INSTITUTE FOR GOVERNMENT

The Treasury's responsibility for the results of public spending

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About this report

With both the Conservatives and Labour intending to expand public spending, *The Treasury's Responsibility for the Results of Public Spending* looks at what the Treasury needs to do to bring about improved planning and management of public spending, so it more reliably achieves its intended impact. Drawing on past attempts at improved decision making, and the views of public service leaders inside and outside central government, it proposes radical changes to the spending review process and the way the Treasury manages its relationship with departments, as well as stronger parliamentary scrutiny.

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September 2019

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Summary

This report is about how the Treasury can be an effective 21st-century finance ministry. There are serious pressures on tax revenues and public spending that constrain what government can spend in total. Yet both the current government and Labour want to improve the impact of public services and investment, both on the government and on society.

The Treasury will not be able to manage this tension just by setting budgets for departments: it will need to apply itself, consistently and seriously, to how money can be spent to achieve as much impact as possible, at least cost.

The problem of performance management, and the Treasury's role in it

We looked at how planning in central government, overseen by the Treasury, currently affects how public services and investment perform practically. There is much cause for concern: spending and accountability are often not adequately lined up; information is not used properly to inform decisions; the government does too little to understand or plan the impact of spending on metro or county areas; spending is planned wastefully; and the government does not explain its intentions clearly. The Treasury's current ways of working contribute strongly to these problems.

A long endeavour

Important lessons can be drawn from the experience of successive governments over the last 40 years. These include the benefit of strong political leadership, the need for a central role for the Treasury, effective prioritisation, and to make use of small units at the centre of government. Political leadership is especially important, as is the need for the Treasury to be bought in to play a central role. Above all, accountability for achieving results needs to be clear, and the right incentives must be put in place. The approach needs to adapt and develop over time, but should avoid complete reinvention.

The government's current approach

The government's two main current tools for planning spending are single departmental plans (SDPs), which have been published annually since 2016, and the Treasury's public value framework (PVF), published in final form in spring 2019.

SDPs are currently a long way from achieving their intentions of "bringing together inputs, outputs and outcomes" and encouraging stronger prioritisation. They have improved departmental planning to some extent, but they fall a long way short of what is needed, both in concept and execution. The system is not bringing about clear prioritisation for government as a whole or in departments. Departments see SDPs as being run by the Cabinet Office and as detached from their financial planning conversations with the Treasury.

And by refusing to publish plans in full, the government prevents outsiders – including MPs – from properly judging how well departments are planning and achieving results.

There is much good content in the PVF, but it, too, has limitations. It will be difficult to apply it to social policy challenges where cause and effect are unclear, and it needs to draw more on the insight of leaders of public services outside central government. It does not sufficiently recognise the potential for digital technology to produce a fundamental change in the way government produces results, over and above just making current concepts more efficient.

Most importantly, the framework has not been properly tested in a full spending review process. It needs to show it can be an effective counter to the Johnson government's apparent tendency to see big injections of cash into popular public services as the answer.

A new approach

The Treasury needs to be much more determined, even radical, in three ways.

First, a strongly enhanced spending review process. It would be based on an agreed set of priorities for the whole of government, and address intended performance with the same thoroughness as spending, with much stronger use of data and evidence. The Treasury would be strongly and directly in the driving seat for this process.

Second, the Treasury cannot manage everything directly itself, but nor can it just assume departments will do the right thing. It must set and enforce clearer standards for departmental performance and internal accountability, ensuring they have the leadership and staff data they need to achieve them.

Last, but not least, external transparency and accountability must be strengthened. The Treasury should publish more information on spending and planned performance, and make sure it is accessible to the public or non-experts – including MPs. For its part, Parliament needs to recognise its responsibility, and strengthen its approach to scrutiny. The Treasury should see this as something to be welcomed.

1. Introduction

This report offers answers to one of the main problems we identified in our 2018 paper *The 2019 Spending Review: How to run it well*.[1] The Treasury has a strong record of managing budgets – making sure spending plans across government do not exceed what the chancellor has allocated – but has not been as successful in considering the results of spending.

It has now started taking steps to address that. Our view is that the Treasury's intentions are right, but it needs to go further. This report suggests how that should be done.

Governments aim to bring about many kinds of results. These might include the passage of necessary legislation or achieving stated targets in public services, such as reducing waiting times for emergency medical treatment. They might also include longer-term targets such as better health and less need for support in old age, or stronger local economies. Some of these are easily controlled by government; others much less so. While the issuing of drivers' licences, for example, can be achieved by careful organisation and management within a single government agency, other kinds of results, like preventing offending by young people, are much more complex to achieve.

These results are not only reached by governments delivering services themselves but also by their paying others to do so, and through other means such as regulating companies or providing incentives to shape the behaviour of individuals and businesses. Efficiency and productivity are part of the consideration. Good performance by a government requires not just achieving good results but also ensuring that it makes best use of public money in doing so. Responsibility for these results rests with the government as a whole. But we focus on the Treasury in this report because it has a central role in making sure that results are achievable.

The Treasury usually thinks it has allocated funding to support the government's aims, and attempts to control closely how resources are used (and has a long record of success in that). But what actually happens in schools, hospitals, housing and transport investment – where services are actually delivered to the public – can diverge enormously from the government's aims.

It matters that the Treasury improves its management of public spending results. Sir Michael Barber, an adviser on public service reform who first developed his ideas in Tony Blair's government, argued in a recent report for the Treasury that we are in an era in which citizens want more from government but are reluctant to pay more, and that national debt remains high. It is therefore important "that government and public services demonstrate their productivity and set out systematically to improve."[2] He added that "the potential prize for ordinary people from enhancing government productivity is huge."[3]

It also matters for public trust. In many leading economies, including the UK, more people distrust government than trust it.[4] In the UK, there are currently high levels of distrust of politicians and ministers, with net negative scores of -59 and -51 respectively in late 2018 polling.[5]

Headlines about big infrastructure projects such as Crossrail, the new trans-London rail line, being over budget and behind schedule fuel this scepticism – as do apparent inconsistencies between ministers' statements about rising school spending and reports of schools asking parents to donate money for books and other essentials. We should be concerned that results are not being managed as well as they should, and, as a consequence, people's experience of government is not as good as it could be.

The UK now appears to be heading for a general election in which the two largest political parties will commit themselves to significant expansion of public spending – based on perceptions that the public has an appetite for better public services and infrastructure. However, the next government, whatever its nature (and it may be a coalition) will face big challenges. The pressures for more public spending are likely to exceed what can be financed without increasing borrowing. Deciding to spend more is also the easy bit; making sure the money gets spent in a way that achieves the intended results is much more difficult.

It will be essential to make sure spending is directed where the government most wants it, that it achieves what is intended, and that initiatives do not contradict each other. Neither main party has yet been able to put forward a complete plan for achieving their goals in government. This report is intended to help with that challenge.

This report

The question of what role the Treasury ought to play in the management of government performance is not new, nor are attempts to answer it. We first addressed questions about performance management a decade ago in *Performance Art*,[6] one of the first reports the Institute for Government produced.

In **Chapter 2**, we describe how central government's approach, led by the Treasury adversely affects the delivery of public services and investment. Accountability – of public services, of departments to the Treasury, and of the government to Parliament – is a strong theme.

In **Chapter 3** we examine the different ways successive UK governments have tried to manage performance and to answer the question of what the Treasury's role should be. This is a record of progress, if fitful; we draw on it to argue how this could be done better in the future.

In **Chapter 4**, we describe the two main initiatives recently introduced by the government – single departmental plans and the public value framework that Sir Michael Barber has shaped. These do not offer a complete answer although they have strengths. But governments' recognition of the weaknesses of the system and persistent efforts to improve reflect our own view that it should be possible to find a better way.

In **Chapter 5** we offer our recommendations for how to manage performance better.

2. The problem of performance management, and the Treasury's role in it

Among those responsible for the delivery of public services we found a widespread perception that central government – including the Treasury – does not play as effective a role as it should. We have identified five key problems.

- Misalignment of accountability for spending and results
- lack of the right information to properly understand results
- not thinking enough about the combined impact of spending in different parts of the country
- short-term and poorly designed resource allocation
- unclear communication of intentions and plans.

These problems result from persistent features of the Treasury's approach to its role: that, along with No.10 and the Cabinet Office, it does not establish clear priorities for government as a whole; that it tends to think about spending in terms of department rather than results, and micro-manages; and that it suffers from a lack of expertise and weak external transparency and scrutiny.

Misalignment of accountability for spending and results

Previous work from the Institute for Government has drawn attention to common weaknesses of accountability in the UK government, including: a lack of clarity about responsibility; the absence of consequences for poor performance; and inadequate transparency and information. As we argued in *Accountability in Modern Government: Recommendations for change*, in 2018, "the same patterns of failure occur repeatedly, such as flagship policies running into difficulties, public services that underperform, or public money being wasted through cost overruns or delays."[1]

Problems of accountability were a common theme in our discussions with public service leaders – and two in particular.

First, where organisations are funded by the government but are not held accountable for important results by it. A recent high-profile example is the controversy over the 'off-rolling' of children with special educational needs. In response to the issue, a Department for Education (DfE) review by former minister Edward Timpson argued: "It cannot be right to have a system where some schools could stand to improve their performance and finances through exclusion, but do not have to bear the cost of expensive non-mainstream provision these children then attend, nor be held accountable for the outcomes of the children they permanently exclude."

Another example is found in Home Office immigration casework. In 2018, Ministry of Justice (MoJ) immigration tribunals overturned decisions in over half of the cases received, meaning that a large part of the £100m tribunal budget was being spent reversing decisions made by the Home Office.[2]

Second, government has made organisations accountable for results but has not provided them with enough funding to achieve them. One example is the provision of new school places. Councils must, by law, ensure there are enough school places for children in their area. They often do this by expanding existing schools, but councils have no powers to make academies (independent schools funded by central, not local, government) expand. (Since the introduction of the Education Act 2011, if local authorities need a new school, they cannot open a new maintained school but must try to establish a new academy.)

Local authorities are also responsible for the wellbeing of all children in their area (whatever type of school they attend). But again they have no powers over academies and only limited funding for programmes to support academies and the children in them. As a result, they are left with only limited tools to achieve the results for which they are to be held accountable. This misalignment is not criticised only by councils: an academy chain leader told us that councils suffer from "responsibility without power," and that the arrangement of accountability and funding for schools is a "funny, hybrid" system.

The persistent problem of social care, and its relationship with the NHS, provides another example. Social care has a vital role to play in the wellbeing of frail and vulnerable people, and in ensuring they do not become unwell in ways that generate pressure on NHS services. Yet successive governments have failed to successfully plan and manage funding; too often decisions made about the NHS create costs for social care, and vice versa.[3]

These examples illustrate the problems that can arise when funding is distributed through multiple routes, and when different organisations share responsibility for results. If the system is not designed carefully, a situation can arise where one set of players can behave in ways that seem perfectly rational to them but that shift costs elsewhere in the system or achieve poor results.

In contrast, an example of more successful recent re-thinking of the way organisations are funded and managed is housing. A 2017 white paper strengthened the role of the government's housing delivery body, announcing its rebranding from the Homes and Communities Agency to Homes England and giving it a broader remit to intervene in the housing market.[4] Homes England has become the single point of contact for housing developers, clarifying the line of accountability from the Treasury, through the Ministry of Housing, Communities and Local Government (MHCLG), to Homes England and to developers.

The Treasury has also allowed MHCLG to change the planning and accountability relationship with Homes England from detailed control of individual programmes to allocating funding against outcomes with flexibility about deployment.

Homes England will now be judged on the basis of its performance against outcomes, not adherence to strict rules.[5] With the support of MHCLG, Homes England is building partnerships with affordable housing providers and starting to make longer-term plans, and now manages its relationships with social housing developers based on results.

Treasury officials argue that, at times of rapid, politically driven changes in policy (like academisation of schools), it may take time for the formal systems of resource allocation and responsibility to catch up. In our view, the examples are too numerous, and the perverse incentives created too serious, for this to be an adequate answer.

The misalignment is a consequence of an approach in which the principal objective is not to exceed planned spending, rather than looking at what the spending achieves. Much greater attention should be paid to aligning spending and accountability when decisions are made about the delivery of public services and major projects.

Lack of the right information to understand results

Obtaining good evidence and using it well is an essential foundation of the proper management of resources and performance. Useful evidence can take many forms: administrative data, official statistics, quantitative and qualitative research (commissioned by government or carried out independently), insight from regular conversations with well-informed contacts, and well-designed evaluation. Research by the Institute and others has found the government's evidence-gathering is often lacking, however.

A 2011 Institute study found that both ministers and civil servants ranked evaluation, review and learning lowest in their contribution to effective policy making.[6] Interviewees argued that "the Treasury ought to play a key role in incentivising departments to commission and use good evaluations – but that it probably played that role less than it should."[7] A recent spot check of the evidence base for government policies by the NGO Sense about Science found that there had been some improvement in departments' approach to evidence, but there remained widespread weaknesses, especially in relation to testing and evaluation.[8]

Interviewees working in public services and local government voiced similar concerns. They told us that they felt central government does not understand comprehensively what money was spent, or which results were being achieved on the ground. Central government asks for (sometimes very detailed) information about particular programmes that are the subject of current interest – for example, there is a detailed rulebook for measuring councils' progress in housing delivery. Council officials told us that MHCLG collects information on "many, contradictory" forms, yet they see no sign that government sets out to understand the impact of public spending on its goals.

Interviewees in education leadership roles in councils as well as in further and higher education told us that different parts of DfE collect detailed information about the specific activities for which they are responsible nationally, but they did not have the sense that the department understands the performance and outcomes of the education system as a whole.

This is consistent with the Institute's annual *Performance Tracker*, which argues that government does not use data on what is happening in local areas systematically to assess the results of public services:

> "Some of this data may be held in pockets of government... But the figures are not aggregated and analysed nationally and, in many cases, locally collected data will not be directly comparable... Without this, [government] cannot know how much more efficient austerity has made public services, whether there is more room for improvement, or whether services are now at risk of a sharp deterioration in quality."[9]

The government has not done enough to measure the productivity and efficiency of public services, the Institute has argued.

