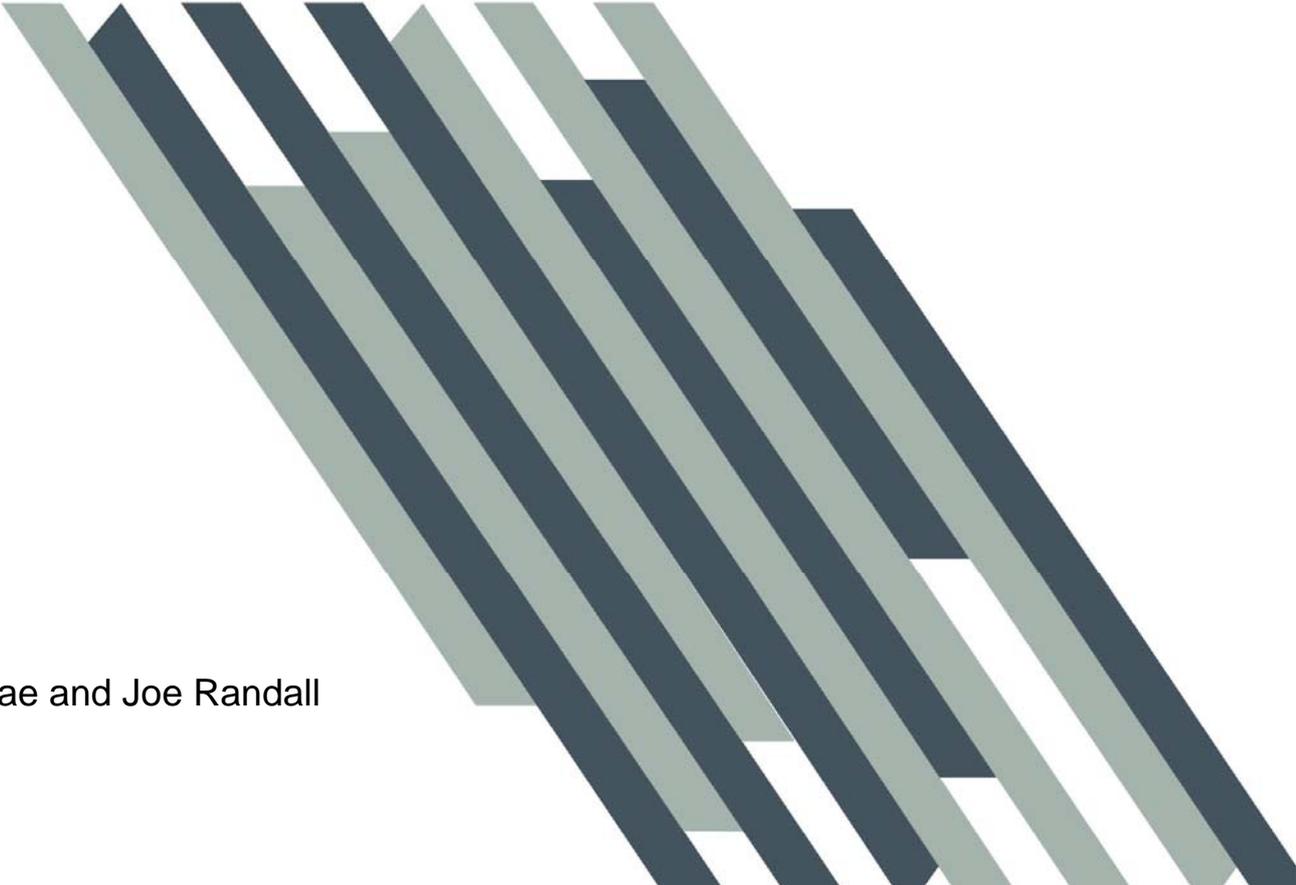


Leading functions across Whitehall

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Summary

The Government is committed to strengthening 'corporate functional leadership' across Whitehall.¹ Francis Maude, the Minister for the Cabinet Office, has continually emphasised the importance of cross-Whitehall leadership of certain key functions such as HR, finance and legal services. There have been a number of recent changes, including the Head of HR becoming a full-time post reporting directly to the Head of the Civil Service, Sir Bob Kerslake. And a number of other areas are under review, including the Head of the Finance Profession's role, as part of the Treasury's Financial Management Review.

Stronger leadership of functions could play a part in making Whitehall more effective in a number of ways. However the problems that stronger functional leadership could help to address vary greatly. Any new leadership model has to be based on a clear account of the weaknesses that the changes are designed to tackle. Looking at the Institute's recent work, this note highlights four recurring rationales that could provide the basis for change. The analysis in this paper shows that each of these rationales point to different models for central leadership.

