

Managing departmental resources

Much of the spending allocated to departments flows through Whitehall to other public bodies and third-party providers, via sponsorship, grants and contractual arrangements. Each arrangement requires specific activities and capabilities within a department.

Our simple framework for understanding how departments manage their resources uses four different models: direct management; sponsorship of arm's-length bodies (ALBs); system and grant funding; and markets and contracting.

Most departments have a dominant model for channelling their resources, but that can still leave large amounts of money to be managed in ways a department might not consider its core business. For example, DWP and HMRC manage more than 90% of their spending directly, but that leaves several billion pounds spent on contracts or grants to other parts of the public sector. Other departments have relatively large portions of their spend going through two or three models: the Home Office, for instance, funds the police system through grants but directly manages the immigration and border protection operations.

Major reforms have recently changed the way some departments manage their resources. Some areas have been moving towards more contractual relationships (such as schools, as a result of the expansion of the academies programme), others towards governance through arm's-length relationships (as has been the case with the NHS). In the chapters that follow we look at two of the models – ALB management and contract management – in more detail.¹

About the data

Our **resource management model** draws on a number of sources to arrive at a rough picture of departments' spending managed through each model. We used departmental accounts, the National Audit Office (NAO) departmental overviews, various government reports and communications, and occasionally more detailed data from the Treasury's Oscar database.²

The result is a picture of roughly 80% of each department's spending. We have excluded spending not managed by departments (such as debt interest and the UK's contribution to the EU budget). The framework we use this year is a streamlined version of the one we used in our analysis in *Whitehall Monitor 2013*.³

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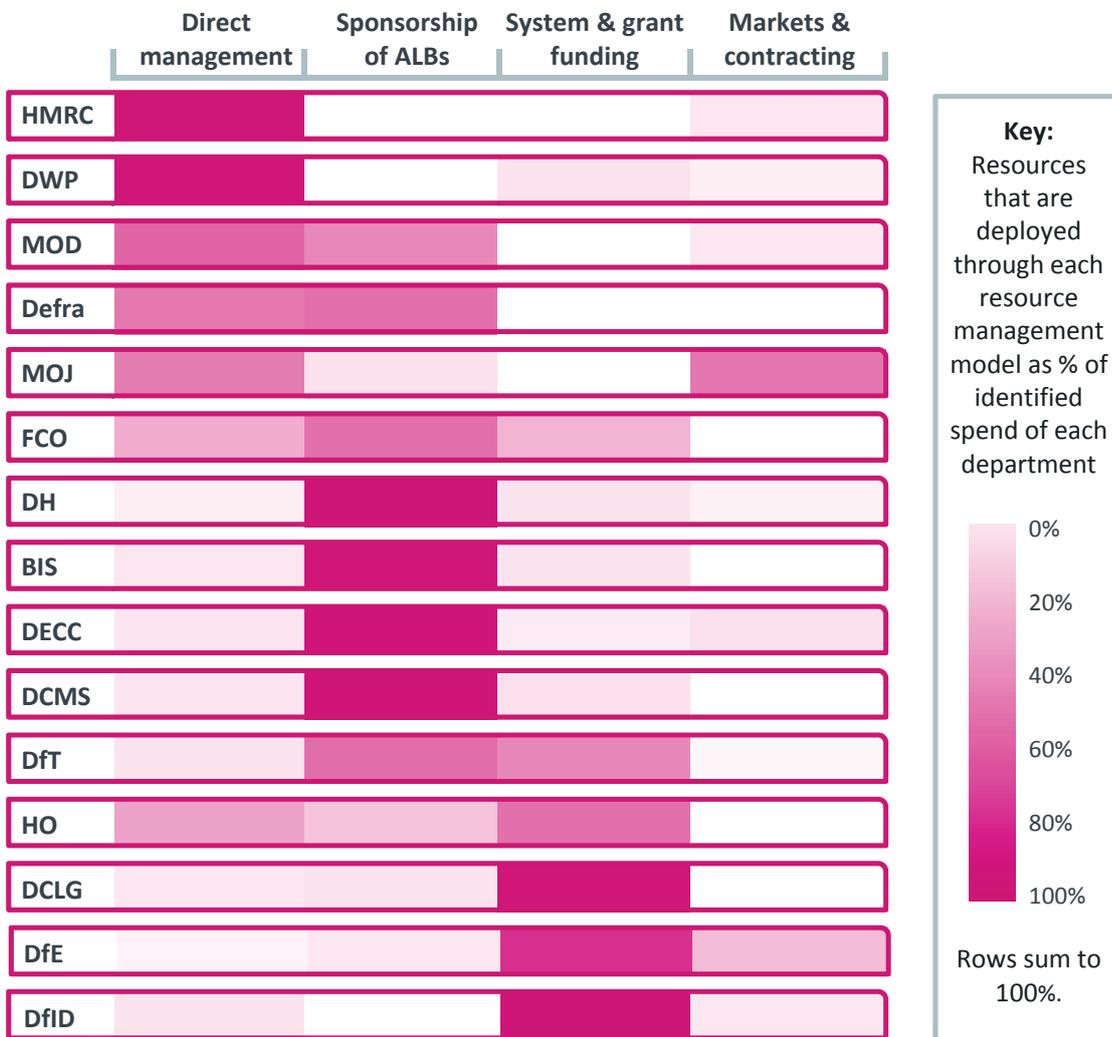
Resource management models: what we mean