The picture is not all gloomy. Interviewees did cite cases where they thought evidence is collected and used well. A local government professional involved in school improvement found data collected and then fed back out by DfE and Ofsted helped him understand the performance of local schools, and how his area compared with "statistical neighbours."* We heard that departmental officials, in some cases, do talk to service leaders, and seem to make good use of the insight they gain. But this approach does not appear to be systematic.

Central government has also made improvements in the collection and use of evidence. Departmental officials acknowledge that the Treasury has built up its capability, and capacity, to understand public sector productivity and public value. It has set up a dedicated costing unit, the work of which Treasury and other officials commend – although, since that work is unpublished, we cannot offer our own view.

Work by the Government Economic Service has strengthened the analytical base for understanding public sector efficiency, on which the UK is seen as a leader internationally.[10] The Office for National Statistics (ONS) has also invested in a new public sector measurement unit, has sought to improve measures of public sector productivity and has published new public service data dashboards (though these currently only cover four areas of policy).[11]

Since 2013, the government has set up the What Works Network, with nine centres applying methods such as evidence synthesis** and experimental trials to areas including educational attainment, early intervention*** and crime. These have generated a lot of evidence, and influenced decision making in some cases, but "most centres have found influencing policy difficult."[12] A senior MHCLG official reported that carefully designed evaluations of housing and family-support programmes had provided an evidence base that showed their effectiveness and secured their continuation in the face of initial scepticism from the Treasury and elsewhere.

* 'Statistical neighbours' are other local authorities that, regardless of geographic proximity, have similar characteristics, such as urban/rural mix or levels of deprivation.

** 'Evidence synthesis' refers to the process of bringing together information from a range of sources and disciplines to inform debates and decisions on specific issues.

*** 'Early intervention' refers to services that seek to address problems at an early stage, or even before they arise, rather than responding when they are fully developed.

Treasury officials agree that decision making should compare different sets of data on the results of spending. They argue that the new public value framework (one of the government's new performance-management tools, discussed more in Chapter 4) will encourage officials to collect the data needed to understand impact. We hope this is true.

Not thinking enough about the combined impact of spending in different parts of the country

Interviewees who work in public services, local government and business thought that the Treasury's approach to managing results often overlooked the way that initiatives by different departments might overlap or have unexpected consequences in particular places – for example, metro or county regions like Greater Manchester or Oxfordshire.

Eight government departments have responsibility for different aspects of infrastructure, but there is no formal co-ordination of what each is doing in different localities.[13] One major city was currently either receiving or bidding for funding from five programmes administered by two departments to develop local transport infrastructure. There was "considerable overlap" locally between these schemes but authorities had to bid for each fund separately. The funds themselves had different reporting requirements and would last for slightly different periods.

A council strategy director explained why this means the Treasury should care about place: "It would be incredibly helpful if someone there understood the totality of what we have to understand. We need someone to care about the return on investment for government as a whole."

The Treasury is well placed to be that someone; indeed, this is its natural role, bringing together its interests in economic performance and achieving value for the public from spending. As one official in an area with a devolution deal* put it, the Treasury "appeared to demonstrate insight in the [Chancellor George] Osborne era into the importance of city economies for the national economy, bringing together its economics ministry role with its approach to public investment." More recently, we heard that officials felt that the Treasury's focus had shifted back to individual project appraisals, increasing the risk that the bigger picture was not seen.

Before 2010, there were organisations, including government regional offices and the Audit Commission, that produced information about the combined impact of policies and services in different parts of the country. How well that information was used, and how consistently, is another question – but it was at least available. The abolition of these organisations in 2010 meant their insight was not even available.

At times, central government has shown much stronger understanding of how looking at spending geographically could lead to better value for money. Between 2009 and 2010, 13 pilot areas tested "how greater value [could] be gained for citizens and taxpayers, from local public services working together to improve outcomes and eliminate waste and duplication."[14]

* Individually negotiated agreements between central government and groups of local authorities involving devolution of funding and powers.

The pilots found that funding streams were overly complex and that public services were often impersonal and fragmented. It was observed that while individuals and families with complex needs imposed significant costs, in combination across public services, in most cases they were not tackled through targeted, or preventative, activities.[15]

The report that accompanied the pilots, published by the Treasury and Communities and Local Government (CLG),[*] proposed a new approach, and was based on: designing services to be effective and to reflect local area priorities; a joined-up approach to tackling intractable issues; tailored support as issues emerged, rather than when they become acute; and more funds being allocated to service delivery, with less on administration.[16] Published just before the 2010 election, the arrival of the new government resulted in these proposals being stalled, and only subsequently re-emerging piecemeal and in less ambitious forms.[17]

Capacity to understand place has been rebuilt to a limited extent, for example in the Cities and Local Growth Unit (CLGU, a joint unit of the Department for Business, Enterprise and Industrial Strategy (BEIS) and MHCLG), and Department for Transport regional teams. We heard that these teams are playing a helpful role in informing decisions, but that their contributions do not amount to a rebuilding of previous capacity.

In some places, government has been persuaded, as part of devolution deals with metro or county regions, to move away from multiple short-term funding streams towards single investment programmes to support a stronger local economy. Local officials and business leaders see this as an improvement, enabling those based in the area and close to projects to make pragmatic decisions about the best use of funding – from timing to allocation between projects. However, with the perceived waning of Treasury focus on 'devo-deals' after Osborne's departure in 2016, they report having seen a return to the division of funding into small 'pots' with detailed terms and conditions, and increased use of competitive processes of the kind we discuss below.

Treasury officials agree that understanding the combined impact of current funding and proposals for change is desirable. They argue in return, however, that this must work alongside the planning and management of spending by department, because that is how ministerial and parliamentary accountability works.

But far from undermining accountability, we argue that funding being brought together in larger programmes with shared or joint responsibility could in fact reinforce accountability. Some of the devo deals have shown how accountability can be shifted from national departments, with their separate remits, to local organisations like combined authorities with a remit crossing service boundaries and accountability for economic wellbeing and the state of public services.

[*] CLG was the forerunner to MHCLG, which assumed its current name in 2018.

Short-term and poorly designed resource allocation

A strong theme in our interviews was that the way central government allocates resources locally is unsatisfactory, in three main ways.

First, the medium-term certainty in departments' financial plans provided by the 2015 spending review (allocating spending for four financial years from 2016/17 onwards) has not consistently been translated into stable funding allocations at a local level. This matters because managing large, complex public service operations requires clear medium-term financial plans. This is even more crucial when those services are required to manage significant spending reductions.

The plans set out by the government in the local government spending settlement announced in early 2016 proved inadequate to meet service pressures in social care and elsewhere, and were subsequently topped up by a series of one- or two-year funding pots. One council chief executive was exasperated by the annual ritual of government providing last-minute top-up funding for "winter pressures", pointing out that "winter is a predictable event."

Second, Theresa May's government did not take timely decisions on the shape of council funding arrangements from April 2020, and there is no sign so far of Boris Johnson's making it a priority to resolve the uncertainty. This creates a challenge to local financial management. It forces councils to take decisions that are likely to be poor value for money, such as employing agency staff rather than recruiting for permanent roles for which they cannot count on funding.

Others have budgeted on the assumption that funding will not, in practice, be very different in total from recent years – but this means they must set reserves at a cautious level to mitigate the risk that it will turn out significantly lower. One local authority chief executive told us that, in the absence of certainty from central government about the income his council could expect from 2020/21, his approach had consisted of "knee-jerk reactions as opposed to a long-term strategic approach.... we are not spending money as efficiently as we could have done, if it had been a planned programme for the next three years."

Third, there is an over-use of funding for initiatives, often allocated on a competitive basis. These initiatives might have only a short life and yet have onerous bidding and reporting requirements.

For example, over the last 12 months, MHCLG has announced a range of competitive funding schemes for local economic development alone, from revitalising high streets, developing new 'garden towns' and revitalising rural pubs. The high streets schemes are, according to the prospectus, likely to result in one-off funding of around £25m for just 50 places. The amounts allocated to the other two schemes are even smaller: £3.7m (just over £700,000 each) to fund five new garden towns, and £188,000 (about £2,500 each) for 76 pub schemes. It is questionable what value this approach adds.

Treasury officials agree in principle that councils and other services should have certainty about spending over several years, and that this would reduce the waste from distributing funding through many channels. In their view, two things get in the way: the preference of departmental ministers to 'hang on' to flexibility around funding; and the fact that there is not enough money available in total to fund improvement in all places. On the other hand, the Treasury would normally wish to be challenging of departmental practices that lead to waste and poor value for money. And, when resources are scarce, there is surely a strong case for maximising what is put into main funding streams rather than smaller, selectively allocated programmes.

We agree that sometimes there may be a case for targeting funding to those locations with the highest need, or so that the value of new approaches to delivery can be tested. But our view is that the use of such mechanisms has become a default for many departments and is not challenged sufficiently by Treasury ministers or officials. It is too easy for departments and ministers to make short-term decisions that have significant consequences for delivering public services.

Unclear communication of intentions and plans

Interviewees responsible for delivering public services said that central government is not good at communicating plans developed in Whitehall, does not communicate its priorities clearly, and so makes it difficult for them to prioritise their own activity.

A local authority chief executive told us: "Things like [single departmental plans] where high-level national narratives are set out give ministers a feeling they're doing something that their departments are not really doing on the ground. And behaviour [in public services] is driven by what you experience not what you read [in policy documents]." Similar points were made by education leaders outside local government.

Public service leaders with direct service responsibilities are often therefore unclear what the government is trying to achieve with spending. One interviewee, working on meeting local skills requirements in a local authority, described trying to piece various government programmes together without any sense of overall strategy: "I feel like I have all the puzzle pieces, without the picture on the front of the box."

Sometimes those in front-line leadership roles say government's objectives change frequently, and that funding is not aligned with the government's stated targets. One council education director said there were "very mixed messages around school improvement", with a lot of confusion around the award of 'strategic school improvement funds'. Schools were contacted directly by DfE saying they were targets for particular improvement programmes, with no warning. This was also not co-ordinated with the support local authorities were giving schools.

Problems with the communication of central government priorities can sometimes be countered by strong personal relationships, but the level of turnover in Whitehall makes it difficult for public service leaders to maintain contacts. This is a particular concern in the two key departments with responsibility for local authorities: MHCLG and the Treasury. Indeed, the Treasury has among the highest levels of staff turnover of any Whitehall department, and this is especially true for spending teams. MHCLG has also

had particularly high staff turnover in recent years, including among its senior civil service members.[18]

One local government leader described her relationship with the Treasury as "non-existent." She said: "I would have anybody from the Treasury come and talk to us for a day to realise the impact of their decisions. If we had better relationships, we could work more as partners with them."

Central government priorities need to be communicated much more clearly to those responsible for spending public money, both through spending reviews and then in the delivery period afterwards.

How the Treasury's current approach causes these problems

Lack of central prioritisation

What emerges most strongly from the evidence we collected, and from the Treasury's response when we discussed our findings with its officials, is the lack of clear, central prioritisation. This could be used to build understanding on the ground of what the government is trying to achieve.

As we argue in Chapter 5, stronger central prioritisation could help shape single departmental plans (SDPs) and join up the efforts of different departments to achieve results. Ensuring government is working to a clear, single set of priorities is not something which the Treasury can achieve on its own, of course. It must involve No.10 and will also require support from the Cabinet Office. But the Treasury will have an important part to play.

Recent research by the National Audit Office (NAO) supports the view of public service leaders that the Treasury's current approach does not sufficiently persuade departments to work together on the government's priorities. This is also the perception of departmental officials who deal with the Treasury.

A NAO survey of civil servants involved in planning and spending found that many thought the Treasury had not been doing enough to encourage departments to work together. Only 33% agreed that "HM Treasury spending teams provided mechanisms to support and encourage departments to work together." More than half (54%) agreed spending teams helped them to "make links to other related activity", but less than half (47%) felt spending teams highlighted the potential impacts of their decisions on other departments.[19]

The Treasury still thinks about spending in terms of department budgets rather than results

In the absence of clear priorities for the whole of government, the Treasury's discussions with departments are mainly bilateral, and focus on individual department spending. This failure to think about spending and results across departments has serious consequences on the front line, as we have discussed. There is still a lack of thinking in both the Treasury and departments about how the work of one department will affect other departments and the results they are trying to achieve.

Understanding of how services and investments interact in different places is particularly poor. This was a strong theme from virtually all our interviews outside Whitehall. As one council official put it: "It just doesn't feel like government are joining up the dots. It's left to local authorities to join up the knitting." Another said: "There is no understanding in central government of operational reality. Different silos just lob things over the fence [into local government and other front-line services]" without understanding what is already happening there.

The Treasury sometimes micro-manages spending

A common criticism of Treasury civil servants is that they micro-manage spending and get involved in policy areas they do not understand. Lord Kerslake, former head of the civil service (2012–14), found the Treasury was "described by many contributors as often arrogant, overbearing and negative towards other departments" while conducting his 2017 review of the Treasury (commissioned by John McDonnell, Labour's shadow chancellor).[20]

Many former ministers in our *Ministers Reflect* archive seem to agree. For instance, former Secretary of State for Energy and Climate Change Chris Huhne recalled a young Treasury official "lecturing" his team and felt "the Treasury [was] making it up as it went along."[21] Patricia Hewitt, who served as a minister in numerous departments between 1998 and 2005, said: "The Treasury were really bright... [but] there was a kind of institutional arrogance".[22]

In evidence to the Public Administration and Constitutional Affairs Committee (PACAC) in 2016, Lord Kerslake said: "What departments can experience is not just some micro-managing, but [intervention] by people who've only been in the role for six months. And that is both frustrating and unhelpful."[23]

Departments don't want the Treasury to stay out of things entirely, however. Interviewees gave us good examples of the Treasury limiting its involvement to important issues, adding value to decision making on those while not becoming excessively involved in detail. But this is often not the case. The NAO found "a perceived lack of pragmatism when dealing with departments" with spending team staff focusing too much on theory, without "a grasp of wider government issues [or] understanding departmental pressures."[24]

A finance director in one department said the Treasury "does not scrutinise the planning process. But is vocal about the content of our plans, spending control and the assumptions which underpin spending plans". The NAO also found that senior civil servants do want to engage with the Treasury on decisions around the 2019 spending review, but want more of "a focus on high-level strategic objectives, not micro details or policy initiatives".[25]

Senior Treasury officials with whom we spoke understood the risk that their teams do not apply their efforts productively, and say they see a big part of their leadership role as ensuring their teams' dialogue with departments is addressing important issues and that the reason for their interest is explained convincingly to departments.

