Leading Change in the Civil Service

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Foreword

The Civil Service has changed substantially since 2010, but it faces even greater challenges in the next parliament, in the five years after 2015. ‘Leading Change in the Civil Service’ is based on the insights gained from the Institute for Government’s work over the last few years with a number of Whitehall departments on their internal transformation programmes and from our analysis of the Cabinet Office’s successive reform plans. We acknowledge how much the Civil Service has achieved since 2010 in making unprecedented savings and staff reductions and in helping to take forward far-reaching changes in public services. Many civil servants also report important improvements in extending the role of non-executive directors, in digital services, in the major projects authority and in policy making. However, the prospects for further large savings, and associated reforms, are much more difficult. Progress on many reforms is still patchy. The federal, departmentally based model remains central while the centre is often fragmented with a lack of corporate leadership.

Consequently, the report argues that that leadership of the Civil Service needs to be re-thought. This involves both closer working together at the centre and visible political support now from ministers for officials to start planning ahead for the period after 2015. Our intention is to engage both civil service leaders and politicians in government and in Parliament with our analysis and recommendations. Many of the points and proposals are tough and controversial. This is not in the spirit of the all too frequent sweeping, and ill-informed, criticism of ‘mandarins’, but, rather the reverse, in a constructive way to assist reform. We believe that addressing the questions raised in this report is essential for the future of the Civil Service.

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Executive summary

2015 will be a critical year in the UK's fiscal consolidation. Assuming the Coalition does not divorce early, there will be a new government in May and the wheels will quickly start turning on a second major spending review setting out austerity measures for most, or all, of the next parliament.

The UK faces extreme economic, political and administrative challenges, which have led to unprecedented public service reforms and spending cuts since 2010. Meeting these challenges will be more difficult still in 2015, no matter who wins the next general election.

Working alongside ministers, the Civil Service is at the heart of whether or not the next government is set on the path to success or failure. The Civil Service translates political direction into policy and service delivery while maintaining fiscal discipline. The question here is: is the Civil Service set to meet this challenge in 2015?

Despite public criticism and some very significant setbacks like the West Coast Mainline crisis, the Civil Service is not broken and has much to be proud of since 2010 – particularly on cutting costs and delivering a range of ministerial agendas. However, the record on leading organisational change in the Civil Service itself, particularly across departments, is far weaker. The current trajectory of reform is insufficient if the Civil Service is to rise to the challenge of confidently supporting a new government after a second major spending review and beyond.

The main argument in this report consists of five linked propositions.

1. **The Civil Service deserves credit for achieving unprecedented cost reductions following the 2010 Spending Review while simultaneously driving radical ministerial agendas across government.**

A perfect storm hit the Civil Service in 2010. The scale of the fiscal challenge facing the UK was hard to overstate – broadly analogous in scale to Portugal, Ireland, Greece and Spain but without the borrowing crisis – and has translated into unprecedented cuts to both departmental spending totals and administrative budgets. Simultaneously, the policy and delivery agenda across Whitehall is rivalled in scale and radicalism only by the Attlee and Thatcher governments – which were both also radical austerity administrations.

Spending cuts have proceeded at speed. The Civil Service has paved the way for enormous spending reductions, implementing around 55% of the spending cuts planned for this parliament by December 2013.[1] Departments are cutting ahead of the required pace, with the Office for Budget Responsibility anticipating a collective underspend of £7 billion in 2013/14.[2] All departments appear to be able to live within their spending totals ahead of 2015. In the Civil Service itself, departments are also on track for between 33% and 50% reductions in running costs, with the Efficiency and Reform Group claiming savings against its 2009/10 baseline of over £10 billion across central government by the end of the last financial year.[3] Headcount has reduced by over 66,000 full-time equivalents (FTE), or nearly 14%, since the 2010 Spending Review (SR10) and there are plans for a further 32,000 posts to go.[4]

Contrary to the popular narrative, the Civil Service has broadly said “Yes, Minister” without the irony or double-dealing that the programme of that name characterises. Rather, the Civil Service has willingly taken on extreme levels of risk in support of ministerial agendas, driving major programmes and reforms across areas as diverse as the Olympic and Paralympic Games; restructuring the NHS; implementing the Strategic Defence and Security Review and Levene recommendations in defence; ramping up public service markets in areas such as probation and employment; and intervening in the housing and energy markets.

In many cases it is too early to gauge the success of these reforms. There have been some notable failures – on Universal Credit, West Coast Mainline and rural broadband among others. However, the record on driving ministerial priorities is one of moving at pace despite the scale and risk involved. If anything, the Civil Service has proven over-enthusiastic and might have advised greater caution to ministers, with not a single letter of direction sought by a permanent secretary since 2010. Internationally, the UK Civil Service is at the extreme end of spending reductions and ambitious policy reforms, generating widespread interest in the outcomes.

2. However, sustaining further cuts from 2015 and continuing to support ministers with difficult political choices ahead will be far more challenging

Despite the Civil Service’s willingness to cut and drive ministerial priorities, the 2010 Spending Review was a major shock to the system. Several departments agreed huge reductions with HM Treasury without a substantive plan and limited analysis underpinning how they would meet them. Since then, many departments have found a way through, but the risk is that the Civil Service takes the same approach in 2015 but with much worse consequences.

Whoever forms the next government, ministers will almost immediately have to face up to the difficult political choices ahead of them through a full spending review in 2015. Several departmental budgets look ever more difficult to sustain in the years ahead, with projections indicating that cuts to departmental expenditure limits may accelerate after 2016 to close the deficit.[5] While the so-called ‘National Union of Ministers’ that formed for the 2013 spending round dissolved fairly rapidly, it indicated that political decisions were already getting extremely tough. International experience also shows that maintaining political momentum on austerity can be extremely difficult. For example, the Canadian consolidation, finally completed in the mid-1990s, lasted more than a decade following a series of failed attempts to close the deficit.

Furthermore, there are at least seven reasons to think delivering ‘once-in-a-lifetime’ savings all over again will be much more difficult for the Civil Service.

- Savings in this parliament have taken out most of the ‘low hanging fruit’ within departments, with further savings likely to be more difficult to find.
- Not all of the savings made so far are going to be sustainable and some reverses are likely.
- The level of risk taken on by the Civil Service since 2010 is extreme and will not be discharged by 2015, as delivery of several large reforms (such as Universal Credit) is carried over into the next parliament.
- The direction of reform has added far greater urgency to the capability challenges facing civil servants – especially in areas such as commercial skills and public service markets. It has also emphasised the underlying cultural barriers to change.
- Keeping critical stakeholders on board – like the judiciary, police, teachers and nurses –will be increasingly difficult, particularly when rethinking fragile policy and funding settlements all over again.
- Despite staff engagement remaining stable so far, morale in the Civil Service is likely to be sorely tested by further rounds of downsizing, restructuring and ongoing pressure on pay.
- And, maintaining productive relationships between ministers and civil servants will get even tougher as decisions become more politically painful.

3. The Civil Service urgently needs reform ahead of 2015 but the current trajectory is not promising, with progress patchy and fragmented.

If cost-cutting and delivery have moved forward at pace, civil service reforms have been far slower and made less progress. Civil-service-wide reforms (including the *Civil Service Reform Plan*) have generally proven frustrating. Civil servants, ministers and non-executive directors interviewed for this report cited improvements in areas such as digital services, better policy making, the major projects authority, a refreshed cadre of non-executive directors and markedly increasing the pace in shared services. These represent a significant number of reform actions. However, the broadly sensible set of actions outlined in the *Civil Service Reform Plan* have so far failed to land with much impact in departments. The agenda is not seen to be wrong, but the reality is that most secretaries of state and senior civil service leaders see it as secondary to more pressing and proximate priorities. Departmental changes trump the corporate agenda with the inevitable result that change is fragmented with very little co-ordination. While some departments, such as the Ministry of Defence (MoD), are leading towards potentially transformative changes, others are ‘salami slicing’ cuts or even growing with little real change. These initiatives are driven within, and reinforce, departmental silos in the vast majority of cases.

Beyond current cost-cutting, there are three challenges the Civil Service has still to face up to ahead of 2015: improving capability; working across government more effectively; and planning ahead to offer up the best options for further savings. Despite some acute capability challenges – laid bare in the Laidlaw Report and Department of Energy and Climate Change (DECC) capability review, for example – there has been some progress and a potentially promising set of actions are set out in the Civil Service Capabilities Plan. However, there is still a long way to go, especially as the level of challenge gets more urgent in areas such as public service markets. There is even less evidence that departments are working more closely across boundaries, especially in terms of accessing the all-important savings which lie across departments and were left untouched in the 2010 Spending Review. And, with the pressure firmly on current delivery ahead of the next election, there is very little sign that the Civil Service has permission from ministers, or has taken the space required, to plan ahead for the challenges that will face the next Government.

4. While the lack of reform highlights the limitations of the current operating model in Whitehall, the most important weakness is a lack of corporate leadership in the Civil Service which has been exacerbated by political choices.

Now, as ever, Whitehall is fundamentally a federal system which makes corporate Civil Service reform difficult. All the signals emphasise departmental silos as the key units of management and accountability. The centre (the Cabinet Office and the Treasury) is also fragmented, with very little institutional support for leadership at the heart of government. Adding to this, there are few levers, resources or rewards for those leaders who are willing to act corporately beyond their departmental boundaries. As a result, there is a disconnect between any corporate agenda for the Civil Service and the departmental structure that is in place to receive and act on it.

This federal structure means that many departments are remarkably loyal to their ministers and can quickly adapt to new priorities. However, it also makes them fragile and invites a tendency toward short-termism. Building capability for the medium or long term is frequently sacrificed at the expense of delivery priorities. Departmental identities and workloads are constantly vulnerable to turnover at the top and to new agendas.

Given these systemic pressures the quality of leadership matters enormously. Political choices – often a deliberate and reasoned reaction against the style of the previous government – have also played up some of the negative habits in the Civil Service. Most notably, there is limited visibility in pushing for co-ordination across government from the Treasury or Number 10. The Prime Minister plays a chairman role, with secretaries of state given substantial autonomy. At the same time, there is no co-ordinating government narrative for the Civil Service to lock into. Much of the central machinery supporting co-ordination – such as the former Prime Minister's Delivery Unit (PMDU) and public service agreements (PSAs) – was dismantled early on, though these have been gradually replaced with alternatives. On the *Civil Service Reform Plan*, there has been insufficient political engagement to overcome the fragmentation in the system. The Minister for the Cabinet Office (MCO) has struggled to generate the buy-in required in many departments, despite pushing energetically on a sensible set of actions.

Most important, however, is the lack of effective corporate leadership at the heart of the Civil Service. At the centre, power and authority are highly centralised and personalised in the form of the Cabinet Secretary, the Head of the Civil Service and the Permanent Secretary to the Treasury. Much clearer and more joined-up leadership ahead of the challenges coming in 2015 could provide the permission and support required, but at the moment, the message from the centre is weak and confused. One of the most significant divisions among these leaders is the diagnosis of what level of change is required and whether to continue within the federal model or seek to move beyond it.

