



National Audit Office

Report

by the Comptroller
and Auditor General

Cabinet Office and HM Treasury

The centre of government: an update

Overview

Introduction

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).

2 Over the last five years, the centre has worked to help departments make efficiency savings and change how they work. The next spending review is likely to continue spending reductions, and will require deeper change in departments. The centre must plan now for how it will work with departments to make significant further reductions while providing services.

The centre's role has evolved in response to austerity

3 The spending review in 2010 set out a clear challenge to departments to make significant and long-term reductions in spending. It planned that departmental budgets other than health and overseas aid would be cut by an average of 19% over four years.¹ Against this backdrop, the centre introduced several cross-government initiatives and organisational changes designed to help departments make efficiencies, and implement reform in key areas of business activity. These include:

- **Organisational change** – The Cabinet Office set up the Efficiency and Reform Group to be an 'operations' hub to help implement cross-government priorities.² The centre set up new posts, such as the Chief Executive of the Civil Service housed in the Cabinet Office and a 'Chief Financial Officer' in the Treasury.³
- **Central approval mechanisms** – New centrally managed spending controls, including mandatory restrictions on areas of spending such as consultants, marketing and IT.

¹ HM Treasury, *Spending Review 2010*, October 2010, Executive Summary. Available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/203827/Spending_review_2010_executive_summary.pdf

² The Efficiency and Reform Group (ERG) works in partnership with HM Treasury and government departments to deliver efficiencies, savings and reforms on behalf of UK taxpayers. Available at: www.gov.uk/government/organisations/efficiency-and-reform-group

³ Post title is Director General of Public Spending and Finance. Available at: www.gov.uk/government/news/new-director-general-of-public-spending-and-finance-appointed

- **Cross-government reform strategies** – Teams within the Efficiency and Reform Group (such as procurement, commercial and digital) worked with departments to develop medium-term plans to coordinate and reform how they work across government. The centre led these strategies but required departments to implement them.
- **Civil service capability** – The centre focused on developing capability in the priority areas of business activity – commercial, digital, finance, and project delivery – both in the centre and in departments.

4 Partly as a result of these activities at the centre and in departments, the Efficiency and Reform Group announced £14.3 billion in savings across government in 2013-14 compared with a 2009-10 baseline.⁴ This includes reducing demand, for example, hiring fewer consultants, as well as contract renegotiations, price savings, and reducing spending from transforming how services are provided.

5 Over the course of the last parliament, savings from reducing demand in some areas of spending have become more difficult to achieve. This shows how further savings through continued spending controls will be challenging to achieve, and will have to come from transforming the way departments work.

6 In June 2014, we published a report examining the role of the centre, including changes to the centre in recent years.⁵ We recognised efforts by the centre to integrate, and the move towards greater central coordination in strategic areas of government activity such as commercial and digital, all given greater impetus by the climate of austerity. However, we highlighted that there was still a lack of consensus on the role of the centre. Our previous work gave examples of gaps in the centre's leadership, implementation of cross-government initiatives and capability, which posed potential risks to value for money.

7 We concluded that: "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."⁶

4 Cabinet Office savings announcement, 10 June 2014. Available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/318624/ERG-end-of-year-13-14-PRINT.pdf

5 Comptroller and Auditor General, *The centre of government*, Session 2014-15, HC 171, National Audit Office, June 2014.

6 Comptroller and Auditor General, *The centre of government*, Session 2014-15, HC 171, National Audit Office, June 2014, paragraph 11.

8 The centre recognises that it needs deeper change in how it works with departments. As we noted in our last report, central spending controls in particular can be rather blunt instruments, and could be substantially replaced by the more positive approach of longer-term detailed business planning.⁷ *The Review of Financial Management in Government* (the financial management review) set out the goal of “moving, over the medium-term, to a more risk-based system of control” where departments may be allowed to “operate with higher levels of delegated authority”.⁸

The new Chief Executive has limited formal powers, although he does have other sources of influence

9 The government has created the Chief Executive role and appointed John Manzoni to the post to lead the development of the ‘functional leadership model’. His vision is to have a head of each profession, determining the operating model for the function, recruiting and deploying staff across government and setting common standards for departments. The government has identified the key functions as: communications; commercial; human resources; property; finance; digital; internal audit; and legal.⁹

10 Historically these functions have formed part of an efficiency programme which has not been connected to the main spending review process which sets departmental expenditure. John Manzoni is now working with the Treasury to align them more closely. He chairs the Corporate Management Board, which brings together the Cabinet Office, the Treasury, permanent secretaries and functional leads.

11 This should be an important forum for John Manzoni to push forward his agenda and coordinate efficiency planning ahead of the next spending review. However it is too early to comment on how successful it will be and there is a long way to go before the efficiency process is fully integrated into departmental spending plans.

