary, which was the last 18 months, there was extraordinary little contact between him and the Prime Minister. He was Principal Adviser on Senior Appointments. That advice was almost invariably given in writing, and often rejected. Considering that the Prime Minister was Minister for the Civil Service, we would have expected much greater contact than I saw. That was after 6 May. Was there ever a stage when she saw a lot of Ian Bancroft?

WHITMORE No.

PRIESTLEY No.

WHITMORE I used to trot across Horse Guards regularly to commune with Ian. I felt very sorry for him. He was isolated from the Prime Minister. He was not helped in his relationship with her by the fact that his own Minister was Christopher Soames. He was in a difficult situation personally.

ARMSTRONG He was not well.

WHITMORE No, he was not well and he behaved with huge dignity.

CHILCOT I am interested in a small qualification of Jeremy Colman's remark about Ian Bancroft's contact with the Prime Minister. Thinking back to William Armstrong's time with Harold Wilson and certainly with Ted, we would have expected much more contact, but there was little personal exchange on management subjects. William complained that he could not get a long meeting. I think that that is inherent in the relationship as well as personal to Mrs Thatcher and Ian Bancroft.

ARMSTRONG It is inherent in the topic in some ways.

HERBECQ It is also true of Douglas Allen.*

Douglas Allen (Lord Croham), see note p.65.

ARMSTRONG That coincided more or less with Wilson's arrival. Because of the way in which William was involved, Wilson was not going to have Douglas back in that sort of role.

HERBECQ No.

ARMSTRONG Douglas found himself not doing the thing that he had hoped to be doing and doing things in the Civil Service Department that were not particularly his scene.

HERBECQ His heart remained at the Treasury.

PLOWDEN Can I pick up Clive Whitmore's useful negative point that the CSD had no friends elsewhere in Whitehall? That prompts me to ask whether abolition was ever discussed collectively at any point by Ministers, briefed by their Departments or Permanent Secretaries to say that the CSD was no good. Or was this simply a matter of

advice being given by the courtiers and of the fact that such decisions were taken on a personal level?

WHITMORE I do not recall any ministerial discussion.

ARMSTRONG Nor do I.

WHITMORE Whether there was at the Wednesday morning meetings, I do not know.

PLOWDEN Did she ever sound out colleagues by asking whether the Department was any bloody good?

SEVERAL SPEAKERS No. She would not have done that.

WHITMORE I do not think so, partly again because it was not a huge issue in her mind and partly in case she received the wrong answer.

PRIESTLEY Can I tell two stories about Willie Whitelaw, which I hope John Chilcot will confirm?

PLOWDEN Are they relevant?

PRIESTLEY They are very relevant to the issue we are discussing. We went to see Willie Whitelaw in June 1979 on a round of Ministers. He said of the Prime Minister, 'I don't know why she wants to do this, but she does want to do it so we must all help her'. That was jolly good. It was not the attitude of most of his colleagues. His then Permanent Secretary, not Robert, said, 'I think he finds it very difficult to see where I fit in. I am somewhere between a bailiff and a butler.'

ARMSTRONG That was Brian Cubbon* I was still there in June 1979.

Sir Brian Cubbon, civil servant. Permanent Under Secretary of State, Home Office, 1979–88.

PRIESTLEY As far as Ministers are concerned, we must recognise that Whitehall is the last bastion of 'Upstairs Downstairs'. The word 'servant' is terribly important. Most Conservative Ministers were certainly not too near to the way in which the servants worked and not really interested in such matters.

As for the CSD's relationship with other Departments, it really could not win given that it was separate from the Treasury. Some of the things that it did during the 1970s were very good. Some were characterised by Douglas Allen in the phrase, 'as being written in mid-Atlantic Cherokee'. The fact that one was using a lot of jargon such as job analysis reviews, facilities agreements and so on was both rebarbative to mandarins who did not like that sort of English and, of course, subversive. In our earlier session, there were references to the use of facilities agreements. The '70s were a time of growing staff turbulence, dissidence and insolence in some cases. It was felt 'not with complete justice' that the CSD was a sponsor of a lot of that. It could not win with other Departments.

PLOWDEN I should like to move on from motivation to what difference did it make. Do members of the panel want to say anything more about the motives of those concerned with the abolition that has not been said hitherto? Does a member of audience want to raise a point? Well, we shall go on to the difference that it made. Was the outcome of the turbulence the best possible in the circumstances? Did it allow the sort of control over manpower costs and resources, in general, that was the objective of the abolition of the CSD or, indeed, what had it done to the general management of the Civil Service?

COLMAN I wish to make a point about the short-term impact. I was in the first generation of graduate trainees who had been recruited into the CSD. It was a conscious choice on my part. Like all ambitious young people in their early 30s, we thought that our elders and betters were making a mess of things. When the CSD was abolished, it

was about two years ahead of any of us moving into positions in which we could have changed things.

The consequence of the abolition was that those ambitious people were dispersed and few of them continued to have anything to do with Civil Service management questions. In the short run, there was definitely an effect because of a change of personalities and putting matters into the hands of people who, on the whole, had not thought about them as much as the CSD people had. That was immaterial in the longer term, but there would have been an effect in the short term.

PLOWDEN How did it come about that the option mentioned by John Herbecq earlier – the creation of a Bureau of the Budget [uniting the control of financial and manpower resources in one department, separate from the Treasury], which might have provided a base for just such people – was not pursued? Or was the hand of the Treasury at work again?

In some ways, it was a curiously bodged affair.

RIDLEY You said that it was an option, but my recollection is that it was not an option on the table when the decision was taken. I do not know whether Clive and others agree, but by the time I heard a whiff of such matters, it was straightforwardly the proposal that was finally implemented: that the MPO [Management and Personnel Office] activity would stay more or less with the Cabinet Office, or perhaps, drift off to the junior Ministers, which it did; and the Treasury would take the strategic matters [responsibilities of CSD].

HERBECQ If the Treasury were to be split at all, instead of making the CSD out of the Treasury, they should have made a Bureau of the Budget, but it could not be done at break-up time [in 1981].

WHITMORE I do not have any recollection of the Prime Minister giving a great deal of thought to a Bureau of the Budget. I do not recollect the

issues for and against such a development being put to her. There was certainly no discussion.

ARMSTRONG Nor do I.

HOSKYNS A Prime Minister's Department was another idea floating around at the time.

WHITMORE That ran a bit harder and for a bit longer, but it came a little later.

ARMSTRONG She had the right title.

WHITMORE Much of that turned on what would be put into a Prime Minister's Department, but it certainly was not like a Bureau of the Budget within a Prime Minister's Department. Above all, who would be in it? It comes back to Robert's point about individuals. When she thought about a Prime Minister's Department, which was not to a great extent, it was about who would run it for her.

PLOWDEN A sort of jumped up Chief Secretary [of the Treasury, traditionally the minister responsible for the control of public expenditure].

WHITMORE I think that she was thinking much more of whether she should take Robert and leave the Cabinet Secretary's traditional role of servicing the whole Cabinet to someone else and put Robert in as head of her Prime Minister's Department. But that never really got off the ground, did it?

ARMSTRONG No.

WHITMORE It comes back to what we have been saying. She was not hugely interested in the machinery of Government issues. She thought that, if she had the right people in the right places, things would work.

ARMSTRONG Exactly right.

WHITMORE She was absolutely clear on one simple point, which was that the major strategic functions that had to be transferred from the CSD following its abolition should go to the Treasury. There really was no other proper and natural home for them.

PLOWDEN It did not much matter what happened elsewhere.

WHITMORE No, she was not interested in what became the MPO.

HOSKYNS I felt that she had something of a blind spot about organisation because she really did not have it in her experience. I remember her saying to me when she was still in Opposition that there was no problem that could not be settled without two or three motivated intelligent people sitting down for an afternoon and deciding what to do. I thought then how there were problems that would take weeks to define, before people can start to think who is to do what. She came to office with tremendous burning energy and determination, but a simplistic idea. She was always saying that she wanted the people who would fight for what she believed in. That was pretty important. Organisations bored her.

The proposal for a Prime Minister's Department was an interesting example of such thinking. It was an idea worth thinking about, although I did not waste time doing so because I had drafted my own terms of reference at the beginning as I wanted to be absolutely sure that she was happy with what I was going to do, and what I was not going to do. It was only a lunchtime conversation. However, to borrow a phrase, I was aware of a lack of joined-up government, which is almost endemic in anything complicated and difficult. The threads just do not come together. Whitehall inevitably was organised in that way. It did not have a top brain box. It had clever people in different bits, but not a co-ordinating brain box, which would in itself have to be too political for the Civil Service as

constituted to be able to cope with it unless it was a new organisation – slightly hybrid.

I came across a simple thing when on one side, probably the Treasury, there was tremendous pressure to reduce coal stocks. On the other side, there was a growing awareness that coal stocks below a certain level would simply invite a miners' strike, which we all assumed would come sooner or later and would be the final end of things in phase 1. I never read Fulton. I would have liked to have done so, although it does not seem to have been taken seriously round this table, but the practicality of a Prime Minister's Department along those lines was completely and utterly unrealistic. Would the Treasury, given the realpolitik of any large organisation, give it five minutes? No. I would not if, I were running the Treasury. Moreover, we did not have time to start Mickey Mousing around with organisational structures and new skills when we were in the middle of trying to evacuate from Dunkirk, which is what the first year or two felt like.

ARMSTRONG There was also the problem of where you put it. No. 10 is very small. That problem has been solved in a certain way now, but at that time the geography did not suit.

HOSKYNS It did not surprise me when Geoffrey Howe said on the telephone last week that he really had nothing to say on the CSD and that he only remembered meeting Ian Bancroft once.

PRIESTLEY The Prime Minister liked what she liked. She liked what worked. At the time of the abolition of the CSD, the Efficiency Unit was parked across Horse Guards Parade in the Old Admiralty Building and one felt a pang that one had been separated from the source of power. However, she showed very quickly that that was not the case and that she was still interested in the Efficiency Unit. After I had left the Service, my recollection is that she took the Efficiency Unit back into her own office. Ian Beesley and Kate may want to comment on that. It is interesting that the Efficiency Unit lasted until

recently. It has transmogrified into the Office of Government Commerce, a very curious title, which looks like the 'Inspector General'* we were running. That demonstrates that three Prime Ministers found a small unit like that close to them useful for such purposes.

Hoskyns' comment: 'I *think* this is a reference to the conversation I had with Geoffrey Howe a week before this seminar.'

PLOWDEN

Can we consider the impact of the abolition and the shape of the organisations that followed abolition on the management of the Civil Service? Robert, as Joint Head of the Civil Service, did you feel that you had an organisation that would enable you to do what you or your political masters wanted you to do in terms of running a modern, efficient and effective Civil Service?

ARMSTRONG

Once the CSD was moved into the Treasury to deal with those issues that had not gone back to the Treasury. It was larger than the original Cabinet Office by a big margin. I thought that we had the division about right – I would, wouldn't I. I wondered whether it was mistaken to think that it was right to take manpower away from the Treasury because it would be too dominated by national economic matters because while it was in the Treasury that consideration was at least tempered by some sense of responsibility for the Civil Service.

Once the Treasury was moved into the CSD, it could be single minded about holding the Civil Service down, as it were, without thinking about the wider things. It seemed that I had been wrong about some of the reasons that had led to the setting up of the CSD and that the right course of action was to go back to where we were. Obviously, the role evolved over the years. It was firstly joint with Douglas Wass. When he retired, she did not want to keep that arrangement. She wanted to have a single Head of the Civil Service. I had the problem of trying to graft that on to the other things that I was doing. I managed to survive it by relying more on my regular Cabinet Office Deputy Secretaries for the standard Cabinet Office

business so that I could give more time to the Civil Service issue and, for those years, I made it work.