- **Capturing economies of scale.** Whitehall has a long history of trying to develop shared services in areas like the transactional aspects of HR and finance. Recent initiatives have also focused on the procurement of standard goods and services such as Whitehall's IT and estates.² Further progress on capturing economies of scale implies some concentration of the cross-Whitehall leadership within each of these functions, both to oversee centralised activity and to ensure that functional business models are standardised across departments.
- **Setting and enforcing standards within Whitehall.** Institute research has highlighted issues such as raising the quality of policy making,³ adopting 'cutting edge' models such as agile contracting for department-specific IT⁴ and assuring the delivery of major projects.⁵ Here activity is not centralised (economies of scale do not apply), but remains distributed across departments. Setting and enforcing standards requires relatively strong leadership models, particularly in areas like the assurance of major projects where corrective action can involve changes to departmental policy.
- **Effectively deploying Whitehall's limited resources.** Institute research, for example on public service markets, has highlighted the importance of deploying key resources, particularly talent, to departments and policy areas where it is most urgently needed.⁶ This is essential to help achieve the key objectives of government and to mitigate the risks Whitehall faces. A leadership model to enable effective deployment would need to span functions, as deployments will often involve a range of skills (e.g. combined policy, commercial and legal expertise). The leadership would also need the authority to redeploy talent between departments. This requires the engagement of the overall civil service leadership to ensure that there are incentives for departmental leaders to allow key talent to be moved to the most critical areas, even if these are outside their own department.

¹ HM Government [2013] *Civil Service Reform Plan: One Year On Report*. p.31

² J. Stephen et al. [2011] *System Error: fixing the flaws in government IT*. Institute for Government.

³ M. Hallsworth & J. Rutter [2011] *Making Policy Better: Improving Whitehall's core business*. Institute for Government.

⁴ J. Stephen et al. [2011] *System Error: fixing the flaws in government IT*. Institute for Government.

⁵ E. Norris, J. Rutter & J. Medland [2013] *Making the Games: what government can learn from London 2012*. Institute for Government.

⁶ T. Gash, N. Pancharia, S. Sims & L. Hotson [2013] *Making Public Sector Markets Work: Professionalising government's approach to commissioning and market stewardship*. Institute for Government.

- **Cross-departmental design and oversight of programme spending.** Departmental silos have long been recognised as a problem for Whitehall, generating major inefficiencies where programmes overseen by different departments interact with each other. The Institute's work on transforming Whitehall departments concluded that for efficiency drives to continue making headway, there will need to be a far greater emphasis on effective working across silos.⁷ The ultimate aim is to ensure that Whitehall's incentive structures promote acting in the interest of government as a whole, rather than the narrow interests of departments. This could come through strengthening the cross-Whitehall leadership of core functions such as the policy profession. This in turn implies changes that go beyond the leadership of the Civil Service and involve Whitehall's political leadership as well.

The above analysis shows that there is no simple trade-off between 'greater centralisation vs. greater decentralisation'. Strong central leadership is often an essential *enabler* of improving the effectiveness of activity that remains firmly based within departments.

The paper also argues that, particularly for the more ambitious changes, the question of 'corporate functional leadership' is heavily related to the issue of the overall leadership of the Civil Service, both official and political. The reforms to Scottish government during the 2000s, led by Sir John Elvidge, provide an interesting example of where this line of argument above could lead. There, the reform started from the political end – structuring the Scottish administration around the key objectives of government. This starting point led to the idea of 'government as a single organisation', in which departments themselves were abolished.

⁷ J. Page, J. Pearson, B. Jurgeit & M. Kidson [2012] *Transforming Whitehall: leading major change in Whitehall departments*. Institute for Government.

Introduction

The Civil Service Reform Plan One Year On states that the government would 'design and deliver stronger corporate functional leadership for government'. This paper draws on Institute for Government research and a roundtable held at the Institute in September 2013. It provides a framework for thinking about the leadership of functions across Whitehall and relating this to some wider leadership questions.

This paper starts by trying to add some structure to the question of how stronger leadership of functions can be developed, breaking it down into various components. It then looks at how stronger leadership models could add value. It relates the various potential sources of value to the different components of the issue. The final section places the functional leadership issue within some broader contexts.