Within departments, permanent secretaries and directors-general have demonstrated mixed abilities to lead change effectively. Our research shows that although some teams are leading genuinely transformational changes effectively, this is far from universal. Some leadership teams are unable or unwilling to lead across internal silos, engage staff and grip behaviour and culture change. Most executive teams are also struggling to engage ministers beyond their immediate priorities.

5. Civil Service leaders and politicians need to think carefully together about what kind of Civil Service will be required and address their role in getting there with far greater urgency.

At this point in the political cycle, it is, of course, imperative to focus on delivering the current reform plans more successfully than they have been to date. Nonetheless, it should be possible to do this while preparing to meet the challenges in 2015 head on.

Our conclusions and recommendations make the case for rethinking the corporate leadership of the Civil Service, so that it can plan for the future while delivering in the present – whether inside the current federal model or making more fundamental structural changes. Given the historic weakness of corporate leadership in the Civil Service and the fragmented nature of the centre, this is perhaps the toughest reform of all. It will require serious attention from political and civil service leaders in a way that has been rare historically. Major improvements will only take place if reforms are seen as a top priority – not, as is currently the case, squeezed in at the margins.

Recommendations

Civil service leaders

1. The Cabinet Secretary, Head of the Civil Service and Permanent Secretary to the Treasury should establish themselves as a visible triumvirate providing corporate leadership to deliver a renewed core agenda that they are strongly and personally committed to.
2. They will need to engage current and future senior civil service leaders as they will make the reform succeed or fail. Through this engagement they should develop a clear and consistent diagnosis of what level of change is required across the Civil Service, and be highly conscious of the degree of challenge this poses.
3. They should consider how they can use the current Civil Service Board to demonstrate, develop and support corporate leadership at the centre. Doing this will require drawing on high quality expertise, for example the best non-executive directors and a coach to work with them on their effectiveness as a leadership team and regularly spending an extended period of time together focusing on the issues that matter for the Civil Service as a whole. Given the weaknesses of the Civil Service Board highlighted in this report, there is also a need for a more

fundamental examination of civil service governance and the Institute will undertake work on this topic in advance of the 2015 general election.

4. The centre (the Cabinet Office and the Treasury) will need to work together more visibly to drive reforms and tackle departmental fragmentation. Applying the lessons of successful reforms, this may also require a dedicated central team or unit with sufficient credibility and focus working alongside departments.
5. Finally, this stronger corporate leadership needs to reach a sensible deal between ministers and officials to provide permission, protection and support for departmental leaders to plan ahead to 2015 while continuing to deliver the current reforms. Serving the government of the day is taken too narrowly if it means not planning ahead to ensure the Civil Service is well placed to serve future governments too.

Politicians

6. The Prime Minister's support has always been essential for major changes to take hold across the Civil Service and that remains the case. His private support for key reforms needs to be made visible to secretaries of state and key civil service leaders across Whitehall.
7. Given the limits of the Cabinet Office's leverage, it will be essential for the Minister for the Cabinet Office to combine hard requirements (such as the central spending controls and digital by default standard) with winning hearts and minds among the civil service leaders who will either drive corporate reforms or focus on their departmental priorities.
8. All ministers want their priorities to be realised and so focus on their own delivery agenda. However, as with Jack Straw, the Justice Secretary in 2009, ministers should recognise that the Civil Service needs space to plan ahead for how to best support the next government – whichever it may be.
9. If party leaders want the Civil Service to be able to support their programme in 2015 effectively, they will have a much better chance the more clarity they can provide before the election about what to expect, likely priorities in the 2015 Spending Review and preferred delivery models.

Parliament

10. The Public Administration Select Committee (PASC), and subsequently the Liaison Committee, have called for a parliamentary commission on the future of the Civil Service to produce cross-party support for strategic, long-term planning. This has the potential to create much more favourable conditions for stable corporate leadership inside the Civil Service and need not distract from current reforms. However, the Institute for Government only supports such a commission if the composition, chairmanship and terms of reference are correct. The historical precedents for this are unpromising.

1. Introduction

In two important respects 2015 is likely to be a re-run of 2010 – a potentially-uncertain election quickly followed by a spending review to set the fiscal envelope for the rest of the parliament.

What we might call the '2010 challenge' encompassed the biggest spending consolidation since at least the 1940s and a policy agenda only rivalled in scale by the Thatcher and Attlee governments – both reforming austerity administrations themselves. The fiscal challenge has been particularly extreme as the UK recovers from its deepest and most prolonged recession since the Second World War with a deficit that peaked at over 11% of GDP in 2009-10[6] and remains among the largest in the OECD.[7] Simultaneously, the reforms under the current Government – to health, education, welfare, justice, policing and defence, among many others – represent a vast canvas for change.

Working alongside ministers, the Civil Service translates political direction into policy and service delivery while maintaining fiscal discipline. It has been critical to supporting this agenda and has been sorely tested since 2010. It is fashionable to say the Civil Service is a broken institution amid the fallout from the West Coast Mainline and Universal Credit, and with key select committees calling for a parliamentary commission on its future.[8] However, the Civil Service has demonstrated important strengths and deserves credit for pushing through radical cost-cutting measures – both for itself and across the wider public sector – while also driving a radical set of ministerial agendas.

Nevertheless, the challenge facing the UK is so immense that the Civil Service might not be able to repeat this process again after the 2015 election. Much of the Civil Service pushed cuts through in 2010. Rather than making strategic, long-term decisions about the role and structure of the Civil Service in a time of austerity, civil servants managed the traditional bilateral process between the Treasury and other departments to agree spending totals for this parliament. In many cases, there was limited opportunity for realistic analysis and planning to understand how departments could implement such strict spending settlements. Departments then set to work, rushing to meet ministers' priorities inside far tighter budgets.

This will not work as well a second time round. Not only is austerity increasingly difficult to handle politically – just as the Attlee Government found shortly after re-election, falling apart catastrophically over its austerity budget of 1951 – but it is also harder for the Civil Service to implement further austerity measures even if the Government is able to stay the course. That is not a positive scenario for the Civil Service, the next government, the wider public sector, or, ultimately, citizens. Instead, the Civil Service needs to get ahead of the game by improving capability, working across government more effectively and planning ahead for further rounds of savings. This will require working in very different ways to the current and historic norms. But the trajectory on reform is not promising.

This report aims to spell out the challenge facing the Civil Service and the leadership (both official and political) required, so that when the next government comes to make the difficult choices in the 2015 Spending Review and beyond, it can do so with the best options available and a confident, capable Civil Service ready to deliver.

The remainder of this report sets out five linked propositions. We argue that:

1. The Civil Service deserves credit for achieving unprecedented cost reductions following the 2010 Spending Review while simultaneously driving radical ministerial agendas across government (Chapter 2).
2. However, sustaining further cuts from 2015 and continuing to support ministers with difficult political choices ahead will be far more challenging (Chapter 3).
3. The Civil Service urgently needs reform ahead of 2015 but the current trajectory is not promising with progress patchy and fragmented (Chapter 4).
4. While the lack of reform highlights the limitations of the operating model in Whitehall, the most important weakness is a lack of corporate leadership in the Civil Service which has been exacerbated by political choices (Chapter 5).
5. As a result, Civil Service leaders and politicians need to think carefully together about what kind of Civil Service will be required and address their role in getting there with far greater urgency (Chapter 6).

Background to this report

This report is based on the Institute's extensive research on leading major change in the Civil Service – both corporately across the Civil Service and within individual departments – over the last five years.

In that time we have worked closely with the senior leaders (officials, ministers and non-executive directors) most involved with corporate Civil Service reforms. We have also supported the leadership teams in five Whitehall departments – covering over a third of the Civil Service – to evaluate the progress of their departmental change programmes and advise on key areas for focus. We published two reports on *Transforming Justice* in the Ministry of Justice[9&10] and, most recently, we published findings on *Leading Change in the Department for Education*.[11] Last year we also published *Transforming Whitehall: Leading Major Change in Whitehall departments*[12] which set out a framework for leading organisational change effectively in departments.

In the course of this work, we have conducted interviews and focus groups with:

- nearly 300 senior civil servants (SCS) across all the major Whitehall departments
- 240 non-SCS across all grades and across the country in the five departments we work with
- current ministers and special advisers
- departmental stakeholders
- academics, thinkers, former civil service leaders, ex-ministers and other experts on UK government
- officials, ministers and academics overseas to understand international responses to austerity.

Reflecting the depth and breadth of our work on leading change in the Civil Service, we are simultaneously publishing the following accompanying papers alongside this report:

- *Civil Service Reform in the Real World*, with more detailed analysis and further insights from the last 50 years of civil service reforms
- *Transforming Whitehall: One Year On*, an update of the lessons on how to lead major organisational change in departments a year on
- *'Organising Policy Making'* and *'Organising Corporate Functions'*: two briefing notes setting out how departments are re-organising these critical functions.

This report sits on top of all of these and draws on the combined evidence and analysis to provide an overview of how well placed the Civil Service is in the run-up to the 2015 challenge.

2. Meeting the 2010 challenge

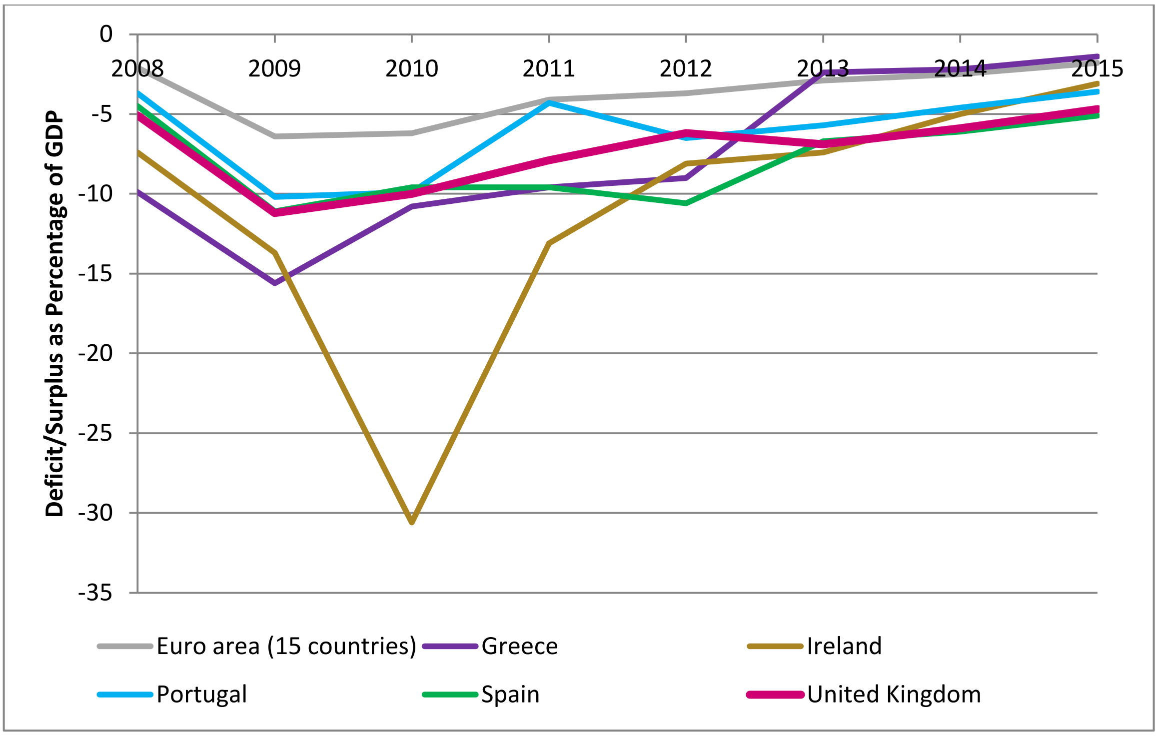
Proposition 1: The Civil Service deserves credit for achieving unprecedented cost reductions following the 2010 Spending Review, while simultaneously driving radical ministerial agendas across government.