PLOWDEN Does any of the panel wish to say anything about the effect of the impact on the continuing modernisation of the Civil Service? Was the abolition of the CSD and the changes that followed significant or was it just a blip in that things would have continued as they would have done anyway?

WHITMORE They largely continued as they would have done anyway.

ARMSTRONG We should have had a financial management initiative and all that.

WHITMORE Yes. I am jumping ahead two or three years, but in 1983 I went back to the Ministry of Defence as Permanent Secretary. Within a fortnight, Michael Heseltine was Defence Secretary. I knew very well, from having seen him at No. 10 when he was in the DOE [Department of the Environment], that he would have his own views on the management of the Department. So within about a fortnight, we were knee deep in MINIS. It is a pity that he is not here today. In the development of the management systems that he was keen to introduce and which were built on initiatives that were already under way in the shape of what were called staff responsibility budgets and executive responsibility budgets, which had started before my arrival and that of Heseltine, while we kept the MPO in the picture, we were very much doing it ourselves. We did not really feel that we needed huge guidance from the MPO.

As regards matters such as pay, we were dealing with the Treasury day-in, day-out on defence expenditure. What was more natural than it was also the paymaster as regards staff? Seen from a large Department, the disappearance of the CSD, the emergence of the MPO and the re-absorption by the Treasury of its former strategic functions went pretty well without any great upsets or hiccups.

RIDLEY

Having been involved in one or two departmental reorganisations, one of the saddening things about the abolition of the CSD was that it had to be so sudden. I have always regretted the speed with which Ministers decide to do such things and the fact that they do not give officials the chance to prepare the options and talk them through. It was the same in 1969 when the DEA was abolished, of which I was a member.

Going back to what happened after the merger, I think that there was a great sense of relief at a time when things were beginning to come under control, and we did not realise it anyway. The new system delivered what Ministers wanted, and it did so pretty well. It delivered on the manpower cuts; it delivered on the pay; it worked out a sensible arrangement with Megaw,* which was an important part of the beginning of a partial reconstruction of a more orderly environment for public pay in Central Government. It also paved the way for the activities of the decentralisation area and various other things. It provoked in my mind then, and still does now, a comment on the nature of the Treasury as an organisation. I think that I dare throw it out. Are there any other ex-Treasury people here? As a Department, I always felt that it was light on managerial experience.

Sir John Megaw (1909–97), lawyer. Chairman, Committee of Inquiry into Civil Service Pay, 1981–2.

The Treasury was not only light on managerial experience, but light on legislative experience. If you deal with it on a big Bill [like the Financial Services & Markets Bill], it is not like dealing with other Departments. In most other Departments they have a much better idea of how to deal with legislation, other than the traditional Finance Bill, at which of course the Treasury is a past master. Nor is it very hot at understanding much about organisations, particularly in periods of dynamic change when the wretched Treasury officials are shuffled around between posts. That reflection hit me then. I remember talking about it to Clive [Priestley] and the Efficiency Unit, and I continue to think the same. I suspect that we would have progressively done better as a country, whether under

one Government or another, if there were more of the appropriate people who were good at doing the sort of things that needed to be organised and managed alongside the reform of the basic economic controls.

I go back to Robert's important comment that we must remember why the CSD was created. In the 1960s there were good reasons for thinking that the Treasury was both too obsessed with elementary economic and other matters, but there was also an absence of other understandings. It simply did not have a multi-dimensional understanding of what organisational structures meant.

ARMSTRONG

Sir Peter Middleton, civil servant. Permanent Secretary, HM Treasury, 1983–91.

Part of my function was to be able at a relatively high level to help influence the Treasury's thinking on some matters. I felt that I had responsibility for the wider Civil Service machine, a position that no one else was in. Peter Middleton* was extremely single-minded on such matters.

RIDLEY

Bernard (Barney) Hayhoe, (Lord Hayhoe of Isleworth), Conservative politician. Parliamentary Under Sec. of State, HM Treasury, 1981–5.

Arthur Cockfield, (Lord Cockfield), civil servant. Previously served at the Inland Revenue, as Chairman of Boots and Special Adviser in the Treasury between 1970 and 1974, as well as holding a post-1979 role as a Treasury minister and, subsequently, Secretary of State for Trade and Commissioner in the European Community.

I was aware of that! As for personalities, most of the Treasury ministerial team from 1979 to 1985 when I was there did not have managerial experience, save for Barney Hayhoe* and to a certain amount Arthur Cockfield,* who had been CEO of Boosts. But they did not bring much enlightenment on managerial matters to the debate at ministerial level. I do not mean that they were unsympathetic to a national debate, but it was simply not something to which they would turn their minds unless others required them to do so.

Why [in contrast] was Michael Heseltine so interested? He was a very successful businessman. He had built up a large and complex publishing conglomerate from scratch. He naturally knew the importance of getting things organised. Whether he became stuck too much instinctively into dealing with the 'organisation' is another matter, but it was an entirely predictable process once we think about his background.

ARMSTRONG

My impression was that he was the only Cabinet Minister who had that experience and interest. Almost all the others did not have experience of management nor were they interested. That goes for Willie Whitelaw, Ken Clarke* and a great many others.

Kenneth Clarke, Conservative politician. Secretary of State for Health, 1988–90.

PLOWDEN

We have five minutes left. Does any member of the audience wish to comment?

CHILCOT

I came to the MPO in 1984 at Robert's demand, after four years of helping to run the Prison Service. I had acquired a certain amount of knowledge and found that returning to the abstraction of the centre very weak. Jeremy's remark about the dispersal of the Civil Service Department was right. The initiative of management had migrated into large areas of the Civil Service and had found more autonomy. That was a satisfactory, but not willed or intended, devolution.

LORD WALDEGRAVE OF NORTH HILL

What Robert Armstrong said was absolutely true. Michael was the only senior Minister whom I know who was seriously interested in the subject. However, we must slightly watch out when referring to analogies with the Haymarket Press. I would very much like to own it; I would guess it is worth about £500 million if it were floated, but as a result of inheritance tax and changes in private companies that were introduced by Kenneth Clarke, it would be mad for it to be floated.

However, before coming into Government, I worked at GEC and the difference between a very large corporation and a smallish family business is quite noticeable. The best thing that Michael did was to say that there must be good management information systems. That was useful. Management information systems were fairly primitive. Although things had been started before he came along, I agree that he gave a great boost to them. However, it was a little like Mr Macmillan* and Macmillan Publishing. It is not a good analogy for running a Health Service.

Harold Macmillan (the Earl of Stockton, 1894–1986), Conservative politician. Prime Minister, 1957–63.

WHITMORE When Michael Heseltine came to the MOD, we quickly established MINIS for the Whitehall bit of the MOD. That involved 27 MINIS commands at Under-Secretary level. He had had a similar number at the DOE. In the first year, he personally conducted all the examinations of the MINIS grade 3. The following year, it extended to MOD outstations. The number jumped to 80 odd. He probably saw fewer in the second round than he had seen in the first. He insisted that we extended it still further to include overseas military commands.

In the third round, the number increased to about 120. I think that Michael Heseltine saw probably a dozen. Why? Despite his passionate interest in management and his strong belief that MINIS [Ministerial Information System] worked only if the Minister himself was involved, hence its title, other policy issues were far more pressing. We were in the middle of a cold war. We were deploying cruise missiles to Greenham Common and Pershing 2 in Germany. There were so many other major policy issues on Michael's plate that even someone like him could not keep up the momentum of his interest in management.

PLOWDEN Thank you all very much. Michael Heseltine was to have summarised the discussion, but I think that he said that it was preposterous to suppose that he had anything to offer on the topic. He would have had something to say. Rather like our first discussion, our summary might have concluded that it did not matter a great deal one way or the other that the Civil Service Department was abolished, but that things moved on. As John Herbecq said at the outset, the wrong format was created. A different organisation might have achieved more and differently.

We have heard about a fascinating slice of history. It demonstrates the way in which ideas develop spontaneously and formlessly at first and take shape only under the pressure of events. Mrs Thatcher was not particularly interested in the Civil Service Depart-

ment or in its abolition. That became a possibility and an idea as other streams emanating from the Treasury, Derek Rayner and others flowed in – the intersection of the personal, the institutional and the historical. As a slice of history, it was rather good. Thank you all very much.

Session III: The Genesis and Initial Implementation of *Next Steps*

Background Notes
Rodney Lowe

'A fundamental and much needed reform that is decades overdue [and will] cause management to become hungry to achieve better value for money'. Sir Robin Ibbs to Mrs Thatcher, 20 October 1987

'A report not by us but to us', Mrs Thatcher, House of Commons, 18 Feb 1988

Next Steps was 'perhaps the most important reform of the Civil Service this century' (the Treasury and Civil Service Select Committee, 1990). **Was it?**

Was it evolutionary rather than revolutionary?

How much of the original vision was altered by the battle over its acceptance?

To what extent did the implementation of agencies restore the original vision?

Why was that original vision under challenge by 1992; and how successful are agencies now judged?

IMPLEMENTATION

	Number	Officials (000s)	Officials (%)	Principal new agencies
1988	3	6	1	Vehicle Inspectorate, HMSO
1989	10	9	1	Civil Service College
1990	35	114	20	Employment Service Agency, DVLA, Royal Mint
1991	59	200	36	Customs & Excise establish 30 executive units; (Civil Service Commission); Benefits Agency; CSO; UK Passport
1992	76	210	37	Inland Revenue establish 34 executive offices
1993	92	250	45	CSA; HM Prison Service
1994	102	268	50	Highways Agency

CONTENT (from the original presentations to Mrs Thatcher, April 1987)

Findings

Management neglected
Civil service monolithic
No pressure for improvement

There was 'a lack of positive management, vague definitions of responsibilities, failure to delegate and a lack of interest in costs and output. There was also a tendency for political sensitivities to swamp Value for Money'

Recommendations

Establish agencies for executive functions (95 per cent of staff)
Staff to be properly trained and experienced
Reorganise the centre to create pressure for results (Project manager to ensure change; but four continuing tasks for the centre - allocate resources; ensure rigorous external pressure on departments to improve results; ensure overall shape of the Civil Service continued to respond to changing needs; set and police essential rules on propriety)

Benefits

Ministers can concentrate on policy and strategy
Managers eager for results and better able to get them (accountable management with quantifiable targets)
Better value from public expenditure

Dangers

Sloppy frameworks
Fail to give adequate freedoms
Give freedoms too quickly
Fail to manage transition
Go too slowly, too fast or not selectively
Too few good managers
Increasing prescription from the centre

'The aim should be *within five years* to establish a quite different way of conducting the business of government. The central Civil Service should consist of a relatively small core *of about 20,000 people* engaged in the functions of servicing ministers and managing Departments who will be the 'sponsors' of particular government policies and services.
'Responding to these Departments will be a range of agencies employing their own staff who may or may not have the status of crown servants'. Original *Next Steps* report, 1987 [italicised passages omitted from printed version]

REVOLUTION OR EVOLUTION?

'Next Steps' was a standard phrase in most reform documents after the mid 1960s. Was the substance of the 1987 reforms equally conventional?

There had been experiments with agencies since the 1930s and particularly during the Heath Government. There had been a growing emphasis on management since the 1961 *Plowden Report* and particularly in the *Fulton Report*. However, earlier reforms had been constrained:

Fulton had assumed 'big government' and explicitly supported civil service unity and rejected devolution of recruitment to departments.