Components of the leadership model for functions

In thinking about 'functional leadership', it is helpful to break the question down into a number of components:

- **Which functions are being considered?** There are a number of possibilities.
 - *Transactional services:* sometimes the debate is restricted to the transactional aspects of functions like finance, HR and ICT.
 - *Strategic support functions:* a more expansive view includes the strategic aspects of these functions (e.g. the decision support role of finance; the top talent development role of HR; the service transformation role of ICT).
 - *Core business functions:* at its most expansive, the debate can include what are often seen as the core functions of Whitehall, particularly the policy making function.

In this note, we consider all these possibilities, and relate them to the different sources of value.

- **Within each function, where should resources be concentrated and where should activity occur?** The location of resources and activity will vary, and different functions may include several different models (e.g. transactional and strategic elements will often have different structures).
 - *Distributed activity:* in some models, the activity may be distributed across departments, with each department performing the function itself.
 - *Centralised activity:* in other cases, activity will be centralised (either at the heart of Whitehall or within a particular department), effectively providing services to other parts of Whitehall.
 - *Outsourced:* finally the activity may be completely outsourced, with either the centre or departments commissioning the services.
- **Within each function, where is leadership concentrated across Whitehall?** A number of models have been identified within the current debate:
 - *Distributed leadership:* there is no cross-Whitehall functional lead. As a consequence, there is no central point of responsibility for any aspect of the function's performance.
 - *First among equals:* the cross-Whitehall functional lead is simultaneously one of the departmental leaders. Typically this leader has few formal responsibilities, and correspondingly few, largely informal powers in relation to function leads in other departments. This form of leadership has become more common in Whitehall functions over the past decade (e.g. finance, ICT).
 - *Co-ordinated:* the function leader is located at the centre of Whitehall, with responsibility for some aspects of how the function operates, for example setting standards, making or approving appointments, or overseeing performance management. The central leader's controls will vary depending

on the nature of the responsibility (potentially including a 'dotted' reporting line).

- *Integrated*: the leader is at the centre of Whitehall with responsibility for all aspects of the function's operation. This implies that they have strong controls over departmental leaders (up to holding their primary, 'solid' reporting line).
- **How does the leadership of functions fit into the overall leadership of the Civil Service?** Most situations involve people with different functional backgrounds working together to resolve a common problem. In addition to the leadership of their individual functions, functional leaders should work together, ensuring that the operation and development of different functions complement each other. In many environments, this leadership will be organised into a clear, cross-functional leadership team. However Whitehall at present has no such structure. Its closest equivalent, the Civil Service Board, is comprised of departmental permanent secretaries, rather than functional leaders. Broadly there are three options for Whitehall's organisation of cross-functional leadership:
 - *Ad hoc co-operation*. The leadership of each function acting as a head of profession, with a large degree of autonomy from other functional leads.
 - *Formal co-ordination between functions*. Formal arrangements for co-ordination between leaders of different functions, but these arrangements sit alongside, or possibly report to, the collective departmental leadership of the Civil Service.
 - *Functionally based overall leadership*. Here the functional leaders (or a subset of them) effectively become the central civil service leadership, exercising oversight collectively across the full range of activities in Whitehall.

Whitehall operates via ad hoc co-operation. However, this may be changing with the recent appointment of functional leads reporting to the Head of the Civil Service.

There are obviously links between these questions, but no simple trade-off between 'greater centralisation versus greater decentralisation'. For example, there is no direct relationship between the centralisation of leadership and the centralisation of activity. In finance the routine cash and debt management functions will typically be centralised, but the Chief Financial Officer (CFO) will spend little time managing these Treasury functions. Conversely strong central performance management is often seen as an essential *enabler* of distributed models of activity.

Potential value added

In developing a model for the leadership of functions within Whitehall, the most important prerequisite is a clear account of the problems it is designed to tackle, and consequently where the value lies in change. There are a number of different arguments, all of which have merit. However they lead in quite different directions, so this section attempts to provide some structure to that discussion.

The most tangible arguments for change relate to increasing the efficiency of individual functions. The most common source of value is **economies of scale**. In relation to the components, the focus is on:

- *Which functions*: the case for economies of scale is most established in relation to the narrow concept of functions – 'transactional services' such as finance, HR as well as the procurement of standard goods and services such as Whitehall's own IT and estates. More recently, the economies of scale debate has moved to more strategic functions, such as the provision of analytical services.
- *Location of activity*: the value lies in centralising services. Whitehall has long been developing shared service and outsourcing solutions in many of these areas.

