

# Whitehall Monitor

No. 38: Whitehall's Resource Management Models  
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Departmental budgets are, in large part, not spent directly by Whitehall itself. Instead the resources flow through Whitehall, with departments employing a range of resource management models to control these flows. Though some departments deploy the bulk of their resources through just one kind of model, others have a much more complex landscape, using a variety of models simultaneously.

This *Whitehall Monitor* uses a framework developed by the Institute for Government to characterise the different resource management models in Whitehall and shows how their use varies by department.

## Headlines

- **The Institute for Government has developed a number of different resource management models** used by departments to deploy their resources
- **These are characterised by the mechanism by which the resources are controlled**, such as line management, via a system funding formula or through a contract
- The Institute's analysis shows both **the variation between resource management models used by departmental leaders, and the range of control mechanisms that can be simultaneously in place within a single department**
- **Some departments are relatively consistent models while others have much more divergent landscapes**
- By breaking down departments into how they manage resources, **departmental leaders can more easily assess what kinds of skills and capabilities they require to discharge their responsibilities.**

Leading this research at the Institute, Justine Stephen said:

*“Analysing the different ways that different departments control their resources allows departmental leaders to more easily assess what resources they need and how best to deploy them, and might allow us to compare outputs from different departments. It is clear from the models that there is a great variation between departments, and some departmental leaders have to deal with a variety of models in their own department.”*

## Whitehall's resource management models

- This framework provides one view of Whitehall's outputs, based on one of the more tractable measures – **how the departmental leaders are managing the resources they have at their disposal**
- **Naturally, there are outputs that staff in Whitehall work on (policy, legislation, regulation) whose production might consume relatively little of a department's budget, but whose importance and impact both in government and the country as a whole might be profound<sup>1</sup>.**
- **Whitehall currently does not have a systematic view of how it deploys its resources** and there is little in the public domain that usefully shows what departments do with the resources they receive
- By setting out the different resource management models that Whitehall is using, and the amount of resources that different departments are deploying through these mechanisms, **we**