The **Heath** experiments had been wary of infringing Parliamentary accountability.

Such wariness informed **Rayner** as Mrs Thatcher's efficiency adviser (he had been active in the Heath Government). He also opposed hiving-off and privatisation. But was the Inspector General, advocated in his 'lasting reforms' programme, a prototype Project Manager?

To what extent, therefore, was *Next Steps* revolutionary?

A long series of reforms, concluding with **FMI** in 1982, preceded *Next Steps*.

What, if anything, was owed to new management theory or private sector practice? Or did the report simply reflect consensus opinion throughout most of the service?

Was the conclusion that the civil service was **'too big and too diverse to manage as a single entity'** in essence a reaction to increased centralisation since 1976 and particularly under Mrs Thatcher? A feature of the traditional civil service, earlier disliked by reformers, had been autonomous departments and a plethora of departmental classes.

In administrative terms, was *Next Steps* itself in essence evolutionary in its aims and even means; but revolutionary in its boldness of ignoring traditional constraints?

In political terms, was it the year-long debate over its acceptance which raised the possibility that agencies might be the prelude, rather than an alternative, to privatisation?

DILUTING THE ORIGINAL VISION?

A year elapsed between the submission and public acceptance of *Next Steps*. To what extent was this due to issues of **pragmatic** pressures:

During the year there was a general election; a civil service strike; and a change in both the machinery of central government (OMCS replaced MPO) and the headship of the civil service (1 January 1988). Perestroika in the USSR coincided with its submission and a stock market crash with its deliberation in government. Did such contingencies necessarily limit the priority *NS* could be given*?*

The original report could be construed as an attack on Mrs Thatcher's centralising tendencies and the failure of her attempted 'managerial revolution' in Whitehall. Did it have to be suppressed in an election year?

Issues of **principle** also split ministers, the centre of government and special advisers. Until the stock market crash in November, Mrs Thatcher, the Heads of the Civil Service, the majority of Permanent Secretaries and ministers ('a chorus of spending ministers' according to the Treasury) supported *NS*. The Treasury, the No 10 Policy Unit, Mrs Thatcher's principal private secretary and press secretary together with a small number of ministers (principally John Moore and Kenneth Clarke in conjunction with Nigel Lawson as chancellor and John Major as chief secretary) opposed. The principles included:

Reduction in Parliamentary and ministerial accountability.
'It is not possible in government entirely to separate management from politics…This is the fundamental obstacle that keeps impeding progress and providing excuse.' Sir Robin Ibbs, April 1987.

Loss of control over public expenditure. The Treasury feared trade unions would 'pick off departments one by one' and agencies act, like the NHS, as 'pressure groups for more money'. This would lead to an 'explosion in pay and numbers' not the 'explosion of managerial energy' predicted by Ibbs.

'Government is not business' (No 10 Policy Unit). Managerial flexibility in the private sector depended on increased revenue (i.e. market success). In the public sector this could only come from increased public expenditure. If Treasury control was to be weakened, **privatisation** was the only means of improving management without incurring extra costs. How could government mimic the market e.g. if ministers 'hired and fired' chief executives and directly sanctioned performance bonuses, would this not introduce an unacceptable degree of 'politicisation'?

The break-up of the civil service. The original report had suggested that not all agency staff need remain civil servants.

> 'In our discussions it was clear that the advantages which a unified civil service are intended to bring are outweighed by the practical disadvantages, particularly beyond Whitehall itself'. Published *NS* Report

Such objections led to some redrafting of the original report; the published report's eventual 'presentation without drama'; and to a preference for pilot schemes rather than a 'great step change'.

> Did such a low key presentation and the failure immediately to create a critical mass of agencies stall the creation of a new managerial culture? Or did it just necessitate a 'revolution by stealth'?
>
> Why was there no Cabinet discussion until the morning of its announcement; and no Parliamentary debate? Was open debate a casualty of the suspicions generated by earlier disparagement of the Service? Were there still grounds for such suspicions?
>
> Was the basic cause of delay a bureaucratic power struggle or genuine *political* differences over how to reform government or simply?

IMPLEMENTING *NEXT STEPS*

Fifty per cent of civil servants were in agencies within seven years. This fell slightly below the original ambition of 95 per cent within five years; but represented a far faster rate of fulfilment than that enjoyed by any other major reform, including Northcote-Trevelyan[1] and especially Fulton.

Parliamentary and ministerial accountability. Political fears were soon assuaged by Parliament. The TCSC sought to accelerate the *NS* programme. It also immediately saw that accountability could be strengthened if Chief Executives were Accounting Officers and could be questioned by Select Committees.

> 'We urge the Government to display more confidence in the systems they set up and the managers they appoint'. TCSC, 1st Report, July 1988

Control of Public Expenditure. Treasury slowly accept Ibbs' reassurances in October 1987:

> 'It has been suggested that the "Next Steps" recommendations would weaken control over public expenditure. This is simply not true… The head of the agency would have to work within an expenditure limit and would be personally answerable if it were breached'. This conforms with the Treasury's championing of PESC in 1961 (control via cap on aggregate expenditure).

Trade unions did not pick off departments IPCS had accepted a flexible long-term pay deal (including merit and regional pay) in April 1987 and other unions followed suit. General support for improved service delivery.

> 'We see the Ibbs Report as being an important opportunity to improve generally and permanently the quality of service given to the public. [But] if the exercise is a disguised attempt to break up the civil service, to reduce resources, to impose further cuts of to provide an enabling route to privatisation … it will meet with total opposition.' *CCSU Bulletin*, Sept 1988

Privatisation. At the Treasury's request, the Project Manager had to consider privatisation, contracting-out, a public corporation or abolition of a service before setting up an agency. Why was there so little privatisation?

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1 The Northcote-Trevelyan civil service reforms of 1854

Break up of Civil Service. The threat in the original draft of *NS* had been modified but it remained a logical outcome of reform. How far did the threat influence the reaction at the centre?

How well founded, therefore, were the initial reservations of those who *opposed NS*?

Did the initial framework documents successfully distinguish policy advice from delivery?

Had initial Treasury opposition simply masked resistance to the loss of traditional instruments of control; and of power to the OMCS and Cabinet Office? Were such fears assuaged by the appointment of two Treasury officials as Head of the Civil Service and Project Manager? Sir Robin Butler had been in charge of its expenditure divisions in 1987 and Peter Kemp pay policy.

To what extent was the Project Management Team, in conjunction with the Project Executive and Project Liaison Group, able to restore the original vision? Which, if any, of the dangers listed in 5.4 arose? Had the issue of transaction costs been foreseen?

IN RETROSPECT

Have agencies achieved the original objectives of a managerial revolution; better value for money; improved service to the public? Has business organisation as well as skills proved practicable in government?

To what extent did *NS* successfully resolve the traditional tension between accountability and autonomy, centralisation and decentralisation?

Was the perceived need in 1992 for greater consumer and market testing a reaffirmation or a rejection of the original *NS* vision?

Would a Civil Service Management Board have been a useful tool in sustaining a common ethos within the Civil Service?

Seminar Transcript

PETER RIDDELL We shall proceed very much as in the previous session. There is much to cover, but I first want to [deal with]concentrate on the origins of *Next Steps* and discuss its development before it was announced. I want then to debate the announcement and spend quite a lot of time on the results. Unlike the topics of the first two seminars, the *Next Steps* is with us and we can talk more about the conclusions. I will pause at various stages and ask people around the room to make contributions, many of whom might have been involved in it.

I come to the interesting background notes. There is a curious cartoon of Margaret Thatcher. Page 2 sets out what we were doing at the time, but to remind everyone I shall go round the room and start with Richard on my left.

WILSON I was Principal Establishment and Finance Officer at the Department of Energy and involved in all the initiatives that were coming from the centre until April 1986. I then moved to the Management and Personnel Office where I was Head of the Personnel Management Division until September 1987 when I became Head of the Economic and Domestic Secretariat under Robert Armstrong, in which position I minuted the *Next Steps* discussion in Cabinet.

WALDEGRAVE I was nothing at all to do with any relevant in 1988, but in 1992, as Chancellor of the Duchy of Lancaster, I arrived in the Cabinet Office with responsibility given me by the Prime Minister as Minister for the Civil Service for Civil Service reform, among a rag bag of other duties.

LORD RADICE I was the senior Labour Member of Parliament on the Treasury Select Committee. In that capacity, I was Chairman of the Sub-Committee that produced all the reports on *Next Steps*.

KATE JENKINS I was Head of the Efficiency Unit and, with a team, produced the original *Next Steps* report until 1989, when I left the Civil Service.

RIDDELL We will establish the cause of that later!

SIR ROBIN IBBS I was the Prime Minister's adviser on efficiency and effectiveness in the Government. I should make it plain that that was a relatively small part-time job. I was a full-time Executive Director of ICI at the time, with responsibilities across the Far East so I was often away. Nevertheless, I was closely involved in development of the recommendations and in the pre-publication events. I ceased to be the adviser on efficiency and effectiveness in autumn 1988. Since then I have had no further involvement with Next Steps.

SIR PETER KEMP At the time, I had two jobs up to when *Next Steps* went to bed. I was at the Treasury, probably doing my best not to help it too much. I was then appointed *Next Steps* Project Manager in January/February 1988.

RIDDELL Robert, we know that you were Cabinet Secretary, but the seminar will cover what became your finale as Cabinet Secretary.

ARMSTRONG I was Secretary of the Cabinet and Head of the Civil Service, but I retired on 31 December 1987 so I was deeply involved in the negotiations that set up *Next Steps* and agreed the final memorandum, but I was out before the announcement was made.

RIDDELL Where did *Next Steps* come from? I accept that we have jumped seven years ahead from our previous discussion. Where was it based in terms of Margaret Thatcher's thinking and within the Civil Service machine?

ARMSTRONG It came out of a view that we had to recognise that the attempts to make managers out of Ministers had not worked. With the excep-

tion of Michael Heseltine, most Ministers had no experience as managers and not much interest in it. They wanted to leave that to their civil servants. The *Next Steps* was an attempt to tackle the problem from a different point of view. The *Next Steps* agencies would have a degree of autonomy in that they would be given a budget and marching orders. They would then be accountable for that to Ministers, but there would not be day-to-day responsibility.

RIDDELL How much was 'she' involved in its genesis?

ARMSTRONG In general terms, she agreed that we should work it out. I do not know how much she was involved after I left, but she felt that we should try it out to see how it worked.

RIDDELL Richard.

WILSON Kate should be the person to talk about this.

RIDDELL I shall move round to Kate.

WILSON There are three bits of genesis. At the MPO, which was the sad remnant of the CSD, we used to hold conferences that we called LUMPS – large unit management practitioner conferences. They took place in a hotel somewhere near a roundabout near Gatwick. We had realised that within the Civil Service there were a lot of very large operations – to use a neutral word – that were assimilated within the monolithic line management of Departments. 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.

The second element was that of Kate Jenkins picking up that idea in October 1986. I remember having a conversation in which she said that the Efficiency Unit was very worried that Permanent Secretaries would use the period before the General Election to roll over it and that the Unit would somehow disappear. She said that they needed to have a project. She then outlined her proposal that she wanted just to discuss with lots of people.

The third element in the MPO was that of the old battle of the boundary between it and the Treasury, which had still not been resolved. During the time from 1986 to 1987, the Treasury was intent on swallowing up the MPO. The MPO was looking for a new way in which to promote Civil Service reform. We already had great initiatives about personnel management and so on, and this suddenly seemed to be another avenue for development in the teeth of opposition from the Treasury, especially Peter [Kemp].