Figure 7.1: Defining characteristics of resource management models

Model	Defining characteristics
Direct management	<p>Departmental leaders have direct control over how resources are deployed via line management of staff providing a service (e.g. DWP running job centres), or by controlling a mechanism through which resources are passed directly to final recipients (with no service expected in return, e.g. paying benefit claims).</p> <p>This also includes resources deployed by organisations outside the core department which are part of the direct management structure of the department. Examples include job centres, which are now managed directly inside the structure of DWP, or the National Offender Management Service, which is line-managed inside MoJ although it is formally an executive agency.</p>
Sponsorship of arm's-length bodies	<p>Departmental leaders pass resources to bodies at 'arm's length' from their departments, which they do not manage directly but whose objectives and governance they set and oversee (e.g. the research councils). The arm's-length bodies also have their own governance systems, such as their own board.</p> <p>Spending on commissioned services or grants where the ALB is the commissioner or grant-maker is included in this category – for instance, the contracts for building and maintaining national roads are managed by the Highways Agency, an arms'-length body of the Department for Transport.</p>
System and grant funding	<p>Whitehall provides resources to multiple bodies, usually performing the same function in different geographic areas (e.g. local authorities). Departmental leaders do not directly manage these bodies, or have a direct sponsorship relationship with them, but they do have a role in shaping the end system.</p> <p>Resources are usually allocated via agreed formulas or as a result of evaluating bids where Whitehall has discretion over whether to award grants (e.g. Local Enterprise Partnership grants from BIS).</p> <p>Recipients of grants and system funding can be private, public, or third sector organisations, or indeed even foreign governments in the case of foreign aid.</p>
Markets and contracting	<p>Whitehall directly procures or commissions others to act on the Government's behalf. The relationship is underpinned by a contract of some form, usually commercial (e.g. private prison services). Departmental leaders have a role in negotiating contracts, and in many cases in shaping the entire market.</p>

Managing resources: DWP, HMRC do it directly; BIS, DECC, DCMS through arm’s-length bodies; HO, DfID through grants

Figure 7.2: Resource management models used by departments, 2014



Source: Institute for Government analysis of departmental accounts, NAO departmental overviews, relevant government publications, and Oscar. This is a rough estimate of share of each department’s resources managed through each model, and includes approximately 80% or more of each department’s total net expenditure.

There are several easily identifiable groups of departments:

- First, DWP and HMRC stand out as departments that directly manage the majority of their spending. MoD also mainly spends money on directly managed operations, but following changes to its structure (more of which below), it now has a sizeable sponsorship element.
- Second, there are departments whose resources are primarily channelled through arm’s-length bodies. BIS has a large and diverse family of public bodies; DECC’s spending goes predominantly to the Nuclear Decommissioning Authority; and DCMS sponsors a range of culture and sports bodies.
- Third, there are the system and grant funders: the Home Office funds the police forces (but also has a large directly managed operation); DfE funds the education system via local authorities but also has a growing market element in the form of academies; and DfID provides grants to organisations and governments to deliver its international development objectives.
- MoJ stands out as a department with a large contract and market management element: it manages the markets for private prison services and, increasingly, probation services.

Major reforms: changes at DfE, DH and MoD

Since 2010, the Coalition has introduced a number of significant changes to the way public services are delivered and how government is organised.

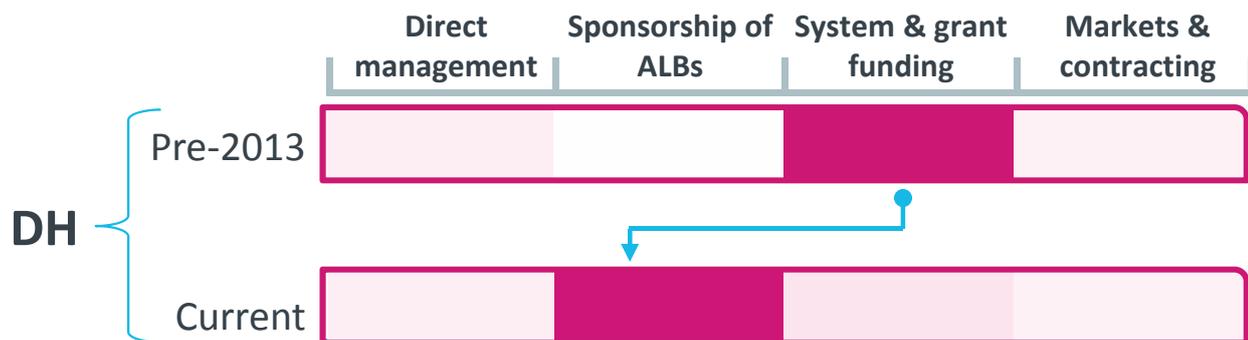
Figure 7.3: The continued expansion of academies, 2010-13



Source: Institute for Government analysis of DfE annual accounts, 2010-11 to 2012-13.

