



National Audit Office

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## **Report**

by the Comptroller  
and Auditor General

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**Cabinet Office and HM Treasury**

# The centre of government

# Overview

**1** The centre of government ('the centre') has responsibility for coordinating and overseeing the work of government, enabling it to achieve its strategic aims and ensuring there is a central view of the effective operation of government as a whole. Most of these strategic functions are performed by the Cabinet Office and HM Treasury (the Treasury). This report examines the role of the centre of government, including changes to the centre in recent years. It is not intended to be a comprehensive examination of the roles and functions of the Cabinet Office and the Treasury, and we do not conclude on the value for money of the centre of government. Instead, we draw together insights from our previous reports and those of the Committee of Public Accounts (the Committee) on these issues. We examine in particular:

- current responsibilities of the centre, relationships with other departments, and spending and staffing information;
- recent changes to the centre, including what these changes were intended to achieve; and
- findings on the centre from past NAO and Committee reports.

## Government has recognised the need for more integration

**2** The traditional operating model of government has been one of departmental autonomy, set within an overall spending framework determined by the Treasury at the centre. Under this model, the centre allocates departmental budgets and it is then up to departments to operate within these. Departmental accounting officers are ultimately responsible for their department's business decisions:

"Within the standards expected by parliament, and subject to the overall control and direction of their ministers, departments have considerable freedom about how they organise, direct and manage the resources at their disposal. It is for the accounting officer in each department, acting within ministers' instructions, and supported by their boards, to control and account for the department's business."<sup>1</sup>

<sup>1</sup> HM Treasury, *Managing public money*, July 2013, para 1.5.1.

**3** The centre has always had a coordinating function in other areas, such as national security or providing support to the Prime Minister. In recent years, the centre has recognised that there are other areas of government activity where introducing central strategic leadership could achieve greater benefits for government as a whole. In the Civil Service Reform Plan, the government acknowledges that:

“The organisational model of the Civil Service will need to adapt if it is to successfully reform. With 17 main departments varying greatly in size, the Civil Service will need a much stronger corporate leadership model, and much more sharing of services and expertise, if it is to deliver the step change in efficiency needed. ... The demands of a smaller Civil Service together with relentless pressure to save money require greater clarity in the relationship between the corporate centre and departments.”<sup>2</sup>

This move towards greater central coordination in strategic areas has been given impetus by the climate of austerity.

**4** The creation of the Efficiency and Reform Group signalled a move towards stronger management of the corporate functions of government. It brought together many of the corporate functions of a typical organisational headquarters, and a Chief Operating Officer for government was subsequently appointed. Similarly, the Treasury has recently appointed a Director General for Public Spending and Finance in a newly-created role akin to a private sector chief financial officer. However, the business of government is complicated by other contextual factors, which means it is not directly comparable to a private sector organisation. One key factor is the relationship between central direction and the established model of departmental autonomy, enshrined in the role of accounting officers.

**5** The centre has introduced several cross-cutting initiatives and organisational changes since 2010, alongside the traditional vertical model of departmental accountability. The Cabinet Office has led most of these initiatives, as part of its role in reforming the civil service. The new initiatives have sat alongside the Treasury’s economic and finance functions, which have been the Treasury’s main strategic focus since the election. For example:

- **Efficiency and Reform Group:** The Group was formed within the Cabinet Office in May 2010 to provide structure and coherence across government to the policy aim of reducing spending. Its purpose is to help departments make savings through improving their efficiency combined with stronger central oversight. In particular, the Group oversees spending controls delegated from the Treasury over areas such as procurement, ICT, property and consultancy. These controls have helped departments make large spending reductions. High-profile governmental targets have also helped to focus attention on a shared purpose.

- **Major Projects Authority:** The Authority was launched in March 2011 as a partnership between the Cabinet Office and the Treasury, backed by a prime ministerial mandate. It is designed to strengthen the central project assurance system.
- **Review of financial management in government:** The Treasury-led review sought to introduce greater coherence within government finance. The review recommended improvements to the leadership of government finance, management information, the spending control framework and the provision of internal audit services. Combining the leadership of government finance with the Treasury's established responsibilities for financial controls will help to improve the coherence of finance functions.

There has been some progress towards implementing greater integration

6 In our reports on centre of government issues, we have been generally positive about the rationale for central initiatives. On the procurement reform strategy, we said that this was the most coherent approach to reform to date.<sup>3</sup> We also acknowledged the Cabinet Office's attempts to take a strategic cross-government approach to departmental debt management, especially in making better use of the private sector.<sup>4</sup>

7 We have also recognised where these initiatives have had an impact, and can draw out some shared characteristics:

- **A clearly defined goal:** For example, the Efficiency and Reform Group sets and monitors overarching government efficiency targets. In our report on the progress of the Group, we concluded that the scale of the savings that the Group has helped departments achieve, net of its own running costs, demonstrates that it has provided value for money.<sup>5</sup>
- **A formal process with approvals and sanctions:** For example, mandatory spending controls in areas such as ICT and consultancy have resulted in savings, and the Major Project Authority's integrated assurance process ensures greater visibility of project risks.
- **Mobilising a short-term response to a crisis:** This is classic centre of government territory. For example, over-billing in the electronic monitoring contracts instigated a cross-government review of contracts, with departments required to produce action plans to respond to the recommendations.