JENKINS Robin and Richard have been very accurate.

ARMSTRONG Robert!

JENKINS I am sorry. If everyone has the same initial letter, I am bound to get things wrong.

RIDDELL They are all called Robert.

JENKINS As Richard said, we in the Efficiency Unit were concerned about the sense that things were not moving. The FMI [Financial Management Initiative of 1981] had been put in with great effort and it had a great deal of success. Mechanically and in system terms, the FMI had been very successful. There were several changes going on within Departments. It was all stuff that was going on, not at the political or high policy level, but in the middle of Departments where people were trying to make things happen. They were becoming very frustrated. The improvements that Derek Rayner

and the Prime Minister, to some extent, had hoped to happen as a result of what had been going on within the Civil Service for the previous six or seven years were simply not coming through. After I had talked to Robin [Ibbs] and Robert [Amstrong] about it, Nigel Wicks* and I discussed matters and produced terms of reference for a review that would be conducted in the same way as Efficiency Unit reviews had always been conducted. We felt that we should simply go out and talk to people within the Civil Service who were responsible for the systems and find out what they thought was wrong.

Sir Nigel Wicks, civil servant. Principal Private Secretary to the Prime Minister, 1985–8.

Subsequently, there has been much talk and writing about how the issue has been a major change in the Civil Service. We must remember very clearly, however, that at the beginning we were simply looking at whether there were obstacles to the improvement of management within the Civil Service that we could identify and perhaps remove. It was a relatively modest proposition until I and my team carried out the research work at which time the picture became very different.

RIDDELL When was that?

JENKINS November 1986, well before the election. We started work late October/early November. For some years, the Efficiency Unit had been running reviews called 'scrutinies' that were initiated by Derek Rayner. At the heart of that was the thought that if we wanted to get something working better, we should talk to the people involved because they would know what was wrong. We were applying the same principles to the proposition about the difficulties that management and the Civil Service faced. We said that the thing to do was to talk to the people concerned.

We therefore set up an extensive meeting and interview programme. I talked to every member of the Cabinet. I talked to every Permanent Secretary and to several Deputy Secretaries. The rest of my team talked to a number of other Deputy Secretaries and most

directors of personnel and finance, and the team then undertook an extensive programme and talked to people in local and regional offices throughout the country. That took until Christmas. Robert and Robin were immensely helpful throughout the process, which was actually quite tricky and likely to cause some ripples. We had to be perfectly realistic and recognise that some of the constructive help that we received from almost everyone whom we saw was because they did not think that the proposal was terribly important. Although the Prime Minister had asked us to undertake such a project, it was still management; it was the Efficiency Unit that was full of a bunch of young things going round and asking questions. People felt, 'We will see them for half an hour and it will all go away.' That was very much the tenor of what was happening until the end of the year, at which point we put together the evidence that we had collected and then had an extremely serious session over several days after Christmas with Robin when we analysed what we had found and reached some preliminary conclusions.

RIDDELL Which led to the *Next Steps* model.

JENKINS It led first to a series of conclusions about the nature of management and the structure of the Civil Service, the most compelling of which all civil servants, apart from Robert, found difficult to swallow: the way in which the Civil Service was structured was simply not a way that would provide the optimum result. It is important at this stage to emphasise that we were looking both at how things were managed and at the way in which the very large operations – Richard reminded me for the first time in 20 years about LUMPS – of the Civil Service had a public service function that was to provide services to members of the public. That was the second important strand of what we were looking at. We concluded that operations was not organised in a way that was focused on providing a service, but on being part of a unified Civil Service.

WILSON The scrutiny started on 3 November 1986 and was completed on 20 March 1987, which was 90 working days. If people want a list of everyone whom they saw – more than 150 individuals – it is at the back of the report of which I have the first edition.

IBBS It cost £50,000.

JENKINS We have the cost in there, too.

RIDDELL Robin, you were connected partly on that as an adviser to Margaret Thatcher. How did you see the development of what Kate and colleagues were doing at that stage?

IBBS My position at that time as adviser on efficiency and effectiveness was largely to be a slightly father figure to the process of scrutinies to which Kate has referred. I reached the position when I considered my contributions to such matters were remarkably feeble. In fact, when we add up all the savings from the scrutinies – although they were valuable – they did not amount to a row of beans against the general level of total expenditure. I thought that something had to be done about it and Kate came along with the idea of scrutinising the way in which management was run and, as she said, with emphasis being placed on the obstacles.

I liked that proposition because the top civil servants were mostly input people and nothing like as interested in outputs. They considered that outputs happened somewhere out there, had little to do with policy and were sometimes the results of past mistakes. Civil servants want to press on and have new policies. Well, that was not my attitude to things so I liked the proposition. I thought that it was very good and away we went, exactly as Kate has described. I performed the normal role of scrutiny 'supervisor'.*

This meant ultimate responsibility for the direction and recommendations of the scrutiny, to the extent that Sir Robin was in effect a co-author with the three officials cited on the title page of the Report. Hence it often came to be referred to as the *Ibbs Report*.

ARMSTRONG

The UK Government attempted to prevent the publication in Australia of *Spycatcher* by Peter Wright in the mid-1980s.

It was absolute pure coincidence that Mrs Thatcher commissioned the *Next Steps* at the same times as the Spycatcher trial in Australia! I cannot see that as part of the context.

RIDDELL

We probably should have what was happening in cricket at the time.

ARMSTRONG

The English were slaughtering the Australians at Perth.

RIDDELL

If only next week in Brisbane.

Did you sense that there was a moment when you were lighting the touch paper and people such as Peter Kemp said: 'Hold on, it is not just some low-level people doing this. It is for real'?

JENKINS

That lighting of the touch paper did not come until considerably later. Scrutinies have a set process. It can be varied, but it is fairly fixed. The first thing is to look at emerging findings. We analysed the problem and, as I said, that is what we felt the problem was. We then had to start thinking about finding a solution to the problem. It is hardly rocket science. Between those two stages, there was another process of discussion. Permanent Secretaries in Whitehall were immensely patient, but I showed up firmly in their offices again, told them what we had found and asked them what they felt we should do about it.

One Permanent Secretary, who shall be nameless, said, 'Oh, you have come to see me about the result of your scrutinies'. I said that that was so and 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.' That was it; we could get no more out of him.

The sense at that point that something more substantial was emerging was undoubtedly around. As an important part of the process,

Robert led a very valuable group of senior Permanent Secretaries who were seized of the seriousness of the problem and were immensely helpful throughout. We needed to be able to turn to people and say, 'Is this wrong? Are we completely off the point? Will this be acceptable? Should we be thinking of something else?' They were all helpful. Those five or six most senior Permanent Secretaries in Whitehall gave us a lot of time and help. However, it meant that the process of winnowing down ideas of what we might do about the situation that we had found took place in an iterative process with a large number of senior people in Whitehall.

People began to know that something was happening. We also went outside and talked to some chief executives of nationalised industries, senior people in business and Derek Rayner. Again, we were testing all the time and thinking about the direction in which things were going. In about March, we started to draft the final report. That was an immensely difficult process. It needed a lot of work. Both Robin and Robert were closely involved in the process. They were very helpful. There were points at which issues became sensitive and difficult. For example, the great Whitehall topic 'accountability' emerged. In the report, there is a carefully drafted annex about accountability. It points out that the traditional theory of accountability is not infringed by anything in the *Next Steps* report. Indeed, at that stage it was a pattern that had been in place in several other major Departments.

There was nothing radically different about matters except two factors: one was the scale and the other, which was probably our last ditch that we would not give up, was the implementation process. We had looked back at previous reforms of the Civil Service. There is another annex in our report about reforms in the Civil Service. With each of those major reforms, we could see enthusiastic ministerial statements and activities, but then things would begin to fade. We spent a lot of time later in the year analysing how we could put in place the mechanism that we suggested in the report to see that

the implementation of any decision that was taken would be managed as effectively as possible.

RIDDELL How quickly did both of you appreciate the significance of what Kate was doing and that it could mean massive implications for the traditional structure?

ARMSTRONG Very early on, when I talked about it to Kate and Robin. It clearly was a major step. I felt that the financial management initiative had gone so far, but that it was not going to go any further. I thought that the *Next Steps* idea was extremely interesting. I knew that we should have to take on the Treasury and I became involved in that process.

I felt that three things were important. First, we should preserve the principles of accountability not only because it was right to do so, but because unless we did so we would frighten a number of people too much. Secondly, we should preserve the principle that those who served in the agencies would continue to be civil servants. Thirdly, from my point of view – I was in my last year – I thought that it was a good thing to start on a pilot basis, which we did with 12 agencies.

I shall take the DVLA, as an example. Once we had told the agency what the rates of vehicle and driving licences would be, given it a budget and told it to get on with it, there was not too much politics in it. I wanted to start with those agencies when, on the whole, the political dimension would not be too great. If we started with institutions in which there was a large political element, I thought that we would get ourselves into trouble. That development happened long after I retired, but I certainly felt that, if matters went to the Prison Service, that that might be a step too far because what happened there was so highly political. I also felt the same about the Child Support Agency, but that is another story.

RIDDELL Peter Kemp, were alarm bells ringing at the Treasury at that stage? You will still in the Treasury at the time, were you not?

KEMP Yes, I was. Kate referred to Permanent Secretaries. I converted to the proposal, but I can think of other Permanent Secretaries who remained unconverted for a long time and who had to be talked and drafted round. That happened eventually with Peter Middleton.* Various concordats were agreed, but that was not the end of the story because the correspondence that 'dare not speak its name' took place throughout 1988.

Sir Peter Kemp's comment: 'This was a thoroughly acrimonious unpublished, as as far as I know, unfiled correspondence between Robin Butler and Peter Middleton about the progress of *Next Steps*.'

RIDDELL Can we go back 1987? When the ideas were first surfacing at the Treasury, what was the reason for its hostility?

ARMSTRONG Loss of control.

KEMP Yes. It was the same reason that was behind the potential hostility of the trade unions. Both organisations were centralised. The trade unions were so central and powerful, as was the Treasury. The whole notion of dissipating that power and giving it to the feckless children was not at all a happy one, hence the difference in Kate's original draft and what eventually came out. Accommodations had to be reached. It turned out, as you would expect, that the trade unions were far easier to deal with than the Treasury.

WILSON There was a peculiar phase in the summer of 1987.

KEMP During the election.

WILSON A little group was set up under Ken Stowe's* chairmanship. The Treasury was angling around exactly those issues. We must remember that we are talking about a period when Peter Kemp would negotiate everything with the unions about whom we heard in our first session, in an Italian café off the Strand. He would be sewing

Sir Kenneth Stowe, civil servant. Permanent Secretary, DHSS, 1981-7.

up deals that covered the pay of the entire Civil Service, albeit unit by unit and respecting difference of skills, geography and merit. It was a threatening and worrying issue for the Treasury. None of us knew quite where Robert would be on the issue. He had his succession to sort out as well as the future of the MPO. I think that the Ken Stowe group was a way in which to keep matters simmering without matters actually coming to a head. Do you remember that group, Kate?

JENKINS During that spring and summer, we produced the report as a private report for the Prime Minister just before the election was called. Frankly, we said that we had had a busy winter and asked what we should do next. The election went through. The Prime Minister was returned and, within two weeks, we were back in Downing Street talking about issues again. Each meeting was planned beforehand and we then moved into the pilot agency phase.

RIDDELL What was the Prime Minister's reaction? How involved did she become?