However, the persistence of this concern, in our interviews and other evidence, suggests it should remain a strong focus for the Treasury's leadership.

The Treasury does not have the right expertise and does not engage enough outside Whitehall

Some of these problems have been exacerbated by high levels of staff turnover in the Treasury. Recent Institute for Government research found that the Treasury's average annual turnover rate (counting movement outside the department only, not internal moves) since 2011 has been 23%, and in 2017/18 was the third highest among all departments. It also has high turnover relative to finance ministries in other countries: turnover in Australia's Department of the Treasury, for example, averages 11–13%.[26]

In 2018, the NAO found spending team staff had been in their current post for a median time of 11 months.[27] Few had experience of actually delivering public services to citizens.[28] The NAO also found that "HM Treasury does not have an overview of the existing skills and experience across its spending teams."[29] It is clear that the Treasury has not done enough to address the gaps in the experience of its staff.

The Treasury increasingly uses functional expertise to support spending teams by involving officials who have chosen to specialise in, for example, finance within the civil service. Done consistently and rigorously, this can counter the gaps in Treasury expertise and improve central challenge of departments to ensure spending achieves results.

The 'finance function' has been involved in improving the guidance for SDPs – and senior finance officials across central government developed the maturity model, a tool for assessing the strength of departmental planning – and have given training to departments to improve their internal planning systems. Spending teams are working with the Infrastructure and Projects Authority (IPA) to test the deliverability of projects and programmes.

In evidence to the Public Accounts Committee (PAC) in December 2018, John Manzoni, the permanent secretary of the Cabinet Office, argued that the involvement of the functions in the 2019 spending review would give a better view of how long initiatives would actually take, and of the resources required.[30] But this system is still maturing and the extent to which spending teams take advantage of it, and the Treasury acts on the advice of functions, varies.

Some clear benefits of this approach are emerging. The finance function has helped improve the Cabinet Office guidance for departments developing their SDPs and has given training to help them improve their internal planning. Spending teams are also working with the IPA to test the deliverability of projects and programmes. In his PAC evidence, Manzoni also argued that the involvement of the functions in the 2019 spending review would improve the process.[31]

The Treasury also suffers from too little direct engagement with public service leaders to make up for high turnover and lack of direct experience of the practical management of public services. Council chief executives told us they had a

"non-existent relationship" with the Treasury; other local government officials told us the Treasury was "completely inaccessible". At the time of writing, some of this could be because Brexit is taking up the bandwidth of ministers and key officials.

One council official told us that, at best, the Treasury's engagement, "ebbs and flows". Many on the front line argued it was now more limited than it had been during Osborne's chancellorship, when the Treasury took the lead on devolution. Former Treasury officials and others point out that, in the past, the spending directorate's leadership has included people with substantial previous experience in local government and other more operational parts of the public service.

If the Treasury paid more attention to developing the insight such relationships can provide, it would be more effective in its role of challenging departments and shaping financial allocations and government performance.

Transparency

Transparency is important for securing value and results from spending. As the World Bank puts it, "transparency helps ensure that governments are efficient and effective by opening up information to public scrutiny and thus making public officials answerable for their actions and decisions. Limited resources go farther when decisions about their allocation and use are well informed, publicly scrutinised, and accountable."[32]

According to the NAO, departments and Parliament both want "greater transparency, both within and outside government, over the basis for spending choices".[33] Inside government, departments told the NAO that they "would like HM Treasury to have open conversations about the spending review process, align it with government's high-level strategic objectives, and incorporate checks to stop 'problem-shifting' between departments."[34] Departmental officials also told us that they would welcome the Treasury encouraging departments to come together to build a stronger shared understanding of the combined impact of their spending and activity.

The documents published in recent spending reviews give resource and capital spending figures for each department. These give some examples of what spending will be used for and explain how it contributes to government's overall priorities (such as security and efficiency in 2015, or reform and fairness in 2010). But they do not make a link between the resources each department is allocated and its objectives over the period.

There is also a lack of transparency around what spending actually achieves. Published SDPs provide only high-level performance information, and do not link this to spending. The Treasury has refused to release the more detailed internal SDPs that would allow effective scrutiny and questioning of departmental plans, despite requests from the chair of the PAC, Meg Hillier, from ourselves and from other external commentators. As Hiller said in a PAC hearing on government planning: "We want to hold departments to account on their spending, value for money, and delivery for their citizens. If we could see these plans, we could help hold them to account even more effectively".[35]

Spending figures in different documents often do not match up. The categories in which they are reported may change without warning (for example, because a secretary of state wants to group initiatives under specific programmes like the 'green economy'), and there may then be no attempt to enable proper comparison with previous versions.

This makes it difficult to compare spending plans with results. One parliamentary staffer, an expert on spending documents, said that often he can only trace a story through these documents with great difficulty. A permanent secretary described the annual estimates memoranda (the departmental documentation explaining spending decisions) as "incomprehensible". The Public Administration and Constitutional Affairs Committee (PACAC) reported in 2017 that:

> "For an area such as Child and Adult Mental Health Services, for instance, it is almost impossible for the public to find out from the Department of Health's Annual Report and Accounts how much is being spent on this, or other types of service, and therefore to assess the value for money of that spending."[36]

In response to two PACAC reports, in 2017[37] and 2018,[38] the Treasury conducted a review of the government financial reporting landscape. It said this was a "chance to improve... performance reporting".[39] Simply mapping out the relevant documents and publishing examples of best practice for the various documents produced by departments are positive steps toward improving documentation and its accessibility.

But, as this was only published in April 2019, we are yet to see how successfully its recommendations will be implemented. The review suggests the Treasury is still reluctant to show strong leadership to departments on making spending and performance transparent, usually saying it will "encourage", rather than require, departments to publish or improve data and documentation.

The lack of leadership by the Treasury on spending transparency leaves the UK far behind other countries – for example Canada, which provides a comprehensive 'InfoBase' web portal for information on government spending and performance.[40]

Scrutiny

Declining to publish information sufficiently clearly or consistently contributes to weak parliamentary scrutiny of spending. We found that none of the select committees of the five largest spending departments* – which together account for over two thirds of public spending – held hearings on the government's 2018/19 estimates. Just two chairs sent probing letters to their departments on the estimates.[41]

Attendance at parliamentary debates on spending was also poor, and speeches rarely addressed any specifics of the plans for 2018/19. None of these five committees undertook inquiries on the spending plans announced in the 2015 spending review, or scrutinised their department's SDP.

* The Department for Work and Pensions (DWP), Department for Health and Social Care (DHSC), DfE, Ministry of Defence (MoD) and MHCLG, defined by total managed expenditure in 2017/18 (excludes non-ministerial departments).

Some parliamentarians have argued for stronger scrutiny of spending plans. The Procedure Committee has said: "We are convinced that this House [the Commons] would benefit from a dedicated budget committee to scrutinise government spending allocations."[42] Even those who gave evidence to its inquiry rejecting the idea of a budget committee mostly agreed that the scrutiny of spending plans needs to improve. The chief secretary of the Procedure Committee conceded in her oral evidence that there should be more scrutiny of the government's spending plans.[43]

Conclusion

We have described here the nature of the problem and some of the principal causes, including the lack of an overall articulation of government priorities, problems with Treasury staffing and insufficient transparency, data and scrutiny. Our discussions with the Treasury showed that the department does acknowledge some of the concerns we identified, and has been making considerable effort to change.

As the next two chapters will show, there has been a long history of attempts to crack this problem, and some promising new initiatives – a record overall of progress, albeit a patchy one.

3. A long endeavour

To improve the way it manages public spending and results, the government needs to learn from past attempts. This chapter looks at the lessons that can be drawn from the last 40 years.

Our view is that the period 2001–05, during Tony Blair's premiership, was when the government came closest to managing spending and performance together. That was when desired results were defined in public service agreements (PSAs), and the centre of government was helped in managing these by the Prime Minister's Delivery Unit (PMDU).

But while this model had strengths, it also had serious weaknesses: there were good reasons why the PSAs should not have survived without reform, as the coalition government noted when scrapping them in 2010 – though reducing transparency about results at a time of spending cuts may also have been part of its motive.

The experience of four decades is summarised in Table 1 and offers some key lessons, principally that a government should:

- give the system of performance management strong political leadership
- ensure the Treasury is committed to that system
- set priorities and stick to them
- use small units at the centre to drive change
- make use of measures and targets, which are vital
- work out how to align accountability for results with incentives
- look for incremental improvement rather than radical reinvention.

Table 1: Focus on spending and results in the UK – main phase

Dates	Target(s)	Initiatives
1979–90	**Thatcher era:** Improving operational efficiency	• Rayner 'scrutiny' programmes • Financial Management Initiative (FMI) • *Next Steps* Initiative
1990–2010	**Major, Blair and Brown:** Improving citizens' experience of public services and on defining and managing the results of spending	• Citizen's Charter • Public service agreements (PSAs) • Prime Minister's Delivery Unit (PMDU)
2010–15	**Coalition government:** (in pursuit of austerity) controlling spending and improving efficiency	• Departmental business plans (DBPs)

Source: Institute for Government analysis.

1979–90

Margaret Thatcher set out to change the relationship between the state and the individual. Her approach included the privatisation of state enterprises and reshaping of public spending. Having peaked in 1975/76, the government's total managed expenditure (TME) fell from 43.7% of GDP in 1979/80, when Thatcher came to power, to 37.7% in her last year in office, 1990/91.[1] Her government was influenced by the emerging concept of 'new public management' (NPM), which proposed that public services should be run more like businesses, and that civil servants should behave more like private sector managers.[2]

After the 1979 general election, Thatcher appointed Derek Rayner as her efficiency adviser.[3] Rayner had been joint managing director at Marks and Spencer, and had made his name by introducing innovative management techniques, fostering enterprise among employees, driving down costs and bringing in improved financial management. Through his 'scrutiny programmes', Rayner encouraged departments to target "functions that can be cut out [and] wasteful work systems."[4]

But the Treasury and Civil Service Committee argued that he should focus more on what results spending was intended to achieve.[5] In 1982, the prime minister launched the Financial Management Initiative (FMI). Its intention was to improve departments' use of resources by explicitly making ministers, as well as civil servants, responsible for results.

By 1986, however, the initial momentum of Rayner's reforms and the FMI had stalled.[6] The response was a report, *Improving Management in Government: The Next Steps*, published in February 1988, which set out several persistent problems, including "a lack of clear and accountable management responsibility", "the need for greater precision about the results expected" and "a need to focus attention on outputs as well as inputs."[7]

The *Next Steps* report's central recommendation was the creation of arm's-length agencies to "carry out the executive functions of government."[8] A new Next Steps Unit (NSU) was set up to make this happen. By May 1989, it had created five arm's-length agencies; by 1998, more than 75% of civil servants worked in agencies, including such major functions as the Employment Service and Passport Office.[9] The approach was based on two key assumptions:

- That policy, as the undisputed responsibility of ministers, could be separated from operational delivery, for which agency chief executives could be made responsible.
- That chief executives should have more freedom on staff terms of employment so they could improve operational efficiency.

Central units

For all three initiatives – Rayner's reforms, the FMI and *Next Steps* – the government established a special unit at the centre of government dedicated to managing the results of public spending. Each unit was small, usually with fewer than 10 staff, and mainly had an advisory role.[10,11]

Rayner established the Efficiency Unit in 1979 to help conduct 'scrutinies' of departments, and encouraged civil servants "to look at what they did critically... to try to find more effective and simpler ways of doing things."[12] Rayner did not want departments to resent any "meddling" from the centre of government,[13] so departments chose the area of scrutiny and conducted it themselves. The role of the Efficiency Unit was to support the departments and assure the quality of the scrutiny process.

By the time of Rayner's departure in 1983, the process had identified potential savings of £421m a year from operations as varied as forensic science and official transport overseas, and achieved savings of £51.3m a year.[14] These did mark a considerable success, although the savings were only a small fraction of the running costs of central government (£16.5 billion (bn) in 1983/84).[15]

The Cabinet Office and Treasury created the Financial Management Unit (FMU) in 1982 to advise permanent secretaries on preparing their FMI plans – it also helped around half of departments to develop their management information systems.[16] The NSU was set up in 1988 to implement the recommendations of the *Next Steps* report and help establish arm's-length agencies.

Central units have since become commonplace in many governments. Writing in 2007, a Canadian adviser on public sector performance recognised that, internationally, there has been "general agreement on the need for some central unit to oversee the development and maintenance of the system" for managing government results.[17] It is our view that in the UK, the establishment of these central units played a valuable part in improving government's management of spending.

Greater accountability

Part of the thinking at the time was that results from spending would improve only if managers had greater authority to fulfil their tasks, the information with which to do that, and were held responsible for the results.

Some managers were set objectives and allocated resources according to the results they were supposed to achieve. Departments also began to develop their own systems for budgeting and delegated control of administrative costs to managers.[18] But government departments' middle and junior managers were concerned about FMI's shift towards greater managerial responsibility. Many felt they became accountable for matters that were beyond their direct control, and struggled to stay on top of many of the costs for which they now had responsibility in their budgets.[19] Accountability at this stage was also very much concerned with operations and running costs; comparable clarity about objectives for programme spend developed later, under New Labour.

The spread of agencies resulting from *Next Steps* strengthened accountability further. Chief executives had, in theory, full responsibility for the operations of their agencies and were accountable for results to the ministers of the agency's parent department. These ministers were in turn held to account by Parliament. In many places, where the objective was for the efficient and effective management of operational work,

and there was little political sensitivity (like driver licensing or property valuation), this worked well.