Some of the Government’s reforms were driven by a desire to open up public services and allow a greater variety of providers or choice for consumers. Others were motivated by performance or management concerns. DfE’s academies programme reflects both motivations and involves a change in the model used for managing spending. Previously all funding for schools was provided to local authorities as a grant. Now, the expansion of academies means that an increasing portion of this cash is provided directly to academies on the basis of a funding agreement – a contract between the secretary of state and an academy trust.

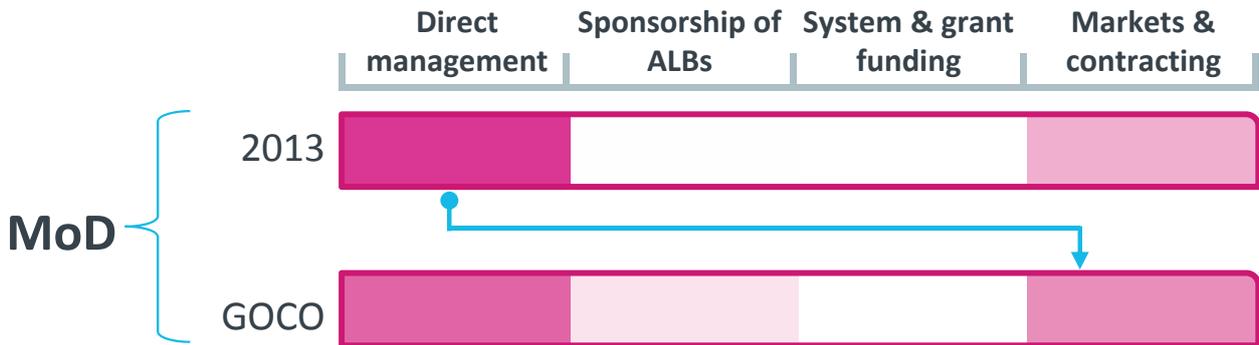
Figure 7.4: Health care reform – the NHS at arm’s length



Source: Institute for Government analysis of DH annual accounts, 2012-13 and 2013-14.

The Health and Social Care Act 2012 fundamentally changed how the Department of Health relates to the National Health Service. From April 2013, responsibility for managing the health service and the public health system moved to NHS England and Public Health England, respectively – both arm’s-length bodies. The department itself has moved to an assurance role: rather than directly managing and shaping the health system, it specifies strategic goals in framework agreements with these bodies. To what extent the actual management of such a politically sensitive area of public services will reflect this blueprint is yet to be seen, but in terms of the formal control over the system and resources funding it, health care is now at arm’s length from Whitehall.

Figure 7.5: Defence materiel – planned GoCo

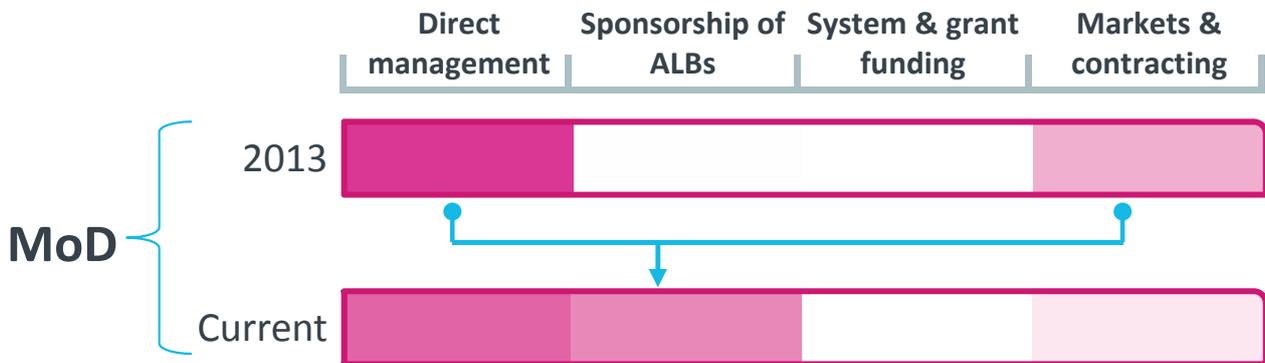


Source: Institute for Government analysis of departmental accounts, NAO departmental overviews, relevant government publications.

Since the Gray review of defence acquisition in 2009, departmental leaders have been considering whether the model of procuring defence materiel and support services should be changed. Until 2013, these activities were undertaken by Defence Equipment and Support (DE&S), a part of MoD. One of the proposed changes involved entering into partnership with a private sector consortium, which would operate the new body at arm’s length from the department as a ‘government-owned, contractor-operated’ organisation (GoCo). The rationale was to give the organisation more freedom to hire highly skilled professionals at salaries not available within civil service constraints.

While the bidders for the contractor role eventually withdrew and the GoCo option was abandoned, DE&S has moved to arm’s-length status and is no longer directly managed within the department.

Figure 7.6: Defence materiel – no GoCo (current situation)



Source: Institute for Government analysis of departmental accounts, NAO departmental overviews, relevant government publications.