IBBS She did not immediately become deeply involved, but she certainly was not against it. It was interesting. The official record of our discussion with her referred to the 'enormity' of the proposition.* That word was used in the official record. It was never used in the discussion, but in the record of what went on. I think that she realised at the time that there was an awful lot of potential danger within the issue, as well as an attractive way in which to get to what she wanted which was much better performance by the different parts of the Civil Service.

'Enormity' in this context meant not the size but the danger inherent in the proposed reform. It also meant 'the Treasury does not like it'!

RIDDELL Did she communicate her worries, as well as her hopes, to you Robert?

ARMSTRONG Oh yes.

RIDDELL In what way? Did she appreciate the phrase 'enormity', which was an extraordinary phrase to use in a Civil Service discussion?

JENKINS She did not use it.

ARMSTRONG It was not the sort of word that she would use. She did not use it, but Robin, Kate and I were certainly busy making her understand that it was a big thing and that it had extraordinary ramifications. If it went all the way as it was suggested, a huge proportion of the work undertaken in the Government would be tucked away in agencies.

RIDDELL Were any other Ministers involved at that stage? Presumably, Nigel Lawson was, as Chancellor?

JENKINS No. At this point, we must refer back to Adam's final remarks before the closing stages of the previous session. We must remember that management was regarded as boring, low level and not something that serious senior people spent their time discussing. That was the general tenor. The Treasury therefore was not particularly interested until it looked as though control of public expenditure would be at the heart of it. That only really became serious half way through the process of reviewing the first 12 pilot agencies in the summer of 1987. We had the first ministerial meeting in July 1987, as a result of which we went away and together with the Departments looked at how feasible it would be to set up agencies in 12 places.

The summer was then spent round my table in the Efficiency Unit with someone from the Treasury, the potential chief executives of the agencies and their staff. We just hammered matters through, such as: suppose you were an agency, what would that mean, what would you want in the way of greater flexibility to manage better

and what would the Treasury want in the framework document in order to see whether or not it would work? That process went very smoothly and the expenditure Under-Secretaries at the Treasury were extremely helpful until mid-August, when the hatchet came down. Our impression was that the Treasury were told that they should no longer co-operate with the Efficiency Unit on such work, but should attend the meetings. They did that and, to their credit, they were friendly and informally helpful.

Sir John Major, Conservative politician. Parliamentary Under-Secretary of State for Social Security, DHSS, 1985–86; Minister of State for Social Security, DHSS, 1986–87; Chief Secretary to HM Treasury, 1987–89. Foreign Secretary, 1989; Chancellor of the Exchequer, 1989–90; Prime Minister, 1990–7.

You asked me when it became clear that there would be difficulty and it was at that moment that issues really came alive. The Chancellor did not come to the meeting in July. He sent John Major.*

RIDDELL Who was the new Chief Secretary at the Treasury.

JENKINS John Major was brand new. He was terrified. He sat at the end of the table and looked extremely worried.

I come to the significance of the Prime Minister's support. She did not spend a lot of time on such matters. It would not have been necessary for her to do so. But when Robin and I went into the Cabinet Room, we both quietly moved to sit on the chairs along the wall, not at the table, she said, 'No. Robin, Kate – come and sit opposite me. We can then all hear what you have to say.' From the point of view of officials, that was a startling thing to happen. It showed that she was letting everyone know that she thought that the matter was quite serious.

RIDDELL When the mid-August thing happened, did it come from the Treasury? Did you interpret it as Peter Middleton saying, 'Oh dear, this affects public spending and public sector pay', as Peter Kemp said?

JENKINS The Efficiency Unit was extremely small. The one thing that we made sure of was that we knew what was going on in Whitehall, so that we knew what was happening at the Treasury. It was perfectly clear.

RIDDELL Peter Kemp, do you want to come in?

KEMP No.

RIDDELL We are now in mid-summer. Issues are being tested. Politicians do not really know about it, apart from the Prime Minister, but Whitehall was getting stirred up about it.

WILSON That is exactly right. It would be a big error to see matters as a policy imposed by Mrs Thatcher on Whitehall. What I hope is coming through is that support for *Next Steps* agencies was bubbling up. The Efficiency Unit picked up an idea and carried it forward, but it was not imposed as a prelude to privatisation or some other great plan.

KEMP Even the Treasury could see that it was a natural development of the pay strike and the demise of the CSD, the subjects of the earlier two discussions. That left a gap of some kind. I wish to add two other things. First, there was another motive that Mrs Thatcher told me about after I got into the job. It was rather indiscreet. Revenge is too strong a word, but I shall use it. It was revenge against senior Permanent Secretaries who had made such a mess of the dinner in May 1980. She thought that the policy would benefit the rank and file. It is interesting that her original statement did not mention Permanent Secretaries. It said that the chief executives of the agencies would report to the Minister. However, Permanent Secretaries being a tough breed, it did not quite work out that way. She saw it as a way in which to challenge the machine. She had been in power for almost 10 years by then. I think that it was Andrew Turnbull,* who was then Private Secretary, who said, 'The thing about *Next Steps* is that it gives her good vibes!'

Andrew Turnbull (Lord Turnbull of Enfield), civil servant. Private Secretary to the Prime Minister, 1983–5.

RIDDELL Lord Waldegrave, you were a Minister then. Were you aware of anything going on?

WALDEGRAVE

I was aware of it at the beginning. I was engaged in deregulating housing and passing the Housing Act. That was the sort of thing that I thought Ministers did. However, a lot of bits and pieces go right back. This may sound a small thing, but it was a precursor: all the national museums had been set up; they would have later become agencies. The Science Museum, over which I now preside, used to be part of the Department of Education and Science. Now, it is an agency. Back in Heath's Government, the Health and Safety Executive had been set up as an agency. There were precedents, the power of which was being seen.

The proposal also ran with a line of Conservative thinking, particularly among those who were rather sentimental like me about the Mandarinate. They annoyed a lot of people and it is probably not sound doctrine, but they were very, very good at policy analysis and needed to be preserved from doing things that they were very, very bad at, such as the delivery of services. It was thought that if they were muddled up together, they would get everything wrong. So we wanted the small, elite proper Mandarinate and those who were good at service delivery, who were different. Such feelings went right back to Heath and probably before him, like Fulton.

RIDDELL

Let us consider the second half of 1987 before we discuss the announcement. How much was the idea changed? What were the compromises? After August, when everyone came back from their holidays, how were your ideas being modified?

JENKINS

They were not being modified at all, and I cannot remember making any compromises.* Other people might have made them, but we made no compromises. We produced a document for the meeting of Ministers in October, which set out what potential agencies we had looked at and how they could be turned into executive agencies and the implications of that. One of them was effectively an executive agency already. It was quite amusing to see the look on the chief executive's face when he discovered that the Treasury had

That no compromises were made was the result of Robert Armstrong and Robin Ibbs' being able to persuade Mrs Thatcher that no compromises should be made, in the face of robust contrary advice from the head of the No. 10 Policy Unit, her chief of staff, her principal private secretary, and the Treasury. The original and rather ambitious time table for implementation was withdrawn, but largely for tactical reasons.

already given him across my table the flexibility and freedom that he thought he could not possibly get, and that he would have to use such powers.

A dozen potential agencies were set out in draft outline documents on the table. We took them back to the meeting of Ministers in the autumn. It is important in the context of Mrs Thatcher's role in such matters to say how enthusiastic she was. She was encouraging, but she was under no illusions – as Robert said – about the implications of such a policy. She was very wary about the way forward. She said that she had to take colleagues with her and that she had to take Permanent Secretaries with her if it was going to work. She said that she could not carry it through if there were a great deal of opposition. That was an important threat.

ARMSTRONG It was also important for the Civil Service and Permanent Secretaries that the Treasury and what was then the OMCS [Office of the Minister for the Civil Service, which replaced MPO] were seen to be behind the proposal and that it was not something imposed by the Prime Minister, but something that had come from the top from both sides because the Treasury could have killed the whole thing.

RIDDELL How did you persuade the Treasury?

ARMSTRONG By much discussion with Peter Middleton.

KEMP Yes, a great deal. It was not always as peaceful as it could have been.

ARMSTRONG Not always, but I was used to that with Peter. We worked out a compromise that, in the end, he was willing to accept. I do not think that it was compromise about the basic idea, but on issues such as accountability, handling and consultation.*

Sir Peter Kemp commented: 'My impression was that Peter Middleton was much more concerned with fundamentals about shifts of power and so on than about relatively lesser, albeit important, considerations'.

JENKINS That is an important point. There is a myth around that what happened during that summer was a great deal of modification of what went on. That is a myth. The difference between the document that we gave to the Prime Minister and the document that was published is one illustrative annex of a possible timetable and some consequential wording in the draft. There was no other change.

RIDDELL There is a reference in the document of possibly 95 per cent. That seems fairly high. Going back to 1987, how extensive do you think it was?

JENKINS I think that the figure of 95 per cent comes from an early paragraph in the report, if I have recalled it rightly. It was the proportion of the Civil Service that worked in executive functions.

KEMP It was not forecasting agencies.*

Sir Peter Kemp commented: 'The forecast I repeated to the Treasury Committee a short time after Next Steps had been launched put it at 75 per cent, a number which was reached quite quickly with some hundred or so agencies or units working on agency lines.'

JENKINS Rodney is shaking his head. We shall clear up that matter afterwards.*

By the end of Peter's time, my feeling was that they had pretty well met our original idea that Karen Caines* and I thought was a pretty wild shot. We said that we would put down the shortest time that was even remotely possible. Peter and his team pretty well met that timetable. Peter never saw that annex, as far as I know. He was certainly not working to our original timetable.

The 95 per cent figure, in paragraph 3 of the original and the published Report referred to the percentage of staff concerned with the delivery of services. In paragraph 45 of the original report, however, the hope was expressed that all but 20,000 of the 600,000 strong civil service would work in agencies. This figure was omitted from the parallel paragraph 44 in the published document.

Karen Caines was a member of the Efficiency Unit and joint author of *Next Steps*.

KEMP I made up my own timetable.

JENKINS That is absolutely right.

ARMSTRONG Your memorandum was covered by another memorandum in which I was involved on about my last day. It was the contents of that on which most of the discussion with Peter took place.

JENKINS That final minute that you put to the Prime Minister on 31 December was the key document.

RIDDELL Let us hold it at Halloween. Robert departed after a vigorous few years. Does anyone want to come in?

PETER HENNESSY Nigel Lawson was persuaded in the end, because someone planted the idea in his head or he convinced himself that the agencies would be a way in which to get bits of the Civil Service into the condition whereby they could be more easily privatised. I think that he said that publicly.

RIDDELL Peter Kemp is nodding.

HENNESSY Someone should convey Nigel's powerful dislike of the idea. He was never one to be knowingly understated on such matters. I am not sure that that has quite come out. I do not know who planted the idea in his head that it was a step towards what he really wanted to happen to large chunks of the public service.

SIR ROBIN MOUNTFIELD At the time, I was Deputy Secretary at the Department of Trade and Industry. Part of my area was Companies House, which became the second agency. I want to reflect on the extent agency states worked with the grain of what was already happening in the Civil Service. Companies House had become an awful shambles during the 1980s. It was months before companies' accounts were on the record and so on. A decision was taken to put a bright young statistician in charge and to give him his head. That was before the agencies proposals, yet it produced a dramatic improvement simply because the guy was given licence from the top to get on and do

things. That flowed naturally into agency status and was a great success. It started perhaps with the FMI and grew out of the sense that things needed to be managed.