But the new accountability arrangements proved harder to sustain where the operation of the service was politically sensitive. In 1995, under the John Major government that succeeded Thatcher's, Home Secretary Michael Howard dismissed Derek Lewis, head of the prison service, over prison escapes. Howard's justification rested on one of the key elements of the *Next Steps* approach: the distinction between the Home Office's responsibility for policy and the prison service's responsibility for operations (though this distinction was undermined by the fact that the Home Office had interfered in the day-to-day running of Parkhurst prison).[20]

Trying to distinguish accountability for policy and for results can be helpful, but is tricky where the political interest extends into matters of day-to-day operation.

Improved financial and management information

Between 1979 and 1990, as computers and digitisation began to spread, government began to recognise the importance of data in getting results from spending. Information systems for performance and spending had previously been unusual; the Department of the Environment's Management Information System for Ministers (MINIS), set up by Lord Heseltine in 1980, had been a pioneer. To enable managers to take more informed decisions about results, FMI encouraged all departments to introduce an equivalent to MINIS.[21]

Heseltine's thinking was informed by the contrast between his experience in business and in government: "The private sector will, in the most detailed way, produce an analysis of every aspect of what is going on and it is fully costed. There is nothing like that in the departmental world. I created such a system."[22] MINIS prepared annual statements on the plans and performance of the department's activities. As Heseltine explained, MINIS meant that "we all knew exactly what officials were doing and what their objectives were."[23]

By the mid-1980s, all departments had developed systems that helped set objectives, allocate resources and review achievements.[24] However, not all treated these systems as central to the way they worked and proponents of reform saw too little evidence of managers being offered sufficient freedom.[25]

Next Steps also emphasised financial and management information. New agencies were governed by framework agreements that set objectives and resources, and introduced some performance measures. For example, the Vehicle Inspectorate Agency had objectives for both road safety outcomes and operational performance, a financial target and a set of performance metrics. Though these measures might seem weak by today's standards, they were a major improvement in the 1980s.

Agencies designed their own frameworks and the authors of the *Next Steps* report believed that this "sense of ownership [was] essential to getting better performance."[26] Bringing together information on resources, objectives, targets and indicators in the framework documents was also an improvement on the earlier phase of FMI.

The role of the Treasury

The Treasury was closely involved with FMI, but mainly through senior officials rather than ministers. Immediately after FMI's launch, the Treasury's second permanent secretary notified other permanent secretaries of its requirements.[27] All departments had to receive the Treasury's approval for their FMI plans by January 1983; the Treasury then monitored departments' FMI progress and senior Treasury civil servants received regular reports on them.[28]

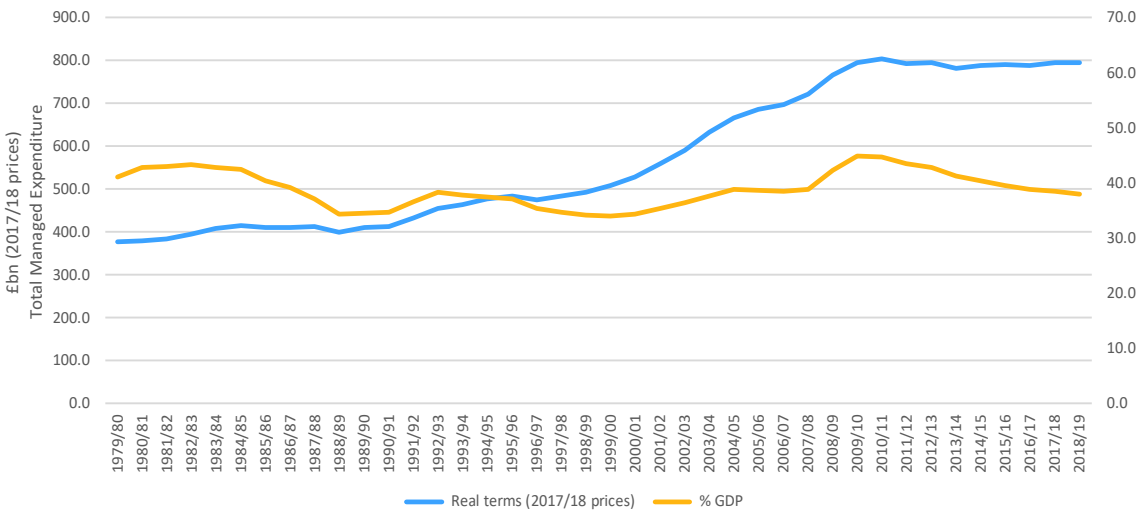
The Treasury initially had severe reservations about *Next Steps* – the chancellor, Nigel Lawson, and his permanent secretary, Peter Middleton, even tried to block the publication of the report in 1987. Their concern was that the creation of agencies would undermine the Treasury's control of public spending, as well as the ability of Parliament to hold ministers and civil servants to account for that spending.[29] With Thatcher's backing, however, the Treasury was won round and began to engage closely with the initiative. Agencies prepared their framework agreements in consultation with the Treasury. Several years after *Next Steps* began, the Treasury devolved more financial flexibility to agencies.[30]

The period 1979–90 introduced some important improvements – the creation of central units, a new look at accountability, the use of data and giving the Treasury a central role – and these laid the ground for the greater improvements that followed.

1991–2010

Governments' approaches to public spending in the two halves of this period were different. During the first 10 years, spending was relatively restrained, increasing by an average of 2.5% a year in real terms. As the economy recovered from the recession of 1990–91, it fell as a percentage of GDP. In the following 10 years, spending rose more quickly, reflecting decisions in Gordon Brown's 1998 comprehensive spending review and subsequent spending reviews. In this period, spending rose by an average of 4.5% a year in real terms, and steadily as a percentage of GDP.

Figure 1: UK public spending 1990/91 to 2007/08



Source: Institute for Government analysis of Office for Budget Responsibility figures.

On coming into office in 1990, John Major established the Citizen's Charter, driven by his desire "to end the excessive focus on financial inputs rather than service output."[31] He was determined to define results by the impact on citizens. His charter "saw the interests and perspective of service users given much greater prominence",[32] and promoted the idea that there existed "a kind of contract between service users and service providers".[33] While the charter as a specific initiative did not survive the change of government in 1997, its concern with the experience of users of public services lived on, and indeed became even more ambitious, thereafter.

Blair's New Labour government set out to show that it could respond to big challenges facing society (such as education and the impact on communities from the decline of old industries) while being a "responsible steward of public money".[34] There were three main elements to this.

First was the continuation and strengthening of new public management (NPM) approaches: performance targets, inspection regimes and league tables, intended to increase accountability and scrutiny of public service leaders, as well as transparency about performance.[35] The use of targets went well beyond the standards for user experience in Major's charter approach, defining the government's intentions on such matters as, for example, crime reduction, health inequalities and housing development.

Second were public service agreements (PSAs), and the performance targets that were central to them. These started as a Treasury initiative: Ed Balls, special adviser to Chancellor Gordon Brown, lobbied for the creation of the PSAs, which became the main method of managing public spending and results from 1998 to 2010.[36]

PSAs aimed to connect each department's objectives with performance targets to monitor progress. This established performance management, in some form, as an element in planning and managing government business. Since 2010, every central government department has used some form of performance-management framework, which the PSAs had helped to make standard.

Even in the beginning, however, PSAs paid little attention to showing how money was allocated to priorities, merely listing departmental spending totals, and failed to spell out how resources should be allocated to specific objectives. As their focus on results increased, so their focus on the money being spent went down: by 2004, PSAs did not include any mention of resources and the 'value for money' section – present in 2000 and 2002 – had also disappeared.

The government's focus on results meant that it lost sight of the full sequence from resources through to outcomes and impact. As a consequence, it became more difficult for it to portray itself as a responsible manager of taxpayers' money.

Third, the interest in operational efficiency did not go away. Published alongside the 2004 spending review, Gordon Brown set up the *Gershon Review of Public Sector Efficiency*, which was designed to "release major resources [from the government's administrative activities] into front-line services that meet the public's highest priorities."[37]

New Labour's record on the productivity of public services is open to challenge. Quality of output is difficult to assess and, in some cases, even to quantify.[38] However, according to the most recent official analysis, productivity did not improve under New Labour.[39]

Central units

Throughout this period, governments recognised that a strong central unit would help them manage performance. When Major took office, a Citizen's Charter Unit in the Cabinet Office drove forward his initiative. It assigned 'charter marks' to reward services which consistently met standards.[40]

Blair also came to see that a powerful central unit would help achieve results. The creation in 2001 of the Prime Minister's Delivery Unit (PMDU) transformed PSAs into a central part of government planning. A team of 40 led by Michael Barber, the PMDU prioritised 17 PSAs from four departments – Home Office, Health, Transport and Education – in line with Blair's election manifesto.

The PMDU acted as a "key support mechanism" for departments,[41] with reviews of priorities, league tables and delivery reports, and a supply of advice. However, it also took a more pro-active approach, helping to build departments' ability to manage their own results. The unit survived the transition from Blair to Brown in 2007, although it moved into the Treasury.

Although the coalition government that succeeded Brown abolished the PMDU in 2010, the concept of a central unit supporting the prime minister on government performance did not go away entirely – although its focus and impact changed. In 2012, the coalition established an Implementation Unit; under Theresa May this was renamed, for emphasis, the Prime Minister's Implementation Unit.

Standards and targets

Major's Citizen's Charter focused on whether public services were meeting specified standards. For instance, a health standard told people how long they should have to wait for an emergency ambulance ("within 14 minutes if you live in an urban area, or 18 minutes if you live in a rural area, or 21 minutes if you live in a sparsely populated area").[42] The Major government created individual charters for all public services and judged spending by whether these were met. Results, for the most part, improved: for instance, waiting times for hospital operations fell between 1990 and 1996.[43]

In contrast, PSAs were more of a mix, including 'customer service' targets (such as hospital waiting times), tangible outcomes (school results) and long-term societal outcomes (life expectancy). Targets provided the basis for league tables, with the intention of incentivising the performance of operational leaders and enabling the public to compare 'outlets' like schools and hospitals. Echoing Blair, as chancellor Brown launched the 2004 PSAs by promising to deliver "the outcomes that will really make a difference to people's lives."[44] By 2004, 79% of PSA targets focused on outcomes.[45]

The approach evolved and, according to many observers, improved, over time. The 1998 PSAs were, famously, sprung on the Treasury two days ahead of that year's spending review announcement.[46] In 2000 and 2002, they were part of the spending review discussion, rather than an add-on at the end, became progressively fewer in number, and were more carefully defined. The 2004 spending review reduced the number still further, and paid more attention to 'cross-cutting' issues. Cross-government performance was emphasised to an even greater extent in the final set, agreed in 2007, which consisted of 30 PSAs shared across departments.[47]

When correctly designed and used, PSA performance targets really improved the results of public spending. The OECD attributed the UK's improvements in educational attainment, hospital waiting times and crime rates to PSAs and their targets.[48] An evaluation of local PSAs found that targets had "a significant positive impact" on 18 of 20 performance indicators.[49] The system made genuine attempts to be based on better data and improved over time. In 2007, the National Audit Office (NAO) reported that 85% of PSA data systems were "broadly appropriate."[50]

However, the use of targets also had drawbacks, especially where there were no 'quick wins' or where results would not be evident within an election cycle. This sometimes led to excessive focus on short-term targets and actions with more immediate impact, even if these were less cost-effective.[51] Some targets were also 'gamed' by service managers. For instance, many targets demanded year-on-year improvement, which sometimes led to managers constraining their performance levels to avoid being set more ambitious targets in subsequent years.[52]

There were also too many targets and indicators, creating bureaucratic burdens. The first set of PSAs included no fewer than 560 performance targets. By 2004, there were only 106 targets, but some still said this was too many.[53] Even after the government dramatically reduced the number of PSAs to just 30 in 2007, departments were still faced with 157 performance indicators, as well as departmental strategic objectives.[54]

The government showed considerable over-enthusiasm in applying targets and performance indicators to local government too. At one point, councils had to report to government on between 600 and 1,200 indicators.[55] In what the government saw as a huge achievement, it consolidated these requirements in 2008 into a national indicator set with 198 items.[56] As the Institute noted at the time, the process remained "rather bureaucratic", there were often technical problems with the indicators, and there was a tendency towards a controlling approach by central government.[57]

The role of the Treasury

The Citizen's Charter did not require a big increase in public spending, and the Treasury appeared happy to play a peripheral role. In contrast, the PSAs demanded more spending and so the Treasury was much more closely involved. Spending reviews – as the Treasury's own multi-year spending plans – always coincided with a new series of PSAs (in 2000, 2002, 2004 and 2007).

This enabled the Treasury "to incentivise departments to deliver on government's overall objectives in return for appropriate funding."[58] The chancellor, in his role as chair of the Cabinet Committee on Public Services and Public Expenditure, set PSAs and monitored departments' progress in the non-priority areas.[59]

However, the Treasury accepted that the PMDU should lead in other areas. Initially it was concerned that the unit, then part of the Cabinet Office, would undercut its authority on PSAs.[60] But Barber, Nick Macpherson (Treasury head of public services) and Andrew Turnbull (the Treasury's permanent secretary), were able to build common ground and effective working relationships between PMDU and the Treasury. This enabled the PMDU to mediate between the Treasury and departments, "pushing back on the Treasury's optimism bias" and challenging departments on whether they could deliver their plans.[61] There are important positive lessons from this phase:

- There was a clear connection in government planning between spending and intended results.
- The centre of government was focused on a manageable number of issues.
- There was strong apparatus for driving progress and ensuring accountability.
- The Treasury was strongly involved.

There were also major weaknesses. First, complexity rose as targets multiplied, while the degree of detailed, central management required also went up. Both factors combined to lay political vulnerability at the feet of a government held to account for reaching declared targets. In 2008, the financial crisis rammed this last point home. Second was productivity: it was all too easy, at a time of rising public spending, for achievements not to be matched by improvements in efficiency and productivity.

2010–15

The coalition government abolished PSAs as part of its response to the 2008 global financial crisis, the increase in government debt and the consequent desire to cut public spending. Spending fell during this period, from £804.1bn in 2010/11 to £789.6bn in 2015/16 (both given in 2017/18 prices).[62]

In explaining this move, the coalition criticised PSAs as "old top-down systems of targets and central micromanagement."*[63] It had a point – but it is hard also not to see the force of their critics' claim that it was politically useful to jettison targets at a time when the government needed to cut large sums from public service budgets.