The fiscal challenge in 2010

The fiscal challenge that faced the UK in 2010 is hard to overstate. The UK may not have felt the financial crisis as starkly as Eurozone countries like Spain, Ireland, Portugal, Greece and Cyprus, which experienced high unemployment and emergency bailouts, but the fiscal consolidation required was of a similar magnitude.

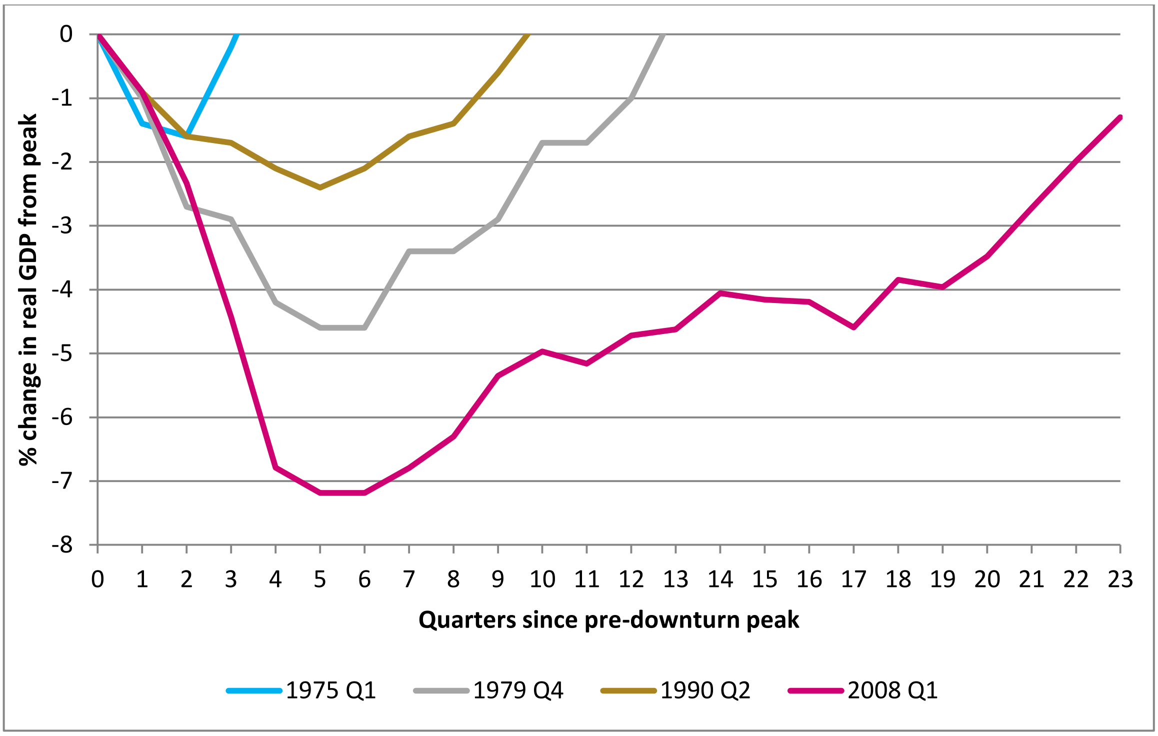
To put the scale of the challenge we faced in context, the UK posted one of the largest structural deficits of any OECD country when the 2008 recession began.[13] Hitting a peak of 11.2% in 2009, the government's deficit was at least as large as those addressed in Sweden and Canada in the 1990s. The recession itself eclipsed any previous recession in this country since the Second World War. The closest comparison in our history is the Great Depression – and the economic recovery was significantly quicker 80 years ago.

Figure 1: UK deficit as a percentage of GDP with selected international Euro area comparators



Source: OECD

Figure 2: Comparison of historical GDP contractions in the UK



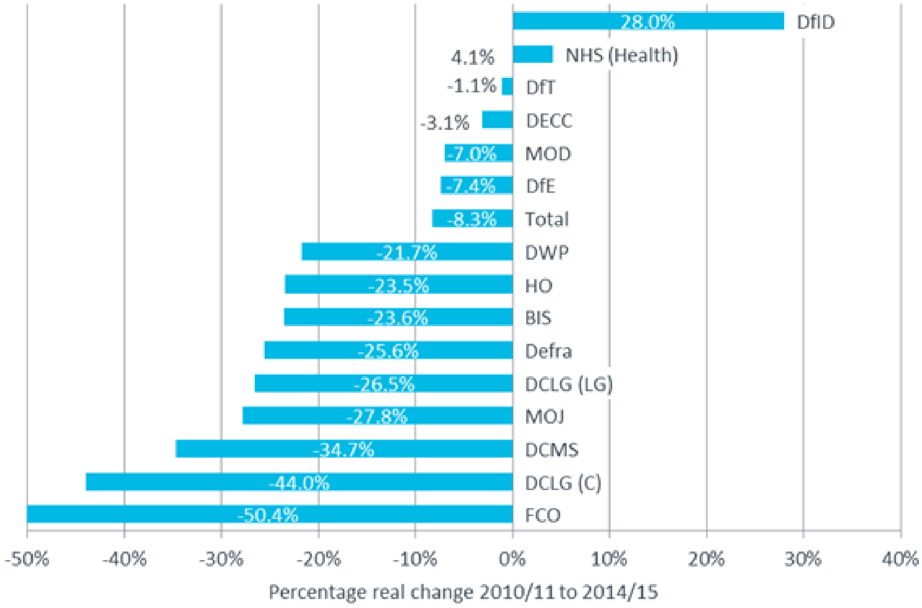
Source: ONS

Unlike in the Eurozone, where bailed-out governments had to follow the terms set by the Troika (the European Commission, the European Bank and the International Monetary Fund) in return for emergency loans, the UK Government retained full sovereignty and made its own choices about how to close the deficit. Following the 2010 election, the Coalition launched an ambitious fiscal consolidation plan to deal with an estimated £156 billion deficit.[14] This included £81 billion in spending reductions over four years[15] and an increase in the main standard rate of VAT to 20%.[16] The Coalition also set 2015-16 as the deadline for the public sector net debt to be falling as a percentage of GDP.

The Coalition also chose to pursue a particularly strong line on reducing expenditure with the consolidation based on a ratio of roughly 4:1 spending cuts to tax increases.[17] This is at the extreme end when compared with other major consolidations internationally. It contrasts strongly with the Swedish consolidation in the 1990s, for example, which was much closer to an even split (or 1:1 ratio).[18]

This has translated directly into unprecedented cuts to ‘departmental expenditure limits’ (DEL). The figure below is based on the Institute for Fiscal Studies (IFS) analysis of the 2010 Spending Review and sets out where the axe has fallen department by department.

Figure 3: Estimated changes in department DEL budgets, 2010/11 to 2014/15



Source: IFS analysis of Spending Review and Budget data, June 2013

While some departments have escaped major reductions due to the ringfencing of health, schools and international development budgets, this also means that cuts to unprotected departments have been especially deep. With the exceptions of the Departments for International Development and Health, departmental budgets were on average cut by 19% over four years.[19]

Indeed, the Civil Service itself has faced major reductions in operating costs. All departments faced a blanket requirement to reduce their administrative budget by at least 33% by 2015. The *Civil Service Reform Plan* set a target for reducing headcount by around 100,000 (or over 20%) by 2015. And for civil servants (as for the rest of the public sector) there have been strict controls on pay and pensions as well as tightening other terms and conditions.

The 2013 Spending Round set out further tightening of £11.5 billion for 2015/16.[20] However, this is far from the end of austerity. As we set out in the next chapter, there is still a long way still to go on spending reductions, with the Office for Budget Responsibility (OBR) anticipating the deficit will not be closed until 2018/19 – and that is before reducing the stockpile of debt.[21] Public sector net debt is predicted to peak at 80% of GDP in 2015-16, more than double the level before the crisis.[22]

As radical as Thatcher and Attlee

Paul Pierson, a leading academic on welfare retrenchment, has argued, “The politics of retrenchment is typically treacherous, because it imposes tangible losses on concentrated groups of voters in return for diffuse and uncertain gains.”[23] Yet, the Government has pursued not only an enormous scale of spending reductions but also a radical set of reforms.

Unlikely to produce an ‘–ism’ to match ‘Thatcherism’, ministers across virtually all of the main departments have each pursued their own large and risky policy agendas at pace. Taken together, these are similar in scale to the Thatcher or Attlee administrations. Reforms to welfare, policing, immigration, justice, defence and local government, for example, all include major legislative and structural changes to service delivery as well as major cost reductions. Even in protected areas of spending, the level of change has been equally large with major structural reforms to the National Health Service and a step-change in the number of academies and free schools.

The Government is not just changing what the state does but also how it does it. Public services continue to move further away from the traditional, top-down services that are centrally run and delivered purely by public servants. Across almost every area of government private, public and voluntary sector organisations compete to provide services. Roughly £1 in every £3 spent on public services goes to independent providers.[24] As a result, we are rapidly moving into a world where the Civil Service sets some of the conditions for delivery but is more likely to be focused on commissioning and regulating services than their direct delivery.

The pace of reform is also astonishing and alongside the cuts and scale of change, adds to the level of risk. Numerous policies run a high risk of failure. Universal Credit contains an enormous and complex IT project with an initial budget of £2.2 billion knitting together the benefits and tax systems. And the health reforms have thrown up and redesigned the basic structures of the NHS inside three years. Rather than being hampered by being in coalition, the Government has gone further and faster, determined to learn the lesson of the first Blair government, which was slow to push for big public service reforms.

This has all taken place while tackling the economic challenge and fostering growth in the economy; delivering on major projects like the Olympic and Paralympic Games; and managing major military engagements in Libya and Afghanistan. At the same time, there have been constitutional challenges: the possibility of Scottish independence; preparing for a potential referendum on membership of the European Union; and attempts to reform the House of Lords and the electoral system.