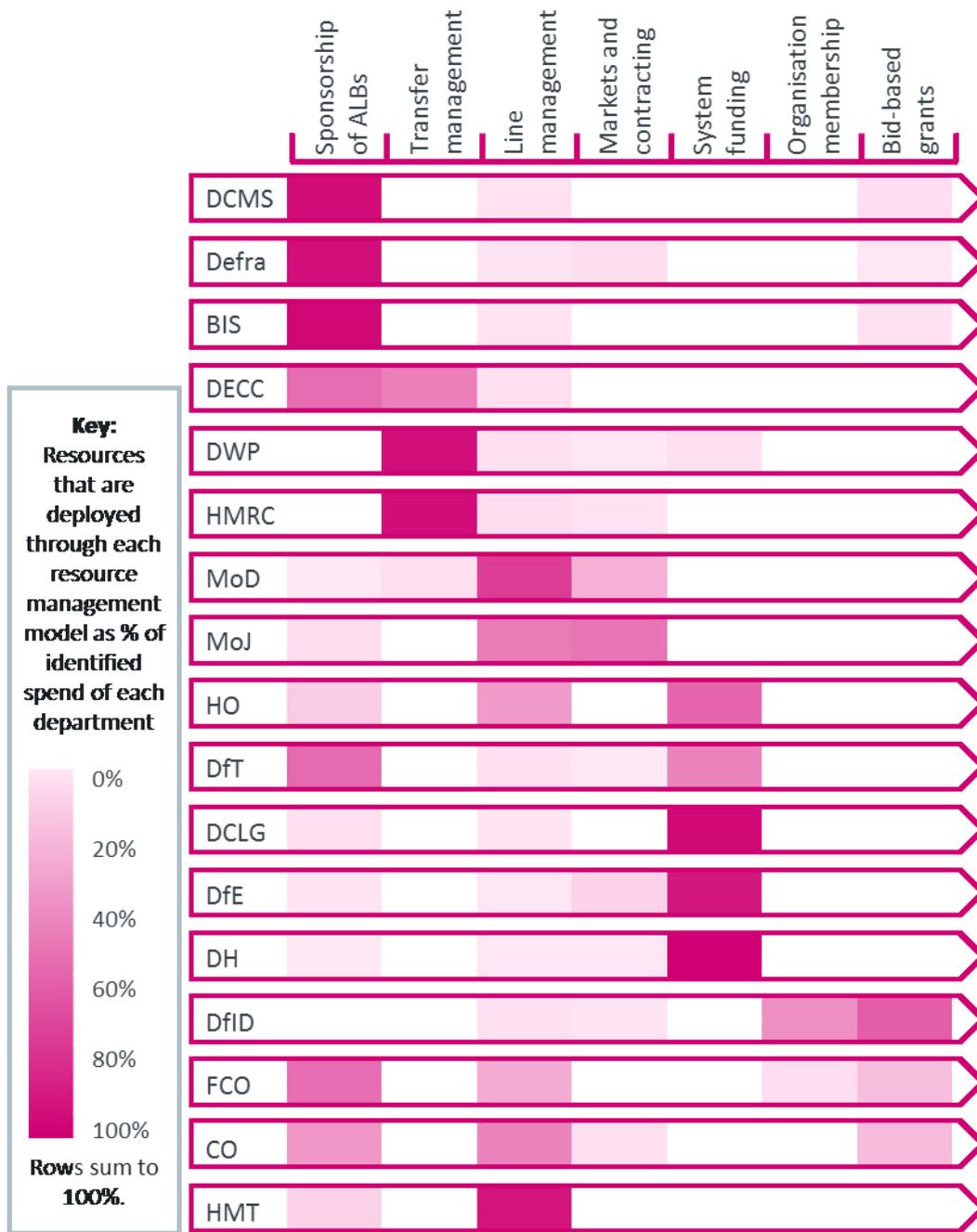
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<sup>1</sup> Currently there is insufficient comparable data to measure outputs in these areas across Whitehall. We hope to look into how these kinds of outputs could be measured in future *Whitehall Monitor* publications.

**can start to understand the responsibilities of each departmental leader with respect to the resources they receive.**

- **The potential comparisons that can be made between similar resource management models across Whitehall could, in future, provide a form of comparable output metrics, showing Whitehall's outputs in relation to its inputs.**
- **Figure 4.1 sets out the basic resource management models used by departments to deploy their resources**
- **The different models are characterised by the mechanism by which the resources are controlled, such as line management, via a system funding formula or through a contract**
- **These different models point to the types of responsibilities that departmental leaders have with respect to the different ways they deploy their resources.**

Figure 1: Characteristics of resource management models<sup>2</sup>



- What is initially striking is both the variation between resource management models used by departmental leaders, and the range of control mechanisms that can be simultaneously in place within a single department<sup>3</sup>

<sup>2</sup> For full details on each of these models and the kinds of spending they include, see Annex 1.

<sup>3</sup> Figure 1 is based on the immediate control mechanism employed by the Whitehall department. Often those receiving resources from Whitehall will then allocate the resources onward using a different model. So, for example, BIS has a sponsorship relationship with the Higher Education Funding Council for England (HEFCE), with HEFCE in turn providing system funding to UK universities. Given our focus on clarifying Whitehall’s responsibilities, in cases like this we are interested in the immediate sponsorship relationship between the