12 The Chief Executive post comes with limited formal power outside the Cabinet Office, although it does have levers of influence across government. John Manzoni recognises the importance of creating a shared understanding with permanent secretaries to influence change in departments. Again, the Corporate Management Board should help to provide collective ownership of his agenda across government.

7 Comptroller and Auditor General, *The centre of government*, Session 2014-15, HC 171, National Audit Office, June 2014, paragraph 8.

8 HM Treasury, *Review of financial management in government*, December 2013, page 6.

Available at: www.gov.uk/government/publications/review-of-financial-management-in-government

9 The functions were set out in the permanent secretaries’ letter to the Committee of Public Accounts, attached to HC Committee of Public Accounts, *The centre of government*, Nineteenth Report of Session 2014-15, HC 107, October 2014.

The financial management review should move government in a more strategic direction but recommendations may not be fully implemented before the spending review

13 As well as determining departments' spending for the next five years, the spending review, currently expected to take place in autumn 2015, will set the tone for engagement between the Treasury and departments. The financial management review included recommendations designed to move finance in government towards the 'strategic business partner' role it has in the private sector, particularly given the continuing reductions to government spending.

14 The programmes put in place to implement the review are designed to improve the skills and leadership of finance professionals, and develop common structures for management information and common ways of working. Teams are also working on new tools which use finance information to inform a more strategic view of departments. These tools will be most valuable if the centre has comparable results for all departments before the spending review.

15 Departmental finance heads run the committees carrying out the review's recommendations, and they are involving finance staff from across government. This bottom-up approach should lead to a programme which is more tailored to departments' needs. Engaging finance staff across government should give the programme a better chance of achieving lasting change, although this approach does slow down the pace of change.

16 The Treasury is planning to roll out key tools such as planning and performance principles and a common approach for risk and forecasting before the spending review, and the spending review guidance is being developed by the planning workstream.

The centre has sometimes struggled to work effectively with departments

17 The centre has sometimes struggled to work with departments even though this is important to achieve successful transformation. Although there is a high level of agreement from departments on the principle of central coordination in key areas, there has been some resistance from departments to making the changes required. For example, our report on shared service centres found that this led to the first shared service centres having fewer users than anticipated and not achieving the expected economies of scale.¹⁰

¹⁰ Comptroller and Auditor General, *The centre of government*, Session 2014-15, HC 171, National Audit Office, June 2014, Figure 17.

18 In our first report on the centre of government, we found that barriers included the way the centre engages with departments, the lack of incentives in place, the burden on departments, and the centre's capacity and capability to implement its ambition.¹¹ The functional model must overcome these issues to help departments make the change needed.

19 To be more coherent, teams at the centre focused on delivery (namely the European and Domestic Secretariat, the Major Projects Authority, the Implementation Unit and the Treasury spending teams) meet monthly to discuss priority programmes. If necessary, they agree who should lead any central intervention. The Major Projects Authority has also set up a pilot to improve the interaction between spending controls and project assurance, reducing burdens on departments and giving them greater clarity. The Cabinet Office also has an ongoing programme to reduce the amount of data it requests from departments, and ensure that future data requests are not duplicated or overly onerous. The Treasury's cross-departmental approach to implementing the recommendations of the financial management review also shows how the centre is making progress in working more collaboratively with departments.

Deeper change is needed in the next Parliament

20 The next spending review, required to set departmental spending after 2015-16, is expected to require further spending reductions. Although departmental plans have not been set, the Office of Budgetary Responsibility's projections for spending outside of welfare and pensions, based on the 2014 autumn statement positions on tax and other spending,¹² implies reductions to departmental expenditure every year up to 2019-20. This assumes no policy changes to tax or welfare and pensions spending. Alongside this, the government's paper on *Efficiency and Reform in the next Parliament*¹³ sets goals for further savings of £10 billion in 2017-18, rising to £15–20 billion in 2019-20.

21 The government has recognised that the cost reduction measures of the last Parliament can only go so far, stating that: "Future savings will be more difficult to achieve, and will require government to be more creative with how it delivers public services, from a stronger push on digital technology to introducing structural and transformational reform in government departments, agencies and public bodies."¹⁴ The areas of digital transformation, commercial skills, and major projects delivery, along with the capability to manage change, are high priorities for the centre (paragraphs 3.7–3.10).

11 Comptroller and Auditor General, *The centre of government*, Session 2014-15, HC 171, National Audit Office, June 2014, paragraphs 3.15–3.20.