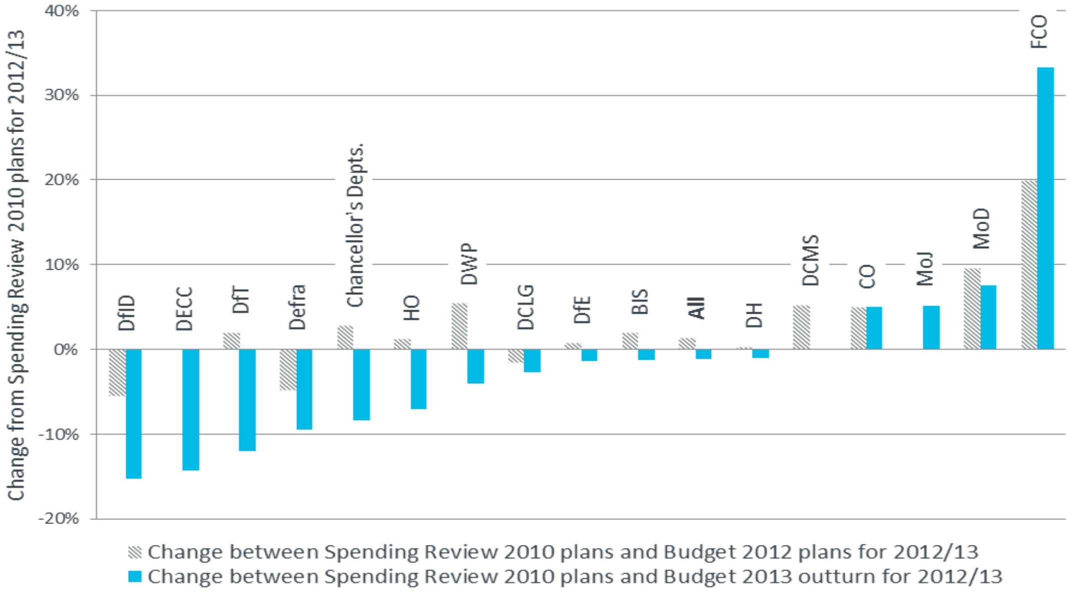
On top of this, the *Civil Service Reform Plan* and other changes introduced by the Cabinet Office aim to make substantial changes to ways of working across the Civil Service. Francis Maude, Minister for the Cabinet Office, has pushed hard for additional spending controls; enhanced capabilities, including better policy making and control over major projects; digital services; and greater efficiency in corporate functions like IT, HR and finance.

Rapid reductions in spending

In response, the Civil Service has been central to agreeing and implementing spending cuts. Through the 2010 Spending Review, the distribution of cuts across departments was agreed within a few months. In fact, the process was so rapid that several departments agreed major budget reductions with the Treasury without meaningful plans or analysis on how to make them. Ever since, the Civil Service has played a key role in supporting the Coalition to implement the programme of spending cuts.

The Civil Service has been critical in overseeing progress toward the Government's target of £32 billion per year in spending reductions by 2014-15.[25] Savings are being made across areas including £21.6 billion through changes to the welfare system;[26] reducing the cost of legal aid; and balancing the books on unfunded defence commitments. According to projections by the IFS, total DEL could be as much as 11.1% lower at the start of the next parliament than it was in 2010-11.[27]

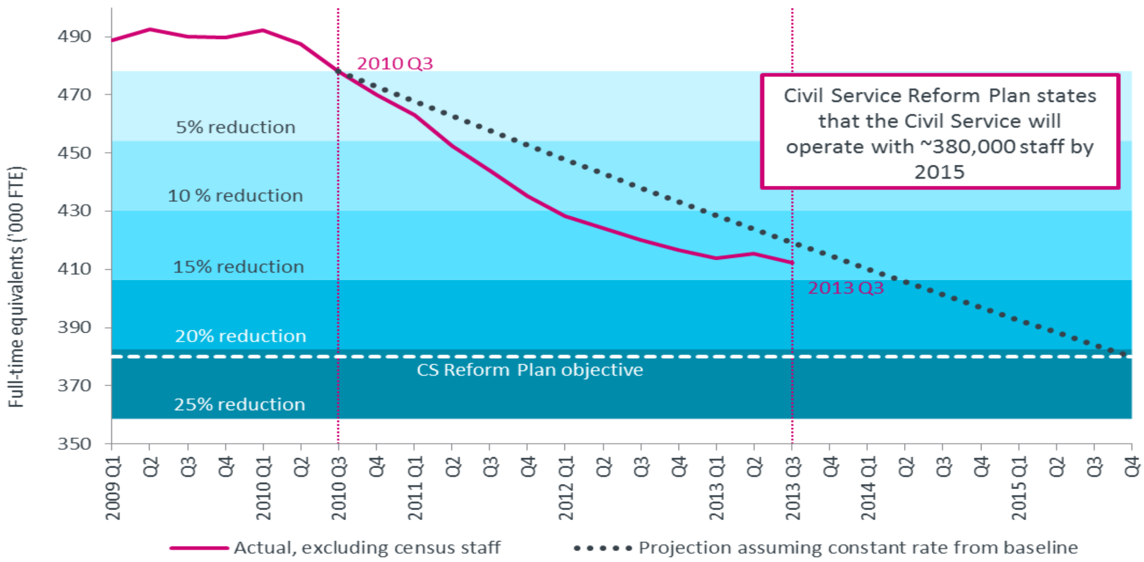
Figure 4: Final plans and estimated outturns against Spending Review 2010 (Resource DEL 2012/13)



Source: Institute for Government analysis of Spending Review 2010 and Budgets 2012 and 2013

This pattern of rapid cost reduction is repeated inside the Civil Service itself. The financial data is still not good enough to follow pound-for-pound reductions directly.[28] (This problem is further exacerbated by machinery-of-government changes and changing definitions from previous spending reviews.)[29] However, it is clear that the reductions have been rapid and deep. By the end of 2012-13, the Efficiency and Reform Group pointed to annual savings of over £10 billion against its 2009/10 baseline from across central government.[30] This covers savings from areas including headcount reductions; increasing pension contributions; stricter spending controls; and renegotiating contracts with major suppliers. The headcount reductions are particularly revealing: the Civil Service was 66,180 full-time equivalents (FTEs) or 13.8% smaller by the end of 2013 than it was at the time of the 2010 Spending Review. This is not only the smallest Civil Service since 1939 but also a bigger reduction than any since demobilisation – and a further reduction of over 30,000 FTEs is still required by 2015 to meet the objective set in the *Civil Service Reform Plan*.[31]

Figure 5: Actual and projected paths towards headcount objectives in the *Civil Service Reform Plan*



Source: Institute for Government analysis of ONS Public Sector Employment data

Taking individual departments, several are going beyond the 33% reduction required in their administrative budget. Department for Communities and Local Government (DCLG), Department for Culture, Media and Sport (DCMS) and Department for Education (DfE) have all committed to a 50%, or greater, reduction and are on track to achieve this.

The **Department for Communities and Local Government** has undergone rapid and deep change since 2010. In the 2010 Spending Review, DCLG committed to a 33% reduction in real terms DEL and a 74% reduction in capital spending. The department has experienced the fastest and largest headcount reduction of any department with a 32.5% reduction in the number of staff based in Whitehall inside two years.[32] At the same time, DCLG was restructured to reflect the Government's vision for the Big Society. Revenue grants for local government decreased in number, from over 90 to fewer than 10.[33] The department also transferred significant control over budgeting to local authorities while closing two-thirds of its arm's-length bodies. In these ways, DCLG's size, shape and mandate have changed dramatically over the course of this parliament.

Despite some tensions with ministers, particularly early on in the government, the Civil Service has proven itself willing to take on the huge challenges outlined above. Criticism of the Civil Service by some ministers has been very public, not least from the Minister for the Cabinet Office, who claimed, "There are cases where permanent secretaries have blocked agreed government policy from going ahead or advised other officials not to implement ministerial decisions. That is unacceptable."[34] A small minority of departments were slower than others to swing behind the ministerial agenda. There has also been a high turnover among permanent secretaries and directors general in a number of departments across Whitehall where leaders have failed to carry the confidence of the secretary of state.

Yet, the positive story of the Civil Service supporting ministers very effectively is underplayed. Departments like DfE, MoD, FCO and the Treasury appear to have won and maintained the confidence of their secretaries of state. Moreover, the Civil Service has willingly taken on the cuts and reforms, despite the level of challenge and risk involved. In fact, the Civil Service has proven itself willing to say "Yes, Minister" without any of the guile or double dealing associated with Sir Humphrey from the 1980s comedy of that name. If anything, the Civil Service might have advised greater caution in some instances. Twenty-three of the Government's largest projects, out of 191, were rated 'amber'/'red' and eight 'red' for delivery confidence by the Major Projects Authority (MPA) in its latest assessment.[35] Yet, at the time of writing, no permanent secretary has yet requested a letter of direction to proceed from ministers because they doubt the value for money or feasibility of a particular use of public money. Similarly, the leaked risk register for the Rehabilitation Revolution programme in the Ministry of Justice suggested there was more than an 80% chance this would lead to "an unacceptable drop in operational performance" triggering "delivery failures and reputational damage".[36] That has not stopped the department from pushing on with it at full speed.

It is too early to assess the overall success or otherwise of many of these policies. There have been some very public failures alongside this bold approach. Among them:

- MoD failed to recruit a private consortium to run its procurement arm – Defence Equipment and Support (DE&S) – after entering advanced negotiations to create a 'government-owned contractor-operated' (GOCO) organisation.
- The chair of the PAC said the Rural Broadband programme was "mismanaged" by DCMS, with consumers "getting a raw deal" and completion 22 months behind schedule.[37]
- The Laidlaw Review laid bare "significant errors" in relation to the West Coast Mainline competition and stated squarely that "responsibility for this flawed process rests with the DfT [Department for Transport]."[38]
- The Public Accounts Committee (PAC) inquiry into Universal Credit was unequivocal, describing "substantial nugatory expenditure… and extensive delays" with "a shocking absence of financial and other internal controls".[39]
- The Ministry of Justice (MoJ) failed to monitor contracts with private contractors G4S and Serco over electronic tagging of criminals, leading to an investigation by the Serious Fraud Office (SFO).
- The Department of Environment, Food and Rural Affairs (Defra) abandoned plans to sell the Public Forest Estate in England (managed by the Forestry Commission).

Yet, the Civil Service, overall, deserves credit for taking on a huge range of policy and implementation challenges. On the other side of the ledger sit major programmes and reforms, such as:

- organising the London 2012 Olympic and Paralympic Games
- NHS restructuring
- a huge increase in academies and free schools
- implementing the Strategic Defence and Security Review and Levene recommendations in defence
- ramping up public service markets in areas such as prisons, probation and employment through the Work Programme
- introducing elected police and crime commissioners
- privatising the Royal Mail
- establishing the Troubled Families Programme
- and making important interventions in the housing and energy markets.

There are many other examples that could be cited here. As one director general (DG) told us, “The whole system is laced with risk but there are not many other choices. I think we should be proud of what we’ve achieved”.

By any international comparison the scale, pace and level of risk being taken on by the UK Civil Service is extreme – let alone the speed with which it is cutting its own costs – generating widespread interest in the outcomes. During Sweden’s fiscal crisis in the 1990s, the government chose not to cut or reshape their Civil Service at all because of the risk it might pose to service delivery and to the success of their financial consolidation programme. The UK’s approach since 2010 has been at the opposite end of the spectrum.