- *Cross-Whitehall leadership of functions*: progress can be made with any leadership model. But it is easier to ensure value is realised with more co-ordinated leadership, focused on ensuring that functional business models are standardised across departments. It is also helpful in deciding the boundaries of economies of scale (e.g. some larger departments may better achieve economies within their departmental group, rather than cross-Whitehall).
- *Overall civil service leadership*: to date, Whitehall's transformation programmes have largely been developed and executed at departmental level. If continuing financial pressure post 2015 requires further transformational change, some form of greater co-ordination between leaders of different functions is likely to be necessary. This should be focused on transforming business models in a more co-ordinated way to maximise economies of scale.

Improved leadership of functions could play a role in **setting and enforcing standards** across Whitehall. Here the value lies in identifying best practice and adapting it to the circumstances of different departments. Equally, a strengthened model for the leadership of functions can improve the identification of failing projects and systems, enabling timely interventions to be made. In relation to the components, the focus is on:

- *Which functions*: setting and enforcing standards can apply across any function, but is likely to yield the most value in more strategic functions where economies of scale do not apply. Institute work has highlighted issues such as raising the quality of policy making,⁸ adopting 'cutting edge' models such as agile contracting for IT⁹ and assuring the delivery of major projects.¹⁰
- *Location of activity*: this is not about moving the location of activity as economies of scale do not apply. It will have most value in areas where activity remains distributed.
- *Cross-Whitehall leadership*: the value instead lies in having leadership that is focused on measuring and benchmarking performance to robustly establish best practice (including identifying 'clusters' of departments or business models that are comparable), and also has the authority to lead to these practises being adopted. This authority is obviously strongest in an integrated model, but is easily achieved in more co-ordinated models through influence over career progression, expenditure gateways, etc.
- *Overall civil service leadership*: in some areas, such as the execution of major projects, effective assurance roles may require authority over the activity of individual departments that goes beyond a particular function. For example, corrective action may imply changes to policy. Here the most important issue will be the relationship with the overall civil service leadership. In the trickiest cases, the necessary authority will only come if there is a relationship with the key political actors (the PM and Chancellor).

⁸ M. Hallsworth & J. Rutter [2011] *Making Policy Better*. *Making Policy Better* advocates stronger leadership of the policy function at the departmental level through the creation of departmental heads of the policy profession. It also discusses the need for the centre to take a greater role in overseeing the quality of policy making, through the creation of a senior Head of Policy Effectiveness.

⁹ J. Stephen et al. [2011] *System Error: fixing the flaws in government IT*. This report advocates for a stronger Government CIO role with the ability to set strategy that strikes a balance between 'platform' and 'agile' approaches to government IT. These findings were followed up in I. Magee, T. Gash & J. Stephen [2012] *System Upgrade? The first year of the Government's ICT strategy*. This latter report assessed the use of collective leadership through the 'CIO delivery board' rather than the independent CIO recommended in *System Error*. It recommends ways of improving the individual and collective accountability of departmental CIOs, and of strengthening the oversight and appraisal role of the government CIO over these other figures.

¹⁰ E. Norris, J. Rutter & J. Medland [2013] *Making the Games: what government can learn from London 2012*. London: Institute for Government. See also Lord Browne [2013] *Getting a grip: how to improve major project execution and control in government*. Cabinet Office.

Functional leadership is likely to play an important role in **effectively deploying Whitehall's limited resources**. These limited resources – particularly key talent – should be deployed across departments to best achieve overall government priorities and mitigate risks faced by Whitehall as a whole. The value here will be produced by a leadership that knows where talent and resources lie, understands the government's priorities and risks, and has the authority to move resources between departments. In relation to the components, the focus is:

- *Which functions*: this applies across all functions; however value will largely be captured through improving interoperability across *strategic support* and *core business* functions. Institute research has highlighted the importance of redeploying talent in areas such as IT¹¹ and the creation of public service markets.¹²
- *Location of activity*: interoperability is fundamentally about moving resources between departments. The activity itself remains distributed rather than centralised (if the value lies in centralisation, then this is an economy of scale rather than an interoperability issue).
- *Cross-Whitehall leadership*: within-function leadership plays an important role in co-ordinating this kind of activity. This leadership must possess adequate knowledge of where talent lies within their function, and the implications of refocusing it. Functional leads must also be strong enough to override objections to the redeployment of resources across departments.
- *Overall civil service leadership*: strong within-function leadership alone is unlikely to lead to the full benefits of interoperability being realised. Talent and resources required to address core business needs will often span functional boundaries, and need to be deployed in cross-functional 'packages'. This could be achieved through formal co-ordination across functions where business needs are clearly identified. However to go further, the leadership must be strong enough to override strong departmental resistance to the redeployment of their best people. For this reason the engagement of the overall leadership of the Civil Service will be critical.