3 Comptroller and Auditor General, *Improving government procurement*, Session 2012-13, HC 996, National Audit Office, February 2013.

4 Comptroller and Auditor General, *Managing debt owed to central government*, Session 2013-14, HC 967, National Audit Office, February 2014.

5 Comptroller and Auditor General, *The Efficiency and Reform Group*, Session 2012-13, HC 956, National Audit Office, April 2013.

But more emphasis could be given to long-term planning

**8** Centrally applied preventive controls are generally effective, but they can also be rather blunt instruments, and cumbersome to operate. Although they may never disappear altogether, they can be substantially replaced by the more positive approach of detailed business planning over more than one accounting period, supported by budgetary control and strong accountability. Progress in this direction would support the more coherent management of longer-term projects and programmes, which form such a large part of the business of government.

**9** Where the centre of government builds pools of deep and scarce expertise, however, it is important that these contribute to the decision-making processes of departments at the right time, and preventive controls can assist in ensuring that this happens.

There needs to be a consensus on the role of the centre

**10** Our perception is that there remain significant tensions within central government over the appropriate role of the centre, and that of individual departments. We see this as unhelpful to the effective management of government's projects and programmes.

**11** A more coordinated approach to managing the business of government could offer benefits including: better value for money; improved services for the user; enhanced accountability to Parliament and the citizen; and a more coherent organisational view. These benefits will remain relevant as government seeks to implement its policy priorities in an environment of spending restraint for years to come. It is for government to determine how best to organise itself to deliver its priorities, but we think there are some 'unarguable responsibilities' which fall to the centre. These are, in many ways, aligned with government thinking and we recognise there is already activity under way in most of the areas set out below. We intend to use these areas as reference points in our ongoing examination of the strategic centre of government. We hope that they might also help government develop its own vision for a unified, coherent strategic centre:

- a** **Articulating a clear operating model for government:** For clearer accountability, the Cabinet Office and the Treasury should clarify their respective roles as the corporate centre. They need to jointly present a coherent interface to departments that complements the role of accounting officers. This could be expressed as a contractual arrangement (for example, when the centre is delivering a shared service to departments as a customer); as a formal approvals process; or as a set of shared expectations.
- b** **Providing strategic leadership of cross-government policies or programmes:** This involves clear governance and accountability, a central statement of objectives, performance monitoring, and a continued focus on achieving benefits. This is particularly important in areas of high-risk and high-profile reform, and where things need to progress quickly, ensuring an evidence-based measurement of such change.

- c Exploiting government's collective strength:** In some areas, the size of government as a customer gives it a competitive advantage or increased influence to achieve change. This can be seen, for example, in negotiations with suppliers on specific contracts, and more generally in managing ongoing relationships with suppliers.
- d Identifying and implementing more efficient and effective ways of working:** This includes promoting standardisation and consistency across government in areas such as buying common goods and services (for example, stationery and travel). It can include direct delivery of shared services for back-office functions like HR, finance and procurement, and also for other areas of specific expertise such as project management or operational delivery. There are also opportunities to exploit and rationalise government's assets, such as property, land and IT.
- e Incentivising the right behaviour, including promoting collaboration, integration and innovation:** Under the operating model of government, the accounting officer is responsible for the proper stewardship of resources and thereby, primarily, making the best decisions for their department. However, the centre can seek to influence and incentivise the right kinds of behaviour so that cross-government benefits are achieved. This may take the form of: funding incentives; additional performance objectives; ensuring long-term costs and benefits are taken into account; clearly demonstrating the value for money of adopting a central approach; or softer influencing strategies such as bringing department experts together to find solutions.
- f Understanding the cross-government picture and, where appropriate, making the best decisions for government as a whole:** It is valuable for the centre to have a strategic view of activity, performance and risk, with a failure regime in place allowing for risk-based intervention or coordinated action where necessary (see a). To avoid unnecessary data burdens, the centre needs to understand what data are necessary and how to use existing data sources, including benchmarking and sharing of good practice.
- g Improving governmental capability:** To improve policy implementation across government, the centre needs to understand current levels of capability and any capability gaps, how best to deploy the skills it has, and how to develop capability to run the government of the future. This also involves developing adequate capacity and capability at the centre.
- h Presenting a coherent view:** Developing a coherent, coordinated message in certain areas of government activity would help the centre maintain focus on these issues as governmental priorities, and support coordinated planning for cross-cutting activities. It would also help project an organisational confidence to Parliament and the public.