- DCMS, the Defra, BIS and DECC are all relatively consistent models: a small line-managed central department dwarfed by the significant outflow of resources to their networks of arm's-length bodies
- Similarly, for DCLG, DfE and DH, system funding clearly shows up as the primary route through which they currently deploy their resources.<sup>4</sup>
- However, MoJ, Home Office, DfT, FCO and Cabinet Office all have much more divergent landscapes with substantial amounts of their resources flowing through a variety of different models.
- By focusing only on Whitehall's direct responsibilities within each of the different models, **departmental leaders can also start to address the questions of what kinds of skills and capabilities they require to discharge these responsibilities**<sup>5</sup>
  - A recent review by the Institute found that many departments that are deploying significant resources via market mechanisms lacked the necessary skills and capabilities to set up or manage them effectively.<sup>6</sup>
- Whitehall departments vary greatly and **leaders can often struggle with benchmarking or comparative assessments because each department can legitimately claim that it is unique**
  - By breaking down departments according to how they manage resources, we can see that there are meaningful groupings
  - The most obvious groupings are at the departmental level, such as the sponsorship-focused departments<sup>7</sup> or between the big system funders.
- **But even where a department does not have the same overall shape as others, it is still possible to find comparisons for each of its segments of spending**
  - To extend the example on markets and contractual spending, there are valuable comparisons that could be made between the efficacy of the different approaches taken by DWP in contracting for the Work Programme and MoJ in commissioning services to reduce reoffending.
- In a similar vein, by looking at parts of the resource management models separately, **there is increased scope for benchmarking with organisations outside of government**
  - For example, fraud and error rates for transfer payments at DWP or HMRC can be benchmarked against similar transactions in the private sector.
- Departmental leaders should **reflect on the ways that they are deploying their resources and ask themselves whether they are using the most appropriate methods and whether they have the necessary capabilities**

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department and the arm's-length body. Whitehall's primary responsibilities are to set up and manage the relationship between the department and its arm's-length bodies, rather than determine and process the specific allocations, functions which in such cases fall to the arm's-length body itself.

<sup>4</sup> The ongoing reforms to the health and education sectors mean that these departments could be viewed as moving away from their system funding model. We provide more details on the implications of these reforms in the *Whitehall Monitor* on changes to resource management models.

<sup>5</sup> For further insights on the challenges in improving civil service capability, see Kidson, M., *Civil Service Capability*, June 2013, [www.instituteforgovernment.org.uk/publications/civil-service-capabilities](http://www.instituteforgovernment.org.uk/publications/civil-service-capabilities)

<sup>6</sup> For further details on the kinds of skills and capabilities required to support public sector markets and contracting, see Gash, T., et al., *Making Public Service Markets Work*, Institute for Government, July 2013, [www.instituteforgovernment.org.uk/publications/making-public-service-markets-work](http://www.instituteforgovernment.org.uk/publications/making-public-service-markets-work)

<sup>7</sup> See the Institute's work on arm's-length bodies for more details on how Whitehall can more effectively manage these organisations and the issues surrounding their current classification: [www.instituteforgovernment.org.uk/our-work/new-models-governance-and-public-services/arms-lengthbodies](http://www.instituteforgovernment.org.uk/our-work/new-models-governance-and-public-services/arms-lengthbodies)

- For departments with diverse resource allocation models, leaders should consider whether they have the right governance structures in place to oversee such a complex system
- For example, the Cabinet Office stands out as a very complex model with significant proportions of its resources being deployed through a mix of sponsorship, line management, market and grant-based mechanisms
- The Foreign Office and the Home Office also have their resources spread out across a variety of different resource management models<sup>8</sup>
- This is particularly relevant for departments undertaking major reforms that will change the kinds of resource allocation models the department uses.

## Next steps

*Whitehall Monitor* #39 looks at changes to departmental resource management models. The Institute for Government will continue to monitor such changes.

## Further information

You can find previous Whitehall Monitor reports, contact information, and underlying data at [www.instituteforgovernment.org.uk/our-work/whitehall-monitor](http://www.instituteforgovernment.org.uk/our-work/whitehall-monitor)

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<sup>8</sup> The Cabinet Office and FCO have the lowest normalised Hirschman-Herfindahl Index scores (under 0.3), indicating that substantial amounts of their departmental resources are 'spread out' between multiple models. In contrast DH, DCLG, HMRC, DCMS, DECC and DWP all have scores of over 0.8, indicating that they tightly concentrate their resources through a small number of models.