As the government's focus shifted towards strong control of spending, it replaced PSAs with departmental business plans (DBPs). Prime Minister David Cameron emphasised that DBPs were intended as a stark contrast to their predecessors: "You will not find targets – but specific deadlines for specific action. Not what we hope to achieve – but the actions we will take."[64] Oliver Letwin, minister for government policy, justified the

* This phrase appeared in the introduction to every 2010 departmental business plan.

shift away from outcomes by observing that PSAs had struggled to intervene in complex, or even chaotic, contexts because the Labour government's "levers very often had nothing at the other end."[65] Instead, Letwin claimed that DBPs would focus on "certain actions that are actually within the control of government to fulfil."[66]

Despite this shift from outcomes to action, DBPs preserved a similar performance framework. Each included the department's vision, main aims and indicators of performance. However, as Cameron had promised, the DBPs' choice of priorities and actions were easier for government to control. The DBP indicators focused, at least at first, on spending over results, reflected most clearly by their section on expenditure – absent from PSAs.

Transparency and data

Rhetoric about transparency was not matched by reality. Despite the commitment of the Citizen's Charter and PSAs to transparency, Cameron argued that there was so much performance data that it was almost impossible to interpret. He aimed to replace this "bureaucratic accountability" with genuine "accountability to the people"[67] and promised to publish government data to allow "an army of armchair auditors" to scrutinise government actions.[68]

Initially, DBPs published monthly progress updates to explain missed deadlines, and justified changes to the structural reform plans – part of the DBPs introduced in November 2010, which contained time-specific commitments for each department – by publishing annexes. Input indicators, as opposed to performance targets, were supposed to allow the public to track departmental progress.

But a lack of relevant, timely data severely weakened DBPs' claims of transparency – and their ability to monitor their priorities. In some departments, 50% of indicators did not have data. When the data did exist, there were few attempts to make it understandable (for example, through a simple visualisation or description) to the interested, but non-expert, citizen. Many indicators lacked benchmarks and baselines as points of comparison. Frequently, they were unrelated to the actions whose progress they were supposed to illustrate.[69] The monthly updates ceased in 2012.

The role of the Treasury

The Treasury was scarcely involved in the writing or monitoring of DBPs – this was left to the Cabinet Office. When the Public Administration Committee asked Letwin "does the Treasury still fulfil its more traditional role… does the Treasury still set targets", his reply was a simple "no, it does not."[70] Unlike PSAs, the drafting of DBPs did not coincide with the spending review process. This further decreased the Treasury's influence, to the extent that a former finance director regarded DBPs as "just a document".[71]

Interest in DBPs dipped later on in the coalition government, and it stopped revising them in 2013. However, departmental planning documentation re-emerged in 2016 with a new name: single departmental plans (SDPs), which are covered in detail in Chapter 4.

Lessons

Over the last 40 years, the PSAs, backed up by the PMDU, came closest to a good, modern performance management tool for government – although they built on the achievements of the Thatcher era. However, their complexity and the proliferation of targets began to compromise their usefulness towards the end of their life. They do not appear to have fully succeeded in improving public sector productivity, though we do consider them to have improved the government's ability to achieve its goals.

The need for the government to be able to make cuts in spending and to discuss with the public what range of services the country wanted in straitened times also made for difficult politics. If the government had retained the PSAs, it would have been trying to meet rigid targets on the one hand while aiming to have that Holy Grail of politics – an honest conversation with the public about difficult choices – on the other. It is not a surprise that the PSAs proved vulnerable to pressure for change.

Looking over this whole period there are some lessons about what works.

Performance management needs strong leadership and clear accountability

Thatcher's personal attention made the Efficiency Unit work. Rayner described how "a word from the prime minister... could undo a logjam or encourage someone to think again."[72] The unit organised regular seminars with her at which ministers and their permanent secretaries would present results.[73] They were directly accountable to her for performance.

In a broadly similar way, despite the pressures on his time created by the politics of his premiership, Major invested personal capital in the Citizen's Charter and set the stage for New Labour's focus on what services delivered rather than just how much was spent on them. PSAs were strongly associated with Blair and he used them to focus on his priorities. The PMDU convened regular stocktaking between Blair and his ministers, again ensuring that the latter felt directly accountable to the prime minister for their department's performance. The directness of this accountability is a central reason for the success of this period.

In making a rapid change from the New Labour model, the coalition provided too little central support to its DBPs.[74] That meant that the plans did not have the status or incentives to hold ministers or civil servants to account. At least eight departments ignored the coalition's DBPs and created their own separate performance frameworks. [75]

The Treasury must commit itself to government initiatives

The Treasury's involvement cannot be taken for granted. It must support initiatives for them to have impact, and reforms have worked best when the Treasury has gone beyond that and driven them forwards. During the early stages of *Next Steps*, the Treasury actively opposed the initiative and had to be won round; neither the Citizen's Charter nor DBPs benefited from the Treasury's support or interest, and both struggled to gain traction. For the PSAs, the Treasury learned to co-exist with the PMDU and, eventually, to lead the work alongside it.

The government needs settled priorities

Trying to do too much is not good for decision making in national government, nor does it help improve the performance of public services. It causes senior ministers and civil servants to divide their attention between too many things, and leads to confusion about the government's priorities.

The way PSAs (and centralised involvement in their delivery) evolved under New Labour showed recognition of this. They became smaller in number, and the persistent focus of top-level political attention on a manageable subset of them through the processes led by the PMDU, provided a "guiding star to the policy direction of the whole government".[76]

Small units at the centre are best at driving change

Most initiatives have created a unit at the centre of government dedicated to getting results from spending, such as the financial management, *Next Steps* and prime ministers' delivery units. These have been led by influential civil servants and advisers who can get things done while winning the respect of departments.

With *Next Steps*, two senior civil servants really drove changes forwards: Robin Ibbs, who wrote the *Next Steps* report, and Peter Kemp, who made sure its recommendations were implemented. Kemp was instrumental in ensuring that the *Next Steps* report did "not die of neglect" – as the report's authors had feared might happen if the recommendations were not championed by "someone with real power inside the system."[77]

PSAs had the benefit of Blair's personal support and Barber's commitment to a technique that he later developed into a philosophy he tried to advocate to other countries. Barber also had strong existing relations with key ministers such as David Blunkett (Home Office), Stephen Byers (Transport) and Estelle Morris (Education), which helped ensure the departments engaged more positively with the PMDU.[78]

Central units with a role driving delivery have become widespread internationally. That experience suggests some key lessons about effectiveness: a real shift in approach is what makes change happen, not setting up a unit in itself; units do not need to be permanent to be effective; and learning from successful approaches elsewhere is important.[79]

While effective central units are an important ingredient of change, they are not free from risks. There have sometimes been too many, resulting in mixed messages for departments; they can be over-reliant on key individuals, losing impact when they leave; they may try to do too much themselves, rather than bringing about change in the way departments work. But their role in attempts to improve performance management shows why prime ministers find them valuable.[80]

Measures and targets are vital

Good data is essential. Performance indicators, targets and standards, as well as public behaviour, show whether the government is making progress towards its goals.

The *Next Steps* Initiative and, to a lesser extent, FMI, used indicators and targets. The Citizen's Charter used standards. However, departments struggled to gather the necessary data on their programme spending, and so found it difficult to monitor the results. The use of targets really expanded with PSAs. Targets have many strengths, but also are vulnerable to being 'gamed', while they can proliferate or become detached from public concerns.

The experience of other nations is illustrative. France suggests that the good intentions of systems using indicators and targets are undermined if the measurements become too prolific or too technocratic, losing connection with politicians' interests.[81] In 2006, France's Annual Performance Report specified 650 goals and 1,300 indicators for the 130 programmes of the general budget;[82] by 2015, the number of goals had been reduced to 331 and indicators to 677, for 120 programmes.

In 2015, Australia's Department of Finance offered guidance to government agencies on good performance information,[83] suggesting that agencies try to put together a compelling corporate plan that could be persuasive for parliaments, ministers and the public.

Aligning accountability and incentives is essential – but is not easy

All initiatives have faced problems aligning accountability and incentives. FMI and *Next Steps* tried to incentivise ministers, departmental managers and agency chief executives to improve efficiency and results.

But these shifts were inside government: the public lacked the means to hold the government accountable for the quality of public services. The Citizen's Charter was an attempt to rectify this. In selected services (mainly transport, tax and benefits), it gave the public compensation for services that failed to meet the minimum standards. The standards were prominently displayed in, for example, hospitals, to "show the public what they could expect".[84]

But both the Citizen's Charter and, later, PSAs struggled to create a system in which public services treated citizens like customers. Sometimes it was hard to quantify the difference between good and bad service, while the notion of rewarding high-performing departments was countered with the argument that this same money would be better spent on struggling public services. Instead, incentives were mainly reputational.

When supported by prime ministerial authority, that worked. However, as Blair's attention was diverted in 2003 by the demands of the Iraq invasion, he had less time to spend on this. This meant that PSA targets were "frequently missed with little consequence for the officials responsible", according to a 2010 Institute for Government study.[85]

From 2007, all PSAs became 'cross-cutting', as the responsibility for their results was shared between multiple government departments. However, this led to a further problem of accountability and incentives. Officials in contributing departments – those which were not ultimately responsible for the PSA – were not especially incentivised

by shared targets. It was difficult to "motivate departments to be a good number-two or number-three player when somebody else would take all the credit for what was achieved".[86] Or, indeed, the blame.

The answer is to keep the lines of accountability clear, so that ministers and permanent secretaries are clearly responsible for results. Where those are shared by different departments, that shared responsibility needs to be clear.

Look for incremental improvement, rather than radical reinvention

Despite some wrong turns and lack of recognition of the strengths in predecessors' approaches, governments have set out to improve on existing initiatives and have sometimes done so. *Next Steps* sought to address the failings of the Rayner 'scrutinies' and FMI; the coalition set up DBPs to improve on 12 years of PSAs. It is understandable that governments should look to build on – or break from – the existing initiative.

But the weakness is that there is no settled approach or consistent set of measures of performance. PSAs focused on results; DBPs on spending.

It also takes time to bring about change. FMI tried to change the way the government understood and managed results over a short period, but the civil service took time to develop "a more cost-conscious approach to government."[87] Spending departments, sceptical of the creation of agencies, did not immediately adapt to *Next Steps*. Officials were not used to valuing management information, delegating managerial responsibility and focusing on results. An approach to managing results that stayed in place longer would have more time to embed with the civil service.

International experience underlines the importance of adapting approaches over time, rather than periodic abandonment and reinvention. A recent review for the World Bank found that:

> "The countries that appear to have made the greatest progress are those that were willing to adapt rather than abandon performance budgeting. They have made critical assessments from past experience that have informed incremental rather than dramatic change."[88]

For example, Sweden has been using performance budgeting to inform decision making for around three decades. Its reforms during the 1990s – which restructured the budget process into two yearly phases – have informed budgeting reforms around Europe and in the OECD. As of 2017, most of the budgeting framework introduced in the 1990s remains in place (though it is now under review, partly due to sharp falls in Sweden's educational performance).[89]

Conclusion

Some features of government performance management established in the 1980s have endured – namely an emphasis on data and information, managerial responsibility and clarity about intended results. Between 1990 and 2010, there were increasingly ambitious attempts to plan and manage money and results together to make a real difference to public experience, the economy and society.

In our view, they had considerable success, at times, in making it easier for government to get the results it wanted. That was, however, accompanied by more public spending, and the reforms did not appear to make public services more productive. Success has depended less on technical design than on commitment from the prime minister and Treasury.

4. The government's current approach

Since 2015, the government has sought to improve its planning of spending and results through two main initiatives: the single department plan and public value framework.

The first of these was the Cabinet Office's creation, in 2016, of single departmental plans (SDPs), described by its permanent secretary John Manzoni as bringing together "separate plans for almost everything [into] a single, clear, roadmap."[1] Following this was the public value framework (PVF), which emerged from a 2017 review the Treasury commissioned from Michael Barber of how government gets value from its spending.[2]

An updated PVF was published alongside the spring statement in March 2019. The Treasury has been presenting the PVF as a central element in its approach to planning spending and performance, notably in evidence to the Public Accounts Committee (PAC) and in response to the National Audit Office's (NAO) critical findings about the effectiveness of government planning.[3]

The Treasury has emphasised that it recognises the need to plan spending and results alongside each other. In the 2018 budget, it said that the 2019 spending review would "aim to ensure... that performance and outcomes achieved for the money invested in public services are tracked systematically."[4] The 2019 spring statement added that the spending review "will focus on public value outcomes."[5]

Despite its compressed timetable, the document attached to the September 2019 'spending round' (an abbreviated version of the normal exercise) did include a section on this theme. It said: "This Spending Round marks a new focus on the outcomes the government will deliver."[6] It includes a proposed set of outcomes and metrics for the government's priority areas of spending.[7]

Government priorities often do not fit neatly within departmental boundaries. Recognising this, the 2018 budget also promised that the spending review would ensure "that policy issues are considered across departmental boundaries."[8] The 2019 spending round announced "a fund of £0.2 billion in 2020–21 to pilot innovative approaches to cross-public sector working."[9] But planning across departments requires careful attention to performance and accountability, given that traditional accountability to Parliament is conducted department by department.

Despite its initiatives, and aspirations, the government cannot yet be confident that spending will achieve the results it wants. Accountability needs to be strengthened, supported by better data and greater transparency – to facilitate external scrutiny.

Single departmental plans

The government describes SDPs as the "basis for the government's planning and performance framework."[10] First published in February 2016, these replaced the coalition/Cameron-era departmental business plans (DBPs).

Each department's SDP sets out its objectives and how it will achieve them, and are agreed with the Cabinet Office and the Treasury. The Prime Minister's Implementation Unit (PMIU), which is part of the Cabinet Office, shares the responsibility for central oversight of SDPs with the Treasury.

Announcing the introduction of SDPs, Manzoni said SDPs would "bring together inputs, outputs and outcomes."[11] The intention is to bring the planning of spending and results together better than DBPs had, albeit still on a department-by-department basis. They are also meant to encourage departments to decide which of their activities should take priority.