Austerity has had a considerable impact on public administration in **Spain**. In addition to making large cuts to programme spending, the Zapatero government reduced and froze public sector wages, lowered the vacancy replacement rate and mandated a freeze on new hires.[40] However, staff layoffs were not widely used.[41] As in the UK, the government also reorganised a number of arm’s-length bodies and worked to streamline central government. In addition to generating efficiencies, these efforts yielded a greater degree of administrative centralisation, with the Ministry of Economy and Finance playing a more direct role in public management.[42]

The Spanish experience with reform is also notable for its high level of political involvement: if a proposed reform would impact existing legislation – for example, if it applies to other levels of government – it has been brought before Parliament as a bill. In cases where a reform does not require parliamentary approval, it has been implemented by an independent office that reports to either the Prime Minister or the Vice President. In addition, the Council of Ministers provides collective oversight for the reform programme and receives regular reports on its progress.

Canada is routinely cited as a model for fiscal consolidation, and in the years since the economic crisis began, provincial and federal governments have sought to replicate the successes of the past. After adopting a fiscal stimulus package of over $63 billion between 2009-10 and 2011-12,[43] the federal government is working to return to balanced budgets by 2015-16. The government has scaled back costs by reducing departmental spending by 1.9% for ongoing savings of $5.2 billion.[44] Ottawa has also reduced headcount in the federal public service by 19,200 employees, or 4.8% of the total.[45] In addition to cuts, the federal government and several provinces have frozen recruitment and salaries in the public sector. Still, many provincial governments have struggled to return to fiscal health, with Quebec and Ontario facing large debt burdens. In addition, there has been mixed progress in transforming the processes and structures of most civil services across the country.[46] Overall, Canada presents a mixed picture, with most governments making cuts more modestly and pursuing transformation more slowly than the UK has done.

The 2008-09 global economic crisis has had interesting, if ambiguous, consequences for public management in **Germany**. Deficit-induced layoffs are prohibited by law and wage reductions and freezes are tightly regulated, which has meant that federal and regional governments have had to find savings through other means.[47] Many German administrations have relied on some combination of programme cutbacks, hiring freezes and back-office changes to meet the demands of austerity. Importantly, cuts have usually been implemented in increments and without seeking to reconfigure the entire organisation.[48] Several administrations strengthened their governance around budgeting in response to austerity, with the changes often being driven by the Ministries of Finance.[49] Importantly, the federal government introduced a constitutional debt brake in 2009 that mandated structurally-balanced budgets among the *Länder* by 2020. Although this could have served as a driver for institutional reform, its consequences seem ambiguous at present.[50] In stark contrast to the UK, Germany has pursued gradual, evolutionary reform within the public sector over a long horizon dating back to reunification.

The Civil Service's record is far from perfect under this Government, but it is not a broken institution. There is much to commend in its willingness to support ministers; to implement deep spending reductions rapidly; and to deliver across a broad range of policy areas.

However, there is still a long way to go in completing remaining cuts – £46 billion by 2015-16, according to the 2013 Autumn Statement – and delivering the existing policy agenda.[51] Most importantly, the Civil Service needs to be ready to do this all over again after the 2015 election. That will be far tougher next time.

3. 2015 in perspective

Proposition 2: Sustaining further cuts from 2015, and continuing to support ministers with difficult political choices ahead, will be far more challenging.

The wrong message to take from our analysis of the record since 2010 is that the Civil Service is in good shape looking ahead to an election and another spending review in 2015. Much of the Civil Service found a way through in 2010 by relying on familiar but flawed processes. Put bluntly, the risk is that 2015 is a repeat of 2010 with much worse consequences.

We have argued consistently that the 2015 Spending Review must be different from the review in 2010.[52] While the rapidity of the process in 2010 and sticking to the reductions afterwards has been a huge positive, this has mostly been a case of forcing the changes through with limited planning. As one interviewee told us, “We knew it was going to be bad. I don’t think we thought it was going to be as bad as it was.”

The cuts outlined in 2010 represented an historic shock to the system yet the traditional methods of running a spending review – characterised by bilateral negotiations between Treasury and other departments over the size of cuts – were simply rolled out despite obvious weaknesses:

- With no measures of value for money and poor management information, it is impossible to be clear what impact the cuts have had on productivity and the quality of service delivery. At root, focusing on cost-cutting creates the risk of shrinking the Civil Service without sufficient regard to its current and future capability.
- Cross-government savings were largely ruled out and cuts have subsequently been driven down through silos. This leaves potentially large savings untouched, increasing the pressures inside these silos. It also creates a risk that public services retreat to delivering their core services, rather than encouraging the public sector as a whole to find better ways of delivering.[53]
- And, many departments had failed to plan for cuts on this scale and had little time for realistic analysis and planning before agreeing their settlements. As a result, several departments had little idea how they would meet their budget reductions, and have been scrambling to establish what this entails for different delivery options and how it squares with ministerial priorities.

As interviewees observed, this was a missed opportunity and led to risks:

> “The Civil Service is still basically the structure it has been for 40 years. A real transformation of the Civil Service – trying to bring in different reward mechanisms and structures – is a real opportunity missed.”

> "There's definitely an overstretch risk. We're trying to do a lot in terms of policy-making and running ourselves. We need to make sure that the aggregate of all those different changes doesn't add up to something unsustainable."

The 2013 Spending Round represented more of the same and did nothing to address these challenges. In fact, the Spending Round committed to over £5 billion further 'efficiencies' in departments in 2015-16 with a "rolling efficiency review of all departments" and limited connection to the reform agenda.[54]

Repeating this process will be far more problematic in 2015 when the pressure is significantly greater. International experience shows that undertaking a fiscal consolidation on anything like this scale is extremely difficult and usually a protracted process. Analysis of the Canadian consolidation, for example, usually focuses on the five years from 1994 to 1998 but, in fact, the process began in 1984 with several false starts before finally returning to a budget surplus. If the UK experience proves to be as drawn out as the Canadian one, we should expect not just 2015 but also 2020 to be an austerity election. Spending reductions are, then, set to be a long-term feature of UK public finances, rather than a short and sharp experience.[55] The date for completing the current consolidation in the UK has already receded from 2015-16 to 2018-19, when the OBR is forecasting a small underlying surplus – and that only takes us towards balancing the books, not reducing the enlarged stockpile of debt.[56]

The Chancellor has already announced a further £25 billion of cuts in the next parliament if the Conservatives win the general election. But, whoever forms the next government, ministers will face at least as difficult a challenge as this government did in 2010. The 2013 Spending Round only covered 2015-16 with longer-term decisions deferred until after the next election. Consequently, the new government will be similarly forced to complete a spending review early into their term in office with extremely difficult political choices ahead. According to the IFS, if the next government intends to keep departmental spending constant in real terms until 2018-19 without increasing the borrowing plans laid down in this parliament, it would need to generate approximately £33 billion in additional revenue – perhaps through higher taxes or cuts to annually managed expenditure (AME).[57] If the government instead chooses to meet the consolidation targets entirely through cuts to departmental expenditure (DEL), departments would need to reduce spending levels by 3.6% each year until 2018-19. This would require cutting even faster and deeper than they did after the 2010 Spending Review. From 2010-11 until 2015-16, the real DEL was cut, on average, at a rate of 2.3% each year.[58]

Interviewees told us:

> "The risk is that we get the remaining reductions and then people ask for more and we haven't experienced any process transformation."

> "People here are starting to ask, 'How do you deliver that with limited resources?' There's a very tangible climate of having a fixed body of resources, so how do we juggle our priorities?"

The ringfences currently in place have already reshaped the relative distribution of what the state purchases with health, schools and international aid taking a far larger proportion. Difficult political decisions will have to be made as to whether to keep these ringfences in place with added pressure elsewhere, or remove them and face potentially much tougher political headwinds on some of the most sensitive electoral issues.

The widely reported 'National Union of Ministers' seemingly made little practical difference to the course of the 2013 Spending Round. However, it was interesting to see that typically hawkish Cabinet members like Philip Hammond, Eric Pickles and Theresa May were among those reportedly arguing that their departmental budgets had been cut very deeply and needed to be handled with care. This may prove to be a foretaste of the political challenges to come in 2015.

Moreover, for civil servants charged with agreeing and implementing further cuts there are many important reasons to think that delivering on these 'once in a lifetime' challenges again will prove far more difficult.

- Savings in this parliament have taken out most of the 'low hanging fruit' within departments, with further savings likely to be more difficult to find.
- Not all of the savings made so far are going to be sustainable and some reverses are likely.
- The level of risk taken on by the Civil Service since 2010 is extreme and will not be discharged by 2015, as delivery of several large reforms (such as Universal Credit) is carried over into the next parliament.
- The direction of reform has added far greater urgency to the capability challenges facing civil servants – especially in areas such as commercial skills and public service markets. It has also emphasised the underlying cultural barriers to change.
- Keeping critical stakeholders on board – like the judiciary, police, teachers and nurses –will be increasingly difficult, particularly when rethinking fragile policy and funding settlements all over again.
- Despite staff engagement remaining stable so far, morale in the Civil Service is likely to be sorely tested by further rounds of downsizing, restructuring and ongoing pressure on pay.
- And, maintaining productive relationships between ministers and civil servants will get even tougher as decisions become more politically painful.

Stepping up to the challenge in 2015 will require much greater emphasis on capability; working across government more effectively; and planning ahead to provide ministers with the best possible options. The current trajectory of reform, however, is not promising.

4. The change curve

Proposition 3: The Civil Service urgently needs reform ahead of 2015 but the current trajectory is not promising with progress patchy and fragmented.

Mixed progress

If cost cutting and delivery have moved ahead rapidly, the third leg of the stool – reforming the Civil Service itself – has been far slower. Despite the historic scale of the challenge in 2010, the overwhelming conclusion is that Civil Service reform is patchy and fragmented. By 'Civil Service reform' we do not just mean the *Civil Service Reform Plan*, important as it is, but also the wider set of reforms being introduced either from the centre (the Cabinet Office and the Treasury) and the major organisational change programmes taking place within departments.

Progress on reforms from the centre has proven a mixed bag, with much that is sensible but little that has proven transformative. Many of the cost-control measures brought in by the Cabinet Office in the early days of the government were implemented rapidly and had a powerful impact. For example, major savings were achieved by capping redundancy payments for civil servants; requiring sign-off from the Minister for the Cabinet Office on any consultancy spend above £25,000; and renegotiating contracts with existing suppliers. There has been progress in other areas too, with a step change in pace on the shared-service agenda; digital capability, including establishing the single domain '.gov.uk'; and centralising common procurement through the Government Procurement Service. Our research also reveals that changes in the membership and role of non-executive directors have had a powerful impact bolstering governance and leadership inside departments.