Economies of scale, best practice and interoperability apply directly to the administrative spend of Whitehall itself. Improved performance should indirectly lead to efficiencies in the programme spend that Whitehall oversees. However, departmental silos are a long recognised problem for Whitehall, generating major inefficiencies where programmes overseen by different departments interact with each other (classic examples include the criminal justice system; health and social care; active labour market and basic skills provision). Improved functional leadership may help realise the efficiencies that could be directly generated through better **cross-departmental design and oversight** of programme spending.

- *Which functions*: this is likely to yield value almost exclusively from within the core business functions of Whitehall rather than from more transactional services. One conclusion of the Institute's work on transforming Whitehall departments is that for

¹¹ I. Magee, T. Gash & J. Stephen [2012] *System Upgrade? The first year of the Government's ICT strategy*. This report outlines potential interoperability benefits of a strengthened government CIO. However it also documents 'extreme scepticism' over the proposed ability for the IT function's leadership to redeploy talent across departmental boundaries in order to better serve government-wide priorities.

¹² T. Gash, N. Panchamia, S. Sims and L. Hotson [2013] *Making Public Service Markets Work: Professionalising government's approach to commissioning and market stewardship*. This report outlines some of the skills gaps that lead to poor design and implementation of public service markets. It finds that these are not usually caused by the inability to recruit skilled individuals, but that existing gaps are often simply not recognised – leading to non-specialist staff being deployed in roles with considerable responsibility. Better use of cross-functional teams and the ability to redeploy skilled individuals to areas of greatest need are identified as ways forward.

efficiency drives to continue making headway, there will need to be a far greater emphasis on effective working across silos in these core business functions.¹³

- *Location of activity*: cross-departmental working is not about relocating activity by moving it horizontally between departments, or vertically by centralising it. Instead it is about shifting activity to shared working models and breaking down purely siloed lines of accountability. The ultimate goal is to ensure that incentives promote acting in the interest of government as a whole, rather than the narrow interests of departments. Most value will be generated where programmes overseen by different Whitehall departments, but affecting the same people, businesses or countries, are aligned to generate efficiencies.
- *Cross-Whitehall leadership*: There may be some benefit in aligning the way strategic functions operate (e.g. by standardising metrics across relevant departments). However the biggest wins lie in strengthening the cross-Whitehall leadership of core functions, for example, the policy profession. However, at present the leadership of these core functions is at best through first-among-equals arrangements.
- *Overall civil service leadership*: genuinely breaking down silos is likely to require the authority of an overall civil service leadership. Indeed, strengthening cross-departmental working implies authority over the core business and purpose of the government. So any changes will require the engagement of the political leadership as well.¹⁴

Wider leadership issues

The above analysis shows that the question of how functions are led across Whitehall is heavily related to the issue of overall leadership of the Civil Service, and not just about particular functional leadership models. For the more ambitious changes, the key problem is where sufficient authority to make progress comes from. Ultimately much of this comes from political leadership (the PM or a minister acting on his behalf). The Treasury have authority but are not focused on these cross-Whitehall issues (this may change with their Financial Management Review).

The reforms to Scottish government provide an interesting juxtaposition. There the reform actually started from the political end – structured around the key objectives of government. This starting point led to the idea of ‘government as a single organisation’, in which departments themselves were abolished.¹⁵ The Heads of Departments became members of a corporate board, with their primary focus on organisation-wide responsibilities. While not the same, this is much closer to the functionally-based overall leadership team common in most organisations.

One other comparison is worth noting. In many ways, the centre of Whitehall is lagging behind progress being made in some departments. Transformations have forced choices on how functions are set up across their departmental groups (the core department, their executive agencies and arm’s-length bodies). These approaches are generally driven by economies of scale, the need for common standards, etc. But they can also lead to ways of driving better relationships and improving performance across these groups. The debate about the leadership of functions at the centre of Whitehall can be seen therefore as almost an ‘upward cascade’, where solutions at a departmental group level start to feed through to cross-departmental thinking.

¹³ J. Page, J. Pearson, B. Jurgeit & M. Kidson [2012] *Transforming Whitehall: leading major change in Whitehall departments*. Institute for Government.

¹⁴ The creation of the National Security Council in 2010 is an example of an attempt to do this. By bringing together both the political and official leaderships of key departments (Home Office, MoD, DfID, DECC, and HM Treasury) through the NSC and the NSC(O), it acts as a mechanism for setting direction to achieve cross-government aims.

¹⁵ Sir John Elvidge [2011] *Northern Exposure: Lessons from the first twelve years of devolved government in Scotland*. InsideOUT Series. Institute for Government.