The full SDPs are not published – the government says this is because they contain more detail than is useful for the public or deal with confidential matters. Department officials, the Treasury and the PMIU all confirm that their full plans are more detailed than the published versions. They are longer, usually around 50 pages (published SDPs are closer to 10 pages), and include greater detail of how the department will deliver each of the objectives and sub-objectives contained in them. There is more financial information included, and, in some departments, we understand this is linked to objectives.

As well as the published plans only being summaries, there is also some variation in the way their content is set out. Table 2, overleaf, outlines the content of the Department for Transport's plan.[12]

Table 2: Main features of 2019 single departmental plans*

Content	Description	Quantity	Example
Objective	Top level of priority	6	"Support the creation of a stronger, cleaner, more productive economy"
Sub-objective	Components of each objective	20	"Secure the best possible outcome for transport users and businesses in EU Exit negotiations"
Action	Specific actions which will bring about objectives	55	"Prepare to invest £3.5 billion from 2020–21 in new road schemes funded through the Major Road Network and Large Local Majors Fund. Work with sub national transport bodies and local authorities to prioritise schemes and funding"
Measures	Quantifying (past) performance	15	Proportion of trains running on time in 2017 to 2018
Public value framework	Brief narrative on how framework is being applied in department		
Equality objectives	How department will contribute to equalities through its activities and as an employer	(narrative rather than objectives)	
Finances	Department's planned expenditure (not disaggregated)		
People	Number of employees		

Source: Institute for Government analysis.

How are SDPs working?

As the more detailed internal SDPs are not published, it is not possible to judge their quality externally, though the Cabinet Office and Treasury say they are working hard each year to improve them. However, the NAO, which does see the full plans, found in 2018 that "they are not central to decision-making in departments"; that "departments are weak at setting out their understanding of the relationship between inputs,

* Based on common features of most plans. There is significant presentational variation between departments' published plans. For example, the DfE plan is structured around "main delivery areas", not "objectives".

outputs and outcomes"; and that only half of respondents in a survey of departmental officials were "confident that there was a good match between planned results and actual capability and capacity."[13] This is consistent from the conclusions we have drawn from the published plans and interviews with officials. Our main findings are that:

- SDPs are not shaped by priorities set for government as a whole
- departments see SDPs as being run by the Cabinet Office and as detached from their financial planning conversations with the Treasury, which are deemed more important
- SDPs contain too many priorities
- published SDPs are not good enough for external observers to judge how well departments are achieving results.

SDPs are not shaped by priorities set for government as a whole

With the third set of SDPs in December 2017, the Cabinet Office published, for the first time, "the government's plan".[14] This is meant to set out priorities for the whole of government and explain how the work of departments, and the objectives in their SDPs, contribute to them.

The current version is a seven-point list of objectives for the UK, each with two or three actions that are meant to explain how the objective will be achieved.

Figure 2: The government's plan, updated June 2019

We will:

1. Get the best Brexit deal for Britain
2. Make the economy work for everyone
3. Build the homes people need
4. Improve schools, colleges and universities
5. Protect the natural environment
6. Keep our families, communities and country safe
7. Tackle injustices, wherever they exist in our society

Source: GOV.UK, 'A Country that Works for Everyone'
www.gov.uk/government/collections/a-country-that-works-for-everyone-the-governments-plan

The weaknesses of this plan are obvious. The objectives are very general – indeed it is hard to think of a government that would not embrace them – they do not provide a guide for action, and are not integrated with the SDPs.

The plan as a whole is notably light on detail; one action, for instance, is to invest "further in our public services, including an additional £20.5 billion per year by 2023/24 for our NHS."[15] It could not really be used to prioritise between different spending choices.

There is also no evidence that the plan is helping to shape the SDPs. The 2018 plan were only weakly tied into departments' plans: each SDP ended with a bullet point list of how the department contributes to cross-cutting issues that are broadly, though not exactly, the same as the objectives in the government's plan.

Cabinet Office ministers usually give statements when new SDPs are published but so far these have not referred to "the government's plan."[16] It was not mentioned in any of our interviews. In the 2019 SDPs, this already weak linkage has disappeared: there is no longer any reference at all in the departmental plans to the government's plan.

Establishing priorities for the whole of government should not be primarily the Treasury's responsibility; such a task would always be led by No.10, with the help of the Cabinet Office. Although not formally set out, the September 2019 spending announcement seems to be based on a decision by No.10 and the Treasury to focus on health, education and crime (as well as Brexit) as the most important issues for government.

SDPs are detached from departments' financial planning

Our interviews show that SDPs are sometimes almost irrelevant to departments' planning processes. In a few departments, SDPs have become the main planning and management document – being updated continuously as plans evolve rather than at set intervals, as for the published SDPs – but in most they are not.

Some permanent secretaries found SDPs a useful tool. One told us that his department's SDP was supported by detailed work plans and had become a "useful tool in staff engagement" with the SDP, business plan and annual report all well aligned. But it has been, so far, less central to financial planning and reporting. Another said she finds SDPs useful for articulating what the department is trying to achieve over the year and for explaining this to new ministers (and hence discouraging them from changing tack completely). But she argued that the SDP is "presented as more than it is" by the Cabinet Office and is too high-level to be used in managing programmes.

One permanent secretary explained that his department's SDP is not used to manage departmental business and was "outdated after two minutes". He saw the preparation of the SDP as a "compliance exercise" driven by requests from the Cabinet Office, while the department's real planning was based around the secretary of state's priorities and established programmes. Another said simply that the "Cabinet Office asks for them; therefore we do them."

A strategy director in a different department explained that a lot of business planning occurred in parallel to the SDP. Another senior official said that, in many departments, SDPs had yet to break through from "a bureaucratic hoop they need to jump through" into something they "really own and seek to use to drive outcomes."

The Treasury, PMIU and other parts of the Cabinet Office all play some role in SDPs. But neither the Treasury nor the Cabinet Office take full responsibility for the consistency

of content or the quality of departments' SDPs. Nor do they consistently assure or advise on the quality of the rest of department's planning.

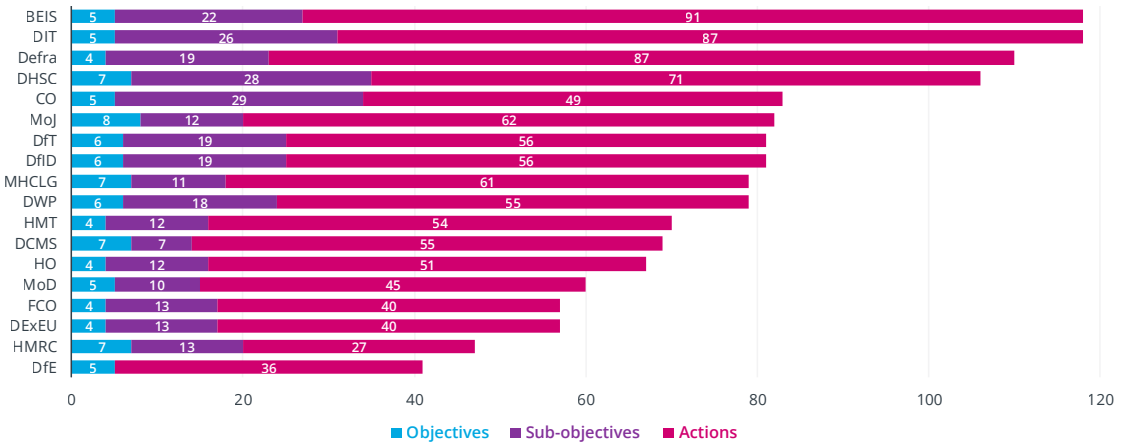
None of our interviewees said SDPs were central to their conversations with the Treasury. Some said they would appreciate more constructive challenge from the centre, especially on performance, once the SDP has been published. One official who led her department's most recent SDP said to us: "If I was in the centre, I'd be cracking the whip harder."

If SDPs are really to be the main planning tool in government and help spending achieve intended results, the Treasury and Cabinet Office will need to do more to ensure that all departments are using them as intended and are integrating them with the financial discussions with the Treasury. Outside government, it is not possible to judge definitively how central SDPs are to the relationship between departments and the Treasury – but what we have heard suggests it is, at best, patchy.

SDPs contain too many priorities

The 18 SDPs set out no fewer than 99 objectives, 283 sub-objectives and over 1,000 actions. Nearly half of departments have more than 15 priorities each (defined as sub-objectives). The number of priorities has increased over time: there were (only) 87 objectives in 2018.

Figure 2: Number of objectives, sub-objectives and actions in the 2019 SDPs, by department



Source: Institute for Government analysis of SDPs, 2019.*

There appears to be no obvious logic behind the numbers set by each department. The number of objectives, sub-objectives and actions of the five largest-spending departments (DWP, DHSC, DfE, MoD and MHCLG) range between 24 and 106. The Cabinet Office, with planned spending of less than £800m, has 34 objectives and sub-objectives – 10 more than DWP, which has planned spending of nearly £200bn.

Far too many objectives are about process, rather than impact, or lack clear (or any) measures of success. This suggests that some departments have not prioritised

* Explanation about how the Institute defines objectives, sub-objectives and actions can be found in our *Whitehall Monitor* publication.

sufficiently or decided what results really matter. If departments try to do too much, they are unlikely to do it all well.

Drawing up an SDP should be a prioritisation exercise. Instead, many of the SDPs we have seen appear to try and cover the whole of the department's activity and present all objectives and actions as equal in importance. The Department for Digital, Culture, Media and Sport's SDP, for instance, makes no distinction between "supporting the success of the creative industries" and "increasing access to the government Art Collection."[17]

Published SDPs are not comprehensive enough for external observers

When the first SDPs were published, Oliver Letwin, then minister for government policy, said they would "enable the public to see how government is delivering on its commitments".[18] Then Minister for the Cabinet Office David Lidington re-affirmed this on the publication of their most recent versions in 2018: "Single departmental plans allow Parliament and the public to track the government's progress and performance against a number of indicators."[19] He also said that "taken together, they show how departments are working to deliver the government's programme."

In their published form, however, SDPs do not enable the public or Parliament to make their own judgements about departments' performance. They do not, therefore, achieve the greater transparency and accountability promised by ministers. We have identified three main shortcomings in the government's published SDPs.

Loose targets

The priorities and actions included in the public SDPs are not precise enough to judge whether they have been achieved. For instance, DfE says it will "secure a highly capable, highly skilled social work workforce" and "improve our understanding of child wellbeing and happiness". These are both important aims, but without more detail it would be hard to decide whether the department had actually done them, or how well. By contrast, a more specific action from DfT's SDP reads: "Spend over £50bn to overhaul the rail network in England and Wales over the next six years – increasing asset renewals, improving reliability and reducing disruption."

It is also rare that a department spells out a date by which it will do what it has promised. This makes it much harder to hold the department to account for the actions it includes in the SDP.

Inadequate indicators

Many departments do not include performance indicators from which their performance can credibly be judged. Published SDPs are meant to link objectives to performance indicators (both outputs and outcomes), but around one sixth of all objectives in the 2018 SDPs were not linked to a performance indicator, and a further quarter were linked only to one.[20] Very occasionally departments include targets; the Treasury and MoD include some. But these have usually been announced previously, rather than being decided on as part of the performance planning process. HMRC is the exception: it has 11 targets supporting its two external objectives on revenue collection and service transformation.

The number of indicators departments include in their published SDPs, and their quality, varies widely. The Institute for Government's *Whitehall Monitor 2019* found that only around a third of objectives had measures from which the responsible department's performance could credibly be judged.[21] For the other two thirds, the measures did not relate closely to the objective or were not within the department's influence. In some cases, only a single measure (or none) was included for an objective – the Foreign Office has only one performance measure in its entire SDP.

It is of course possible that departments might include better measures in their internal SDPs, but from the published versions, there is no evidence that this is the case. Even if internal plans are more comprehensive, the poor quality of the published ones suggests that government does not take their use in accountability seriously.

Allocation of resources to objectives

The plans still do not make clear how resources are allocated between departments' objectives. During the preparation of the 2019 plans, officials told us that they were likely to include more detailed financial information than in 2018. However, that did not happen – because, we are told by officials, some departments' financial systems do not enable them to allocate spending to objectives.

So the plans still only show summary financial information for the department as a whole – they simply list total spending for the financial year under the main accounting definitions of departmental expenditure limit (DEL, controllable spending allocated in spending reviews), annually managed expenditure (AME, less controllable spending like welfare benefits), and capital and 'resource' (current) spending in each case. This is a step back from the later DBPs that, by 2013, showed how funding was allocated to specific areas.[22]

Recent improvements

In preparation for the 2019 SDPs, the Cabinet Office and Treasury issued new guidance for departments. This was not published, but we understand it put more emphasis on prioritisation, performance measures and ensuring that objectives and actions were achievable. The Treasury and Cabinet Office, along with leaders of the civil service functions (specialised professions such as finance, commercial or digital), planned to scrutinise the extent to which draft SDPs were realistic. The published 2019 SDPs provide little comfort that this scrutiny achieved significant impact.

They also encouraged departments to assess themselves against a planning maturity model, which is meant to show how they could improve their SDPs and planning. Results of the self-assessment are shared with the department's senior officials, ministers and lead non-executive directors.[*] The Cabinet Office says it will also meet with each department regularly to review progress.

The Cabinet Office and Treasury are also working to tie SDPs more directly into financial planning. The Treasury intended the 2019 spending review to involve the assessment of departmental proposals in the context of the department's SDP, with

[*] Departmental boards include externally appointed non-executive directors, who provide advice and bring an external perspective to the business of government departments by sitting on departmental boards.

its objectives and performance being measured against them. Departments would develop new plans once the spending review was complete.

The 2019 spending round document says that the next set of departmental plans, to be published in 2020, "will set out detailed implementation plans for the funding agreed in this Spending Round."[23] Their mention in the document indicates some commitment to this by the Treasury, but there is no other sign yet that spending and planned results will be brought together more clearly than in the past.