RIDDELL

I shall move on to 1988 and the announcement. I shall bring in Giles in a second on that. Richard, it seems that Nigel Lawson had to be squared, as did Peter Middleton, but it was barely discussed by the Cabinet. It certainly was not in Robert's time before he handed over to Robin Butler.*

Sir Robin Butler (Lord Butler of Brockwell), civil servant. Secretary of the Cabinet and Head of the Home Civil Service, 1988–98.

WILSON

There was discussion in February 1988, and that was the only discussion in Cabinet or in any Cabinet Committee as far as I know. I recollect that it was not *the* big item on the agenda. It was *an* item on the agenda. It was not a case of the Prime Minister being enormously enthusiastic, to use a phrase, and saying that it would happen. She was consultative and careful. The only doubts that she raised was about whether it would undermine ministerial accountability to Parliament. She voiced that worry. She went around the table and was actually managing Nigel Lawson. I remember that that was the only problem around the table. He was grumpy, but he was going along with it. 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.

RIDDELL

One of the most important points is to remember what else was happening. There is always a danger of getting things out of proportion.

WALDEGRAVE

It is particularly important to remember that Kenneth Clarke was launching the first stage of NHS reforms, which were infinitely

more controversial at Cabinet level and in every other direction. The proposal seemed a relatively calm policy compared with that.

RIDDELL Giles, at the time and later you were involved in such issues from the Parliamentary side. Members of Parliament have never been very interested in management, have they?

RADICE To my knowledge, I do not think that the Labour Opposition said anything that was very meaningful at all when the proposal was first introduced. When we took it up at Select Committee level, we clearly thought that it was an important reform. It was quite right that the Select Committee should be involved because we had been criticised in the *Next Steps* report that such Committees had not been doing their job. There was a rather wounding sentence, I remember, to which we definitely wanted to respond.* We produced a report that was certainly not against the reform. In fact, we said that the speed of reform should hurry up. We raised the issue of accountability. We pointed out that chief executives ought to be able to come before Select Committees in their own right or, at least, as accounting officers, which was quite an ingenious way of thinking.*

Paragraph 9 of the published Report stated: 'Pressure from Parliament … tends to concentrate on alleged impropriety or incompetence, and making political points rather than demanding evidence of steadily improving efficiency and effectiveness.'

Sir Peter Kemp commented: 'That was in fact achieved with the creation of "Agency Accounting Officers" quite quickly'.

We also said that we needed more performance indicators so that we could see whether chief executives were doing their job properly. We were doing what a Select Committee should do and being a friendly critic of the reform. We saw ourselves as friendly critics. We had heard about the Treasury not being so keen on it and we thought that the reformers needed a bit of help. We saw ourselves as helping the reformers on. There was a further twist in that we wanted to deliver the opposition, too. There was no point in having a great reform that the incoming Government then cancelled, which has happened too often in our political history.*

Sir Peter Kemp commented: 'As it happens the then Labour opposition showed themselves supportive'.

RIDDELL We shall come back to that.

WALDEGRAVE It was incredibly important that the only parliamentary voice at the time was intelligent and supportive. The official Opposition did not say much. The Select Committee was the voice of Parliament, which was rather helpful.

What is more, the Permanent Secretaries and Robin Butler were behind the reform and we knew that they were. Even the Foreign Office suddenly found itself involved in it.

WILSON *Next Steps* was extraordinarily effective. It shone a torch into Departments. They found that they had things that they did not know they had.

KEMP One of the best disciplines of writing the framework documents was the paragraph that describes what the unit was supposed to do. Many senior people in Departments had no idea about that, and if they had an idea, they could not write it down. It was important. It was a bright torch in the unfrequented world of the 490,000 civil servants of whom we never hear.

RIDDELL I welcome Gus O'Donnell who has just joined us. We are at implementation stage. He is a great believer in that.

Let us consider implementation and the project manager. Lord Armstrong referred interestingly to those agencies that were furthest away, and made the contrast between the Prison Service and the vehicle inspectorate. When you drew up your pilot list, Kate, what were the criteria?

JENKINS We did not draw it up. At the meeting in July 1987, the Prime Minister asked all Ministers to put forward one or two possible candidates for the pilot stage. They did. Although there might have been a certain amount of stick in the background, Departments put forward their own proposals for agencies or pilot agencies. We did not say what they should be. The 12 that came forward were obvi-

ous, such as the Employment Services [of the Department of Employment] and Companies House, as Robin said.

ARMSTRONG Passport Office.

JENKINS The proposals were made quite firmly. We did not mind what they were, as long as they were visibly and reasonably a coherent executive unit that was doing something. We then sat down and worked with what came forward. It is important to emphasise that, throughout that year, on the whole we saw to it that no one came cold to a meeting. An immense amount of work was done in the background, on the telephone and at meetings explaining the proposition to people, so that when they attended meetings they knew what it was all about. Robert said wisely at one stage, 'You've got to remember that you have been working on this for the past six months, but most of us have only thought about it for the past couple of weeks and we must catch up.'

A great deal of telephoning and explaining was done by a number of very senior people. There was a memorable moment in the summer meeting of Ministers, when I explained to Willie [Whitelaw] what it was all about. Downing Street suggested that I did that, so I explained very carefully to the Lord President what it was all about and the direction in which we hoped it would go. He was invited by the Prime Minister to speak about it, which he did. He used very familiar words and then he said, 'I hope that that is what that young woman told me to say.' It was important part of the process moving reasonably smoothly through the system and not getting held up, rather like that appalling dinner sounds as though it did.

ARMSTRONG It was going with the grain.

KEMP I very much agree with Kate. Robert is absolutely right. When I was appointed about 10 days before the announcement, we talked to

Permanent Secretaries and their units. It was going with the grain. It was not just that Mrs Thatcher had blessed it. It felt right, in the same way as it felt right for her. An awful lot of Departments, with the possible exception of the Treasury, felt that it was the right direction to take. It made a welcome change from CSDism and so on with which they had become thoroughly fed up.

RIDDELL The Departments volunteered their agencies that defined a chunk of work, as Kate said.

ARMSTRONG A delivery function.

RIDDELL Absolutely. But how far did a Department think that it could go? Did it think that it was offering things that were fairly straightforward, such as HMSO, Passport Office and the vehicle inspectorate? Was any thought given at that stage of the more difficult issues, as happened not that long afterwards, such as the Prison Service and the Highways Agency?

KEMP There certainly was. My unit was struck by the part of the Prime Minister's statement 'to the greatest extent possible'. To me, that meant to the greatest extent possible. We were constantly pushing out the boundaries. Sometimes, we pulled them in because one of the interesting things about Civil Service reform is that the further away from London, the easier it becomes. We were pushing it out. With hindsight, I am inclined to agree with Robert that the prisons went too far. I do not agree about the Child Support Agency. What was wrong with that was, while the prisons were a fairly ancient function of the Government, we were drafting new policies in respect of the Child Support Agency.

RIDDELL Do you have anything to say about the scope of what actually developed, Kate?

JENKINS I was mainly concerned with the first year and the development of the first agencies. The point that several people have made was that it was very popular. It was going with the grain of what a lot of Whitehall wanted to happen. That is true, but we must remember my information from further down in the system – I had someone who attended the regular meetings of directors of finance and establishments. If we thought that the Wednesday morning meeting of Permanent Secretaries was tough stuff, those other meetings were serious stuff. The directors were totally opposed to it. The message that they gave each other every week was, 'Don't worry, the Treasury is against this. It will not happen. We will just go along with it, but don't worry it will not happen.' That message continued until the end of 1987.

There was a lot of support and what we were recommending was what a number of people had been talking to us about, but there was still opposition. The problem with the Treasury during the latter part of the year became extremely serious. Had Robert not had discussions with Peter Middleton, and had not a lot of people at the Treasury been quietly and unobtrusively helpful, there was a real risk that it might have been destabilised.

WILSON What Kate is saying is important. It was not just the centre letting go of controls, which they had and which was important. It was also the centre of Departments letting go of their controls over parts of their Department. The tension there was at least as bad in some cases as it was between the Treasury and Departments. We should not have the impression that it all just slid through with people throwing garlands in the air. It was a great deal rougher than that implies. We must record that Peter, who had been fighting the Treasury's corner with characteristic energy, suddenly – when transported to what was then the OMCS – became the great champion in a way that was marvellous to behold.

RIDDELL That is supposed to be a virtue of the Civil Service.

RADICE I wish to pay a tribute to Peter [Kemp]. Two of the most influential people over the Select Committee were him and Peter Hennessy. He had tremendous enthusiasm and gave background briefs and so on in a most un-Civil Service like fashion. Peter Hennessy came out with a wonderful quote. He flattered us out of our minds. He said, 'Your committee is crucial to the durability of *Next Steps*. Your parliamentary seal of approval matters a great deal.' We loved that.

JENKINS Peter described it as the revolution that never was.

RIDDELL Yes, we shall come on to that. Looking through the list of agencies and their development, we get into more difficult areas, which is when you became involved, William.

WALDEGRAVE Let us not forget that there were some quick wins in the early ones. The service to the public of passports became much better very quickly, as did the service at Companies House. There were some real wins with which to answer the constituency letters from the unions. There was beautiful symmetry in the lobbying that was coming from the unions. The central unions hated the reform for the same reason as the Treasury, but the local union representatives thought that they would out-negotiate their local managements, the same as the Treasury thought.

RIDDELL Discussions emerged as being with consent and continuity. Was the fact that the reform was taking place within the system an inhibitor in the long run? Apart from Giles and one or two fellow MPs, no one at Westminster had the faintest clue. I remember that any debate on the Civil Service basically produced Giles, John Garrett,* the Minister and about three other people. They had a quite interesting discussion, but that was it. Was that a brake on the extensive change or was it a help to change that no one outside was noticing?

John Garrett, Labour politician. MP for Norfolk South, 1974-83; 1987-97.

KEMP

I think that it was a help. Ministers and Permanent Secretaries looked at *Next Steps* and the agencies like generals and politicians might look at the distant sound of gun fire: they are shooting, but not at us yet.* It was only when things started to go wrong and about only two really let down people. The trouble was that people thought that it was all one idea and, if there was one bad apple in the barrel, the whole barrel must be chucked.

We also had great support from Giles and his Committee as well as a useful supportive report from the Exchequer and Audit Department and the Public Accounts Committee that gave it a good tick. With those two bodies behind us, Mrs Thatcher sitting there and the wind in our sails, it could have been thought easy. But I can tell you from hard personal experience it was not – in fact it was a very bruising job. However, there was a lot going for it and we benefited from that.

Sir Peter Kemp commented: 'It was only when things got closer and agencies nearer (sometimes it was geographical, sometimes not) the centre and one or two agencies appeared to go wrong (but actually only about two really let the system down) that they woke up. They also thought that those would bring an end to the initiative.'

RIDDELL

You were in the Civil Service for about a year after the implementation, Kate. Before we begin to look back now 18 years on, did the reform achieve its objectives even in the short term? Was it implemented as you had hoped?

JENKINS

The short answer is yes. It demonstrated that Robin had been absolutely right in saying that, crucial to matters was having a Permanent Secretary in charge of it, who could not be pushed out of the way by the senior Whitehall system. He wanted a Permanent Secretary who was answerable directly to the Prime Minister with no gap for someone else to push in. That was an important part of ensuring that someone had enough power to pick it up and get it moving fast. That is what Peter did and he did so superbly. By the end of the first year, 1988, the Efficiency Unit thought that matters were going extremely well.

RIDDELL

Given your private sector experience, how did you see that as an example of Whitehall change?

IBBS It was fundamental.

RIDDELL Was it a good example of change?