## Annex 1: Resource management models

### What this framework does

This framework attempts to answer the question ‘How much of its resources does each department deploy using different resource management models?’

We started by identifying substantial items of departmental spending and grouping them under a set of resource management models. We took a pragmatic approach, using multiple data sources to attach approximate amounts to distinct parts of departments’ business.

The items underpinning the framework jointly cover around 80% of each department’s expenditure. Because we combined multiple sources, and because the source data is not always categorised in line with our model classifications, there will almost certainly be a degree of overlap and approximation within our figures. The result is intended to be an indicative breakdown of departmental spending rather than a comprehensive inventory.

### What data sources we used

As a starting point, we have used the budget breakdowns contained in the departmental Business Plans for 2012/13. As the categories and level of detail in these vary by department, we have used the NAO’s departmental overviews to complement these figures. Indicative figures for the budgets of sponsored bodies were taken from Estimates for 2012/13 where available.

For detail on individual items, we have also drawn on the departments’ and agencies’ annual accounts for 2011/12; OSCAR data for 2012/13; and NAO reports. To guide our understanding of some services provided by departments, we also used the Government Digital Service’s Transactions Explorer.<sup>9</sup>

To understand how particular parts of spend are managed, we drew on departmental announcements, policy papers and guidance notes available in the public domain.

For categorising the relationships between Whitehall departments and their agencies and other public bodies, we have drawn on the Accounting Officer System Statements and the relevant Framework Agreements.

### How we categorised Whitehall’s resources

#### Line management

This includes resources spent directly by the department, both for its own corporate needs and for executing functions and providing services to the public, where this is done by the Whitehall department’s line-managed staff. It also includes the resources used to run services whose purpose is to manage transfers (see below), for instance the staff working in Job Centres or in HMRC offices.

The line management category also includes executive agencies, which are line managed inside the department, typically with no alternative governance system independent of the department. One atypical case in this category is HM Courts & Tribunals Service (HMCTS). Although statute requires that the judiciary be represented on its board, the body is an executive agency whose chief executive is line-managed by the Permanent Secretary. We therefore categorise HMCTS as line-managed.

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<sup>9</sup> <http://transactionsexplorer.cabinetoffice.gov.uk/>, retrieved 27 July 2013.

## Transfer management

This category includes resources transferred to individuals on the basis of a predefined set of criteria, which also set out the levels of payment that recipients are entitled to. These are entitlement payments, with no space for discretion by the department and no service provided for the Government by the recipient. This includes substantial items such as benefits payments and pensions paid to individuals, but also more diverse entitlements, such as the financial support provided directly to farmers. Typically, resources being deployed through this mechanism are categorised within departmental budgets as 'Annually Managed Expenditure'. If the transfers are paid through an arm's-length body (ALB), they are categorised as 'sponsorship'.

### Sponsorship of arm's-length bodies

This includes departmental resources transferred to ALBs within the departmental group which are not line-managed and which have separate governance from the department. It includes non-departmental public bodies but excludes executive agencies.

The ALB landscape is complex and the Government does not use any clear taxonomy. The Institute has published work suggesting how the ALB landscape can be conceptualised.<sup>10</sup> Following the typology set out in the Institute's work, we include independent regulators. Although their resources do not come from the department (they have their own Estimate), a minister is responsible for setting the framework for their operation. We have grouped these bodies with departments depending on which minister would be responsible for deciding on the relevant policy framework – so for instance Ofgem is grouped with DECC and Ofsted with DfE.

We also include Network Rail within the sponsorship category. Although the Government regards it as a private corporation, it receives a major grant from DfT and provides a public service; its grant in effect covers the cost of the rail franchising system.<sup>11</sup> We have, however, omitted the Bank of England and the Government's holdings in commercial corporations for the sake of simplicity. We focus only on spending by the 17 main departments and bodies they sponsor or for which the relevant ministers are responsible, so we exclude funding for devolved administrations from our framework.