The September 2019 spending announcement document says that the next set of departmental plans, to be published in 2020, "will set out detailed implementation plans for the funding agreed in this Spending Round."[24] Their mention in the spending review document indicates some commitment by the Treasury, but it remains to be seen whether spending and planned results will be brought together in a significantly clearer way than they have been so far, including in the published versions.

Verdict on the SDPs

We welcomed the creation of the SDPs, and the intention behind them. And there has been some improvement over the last three years. But SDPs are, currently, too distinct from the conversations that departments regard as crucial – above all, those with the Treasury about budget allocation. The lack of publication suggests scepticism is warranted, especially with regards to the government's intentions to embrace them as the tool of performance management and external accountability their architects claimed them to be.

There are also longer-term questions about how SDPs will fit into cross-departmental planning, as would the objectives of any government (for example, reducing knife crime or increasing support for those with dementia). On the contrary, SDPs by nature work to reinforce departmental boundaries. But this is not an insuperable problem, as we set out in Chapter 5.

Public value framework

The second recent initiative to enable government to manage performance is the public value framework (PVF). This is the Treasury's main answer to how it will improve the management of results in government and bring a focus back to the 'value' of projects and what spending achieves.

In 2017, the Treasury commissioned Sir Michael Barber to review these questions. His central proposal was a new framework to improve the way government understands and measures value. The PVF is based around four "pillars" against which to assess policies:[25]

- 'Pursuing goals' focuses on what overarching goals the public body is aiming to achieve and how it is monitoring the delivery of these.
- 'Managing inputs' tests the public body's basic financial management.

- 'Engaging citizens and users' highlights the need to convince taxpayers of the value being delivered by spending and importance of engaging service users.

- 'Developing system capacity' emphasises the long-term sustainability of the system and the importance of stewardship.

In 2018, the Treasury ran five pilot projects to test the framework with departments. It then refined the PVF and published it with practical guidance alongside the 2019 spring statement.[26]

The new framework is less detailed. It reduces the number of 'main questions'* from the 152 in Barber's original proposal to 35,[27] and uses more straightforward 'yes/no' questions. It suggests the amount of time departments will need to spend on the framework, who should be involved and how the results should be expressed.

A strength is that the PVF now looks specifically at the ability of departments to translate spending into results. Following the change of administration, continued commitment is signalled in the 2019 spending announcement document.[28]

Outlook for the PVF

There is much that is good about the PVF, and some of its better points are that:

- it aims to put more focus on the results of spending

- the March 2019 document is detailed and specific; it is not just crudely about money and results but looks at the ability of departments to make things happen, as well as at public legitimacy

- it is flexible, and offers lots of different options for assessment, what it can be applied to, who will be involved and what should be done after the assessment

- it calls on departments to draw together evidence from different sources to answer the questions it frames. Many will find this difficult, but it is important – especially when many policies are based on insufficient or inaccessible evidence.[29]

There are some threats to its success, however:

- The document assumes a neat world in which the Treasury talks to a department about an outcome that the department then delivers, either itself or through organisations over which it has control. The real world is messier: the Treasury must understand that its traditional cause-and-effect approach to department spending and activity is outdated.

- While the PVF is right to talk about understanding users and the public, it is less clear how front-line leaders in public services, local government, the third sector or business will be involved in shaping central government thinking.

* The PVF contains a series of questions for departments to work through, with commentary after each explaining them.

- While it correctly pays attention to the potential of new technology, it arguably does not go far enough; the Treasury will need to recognise that digital is likely to drive even more profound changes in the nature of organisations and the relationship between citizens and government in years to come.[30]

- It is particularly worrying that our interviewees in the Treasury were not clear exactly how the PVF would feed into the spending review or how they would use it to challenge departments more generally. New SDP guidance says departments should make reference to the framework, but there is little detail on how.

- While it is promising that the Treasury wants the PVF to be tied into the spending review and SDPs, a lot more work is needed to address the practicalities of doing this. Without this, it is easy to see how spending teams and departments could default to their usual practices with only a passing reference to the framework.

- The framework document appears stronger as a tool for identifying problems with current planning and implementation, than for finding remedies – by its own admission, it "doesn't specifically make judgements on how to generate solutions for the issues [identified]." Such analysis is vital, but if it is to lead to the successful delivery of results the Treasury must take an equal interest in whether departments are actively changing their approach in light of the findings.

With a full spending review now deferred to 2020, the real test of the PVF will be whether it survives past a general election. Past spending reviews have shown that good intentions to change the way decisions are made often get frustrated. It will require strong backing and determination from the Treasury's political and civil service leadership to make sure the framework becomes an enduring element in the government's planning.

Departments are likely to be sceptical about the prospects of decision making not 'reverting to type', because of its roots in Treasury culture and the approach of the new government. They will therefore need to see much stronger evidence that the framework is really going to lead to big changes in the Treasury's approach than has been apparent so far.

Conclusion

Despite the introduction of SDPs, the development of the PVF and other initiatives, the Treasury is not currently doing enough to ensure results are well managed. It still tends to focus on individual policies within departmental boundaries rather than whole-of-government priorities and the quality of departments' planning. It still does not publish clear enough information on spending or results to allow outsiders, be it Parliament or the public, to scrutinise either properly.

The Treasury has recognised that it should pay attention to results. Its new-found interest is, however, put at risk by the chances of both politicians and officials reverting to previous ways of working.

5. A new approach

The findings emerging from our assessment of the management of spending and performance – in the recent past and currently – are that:

- The Treasury is too focused on 'managing the numbers' – making sure that departments do not spend more than they are allocated. It has not been paying enough attention to the effects of spending or the impact, on the ground, of its decisions on budgets.

- Because of this lack of insight, and because its spending teams work too much in isolation from each other, the Treasury is not able to understand the combined effect of various spending decisions on public services and different parts of the country.

- The Treasury does not do enough to ensure that the certainty brought about by multi-year spending reviews is passed on to the public service organisations that directly bring about results. This reduces their ability to plan and deliver cost-effective services.

- Central government priorities are not communicated clearly enough to those responsible for spending public money, either through spending reviews or in the delivery period after them.

- Too often organisations are given responsibilities but not the funding to carry them out effectively – or they are not properly held accountable for how they spend their funding on other public service organisations.

The government and opposition both recognise some of the shortcomings we have described. Since the publication of the *Barber report* in 2017, the Treasury has said it intends to focus more on spending results, and has been working with the Cabinet Office to encourage departments to specify goals and results.

The shadow Treasury team has produced proposals that seem similar in intent. In March 2019, Shadow Chancellor John McDonnell wrote to Tom Scholar, the Treasury's permanent secretary, setting out Labour's plans for government. These include a five-year spending review and a return to public service agreements (PSAs). Labour intends, if elected, to pursue big themes that cut across government, such as poverty, inequality and the environment.[1]

All this is encouraging – above all, the recognition that it is important for government to manage performance better, and that the Treasury should have a central role in this. Nonetheless, as we have noted, actual progress falls a long way short of these aspirations. With long-term pressures on tax revenue and public spending extracting value out of spending, ensuring that government becomes more efficient, as well as effective, will become even more important.

Our recommendations

Our recommendations build on the progress that has been made. The public value framework (PVF) is a useful start. It takes the PSAs' focus on resources and results, and adds two useful criteria: understanding public opinion and the experience of service users; and making sure the organisations and people who actually bring about results are able to do so.

But in our view, for the PVF to be successful more needs to be done to learn from the shortcomings of the PSAs, as well as from subsequent initiatives. The lessons begin with a failure to plan for government as a whole, which would ensure that departmental goals are consistent with the government's main aims. Clearer central prioritisation would better equip individual departments to pursue goals that do not fall neatly within their own, more narrowly defined responsibilities.

A second serious weakness is the way that strategic planning tools (notably at the moment, the single department plans, SDPs) are peripheral to the conversation that departments regard as essential – namely the one with the Treasury about their spending allocation. In turn, the Treasury does not hold departments to account for the results of their spending.

A third weakness is that the quality of data collected by government does not support proper outside scrutiny, by Parliament or the public. Nor does the government do as much as it could to make the data available to facilitate that scrutiny.

Our recommendations seek to build on the PVF but to add a greatly strengthened spending review process, a stronger role for the Treasury in ensuring the effectiveness of departmental planning, and stronger parliamentary scrutiny. The Treasury's role must be defined clearly and practically – it must be involved in making sure not only that spending is controlled, but that it achieves value and results.

However, as a small department, and not having the capacity to develop an in-depth understanding of every aspect of public spending and investment, the Treasury cannot manage everything directly. We suggest therefore that it should:

- take a close, direct interest in the government's top priorities, with the chancellor being a key player in defining them

- ensure that departments, and the institutions that manage public services and investment, have the systems and capacity to do that well.

In line with these broader aims, we offer specific, practicable proposals in three key areas. The Treasury should:

- enhance spending reviews so they are based on an agreed set of priorities for the whole of government, and address intended performance with the same thoroughness as spending

- set and enforce clearer standards for how departments manage spending to achieve value and performance, and ensure each has the tools they need to deliver them

- be more transparent and encourage strong external scrutiny from MPs and the public about spending and results.

Enhance spending reviews to address resources and performance

Priorities

The core of the enhanced spending review process we envisage must be a clear statement of what the government intends to achieve. As we argued in Chapter 4, the current "government's plan" as published in June 2019 is too vague and has no real political traction. Spelling out the government's priorities will need to be driven by No.10 and have support from the Cabinet. However, it is also important that, even if the lead formally lies elsewhere, the Treasury is closely involved in shaping the process and takes responsibility for its results.

The benefits of shaping the spending review around a clear, politically driven articulation of the government's most important goals include:

- enabling the government to make a public statement about its intentions and the reasons behind them – as a former minister put it, to "decide what kind of country we want it to be"[2]

- discouraging central government from micro-managing activities by focusing on priorities. As one former senior Treasury official told us, it would "provide some tension in the system to balance the normal tendencies against prioritisation"

- providing a stronger basis for allocating resources between departments and programmes, rather than a series of bilateral 'haggles'

- incentivising departments and agencies to achieve stated whole-of-government priorities, over their individual interests.

There are risks. Whole-of-government targets may produce prescriptions that are too broad to steer choices. And, having defined its intentions, a government must pay close attention to how it can make them happen – which in many cases is unlikely to be through conceptually straightforward top-down planning.

It will also be difficult to overcome Whitehall's long-standing tendency to focus on departmental priorities over shared objectives. This tendency is driven by various factors, from ministers' desire to be publicly responsible for a clear area to bureaucratic questions of line-management and accountability. These dynamics will never be overcome completely, but as one former senior Treasury official put it: "It has to be helpful to have something pulling on the other end of the rope."

Something of this kind has been done before. Tony Blair selected a small number of PSA targets to be the focus of his delivery unit's work, which were the focus of regular

'stocktake' sessions with him. The 2007 PSAs, which included 30 targets, were an attempt to prioritise results for government as a whole. Participants in the 2010 and 2015 spending reviews say that the coalition agreement and work done by Sir Oliver Letwin to translate the 2015 Conservative manifesto into a government programme helped to inform spending decisions with an overall view of goals and priorities.[3]

Other governments – including those of New Zealand, Canada and Scotland – have adopted statements of what they are trying to achieve from a whole-of-government perspective (Table 3).

Table 3: Statements of intent for the whole of government[4]

New Zealand: Better public services (2012–17) • Ten results that government agencies should work towards collaboratively, based on priorities for the whole of government • Examples include participation in education, immunisation rates and criminal reoffending rates • Collective political responsibility for the 10 results, designed to drive ambition and create urgency
Canada: Mandate letter tracker (2015– present) • Government priorities outlined at the opening of a parliament with objectives assigned to ministers in mandate letters from the prime minister • Examples include strengthening the middle class and protecting the environment • Online mandate letter tracker publishes letters and progress towards objectives.
Scotland: National performance framework (2007– present) • Sets national outcomes for eleven areas, including health and the economy • Measures progress through 81 indicators, including statistics on productivity and income inequality.

Ensuring such plans work as intended is certainly not plain sailing. In 2016, four years after the New Zealand government started to plan on the basis of 10 priority result outcomes, the Institute for Government found that "deep-rooted silo tendencies of agencies" still predominated.[5] A New Zealand official recently told us this was still the case.[6] And despite the centralised priority setting process undertaken by the Scottish government, former Scottish Cabinet Secretary for Health and Wellbeing Alex Neil (2012–14) said recently:

> "Quite frankly, I didn't have time to worry about what the rest of the government was doing, I was too focused on what the health targets were. In any other jobs I had, I knew the performance framework was there and was a useful tool, but it didn't drive policy. Certainly not in the way that perhaps some people had intended it would do."[7]

These risks can be managed: the Scottish government also has in its national performance framework (NPF) a programme for government to set out priorities for moving towards these outcomes each year.[8] This narrows the focus to an achievable

agenda within a shorter timeframe. Neil's successor, Shona Robison, with a sentiment mirrored by other officials we spoke to, painted a more positive picture:

> "[The NPF] gave a kind of sense of overarching purpose that you weren't just in your own box and never mind anybody else. It gave you a sense of overriding purpose, of growing the economy, tackling poverty and reducing health inequalities, and that it was everybody's business. It wasn't just one person or a couple of ministers' business."[9]

With its strong commitment to transparency, the Canadian government publishes comprehensive information on the performance of departments in addressing its 12 main priorities. As of summer 2019, four years into the current government, two thirds of actions have been completed, and most of the rest are described as "making progress."[10]

The dynamics associated with political competition are unlikely ever to be completely overcome. But an explicit, politically owned articulation of the government's main intentions would be a powerful tool with which a finance ministry could press departments to focus on a manageable number of priorities. It would also help them to align their spending and activity with others, and to serve as a basis for regular review meetings.

Timescales and targets

Having articulated its key priorities, the government should make clear the timescales on which it proposes to achieve results, and how it will define success. Our view is that the government should be prepared to use targets to measure progress.

The UK's move away from the use of targets, since 2010, has been driven by the real risks of short-termism and 'gaming' that emerged in the preceding decade (see Chapter 3). Targets can create perverse incentives, become an end in themselves and, if there are too many, undermine clarity about priorities. There is also the obvious political risk – targets can be missed – something Conservative politicians looking at, for example, the net migration target are well aware of. The PVF contains only limited content on how to use targets to define and incentivise progress, taking their potential risks and pitfalls into account.