IBBS Yes, it was a good example of change. In many ways, Whitehall is similar to big organisations outside and there would be many where one would have been astonished and pleased if the same degree of change had been achieved. The key issue to remember is that, when the report was written, tremendous thought was given to its implementation. The appointment of Peter is a good example of that. The Efficiency Unit was just as concerned as Kate has described with helping the process of implementation as it had been in the preparation of the report. I can think of many examples when perhaps quite good ideas have been reported on and the report laid on the table, but because there was no plan for implementation included in it and no one energetically carrying out the implementation, it just lay there like a fish – and died because it did not get any water to swim in.

WALDEGRAVE There was a big intermediate period when, after the 1992 election, there was beginning to be a counter attack from the more radical voices in my party at any rate and some others, saying 'Are we sure that we aren't being conned? They are all escaping into agencies. Will they stay in the public sector?' A more rigorous approach was designed. Departments were supposed to use the series of questions in the reviews, such as 'Do you need to do this function? Is this a function that should exist? Should it be closed down? If not, could it exist in the private sector? Can we sell it? If you need to retain control of it, should you contract it out? Only at the end, if you really have to keep these people as civil servants; they are service delivery organisation, so they should be an agency.'

Along came the much-derided Citizen's Charter, which fitted with all the devolved government. That set objectives for devolved organisations. It was also a way into centralisation, as Kate's brother

[Simon Jenkins] argues: by setting too many objectives, we can stop decentralisation. In the Science Museum I have now to sign a contract with the Department for Culture, Media and Sport to tell me practically what colour the lavatory paper is, although I am an agency and can set my own pay. There is a danger there.

During that period, it was put back on the agenda alongside privatisation, contracting out and closing down. We were over-spending. There was a huge drive, as there is now again. We are in similar circumstances and actually cutting Civil Service numbers. It should be recorded that I was involved in two counter-revolutions. One involved intellectuals such as Robert Jackson* saying that the contractual state was a bad thing in itself and the idea of making agreements between the state and agencies did not preserve accountability. Although he was a junior Minister in my Department –

Robert Jackson, Conservative politician. MP for Wantage, 1983–2005. Parliamentary Under Secretary of State, DES, 1987–90.

RADICE I remember his contradicting your letters.

WALDEGRAVE He was learning Ancient Greek. It was admirable. He was very intellectual and we had to challenge him. He was in alliance with Gerald Kaufman,* who refused ever to accept letters from agency heads on the grounds that he had to have letters back from Ministers. Such people were saying that the [Robin] Butler distinction between responsibility and accountability did not work.

Sir Gerald Kaufman, Labour politician. MP for Manchester, Gorton, 1983–.

There were right-wingers on the other side saying that it was all a plot to stop privatisation and contracting out. However, we got through it. The White Paper in 1994* began to apply some of the same principles to non-agencies, such as devolved pay for Departments and variable pay for achievement. I remember being told by one very senior civil servant that it was insulting to offer him pay in that way because, if he was not doing his job, I should fire him. He said that, anyway, he did not work for me, but for the Queen, and he was doing his best and that the idea that he should be paid more if he did better was insulting. There were a few of those.

The Civil Service: Continuity and Change, Cm. 2627.

KEMP It would not have been insulting to some of his clerks.

WALDEGRAVE Exactly. It was a pretty silly argument. You probably remember the person.

KEMP I do not care to work out who it is.

WALDEGRAVE We were then taking some of the principles of devolution into the Departments, which again worried the Treasury for the same old reasons. We ran up against a nice status problem with Norman Tebbit.* He had said that, if his Permanent Secretary were paid less than someone else's Permanent Secretary, it must mean that his Department was less important. That was a long time ago.

Norman Tebbit (Lord Tebbit of Chingford), Conservative politician. Secretary of State for: Employment, 1981–3; Trade and Industry, 1983–5; Chancellor of the Duchy of Lancaster, 1985–7; Chairman, Conservative Party, 1985–7.

ARMSTRONG There was a meeting of the Cabinet to consider increases in Civil Service pay and that included differential arrangements for Departments. According to outsiders,* not just the Cabinet Office and the Treasury, but Defence, the Home Office and the Department of Health were supposed to come out higher than some of the other Departments. I remember sitting round the table and Norman Tebbit saying about Norman Fowler,* 'If Norman's Permanent Secretary gets more than mine, does that mean that Norman ranks ahead of me?' That killed it.

The 'outsiders' referred to were the Review Body on the Salary of the Higher Civil Service, chaired by Lord Plowden.

Sir Norman Fowler (Lord Fowler of Sutton Coldfield. Secretary of State for Social Services, 1981–7, for Employment, 1987–90.

WALDEGRAVE I quoted that story, which you or Robin must have told me at the time, because there were still all sorts of strange institutional anxieties about devolution and a more variegated Civil Service. The 1994 White Paper tried to reaffirm the unity of the policy-making Mandarinate at the top and the transferability throughout Departments of the 20,000 or so officials involved, which was wanted in the original paper.

RIDDELL You were applying the same techniques to those who were non-agency establishments. Did you think that the principle of agency

could be extended further? You did Highways in 1994 and Prisons in 1993. The CSA had been created. As Peter said, it was a new agency.

WALDEGRAVE

A huge rate weight began to be put on the more complex framework agreements. The contracts were jolly difficult to make. I had been through that with the Health Service, and it is interesting that [David] Cameron* is coming round to the same idea. I presided over a Health Service Board that had all sorts of non-civil servants on it. However, when Bart's* fired the nurses, the Secretary of State had to answer the questions. We never quite get away from such matters, however devolved the agencies.

David Cameron, Conservative politician. Party leader, 2005–.

St Bartholomew's Hospital, Smithfield, London.

RIDDELL

Giles, in the period post-1992 when William was undertaking such activities, you were also involved in setting up a new Select Committee. It became absolutely involved in accountability issues.

RADICE

1995.

RIDDELL

Yes. I meant in that Parliament.

RADICE

I want to talk about delivering the Opposition's view. I think that Peter [Kemp] and others talked to Opposition Leaders. The key figure was John Smith* at that stage before the 1992 election. I saw him quite frequently; he was a close friend. I said that it was a sensible reform and that we cannot dig it up. He delivered a major speech that committed the Labour Party to the reforms. I think that he just told Kinnock what he would do and that the reforms seemed sensible. From then onwards, we supported the reforms.

John Smith (1938–94), Labour politician. Party leader 1992–4).

RIDDELL

One of the problems, especially of difficult agencies when we had the Derek Lewis episode, was the accountability issues.

RADICE

Just before the 1997 election, the Public Service Committee of which I was then Chairman came up with the idea of a resolution in the House of Commons in which we put all the stuff about Ministers and their being accountable to Parliament as well as the agencies. In a sense, we codified it for the first time. It is that resolution that the Opposition quote when they are giving the Government a bit of stick about accountability. That was a good thing.

The other issue was that of a unified Civil Service. The Committee also produced the Civil Service code so that we had a code that went right across the whole Civil Service on standards, accountability and its relation with politics and so on. That was an important thing to do. It was thrown up by the fact that we were half breaking up the Civil Service and had to give some glue to stick it together.*

Sir Peter Kemp commented: 'As Robin Butler is reported to have said, we looked for a unified but not uniform Civil Service.'

KEMP

Giles is quite right. Robin Butler and myself, presumably with the consent of the Prime Minister, met the full shadow Cabinet and had an exceedingly interesting talk with it. We found it to be very much on our side.*

In 2002 the Labour Government set up an inquiry into the usefulness or otherwise of executive agencies, which was endorsed by ministers, and had the effect of validating the initiative across the Civil Service as non-political.

RIDDELL

Does anyone want to come in from the floor?

STEPHEN HICKEY

I was at the Department of Social Security at the time. As for going with the grain, it is worth recording that it was going with the grain of outside organisations. The proposals reflected not just about UK Civil Service reform. A lot of the business changes at the time were about delegation and empowering business units and so on. International Civil Service reforms also went that way. New Zealand articulated such matters more clearly in some ways than we did. An intellectual current went much wider than us, which was an important reason why people understood it and that it was not an approach just limited to the Civil Service. I just wanted to put matters in a wider context.

WALDEGRAVE That is absolutely right. I had regular meetings with New Zealand Ministers. I spent a lot of time with the Vice President of the United States on the re-inventing government agenda, which they wrote the books about while we well ahead of them. That was Al Gore.*

Al Gore, American politician. Vice President, 1993–2001.

JENKINS It was the feature for some time. I used to have half a day in my diary every fortnight for overseas visitors who wanted to talk about what was going on. A constant stream of people was interested in such matters.

KEMP I am told that that is still done.

HICKEY I refer to what Richard Wilson said. After the original 12, there was a time when the Permanent Secretaries had to think through the issues for themselves. Social Security was one of the biggest Departments. We had 100,000 operational staff. Our contribution to the first 12 was tiny. I cannot recall what it was [Resettlement Units]. We were looking at the margins to find something to contribute to that first 12. The Permanent Secretary then undertook a broad review of Social Security. In effect, he went through exactly the same thought process as Kate's team had gone through to come out at the same place. We worked closely with Peter and his team. That illustrates how Departments moved from the first 12 to the mass ranks. There was a distinct process that they had to go through.

KEMP You were very lucky in your Permanent Secretary. Michael Partridge* was a great believer in such matters and was good at thinking things through. He had great understanding of your Department.

Sir Michael Partridge, civil servant. Permanent Secretary, Department of Social Security, 1988–95.

MOUNTFIELD Although the agency process had got off to a good start in 1987-89, one of the biggest changes were in the pay system with more free-

dom being given to agencies and others to get better value for money. This was 1994, 1995 and 1996. That was a fundamental change in culture, which had started in 1986 and 1987. Nevertheless the agency played a powerful part in pushing it along. And although I and others meant well, the extension of delegation to the centres of departments was not, in retrospect, altogether a good thing. It produced, for example, the situation now that secretaries in different departments within a few hundred yards of Parliament Square can be paid differently by several thousand pounds. Nevertheless, for the agencies delegation played a powerful part.

WALDEGRAVE The problem was appointing the heads. If someone was appointed from inside, the person remained on a Civil Service pay scale. However, if someone was appointed from somewhere else, that person was often paid three or four times more.

KEMP When they went back, they had to return to the lower point.

WALDEGRAVE Exactly.

RIDDELL There is a contrast between this session and the previous two sessions. When talking about the Civil Service strike and the winding up of the CSD, the ultimate conclusion was that perhaps it did not matter so much in the long term. Next Steps had a build up effect. Our conclusion is that the Next Steps changes were important. They have lasted. I accept that there was the problem of the CSA, but, as Peter said, that was a new function of the Government.

KEMP Not very thought through.

RIDDELL Should we regard the reform as a success? What are the broader lessons? Why has it lasted? What does it say about how Civil Service change can happen?

WILSON It has lasted because it met a felt need with in the Service, which a lot of people recognised. It resonated with what a lot of people in Departments badly needed. What lessons have been learnt from it? Having been a strong supporter of the *Next Steps* approach, it was my fate to spend time as Permanent Under-Secretary at the Home Office at the time when Derek Lewis* departed. I come back to a point made by Robert Armstrong, which is that the concept of *Next Steps* worked best at some distance from politics and Departments. It became more difficult with a really complex organisation when a Minister was directly accountable to the House, often for things that had happened in the agency.

Derek Lewis, businessman. Chief Executive and Director General, HM Prison Service, 1993–5.