12 HM Treasury, *Autumn Statement 2014*, December 2014. Available at: www.gov.uk/government/publications/autumn-statement-documents

13 Cabinet Office and HM Treasury, *Efficiency and reform in the next parliament*, December 2014. Available at: www.gov.uk/government/publications/efficiency-and-reform-in-the-next-parliament

14 Cabinet Office and HM Treasury, *Efficiency and reform in the next parliament*, December 2014, page 19. Available at: www.gov.uk/government/publications/efficiency-and-reform-in-the-next-parliament

22 Departments must make even greater changes in how they work to make the future spending reductions likely to be required of them. They will have to look at their current operating models and change the way in which they provide services. In particular, they will have to work more collaboratively, pooling resources, and be more flexible and innovative in working through partners and delivering services digitally. Moving to a new way of working will require a new skill set in departments, particularly commercial skills in setting up and managing contracts, and digital skills to handle increasingly more online services. It will also require the right incentives and culture to support innovation and continuous improvement.

23 Achieving this scale of transformation takes time. The number of organisations involved in its implementation and the scale of the challenge means that departments will need a greater capacity for medium-term business planning and project implementation, which are traditionally not strengths in government.

24 Departments are aware of the size of the challenge they are facing. Although they remain accountable for service provision, there are roles for which they are looking to the centre to perform:

- Leadership and management of cross-government initiatives, such as shared services and procurement of common goods and services, to reduce costs.
- Expertise, support and monitoring in the areas that will support transformational change, particularly digital, commercial and major projects.
- A strategic view of the whole of government, working on cross-government policy initiatives and considering risks across the whole of government, not just for individual projects or programmes.

This change will require clearer and more effective leadership from the centre

25 Implementing the 2015 spending review will be a major challenge for the centre. It must incentivise and work with departments to produce credible business plans for transformation and hold them to account for meeting them, while maintaining standards for public services. If it does so, it will have a strong basis to achieve any future spending reductions required. If the centre misses this opportunity, then there is the risk of service failures and further spending reductions may not be achieved.

26 The role of the centre will be crucial in facilitating this. Coordinating the implementation will be made more difficult by the number of significant programmes and the extent of structural and functional changes within departments and across government. To manage this effectively, roles and responsibilities in the centre for achieving government-wide change must be crystal clear. The centre will need sufficiently sensitive monitoring processes and management approaches to succeed.

27 The ‘unarguable responsibilities’ in our last report show the elements of an effective centre (Figure 4). In recent years the centre has made progress against many of them, particularly exploiting government’s collective strength, and improving governmental capability. It must also develop those areas where departments are asking for more support, and which are of immediate importance in making the further cost reduction required.

28 Lead better integration across government. The centre must understand the cross-government picture and, where appropriate, make the best decisions for government as a whole. When we reviewed the processes for the 2010 spending review, we reported that the budgetary system does not incentivise departments to collaborate. At that time, we found the Treasury did not actively identify or coordinate spending on services between departments, direct departments to identify cross-departmental savings through joint working, or support integrated cross-government allocation of spending.¹⁵ If departments are to make best use of limited resources after the next spending review, the centre must build on areas where coordination of spending has since been put in place, such as the Troubled Families programme and the Local Growth Fund.¹⁶ The centre should have a whole-system view of departments rather than examining specific areas in isolation. It must monitor the implementation of multiple changes within departments at the same time. This means understanding the day-to-day operations of departments, as well as ministerial priorities and timetables.

29 Lead a more rigorous approach to business planning. The centre must incentivise the right behaviour, including promoting collaboration, integration and innovation. The centre must set clear requirements for departments to provide credible, data-based medium-term plans for achieving spending reductions while maintaining agreed service levels. Departments’ budget discussions with the Treasury should not be a separate exercise from ongoing discussions about efficiency, reform and transformation across government and the centre should use the Corporate Management Board to integrate them. For example, the savings that the Cabinet Office reports separately from the budgetary process should be integrated. This will provide more certainty that savings are part of lower overall expenditure. The centre must have credible expertise, to cope with the demands of departments for ongoing expert support in carrying out transformation once the plans are agreed.

30 Monitor performance better, sharing learning and intervening where necessary. The centre provides strategic leadership for cross-government policies or programmes. It should set an objective system for measuring government performance, agreed and understood by all initially and applied consistently across government. The centre should also lead on sharing knowledge, innovation and lessons learned across departments. The performance information the centre collects should give it a comprehensive view across the resources, capability and performance of departments. This will allow it to identify and support priority problem areas before issues become significant.

¹⁵ Comptroller and Auditor General, *Managing budgeting in government*, Session 2012-13, HC 597, National Audit Office, October 2012, paragraphs 2.21–2.25.

¹⁶ The Troubled Families programme was launched by the Prime Minister in 2011. A Troubled Families team, based in the Department for Communities and Local Government, has been established to join up efforts across the whole of government and to provide expert help to local authorities to drive forward the programme. The Local Growth Fund aggregates funding from various departments and provides funds to partnerships between local authorities and businesses for projects that benefit the local area and economy.