Yet as the record of the period 2001–05 shows, if the Treasury, Cabinet Office and No.10's focus is on a small number of targets, they can serve as a way to improve planning – and to communicate intentions and success to the public.

As we set out in Chapter 4, the 2019 spending announcement document suggests some intention to move in this direction.

Allocation of money

As part of the enhanced spending review process we are proposing, the government must be much clearer about how it is going to allocate money to its key priorities. Whitehall's departmental structure means that the detail of planning will need to be in departmental plans.

But if the government is going to achieve its priorities, it needs to develop clear, costed plans for each. These should be published to show how far the government's stated intentions are reflected in its financial decisions, and how resources for each department support its key priorities.

The government should also publish plans for long-term spending on infrastructure, by area as well as nationally, drawing on the advice of the National Infrastructure Commission. The Institute has argued that the government should make clear how its infrastructure investment will benefit different areas, and illuminate the trade-offs between options.[11]

Evidence and insight

Not having the right evidence and data, or not using it well, makes it hard for departments to manage themselves and impedes external scrutiny. The government should make sure the centre and departments work from a single set of financial and performance data.

We recommend the creation of a new team – shared between the Treasury and Cabinet Office, and staffed by experienced finance professionals – to assemble the evidence and insight needed for an enhanced spending review. The same information would be shared across the centre of government to make it easier for the two departments to make joined-up decisions.

The new office would not impose additional reporting burdens on departments. Rather, the data, evidence and insight requested should only relate to the review's stated priorities. It would also fill the gap in the government's insight into the performance of public services around the country – this could be done using data from the Office for National Statistics (ONS), departments and councils, and by drawing on the views of front-line public service leaders and the public.

While the PVF is strong on assembling and using data to inform the planning and performance management of individual programmes, it does not (presumably because it is outside its scope) address how the Treasury should assemble and use information across different programme areas. This would help it understand the progress of government thematically – for example, as we have argued, on procurement – or in relation to different parts of the country.[12] Ensuring the evidence assembled by the What Works Centres is applied more systematically should be an important part of this.[13]

The PVF includes a commendable emphasis on planning evaluation carefully and making sure it is resourced – but this must be applied in practice, most of all to the issues on which the government itself has declared a focus.[14]

Expert and user advice

The Treasury should assemble an advisory group of government non-executives, other business, public- and third-sector leaders, academic experts and user advocates for each government priority. This would help contribute ideas to the plans and keep them on track. The PVF is right, in our view, to emphasise the need to understand the experience of users, but does not address how to make sure that departments draw

on the insight of public service leaders responsible for practical implementation, or on other external expertise – especially when departments are not directly responsible for implementation.

Risk assessment

In our report on the 2019 spending review, we argued that the spending review process needed a much clearer assessment of risk.[15] The government must be transparent about the main risks facing each of its priorities. The PVF has useful recommendations on specific elements of risk, for example the shifting of costs to other areas – it does not, however, address how to develop a picture of the most important risks and how to address them across the government as a whole.

Set and enforce clearer standards for departmental performance

By defining the government's priorities, the much stronger spending review process we are proposing would determine the most important elements of individual departments' planning. It would also guide Treasury and Cabinet Office decisions about how they should allocate their limited time for discussions with departments.

The priorities and plans for achieving them will focus only on the results that matter most to government. There will of course be significant public services and other aspects of government activity that do not feature in the priorities or the plans. Such elements seem unlikely to be included among the key priorities for the whole of government, but they are still important and need to be planned well.

The Treasury sets out standards for accounting officers and departments on financial management covering governance, decision making, financial management and audit in its document *Managing Public Money*.[16] This is a good basis for a definition of effective departmental planning. Departments also publish 'accountability system statements' (documents outlining their understanding of accountability relationships in the department and organisations involved in delivery).[17]

However, addressing the concerns we have set out in previous chapters, we believe these standards and processes need to be strengthened so that they:

- make sure that data and insight, including about the factors that lead to pressure on demand-led spending and services, are used as the basis for decision making
- ensure there are clear and well-designed arrangements for accountability
- provide greater transparency about performance
- ensure that the Treasury scrutinises accountability system statements rigorously. As the Institute has previously argued, it must address what type of accountability arrangements are appropriate for a particular intention or programme, and how their effectiveness will be tested and reinforced from time to time[18]

- draw on the insight of operational leaders when monitoring whether results are being achieved in practice, especially when they relate to organisations outside the direct control of the department.

The Treasury should shift the balance of its own attention towards scrutinising whether departments have the right systems and people in place to properly plan and manage the resources assigned to them.

Accounting officers (normally the permanent secretary) are personally accountable for ensuring that departmental spending is regular, proper and achieves value for money.[19] In addition, since 2011, they have been formally accountable for the feasibility of departmental plans, that is, "whether the proposal can be implemented accurately, sustainably, or to the intended timetable."[20] As a safeguard, Treasury guidance tells accounting officers to discuss potential problems with ministers, and to request a formal 'direction' if ministers insist on proceeding against their advice. The direction must be published and shared with the National Audit Office (NAO) and Public Accounts Committee (PAC).[21]

The feasibility element in the definition of their responsibilities provides a strong basis for the above, and the published departmental plan should make it clear where this has happened.

In learning the lessons of the shortcomings apparent in the current published SDPs, and the processes that support them, any new departmental planning processes must:

- result in a clear, limited definition of what the department's priorities are – we recommend no more than three to five headlines

- identify the factors that affect demand-led spending and how events or decisions in one area of business affect costs elsewhere (internally and for other departments)

- understand the causes of escalating demand-led spending to identify where this is poor value for money.

The results of these processes need to be set out in plans – to be published in full – that clearly show:

- the key priorities and how these relate to whole-of-government priorities

- how resources have been allocated to these and how this will change over time

- intended results in terms of practical impact (not simply establishing further processes such as conducting consultations or passing legislation, which should not be seen as an end in themselves) and how these will be achieved over time

- how performance will be measured – with measures being relevant and based on reliable data (national statistics or comparable). Data on chosen measures should be

available frequently enough to enable departments to understand what progress is being made and whether there is a need to revise planned funding and activity

- how the plans themselves have been tested while under development with operational leaders and other stakeholders who understand delivery and impact.

Lastly, among the most important elements for the plans is to outline who is accountable for achieving results, and the level of their control over the money (and other levers) needed to achieve them. There should also be clear routines for this process, with the Treasury being strongly involved in discussing progress with departments – the importance of this is one of the vital lessons of previous experience (see Chapter 3).

The precise format will need to reflect the relationships and styles of the main political players, and their decisions about the roles of the Treasury and Cabinet Office. However, the plans would likely have two main elements:

- Quarterly, structured interactions between officials in departments, the Treasury and Cabinet Office, to make sure financial and performance data is agreed on and properly understood, and that issues requiring discussion at ministerial level are identified.

- Regular meetings involving departmental and central ministers, Treasury spending officials and relevant officials from the Cabinet Office (working on performance and in the functions), so departmental ministers feel personally accountable and have a political channel for addressing their concerns. The experience of the Blair years shows that the impact of such meetings will be much stronger if they involve the prime minister.

Increase transparency and encourage scrutiny

Addressing the shortcomings in external scrutiny of government spending plans will require changes on the part of both the Treasury and Parliament. The Treasury must publish more information in a form that can be more easily found and made sense of, and should work with Parliament to improve scrutiny of public spending plans.

Increase transparency

The plans drawn up in the enhanced spending review process should be published in full, together with the base of evidence and analysis that supports them. The improved departmental plans should also be published in full. As both the PAC[22] and Institute for Government[23] have argued, aside from necessary redactions of plans with national security implications, there is no reason not to make such planning documents easily accessible online.[*]

[*] The Canadian government's InfoBase web portal shows how it is possible to make information available on a consistent basis across departments, making it easy for users to drill as far down into the detail as they like.

Increased transparency and accessibility of government spending plans will also help Parliament and other external commentators to mount well-informed external challenges. This should act as a stimulus to government to improve its planning.

Greater parliamentary scrutiny

In a recent report, the Commons Procedure Committee argued that Commons scrutiny of spending plans is not effective.[24] Departmental committees seldom provide effective scrutiny of estimates and the Treasury Committee has too many other calls on its time to do so. Despite spending reviews being the process through which the government takes its most important spending decisions, scrutiny of the reviews themselves is even more limited.

We agree with the committee's findings. Our analysis shows that none of the committees overseeing the five largest spending departments (accounting for over two thirds of spending), held hearings on the estimates. Just two chairs sent probing letters to their departments.[25] There was no scrutiny activity at all on the plans published in the 2015 spending review, nor of SDPs. Of the committees overseeing large departments, just two – Defence and Health and Social Care – have carried out inquiries involving scrutiny of financial plans.[26]

It would be beyond the remit of departmental committees to look at the enhanced spending review as a whole, or at how the government manages spending and results on themes that extend across departments.[27] In principle, this role could fall to the Treasury Committee – but it already has a wide portfolio of high-profile issues to attend to. In the past it has struggled, in practice, to scrutinise spending plans on top of its other activities.

Establish a budget committee

The Commons Procedure Committee also proposes the establishment of a budget committee, supported by a parliamentary budget office. We agree.

The new committee's remit would be to conduct rigorous assessment of the feasibility of the government's spending plans. It should lead Parliament's work on the scrutiny of spending reviews, as well as departmental annual reports and accounts.

Just as the PAC, in its retrospective scrutiny of government activity, does not involve itself with policy questions, so the budget committee should not examine the merits of government policy decisions. Rather, it would "examine, instead, the soundness of the plans through which the government says it will put the policies which it has determined into effect".[28]

Most of the committee's government witnesses would be accounting officers and other officials. However, since ministers are ultimately responsible for the quality of their plans, it should also be able to call the chief secretary to the Treasury and other ministers. It should also take evidence from front-line public services, local government, business, academia and the third sector.

There would be no conflict with the work of the PAC. There is a clear distinction between the *prior* scrutiny of spending plans the new body would conduct and the *retrospective* scrutiny already carried out by the PAC. The work of the two committees would in fact be complementary – the budget committee could draw on the PAC's work to make sure that spending plans make use of the lessons of past plans; while the PAC could, in time, probe the extent to which plans responded to recommendations made by the budget committee.

Nor would the work of the budget committee conflict with the scrutiny conducted by departmental committees. Instead, it would supplement it by looking at how plans work across government as a whole in a way that departmental committees cannot do.

The budget committee could learn lessons from the Budgetary Oversight Committee established by the Irish Dáil. This looks at spending plans across government to assess their impact on issues such as climate change and gender. It also encourages departmental committees to be more effective in their scrutiny.[29]

External support

A new budget committee would need expert support, just as the PAC draws on the work of the NAO. There are several ways to achieve this.

The committee could be supported by a unit located inside government, but independent of the Treasury: the February 2019 Smith Institute report, *Spending Fairly, Spending Well*, proposed a public interest appraisal unit, "probably located in the Cabinet Office." The authors argue that it would be effective because it would be "inside the machine."[30] Being on the inside would certainly have its advantages, but could also mean it was prone to pressure from the Treasury not to press awkward challenges.

The Irish Parliamentary Budget Office, which supports the Budgetary Oversight Committee and other committees in their scrutiny of spending, has secured the "insider" benefits of this approach by hiring people from inside government who understand how financial decisions get made – but its parliamentary accountability and independence is clear.

The committee could be supported by an independent government office like the Office for Budgetary Responsibility (OBR): the OBR has been established by legislation, which entrenches its independence. Although it does not have a formal role in support of parliamentary scrutiny, an independent office of this kind could offer a public view different from that of the Treasury's. We are not attracted to the idea of extending the functions of the OBR to provide external challenge and assurance of government spending plans, though. The OBR's economic forecasting role is distinct and important, and while its interests would overlap with those of the new office (for example in looking at the long-term fiscal implications of spending choices), their core roles would be separate.

Establish a new parliamentary budget office: this is our preferred recommendation. Establishing a new parliamentary budget office would support the budget committee's work, and should be located in Parliament but with complete independence from the Treasury and the rest of the executive. The office's staff should include experts in finance, business analysis and economics. In Ireland, the role of the director of the office is set out in statute (like the role of comptroller and auditor-general here), giving it important symbolic independence and protection from inappropriate external influence.

Conclusion

Our recommendations face two principal obstacles. Political reluctance is the main obstacle to the idea of an enhanced spending review process that sets agreed central priorities; politicians might be averse to this either because of a fear of giving hostages to fortune, or the desire of secretaries of state to be seen to run their own mini kingdom. That would be a pity. Done well, the process would give the government a chance to tell the country again of its priorities and show that it had thought through how to deliver them.

Knitting together strategy conversations with Treasury and financial planning concerns faces other difficulties. It means breaking down the barriers that currently exist between these conversations and encouraging the Treasury to take responsibility for the results of its spending allocations. It would not be surprising if there were resistance here. But the degree of acceptance of the problem, and the direction of the past innovations studied in this report, suggest there are reasons for hope

These changes are not out of reach. But they do require significant repositioning of the role of the Treasury – both in how it interacts with other departments and the world outside Whitehall, and in its taking on of responsibilities for spending results. They require fresh thinking, and an acceptance of the flaws of the current arrangements and of the need for a new approach.

Over the last few decades, successive governments have shown themselves to be willing to reflect on – and reform – how they operate, and, as a result, decision making now looks very different from the 1980s. Reforms of this kind are vital for managing demanding aspirations for public services and investment.

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Acknowledgements

This paper draws on interviews and conversations with many people from government, Parliament, the wider public sector, business, non-governmental organisations and elsewhere and past Institute for Government work.

We would like to thank our colleagues Emily Andrews, Graham Atkins, Gavin Freeguard, Bronwen Maddox, Julian McCrae, Emma Norris, Jill Rutter, Tom Sasse, Gemma Tetlow and Hannah White for their invaluable advice. We would also like to thank Nicole Valentinuzzi, Sam Macrory, Will Driscoll and Melissa Ittoo for their support with publication and Magnus Summers for his work on project events.

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