### Markets and contracting

This includes resources with which Whitehall contracts and commissions services or manages markets, with the counterparty acting on the Government's behalf.

In some cases, Whitehall manages the market as a complex system (e.g. the Work Programme or rail franchising). It may act as commissioner (e.g. prisons). It may also procure goods (e.g. defence equipment) or pay companies to provide a service to individuals (e.g. fuel poverty measures managed by DECC).

We excluded goods and services purchased to run the department (e.g. Whitehall IT, office supplies). We therefore do not include, for example, departments' spending on IT in general but do include specific large-scale IT programmes that are intended to deliver service capability outside of Whitehall, such as the National Programme for IT within the Department of Health.

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<sup>10</sup> See, [www.instituteforgovernment.org.uk/our-work/new-models-governance-and-public-services/arms-length-bodies](http://www.instituteforgovernment.org.uk/our-work/new-models-governance-and-public-services/arms-length-bodies)

<sup>11</sup> The exclusion of Network Rail from the Whole of Government Accounts was one of the reasons why the NAO qualified the accounts for 2011/12. See, NAO, *Report of the Comptroller and Auditor General: Whole of Government Accounts 2011-12*, July 2013, p.40, [www.nao.org.uk/report/whole-of-government-accounts-2011-12/](http://www.nao.org.uk/report/whole-of-government-accounts-2011-12/)

For tractability, we disregarded Whitehall's role in managing the Government's debt, although it does, technically speaking, involve contracts and market operations.

### System funding

Here, Whitehall in effect makes grants to bodies it neither controls nor sponsors, though it may set the general rules for their operation. This is typically done on the basis of a formula. This includes grants to local authorities and health funding.

Whitehall's role is to set the rules of operation for that particular system. It sets the levels of funding and constraints on how it may be spent (e.g. parts of local government funding are ringfenced) and how it is to be accounted for. In some cases, Whitehall acts as the last resort funder if entities within the system fail (e.g. NHS trusts or local authorities).

When this funding is provided by an ALB, this is classified as sponsorship, because the role of Whitehall is to perform the sponsorship function.

### Organisational membership

Whitehall may provide funding to international organisations to further the Government's priorities either through an unhypothecated 'subscription' or through contributing to specific programmes undertaken by the international organisation.

Examples include development projects managed by the World Bank and our membership of many of the family of UN bodies and other international treaty organisations.

This does not include the EU budget contribution, which is paid directly from the Consolidated Fund on the basis of a formula and does not pass through any department's budget.

### Bid-based grants

In some cases, a Whitehall department may distribute resources through bid grants, where public or private sector bodies apply for funding for a specific purpose. In addition to the bidders having to fulfil set criteria, the Whitehall department exercises discretion to select the most suitable recipient. This differs from the market contracting model in that the result is a grant to the winning bidder rather than a contract to provide a specific service. Examples include DCMS's broadband programme, where local authorities bid for funding, or DECC's carbon capture and storage policy, where private sector providers bid for money to develop new technology. In many cases these processes are run at arm's length from government (e.g. arts grants, which are managed by the Arts Council). In these cases we have classified the departmental role as 'sponsorship'.

## Annex 2: List of acronyms

**Figure 2: List of acronyms for government departments**

Acronym	Department Name
AGO	Attorney General's Office
BIS	Business, Innovation and Skills
CO	Cabinet Office
DCLG	Department for Communities and Local Government
DCMS	Department for Culture, Media and Sport
DECC	Department for Energy and Climate Change
Defra	Department for Environment, Food and Rural Affairs
DfE	Department for Education
DFID	Department for International Development
DFT	Department for Transport
DH	Department of Health
DWP	Department for Work and Pensions
FCO	Foreign and Commonwealth Office
HMRC	Her Majesty's Revenue and Customs
HMT	Her Majesty's Treasury
HO	Home Office
MoD	Ministry of Defence
MoJ	Ministry of Justice