However, progress across the *Civil Service Reform Plan* overall has been limited. As we have argued, the *Reform Plan* sets out a sensible direction of travel in many aspects of the Civil Service that need improving, for example, becoming smaller and more strategic; increasing capability and use of digital services; better control of major projects and service delivery; better management information; improving skills and capability; and increasing the use of shared services. It also touches on some sensitive issues, especially accountability and open policymaking. As one Director General reflected,

> "We are very supportive of the principle of Civil Service Reform… I think what we're trying to do is absolutely the direction of travel for us: shared services, digital, modern workforce, modern employer, all of those things we get."

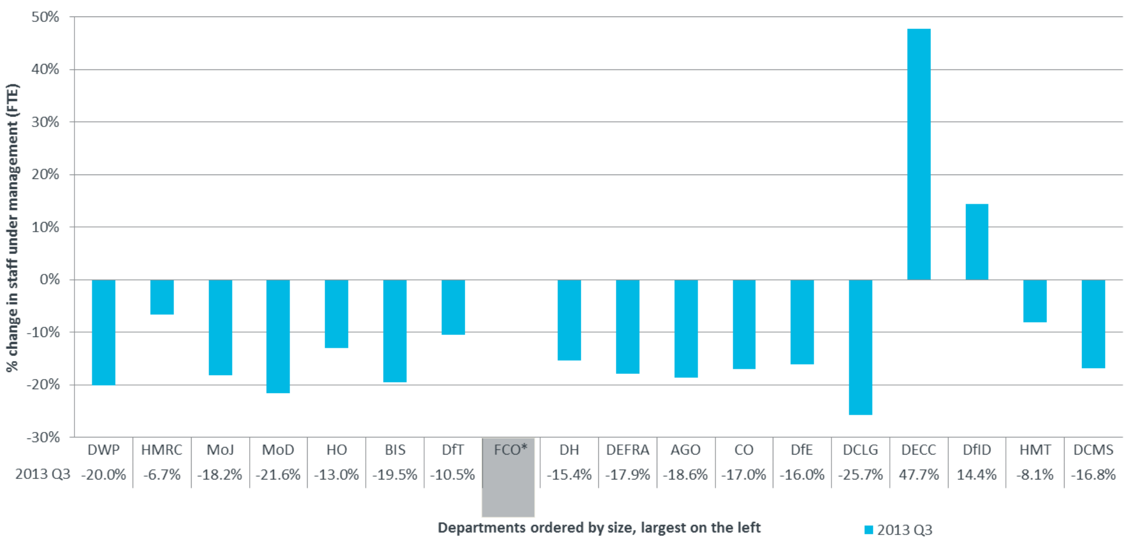
Yet, the Cabinet Office's self-assessment, published in the *One Year On* report, has acknowledged limited progress. Just seven of the 18 actions are on track or delivered with the remainder moderately or significantly delayed or off track.[59] The MCO was clear about his frustration with the lack of progress. "Too many things that should have been done haven't happened. Other projects have been delayed or are only just getting underway."[60] The Institute argued at the time that progress had been patchy, and questioned whether significant improvements in performance would even result from the actions taken in areas where most progress had been made.[61]

Moreover, the MCO, the Cabinet Secretary and Head of the Civil Service have all been clear about how limited the ambition of the reform plan is, with Sir Bob Kerslake saying, "It is not the last word on reform."[62] Given the scale of the challenge, this demonstrates that only a relatively-modest set of ambitions has been realised.

Fundamentally, the biggest drivers and blockers of change are occurring a level down from this – inside individual departments, rather than across them. Yet, inevitably, this leaves reform highly fragmented. Departments range in size from approximately 600 staff in DCMS to over 90,000 in DWP with very different challenges and operating models. The drivers and scale of change also vary significantly. They range from those where departmental leaders are clear "we don't need to change who we are or what we do"[63] to DCLG (as above) or MoD, which is implementing a radically different operating model in line with the Levene Report and Strategic Defence and Security Review.

The impact on departments varies enormously. While DCLG, DfE and DCMS have targeted a 50% reduction in their administrative budgets and are shrinking in headcount terms, others are cutting by less. Some, like DECC and DfID, are even growing.[64]

Figure 6: Change in staff under management for the whole Civil Service since 2010 Spending Review



Source: Institute for Government analysis of ONS Public Sector Employment data

Departments are also at very different points on the journey. Some, including those cutting deepest like DCLG, have implemented changes and hit their savings to 2015. Others, like DfE, have taken a different path: after starting with arm's-length bodies' reform, they are now in the relatively early stages of change to the core department. In these circumstances, there is no reason to expect departmental transformations to add up to a "unified, open, accountable" civil service that is fit for the challenges ahead.

The corporate civil service reform effort does not yet seek to steer and support these transformation programmes within departments. As the Head of the Civil Service put it last year, “What we do with civil service reform needs to complement [departmental change] and not cut across it.”[65] This was a pragmatic and reasonable position at the time, reflecting the reality of what has proved possible in past reform efforts. However, no one appears to be responsible for looking across the whole service. And it now looks too risky to stand back and let massive changes in departments run their own course in the hope everything will turn out all right in the end.[66]

Three tests

The weaknesses manifested in the 2010 Spending Review process will need to be addressed head on if the Civil Service is to be better placed in 2015. Cutting costs is clearly essential for reducing public spending – and is therefore a key test of the Civil Service – but this needs to be balanced with three further tests: improving capability; working across government more effectively; and planning ahead to offer up the best options.

Test 1: Improving capability

Management information for Whitehall is overwhelmingly based on inputs – principally money and headcount – while data on outputs (and therefore productivity, efficiency and value) for the Civil Service are very limited. Structural Reform Plans provide little information on reforms that are off track. Many of the published objectives of permanent secretaries leave it unclear when, or on what measure, performance will be judged. And available measures do not adequately cover the ‘business as usual’ activities of departments.[67] As a result there is an excessive focus on resources and it can be very difficult to establish what is achieved with them.

The risk is therefore that the Civil Service focuses on cutting costs without sufficiently improving the way it operates, and so damages capability. Cost cutting alone may easily lead to a smaller, less capable Civil Service that is not fit for 2015 and beyond. As one DG told us, “We know the department has got to deliver on these difficult and high profile programmes. We know we’ve not necessarily got all the skills to do that.”

As in many organisations, capability issues are already emerging. The West Coast Mainline franchising process and implementation of Universal Credit are cases in point that have made the headlines. But there are wider grounds for concern.

The 2012 Capability Review in DECC argued:

> “[there is] a good deal to be done before [the department] has the capability it needs. With its large and high-risk project portfolio, it will need a much larger and more mature delivery cadre than it now has and tougher governance and delivery management processes”.[68]

Other departments, including DH and DWP, also saw substantial drops in their 2012 Capability Review assessment compared with those in 2008-09.

In its review of capability in the Senior Civil Service, the National Audit Office (NAO) found:

> There are significant skills shortages, particularly in the areas of commerce, project management, digital delivery and change leadership. In December 2012, only four out of 15 permanent secretaries at major delivery departments had significant operational delivery and commercial experience.[69]

PASC recently outlined extensive shortcomings in government procurement.[70] Indeed, MoD, which accounts for almost half of the Whitehall procurement spend, pursued (and subsequently failed to implement) a GOCO due to acknowledged weaknesses in the department's ability to achieve value with the £14 billion it spends annually through Defence Equipment and Support (DE&S).

Moreover, the challenges are evolving and in critical areas – like commissioning, procurement and digital – increasing. As we argued recently in relation to public service markets, "the current pace and scale of change represents a high-risk strategy that may undermine confidence in the reform agenda in the longer term."[71]

This has not been ignored, however, and the *Capability Plan,*[72] published in April 2013, is the first of its kind for the whole Civil Service. The plan has significant strengths – focusing on critical areas for improvement at all levels, from individual skills to organisational and cross-departmental leadership.[73] But the same question applies to the *Capability Plan* as the wider *Civil Service Reform Plan*: Can it cut through where centrally-led plans typically flounder?

There are some causes for optimism. Specialist teams are being built up with significant resources, such as the MPA, Government Digital Service and Government Procurement Service. Mandation – such as the digital by default standard and tying the requisite skills and experience into talent management and career progression for senior civil servants – increases the chances of real impact. There are also examples where departments are taking focused steps. The DfE Review set out plans to address weaknesses and lead towards a smaller but more capable department. Others have responded to public reviews such as the Laidlaw and Levene reports in DfT and MoD respectively.

Yet we have found that several departments are more focused on salami slicing than improving capability. Interviewees in several departments were clear that they were broadly aiming to do similar things in similar ways with fewer staff. Interviewees told us:

> "We're 40% smaller and here we still are, doing what we do."

> "We need to think radically but move towards it safely, probably incrementally."

> "We're partly saying we don't need to change who we are or what we do, we're a talented department."

Even where some departments took out very large numbers on headcount, there were not necessarily major changes to the operating model, new skills or other signs that capability was improving beyond reducing the proportion of low performers through staff exits. Overall, as our analysis of capability building over the past 50 years has showed, in order to stick, priorities need to be consistent over time and aligned to a sense of enduring purpose.[74]

Test 2: Working across government

Working across government effectively is a challenge as old as the Civil Service, with many who see departmental silos as therefore intractable or even desirable. Yet, the Civil Service cannot afford to rule out cross-departmental savings without putting extreme pressure on further savings within departments after the 2015 election. This was a major drawback in 2010 and departmental silos appear to have hardened not softened since 2010, with little serious effort to redress the balance.

There have always have been examples of integrated working and that is no different now: The One HMG Overseas programme has seen FCO, DfID and MoD co-ordinate their resources and activities internationally. The National Security Council provides unified governance and decision making across several departments and is seen to work effectively. The Implementation Unit, among other central units, is now rebuilding some of the cross-departmental oversight that existed under the former Prime Minister's Delivery Unit. Corporate functions – especially shared services – have become far more closely integrated. Strengthening the professions and functional leadership may yet prove to be powerful levers cutting across departments.

Nonetheless, the core processes (especially the Spending Review) and the incentives and accountabilities which drive federalism remain firmly in place, while some of the cross-departmental machinery has been dismantled. Central teams like the Strategy and Delivery Units were quickly disbanded, along with cross-cutting public service agreements, removing cross-departmental planning, accountability and scrutiny. Our research on major departmental change programmes also shows that departments have become more siloed since 2010, focusing on their own savings and ministerial agendas rather than looking across boundaries or responding to corporate civil service reforms.

Test 3: Planning ahead to offer up the best options

Planning ahead can be extremely difficult for the Civil Service. As the London School of Economics Growth Commission has argued, politicians typically have truncated time horizons and the adversarial nature of politics creates a tendency towards policy switches.[75] In Whitehall, planning for the next government tends to take place in private shortly before a general election with each department focusing on the relevant manifesto commitments for them. This was not nearly sufficient in 2010 with very few departments having clear plans or analysis for making the reductions required shortly after the election through the Emergency Budget and Spending Review.