I have a vivid memory of the meeting the morning after the six IRA prisoners escaped from Whitemoor. We met at 6 o'clock in the morning. It had been a bad night. They had been recaptured, but Michael Howard* said, 'How can this have happened at the most secure unit in the most secure prison in the country?' That was a good question. During the discussion, someone said, 'This was not one of our key performance indicators'! That was right; stopping top security inmates escaping was not one of the key performance indicators, but I emphasise the sheer difficulty of formulating the targets and key performance indicators for an agency.

Michael Howard, Conservative politician. Home Secretary, 1993–7.

At the time, I also came under pressure from my Ministers to make the Immigration Service an agency. I resisted that, because it involved too much political involvement in the management of the Service. We had reached the limits, and probably went over them a bit. It works best with smaller agencies.

RIDDELL Is that your view, Robert?

ARMSTRONG It is now. We thought that we could have done it with the Immigration Department when I was Permanent Secretary, but the problems then were quite different and much smaller.

KEMP There are other lessons to be learnt. On the whole, my impression is that the agencies work. I think that performance indicators were a bit of a poison theme. When we started them, they were supposed to be small, modest and achievable. Current Ministers have gone a bit mad on the subject and want to measure far too much, most of which is unmeasurable.

It gave a great push to openness. We had the precursor of the freedom of information. Let us consider the fact that people had looked deeply into, say, the Meteorological Office. In the past, unless someone did that in a voluntary manner, we could not find out anything about the Met Office. It was all buried away in the umpteen noughts in the Ministry of Defence accounts.

The reform also did something that people did not recognise until recently. It opened up the general notion that when we have an organisation like the Civil Service covering such a huge variety of activities, one size does not fit all. For some, we can keep them in Departments in an old-fashioned manner. Others could be privatised. All the way through is a spectrum of stuff. We can turn them into agencies, Government-owned limited liability companies and we can nationalise them. A choice was made. My impression was that previously Departments often adapted the function to the structure, whereas the reform started to get the structure adapted to the function, which is the right way to go about it. There is a lot that I could say, but I shall not go on.

IBBS I, of course, have seen this from a great distance for 20 years. I have not kept close to it. My impression is that it has been successful and encouraging. There was a lot more in the report beyond the matter of agencies. I am not so sure that attention has been given to that in the way that I would have hoped. One of the great things is that the disciplines that are inherent in it, right through from the way in which Kate found the right information to begin with. That is why it went with the grain; she went and found what the grain was.

Once we had decided that it was the right thing to do, the project manager dealt with how it was brought about. Such things do not happen by chance. That approach could be persisted with, better than it has been. I do not mean necessarily that there should be more agencies. I do not have a basis on which to make such a judgment. However, I am certain that the quality with which they are controlled and encouraged could be further improved with experience. The other things in the Next Steps report such as training perhaps have not been taken as much account of as they might have been, because everyone is obsessed with agencies.

WALDEGRAVE I totally agree with Peter's last points, particularly about openness. When the reform had to be specified, what it would do and how much it would cost meant that there was a gain in openness. I am with Robert in that there is a limit to the model. I am pretty sure that the Health Service is not amenable to such treatment. Taking politics out of the Health Service is not something that can be done easily.

RADICE It has been a success because it was the right thing to do. It went with the grain. It was skilfully introduced and it had bipartisan support.

JENKINS Peter did an enormous job and everyone owes him a great debt of gratitude. It was not an easy thing to do at all. Looking back, I echo Robin's point that the issue was not about agencies. It was about how to get the job that people have to do done most effectively. To put forward a slightly negative point, the Civil Service always tends to bureaucratise the best ideas. This did become bureaucratised. I was struck by being sent an advisory pack on strategic planning, which the Efficiency Unit had produced for all chief executives. It was so thick and I am sure that they did not know about strategic planning.

Bureaucracy is a problem. Focusing on the job to be done is the

nature of the real issue for the Civil Service. It ought to be a dynamic institution because the world outside the Civil Service is intensely dynamic now. I expect to see something new and different coming along. I do not say that *Next Steps* is a tremendous success because there are 103 agencies 10 or 15 years later. I say that it is a great success, as the FMI was a great success because it has fed on to the next thing, which is relevant to how the Civil Service is operating now. That is the real story of Civil Service reform.

RIDDELL What a perfect way in which to end our discussions. Thank you all very much indeed. Our proceedings have been fascinating. I will move because I think that the three Cabinet Secretaries should sit in a row. I shall hand over to Gus O'Donnell.

SIR GUS O'DONNELL I feel quite intimidated being in charge, next to my two former bosses. One thing for the record: from 1985 to 1998, while I was a Treasury employee, I was thousands of miles away. You cannot blame me for that bit.

I was fascinated by the discussion, particularly the last points that Kate made about the dynamic of civil service efficiency. The big issue is about delivery of better public services for less. When we read through the papers, there is a lot about efficiency, but not a great deal about better services. Improving services is central to what we do, and achieving that is going to require a real focus on our customers acting upon their feedback.

I come to capability reviews. When the Home Office was reviewed, one of the things that fascinated those from outside was what a strange array of delivery models that it had. It was an interesting mixture. There is a debate about whether Immigration Nationality Directorate should be an agency. The thing that has emerged from the set of capability reviews is why are there different ways in which to do things in different places? In particular, we deliver all sorts of public services through non-departmental public bodies. Why? Can we explain why NDPBs are in this bit, agencies in this bit, and

other bits here within Government Departments? I was interested in looking at whether Revenue and Customs constitutes an agency. In my book, it does not. It is a non-ministerial Department. When we talked about IND, we talked a lot about how to improve its delivery. Whether agency status was given to it was secondary. Richard was absolutely right about the politics in it all.

I want to be clear: agencies have been a great thing. This morning, I was at Jobcentre Plus and what it did in the MG Rover case was tremendous: signing on 5,000 people in a week, 82 per cent of whom were back in jobs within a short time. That was amazing interskills work. However, I worry about the bits that are not in agencies. That is where the whole professional skills for Government agenda is right. We need all civil servants to understand that it is not enough to be a policy person, but to understand about delivery. We must make sure that we raise the theme of operational delivery so that civil servants have a bit of both. Movement between the two is important.

I was intrigued by William's question about whether the NHS was in the right place. That led me to what we are thinking about now in terms of what sort of structures should be set up. The Chancellor, in particular, is driven by the Bank of England example, whereby a politically elected democratically accountable Chancellor sets an inflation target and then gets a bunch of technocrats to do the trivial thing of setting interest rates to hit the inflation target – sorry, it is not trivial; it is important to get it right. That is a tremendous change.

Office for National Statistics independence is equally important. In both cases, what is the issue? Why could someone else not have set the interest rate? What is important about the Bank is that it has credibility. People actually believe that it will hit the inflation target, so inflation expectations are anchored and so on.

I looked back on the figures on trust for civil servants to see whether there has been any change from 1983 up to now in the

percentage of people who think that civil servants tell the truth. The good news is that there has been a dramatic change. It has almost doubled. It was in the early 20 per cent, now it is up 44 per cent. It is the only group to which that has happened. Government Ministers used to be 16 per cent, now it is 20 per cent. It has hardly moved. Trust and credibility are the interesting issues.

Coming back to the dynamics, when we are thinking about efficiency, the latest work in the pre-Budget report on 6 December is when David Varney* who, until recently, was Head of Revenue and Customs, is now looking at cross-Government issues. He is examining not whether there should be agencies, but how to deliver better customer performance. Let us take the example of bereavement. If someone dies, 44 contacts must be made with different areas of government. If we look at it from that way, will we come up with different structural designs? The dynamic is that we will, and should. There are all sorts of areas like that.

Sir David Varney, civil servant. Chairman, HM Revenue and Customs, 2004–6.

There are also the possibilities created by technology. That shows how the agencies combined with technology can have dramatic increases in efficiency. The one that most people in this room will have probably used is car tax. If any of you want to redo your car tax, you will remember that, in the old days, you would take your MOT certificate, your insurance certificate and your cheque. You fill in a form...

But now they send you a reference number when they remind you about the tax. You put in the reference number (I did it within three minutes). That information then hooks up with a private sector insurance database, another database that has the MOTs on it, and identity and finance databases. It does it all. The tax is sent within two minutes. That is where we should be for all public services. Our challenge is to get from that small part of public services to a much broader part. Such a system costs us about 1.5p. If we do the transaction on paper, it costs about £15. We can all work out the efficiency gain and translate it. It is pretty dramatic.

That is the great vision. There is an enormous way to go. I think that agencies are part of that, but there are all sorts of other areas. I am really pleased that people have picked up on it, as I am about the Histories programme. I thank everyone here today, and my predecessors for their work in setting up such matters. Learning from what we have been doing is hugely important. As for the Civil Service strike, well next year I expect to be faced with that threat so I shall be reading the transcripts of the seminar with great interest.

I thank the Centre for Contemporary British History, the Cabinet Office Unit for Official History and Tessa [Stirling]. It is tremendous that you are all doing this. It strikes me that it is an example of when to use the Goldilocks method. If you do it too soon, it is too hot and we could not all say the things that we would like to say. If you leave it too late, it is too cold because the trail has gone cold, as – dare I say it – so will have some of the bodies. It is important to get it just right. This is another example of 'just in time delivery.' Thank you all for your contributions. We will all learn and hopefully at least not make the same mistakes again.

Comment by Sir Peter Kemp

The seminar was entitled 'The Genesis and Initial Implementation of Next Steps'. It is interesting to look back just on 20 years since Robert Ibbs and Kate Jenkins wrote their report and I took over as Project Manager. Much has happened to change the way the Civil Service works and the need of the public and Government and circumstances more broadly change. A good deal of it of course was external; technology, the European Union, a new Government's ideas about social support, and so on but much of this impinged on the Civil Service which had to reflect it.

Looking back it is interesting that there were some points which we saw, if only dimly, at the beginning of *Next Steps* which have since has grown in size and importance. This might have happened anyway, but the *Next Steps* initiative pushed them along. Here are one or two of them.
First, is the recognition that the structure must be crafted to suit the function, not the other way round. The wide variety of delivery machineries which have been developed owe a good deal, to my mind, to *Next Steps.*

Second, openness. The way in which Next Steps agencies were encouraged and made to produce reports and accounts and have them audited by the C&AG. It was a salutary shining of light into dark corners in departments' activities.

Third, the notion that other people could run these organisations besides civil servants. The pushing forward of open advertisement and the bringing in from the private sector experienced peoples owed, to my mind, a good deal to *Next Steps.* It did not always work but at least it opened the door for these things to happen.

Fourth, and leading form this there is the notion that those in the semi-independent units are accountable, perhaps to permanent secretaries (when they shouldn't be), but certainly when it is just delivery, to Ministers, the Public Accounts Committee and others. It does not matter there was a carved out area of work which an individual could take charge of and run in a relatively free way. This was a great step forward, though accountability and other problems could arise. If it did nothing else it helped people to 'but' the alibis.

Fifthly, a constructive approach to value for money, bearing in mind the interests of all the stakeholders – the public, the tax payer and the employees. 'Targets' were developed – they have since gone too far more generally – but they helped to recognise what was worthwhile.

Sixthly, and this is not something that everybody agrees with, in fact one can have it both ways; privatisation. Packaging an agency into a unit with its own accounts and records and individual culture, obviously made things easier to privatise. On the other hand, many people argued the other way, which is that if *Next Steps* had made units more efficient, they would not be so attractive to purchase because there would be less 'fat' to skim off.

There were many other lessons learnt, some negative some positive, and of course more to come as change in the public services can never stop. But the model reflects a valuable new attitude and, unlike the previous models, an effective and responsive platform for change.