With this experience and the certain knowledge that there will be further large savings required in the spending review that will follow the election in 2015, it is essential that civil servants plan ahead both in departments and corporately for the best options with robust analysis of the implications for future services. Unlike in 2010, the Civil Service cannot claim they do not what is coming in 2015. As one interviewee said,

> "Life will move on after the election. We know for some things, unless we start planning now, we won't be in the right shape to go on to the next stage of the agenda post the next set of elections, whatever that brings."

The MoJ was one department that planned in a more detailed way to make the best savings possible ('better for less') as part of its Transforming Justice programme.

Crucially, the then Justice Secretary, Jack Straw, was willing to authorise MoJ's broader approach to long-term planning and change. The department's civil service leadership felt that this approach would enable faster progress on existing change initiatives, better preparation for major organisational change in future, and the development of options for longer-term change that had been tested for operational deliverability.[76] Even here, being pushed beyond the limits of options that had been developed towards an expected cut of £2 billion, meant that even underdeveloped and politically contentious options had to come into play. However, without the initial planning MoJ would have been in a much tougher situation. Most importantly, the Transforming Justice programme demonstrates that officials have the appetite to plan ahead but need support and permission– or, even better, vision and inspiration from leaders to help them do this.

Our research suggests that, currently, there is very little detailed planning taking place. In *Transforming Whitehall Departments* we flagged as an ongoing challenge that very few departments had embedded major change.[77] There are several reasons for this and the situation does not appear to have improved. Departments are typically under pressure delivering on the current agenda. They want to get change, with all the negative connotations of disruption and redundancies, 'over with' so they are not planning effectively for further rounds of savings. They do not have the explicit consent – of the type given by Jack Straw to MoJ – and are unwilling to ask for it.

Given the advanced point in the political cycle, there is little political or official appetite for any more big changes before the next election. Rejecting the idea of a Civil Service Commission to look at the longer-term future for the Civil Service, for example, Francis Maude has argued this would only serve to undermine delivery on the current reforms because "it is difficult enough to get anything to happen at all".[78]

It is right not to lose focus on delivering the current round of changes, but there is also a critical need to improve the trajectory towards 2015. The reasons for not being on track lie with the leadership (official and political) and the underlying structures which predispose Whitehall to the current predictable responses and behaviour.

5. Challenges of leadership and structure

Proposition 4: While the lack of reform highlights the limitations of the current operating model in Whitehall, the most important weakness is a lack of corporate leadership in the Civil Service which has been exacerbated by political choices.

The three tests outlined above are real challenges for a federal Civil Service built around personal loyalty to ministers. The current operating model makes the system predisposed towards the kind of behaviour that is both present and time honoured. Political leadership matters and some of the choices by the current Government have exacerbated Civil Service fragmentation. Nonetheless, the key weakness lies in a lack of corporate leadership at the heart of the Civil Service.

A federal, fragmented system

Now, as ever, Whitehall is fundamentally a federal system, which does not make working across government easy. It is not that the current cross-Civil Service agenda is wrong. On the contrary, it covers most of the issues that senior civil servants think need whole-of-government action to tackle. In many ways, it continues a well-established tradition of reform that has been ploughed over the last 50 years.

But, as so often in the past, serious attention to centrally-led reforms is crowded out by more urgent and compelling departmental priorities. Senior civil servants are far from resistant to change across most departments, as the previous chapters show. But they are strongly focused on their own minister's preoccupations and priorities. Twenty months after the *Reform Plan* was published the situation remains unpromising.

In this federal system, it is no surprise that the centre of government remains fragmented and weak, as it has been under successive governments. The Cabinet Office typically takes the lead on corporate reforms yet it has few levers. Former Civil Service leaders have argued:

> It is very difficult for the Cabinet Office on its own to make much progress. It tends not to have any sort of political sponsorship. It hasn't got any grip on the levers that the Treasury has.
>
> You absolutely would not make any meaningful progress with anything from the Cabinet Office, unless you worked incredibly hard to get traction in departments. The departments all have their own massive agendas. They will play into the central agenda if it suits them and if they have to. If they do it because they have to, it is not really accepted and they will give up the moment they get a chance.

In the face of such limited levers, those at the centre are understandably frustrated. Our research into the alchemy of successful civil service reform has found that it is critical to devise reforms in a way that connects with the grain of ministerial and departmental priorities. As a veteran leader of cross-civil-service reform recently remarked to the

Institute for Government, "You achieve nothing in government or on a cross-government basis without some degree of compulsion, but the 'Do it because I said so' approach ultimately fails as well. You've got to win hearts and minds and have the compulsion."

Perhaps the most important aspect of the fragmented leadership of the Civil Service is the role of the Treasury. Historically, the Treasury has frequently been uninterested in, or even resistant, to civil service reform. A significant proportion of reform effort over the decades has been devoted to trying to resolve the fragmentation of central interest in leading the Civil Service – and specifically the Treasury's lack of interest in driving more managerial civil service reform. Yet it has more power and leverage than any other part of the centre except the Prime Minister.

The Institute held a private workshop with senior officials testing insights from our research on successful reforms. The insight that generated the strongest positive reaction was that the Treasury can electrify, undermine or suffocate any reform and is "the missing leader of civil service reform". This suggests the historical pattern continues. Yet when the Treasury gets behind, or at least signals its permission for, a reform the effect can be extremely powerful. In the Next Steps reforms, PSAs and PMDU – and more recently the strengthening of the regime for major projects – the Treasury's usually-hard-won, positive role has been an important factor in success.

While Treasury support is not essential for departments to work more collaboratively, the spending review process and individual accounting officer responsibilities make working across government especially difficult when costs and benefits fall across departmental boundaries. With the Treasury so focused on controlling overall spending, there is arguably razor-sharp accountability at the expense of getting best value – though there is a chance this may begin to change following the review of financial management in government.[79] Potential opportunities cover everything from further efficiencies (sharing an increasing number of services across departments); more effective customer engagement (sharing data and joining up interfaces); and investing to reduce demand (where investing in early intervention may save greater costs elsewhere across government).

Too often corporate leadership is demanded on areas of limited interest to departmental leaders. This saps energy and willingness, when critical areas like spending options and the spending review process are critical to the whole leadership and symbolise the absence of collaboration but receive very limited cross-departmental attention.

Flexible and loyal but fundamentally short-termist

The federal nature of the Civil Service is a double-edged sword. On the one hand it engenders strong loyalty to ministers (reflected above) and allows for almost unlimited flexibility, so that departments frequently push diametrically opposed reforms under successive ministers and take on remarkably large, complex and risky projects.

On the other hand, this makes civil servants responsible first and foremost to their ministers rather than the Cabinet or government of the day, reinforcing siloed departmental interests. Rather than serving the interests of Her Majesty's Government, departments will first protect their own minister's interests. Departments also tend to interpret serving their minister as serving the individual rather than the office.[80] This introduces a deep fragility and short-termism when ministers can and do change frequently. A new minister may well have very different priorities from his or her predecessor, even without a change in government.

This has profound consequences for planning over the medium to long term. It is difficult to commit to a line of reform (policy, delivery or departmental) when it could easily be torn up and pushed in the opposite direction with the next incumbent. Departments also find they have to reinvent themselves for every new minister's individual style, strengths and interests. This leads to a great deal of churn – in the sense of pursuing changes without any sense of underlying purpose and improvement based on learning about what works – to cater for each new individual. It also produces a deep uncertainty in departments about what the Civil Service can expect to lead with relatively high autonomy and what ministers will want to push themselves. This gets most tricky in relation to how departments operate themselves. Most ministers are wholly uninterested but others like to be very actively involved and this is entirely down to personal style and choice.

Limitations of political leadership

Over and above these systemic issues, political leadership invariably plays a significant part in reform, and that is no different in this Government.

Many of the current reforms are notable in being very visibly led, and persistently followed through by Francis Maude, the Minister for the Cabinet Office. Austerity has brought a new importance to his role as the figurehead for cross-civil-service savings and reform. He has shown great energy and his drive and persistence have paid off in many areas. However, it is striking that he has made more progress on reform where he has been allowed to use dedicated resources in the Cabinet Office, and on issues with established structures and routines, where departments broadly accept the legitimacy of central control or co-ordination. The progress of other reforms which rely on persuasion and influence has been more mixed. This simply reflects the reality of the weakness of the centre. His legacy will undoubtedly be the most significant of any recent MCO, but more ambitious reforms will require a different level of political support.

What is required from the Prime Minister and other senior ministers is direction and support to the officials who must shape the ideas and actions for reform. Almost all of the more successful reforms of the last 50 years had significant sponsorship or active support from the Prime Minister. Even an energetic and credible Cabinet Secretary with a strong team developing and leading reform day to day, is not enough at critical points. Leaders of reform report strong Prime Ministerial support for civil service reform in private. However, this has little visibility within Whitehall. At the same time, secretaries of state have shown variable interest in the reform. The lack of visible interest and engagement at the very top limits what can be achieved across the Civil Service by its central leaders.

Adding to this, the Prime Minister's collegiate and delegating style and the lack of a common thread for reform through government, have exacerbated the silos between departments. Number 10 plays a limited role in co-ordinating government policy, leaving secretaries of state with substantial autonomy. The comparatively lengthy tenure for secretaries of state has contributed to a higher degree of policy stability for departments than under the previous Labour administrations. However, while the Implementation Unit has gone some way to providing cross-government oversight, the Blair and Brown premierships had significantly greater resources, oversight and scrutiny to connect the Cabinet and departments with public service agreements, the PMDU and the Prime Minister's Strategy Unit (PMSU), Most importantly, they provided a relatively consistent focus on priorities that survived the turnover of ministers and secretaries of state. The lack of a sustaining central narrative or vision for government adds to this, making it harder for ministers and the Civil Service to connect reforms into a common theme that plays across different areas. Early candidates – the Big Society, localism and being "the greenest Government ever"[81] – were diluted and lost traction relatively early on.

Weak corporate leadership in the Civil Service

Whatever the system conditions and political leadership, leaders at the top of the Civil Service must focus not only on ministerial priorities but also on maintaining the overall health of the Civil Service and planning for the future. Despite repeated emphasis on building stronger 'corporate leadership' by the Cabinet Secretary and the Head of the Civil Service,[82] this remains a key weakness at the heart of the Civil Service.

As one senior leader told us, "The federal system is not set up for corporate leadership: there is no chief executive sitting beside the Minister for Cabinet Office." Several reform-minded leaders and non-executives remarked that the key problem they see across the Civil Service is the absence of a leadership team needed to encourage others to follow. They see nothing resembling a core cadre of senior officials who make time to reflect on the health of the Civil Service or set a clear direction for prioritising and driving key reforms. The sort of leadership senior leaders crave was clearly articulated in our research.

> They all say similar things, but not the same thing. They haven't got themselves aligned.
>
> What you need is a strong team working together on the basis of trust. … If you fall out, you will not do it. … The leadership requires a team that has a common, positive vision and works together well. If you are divided, everybody looks up. The Civil Service appraises upwards the whole time: they watch what is going on and they draw their own conclusions.[83]

One non-executive director contrasted their private sector leadership experience with the situation in the Civil Service.

> In my private sector role, change has to start burning in the heart of one person at the top of the organisation. It has to be led by someone very senior with a lot of credibility, who can galvanise the team around them and bind the team in, so the team becomes an advocate. … But those people aren't working like the permanent secretaries with each one working for a different minister, with a different set of personal priorities and political ambitions and power plays in a very dysfunctional structure. It's a very big top team, 15 or 16 of them all working to ministers, none of them wanting to work to one minister at the centre. You have to be even more determined to get those 15 people into the tent and working on the same agenda.

The most senior 'leadership team' and the formal governance of the Civil Service – especially the Civil Service Board – might be expected to mitigate these challenges. But because these are underdeveloped and fragmented, it is no surprise that our research into past reforms found this tier of governance more often part of the explanation for the tailing off and closing down, rather than deepening and broadening out of support. This reflects the reality that most senior leaders do not see being part of an active corporate leadership team – that acts as a steward of the Civil Service for successive governments – as a crucial part of their responsibilities. In this context, there are few resources or rewards for senior leaders in departments who would be willing corporate leaders on behalf of the Civil Service. Those that take on this role despite the barriers do so voluntarily and with their personal capital at stake.

The Cabinet Secretary and the Head of the Civil Service (whether combined or separated) have limited formal power to influence. The accountability and performance management of permanent secretaries is vague and indirect.[84] As a result, gathering support for the corporate agenda comes down to relationships and personal capital as much as supposed positional authority. It is also not clear that these most senior leaders agree on the diagnosis and therefore the level of action required to reform the Civil Service for 2015. There are mixed messages: on the one hand, 'We are reaching the limits of what we can achieve within the current paradigm – it is time to go beyond federalism'; on the other, 'This is the how the Civil Service works, it's not broken so it doesn't really need fixing'.

There is also a missing third player – the permanent secretary to the Treasury – in what is actually a triumvirate at the top of the Civil Service. The current permanent secretary is not only the longest serving among his colleagues, but is also in a position of considerable authority as the ultimate gatekeeper of key resources and processes which set the tone across the Civil Service. There is no signal from the Treasury that anything significant is going to change ahead of 2015 or that there is space for planning ahead and thinking differently about how to offer up the best options for whoever comes into government.

At this relatively late point in the political cycle, it is of course imperative to focus on delivering the current reform plans more successfully than they have been to date. Nonetheless, it is possible to do this and while also addressing the key tests that will help the Civil Service meet the 2015 challenge head on.

6. Leading the way

Proposition 5: As a result, civil service leaders and politicians need to think carefully together about what kind of Civil Service will be required and address their role in getting there with far greater urgency.

The Civil Service deserves credit for much of its record since 2010. Spending reductions have been deep and rapid, running ahead of targets against the 2010 Spending Review. The Civil Service has also cut its own costs sharply with large headcount reductions and strict spending controls. At the same time, civil servants have energetically supported ministerial agendas despite the scale, complexity and risk frequently involved.

There is still plenty for the Civil Service to deliver in this parliament and it cannot afford to lose focus on the current priorities. Nonetheless, 2015 will prove more challenging than 2010 by an order of magnitude no matter who wins the general election and the current trajectory for the Civil Service is not promising. The Civil Service is not broken but it has a very long way to go to be fit for 2015 and another austerity Government. Reforms to the Civil Service, especially those across departments, have generally failed to land with real impact.

As Francis Maude has argued, “exactly the things that need reform [in the Civil Service] make it difficult to reform”.[85] The Civil Service is fundamentally federal and fragmented: departments are flexible and loyal to their ministers but typically short-termist in pursuit of their priorities. Yet, despite these systemic tendencies, stronger and more effective leadership by both senior civil service leaders and politicians could compensate and deliver on the reforms needed to set the Civil Service on the right trajectory ahead of 2015.

Our conclusions and recommendations therefore make the case for rethinking corporate leadership and focusing it on the overall health of the Civil Service both now and in the future. Given the historic weakness of corporate leadership in the Civil Service, and the fragmented nature of the centre across the Treasury and the Cabinet Office, this is perhaps the toughest reform of all. Creating a more unified and sustainable corporate leadership will only be realised if it is seen as a top priority and focuses on the right set of issues, rather than being squeezed in at the margins. This will require ministers and officials to act together.

Reinventing corporate leadership

Even though many senior leaders in the Civil Service think the current agenda for cross-civil-service reform deals with issues that matter, they have serious reservations about the way those issues are pursued in practice. Corporate leadership is too frequently demanded in areas of limited interest to departmental leaders and pursued in a way that frustrates even the most willing corporately minded civil servants. This saps energy and willingness, when critical areas like spending options and the spending review process are critical to the whole leadership and symbolise the absence of collaboration, but receive very limited cross-departmental attention.

As set out in Chapter 4, as well as cutting costs, there are three areas which require urgent attention ahead of 2015: improving the capability of the Civil Service; working across government more effectively; and planning ahead to offer up the best options. Tackling these challenges should provide the basic shared agenda to galvanise corporate leaders. Tying this agenda to preparations for the 2015 Spending Review provides an obvious focal point against which to test progress and consider what is required.

Yet, pursuing this agenda will require very different leadership. Most important, the most senior leaders in the Civil Service (the Cabinet Secretary, the Head of the Civil Service and the Permanent Secretary to the Treasury) will need to act together to provide clear and active support for the reforms. At present, it is not clear that the Civil Service Board or wider group of permanent secretaries see improving the health of the Civil Service as a core part their role. There is not a shared view of the level of action required to reform the Civil Service. This sends out mixed messages and weakens the case for corporate leadership even among those most willing to lead beyond their own department. An urgent first task is to decide whether the reform agenda is about leading changes within the current federal model or aiming to go beyond it – especially for reforms, such as shared services and corporate functions, which are already hitting the federal barriers. Differences of opinion need to be acknowledged and worked through, tested with others to find the right course so that they can be passed on to the next generation of leaders. Without this change, the trajectory of reform across the Civil Service will not improve sufficiently ahead of 2015.

A stronger vision for the future of the Civil Service in 2015 and beyond would be much more specific and compelling than the picture painted in the *Civil Service Reform Plan*. It would need to be shared by all of the Civil Service Board and would inspire the wider leadership cadre to behave corporately. It would also provide the core narrative for communicating a positive but authentic direction for civil servants. Supporting a wider cadre of permanent secretaries and directors-general to act corporately in the long-term interest of the Civil Service requires corporate leaders who can provide the right signals permission and resources.

The role of the centre in supporting corporate leadership and those leading specific reforms needs to be rethought. The lack of effective levers in the Cabinet Office and lack of direct Treasury involvement in reform is a core part of the frustration with the current reforms. Some of the most successful past reforms have emerged from a united centre with active Treasury support. Much of the drive, energy and vision for reform often comes from a dedicated central team or unit. Dedicated capacity is not enough, however. The composition, credibility and way of working are critical to combat the default assumption. That is, that any central teams supporting reform are ‘just another central unit’ that chases progress and updates reports in a way that creates a bureaucratic burden but adds limited value.

Politics is a critical ingredient in the corporate leadership of reform. Our analysis of successful past reforms found that the visible backing from the Prime Minister was a crucial ingredient at key phases of reforms. Rather than resisting change, departmental officials take their lead from their secretary of state, who in turn responds to active prime ministerial interest. What is required from the Prime Minister is direction and support to the ministers and officials who must shape the ideas and actions for reform.

For reform to be deeply embedded in the Civil Service, it must be sufficiently supported to survive changes of prime minister and government. The Public Administration Select Committee (PASC) and subsequently the Liaison Committee – as well as most speakers in the House of Lords debate on civil service reform – have called for a parliamentary commission on the future of the Civil Service to produce cross-party support for strategic, long-term planning. This has the potential to create a more stable political leadership and so facilitate a greater focus on planning for the future health of the Civil Service as well as current capability. However, in line with the *Fulton Report* and other such enquiries, there is a real risk that without the right composition, chairmanship and terms of reference, such a commission could prove unproductive. Despite its enduring profile, the *Fulton Report* failed to have much impact because all three of these factors were lacking. *The Economist* described it as "an assault on the whole-time gifted amateurs of Whitehall by a part-time group of gifted amateurs, gathered together in the most nineteenth-century British institutional mechanism, an *ad hoc* investigation by a number of uncommitted gentlemen meeting about once a week for three years".[86]

Recommendations

Civil service leaders

1. The Cabinet Secretary, Head of the Civil Service and Permanent Secretary to the Treasury should establish themselves as a visible triumvirate providing corporate leadership to deliver a renewed core agenda that they are strongly and personally committed to.
2. They will need to engage current and future senior civil service leaders as they will make reforms succeed or fail. Through this engagement they should develop a clear and consistent diagnosis of what level of change is required across the Civil Service, and be highly conscious of the degree of challenge this poses.
3. They should consider how they can use the current Civil Service Board to demonstrate, develop and support corporate leadership at the centre. Doing this will require drawing on high quality expertise, for example the best non-executive directors and a coach to work with them on their effectiveness as a leadership team and regularly spending an extended period of time together focusing on the issues that matter for the Civil Service as a whole. Given the weaknesses of the Civil Service Board highlighted in this report, there is also a need for a more fundamental examination of civil service governance and the Institute will undertake work on this topic in advance of the 2015 general election.
4. The centre (the Cabinet Office and the Treasury) will need to work together more visibly to drive reforms and tackle departmental fragmentation. Applying the lessons of successful reforms, this may also require a dedicated central team or unit with sufficient credibility and focus working alongside departments.
5. Finally, this stronger corporate leadership needs to reach a sensible deal between ministers and officials to provide permission, protection and support for departmental leaders to plan ahead to 2015 while continuing to deliver the current reforms. Serving the government of the day is taken too narrowly if it means not planning ahead to ensure the Civil Service is well placed to serve future governments too.

Politicians

6. The Prime Minister's support has always been essential for major changes to take hold across the Civil Service and that remains the case. His private support for key reforms needs to be made visible to secretaries of state and key civil service leaders across Whitehall.
7. Given the limits of the Cabinet Office's leverage, it will be essential for the Minister for the Cabinet Office to combine hard requirements (such as the central spending controls and digital-by-default standard) with winning hearts and minds among the civil service leaders who will either drive reforms or stand by and focus on their departmental priorities.
8. All ministers want their priorities to be realised, and so they focus on their own delivery agenda. However, as with Jack Straw, the Justice Secretary in 2009, ministers should recognise that the Civil Service needs space to dedicate some resource to plan ahead for how to best support the next government – whoever it may be.
9. If party leaders want the Civil Service to be able to support their programme in 2015 effectively, they will have a much better chance the more clarity they can provide before the election about what to expect, likely priorities in the 2015 Spending Review and preferred delivery models.

Parliament

10. The Public Administration Select Committee (PASC), and subsequently the Liaison Committee, have called for a parliamentary commission on the future of the Civil Service to produce cross-party support for strategic, long-term planning. This has the potential to create much more favourable conditions for stable corporate leadership inside the Civil Service and need not distract from current reforms. However, the Institute for Government only supports such a commission if the composition, chairmanship and terms of reference are correct. The historical precedents for this are unpromising.

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