

# The Reluctant Managers

Part 1 Report on  
Reforming Whitehall

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# Foreword



The modern civil service was created by the Northcote-Trevelyan report of 1854, the opening paragraphs of which stated that:

*"All, however, who have had occasion to examine its [The Permanent Civil Service's] constitution with care, have felt that its organisation is far from perfect, and that its amendment is deserving of most careful attention."*

Precisely.

At the beginning of the 20th century, governments around the world spent around 10 percent of GDP on behalf of the citizen; by the turn of the 21st century that had risen to over 40 percent heading toward 50 percent of GDP\*

This new century has taken public services into the forefront of political debate; delivery of better services more consistently and at the best value for taxpayers' money, is right at the heart of the responsibilities of the modern civil service.

The mantle of public service reform is now around the shoulders of politicians of many persuasions. The prize for the better solution is the liberation of more national economic resources to deploy in the best national interests. Politicians now have responsibilities to ensure that their administrations are fully fit for purpose and able to manage the most effective possible delivery mechanisms. Over the last 15 years I have worked closely with many parts of the public sector and my personal conclusion is that at present society gets about 75p of value for every tax £ the Government spends; whilst some areas have seen improvement in recent years, this is a measure both of the problem and of the potential prize.

With these responsibilities also comes accountability; most decisions taken by politicians and civil servants create obligations and consequences that last for generations - recall the decision in the 1860s to build the first proper sewerage system for London or David Miliband's statistic that 7 percent of English schools were built before the telephone was invented. These obligations and consequences are rarely captured or become part of a corporate memory - the traditional civil service ensures systemic amnesia through its lack of professional career structure and focus on generalism.

If not managed and stewarded wisely for the long term, these obligations can result in colossal burdens for future generations as we now see with commitments to remedy historic neglect such as the £40 billion Building Schools for the Future program. The current civil service is not about the delivery of public services; it is about the provision of public administration and of politically sensitive handling advice. Changing that is one of the most important tasks for the next decade and this report aims to provide a first-class diagnosis of the condition and generates the basis for the prescription for its remedy.

Other countries in Britain's peer group are further ahead in developing a civil service capable of meeting these challenges. My colleagues, partners and I are delighted to have been able to support and take part in the creation of this report and look forward to the debate it stimulates and to helping in filling the prescription in due course.

Chairman, Financing Group, KPMG LLP

\*Vito Tanzi & Ludger Schuknecht, Public Spending in the 20th Century (2000)

# Executive summary



Reforming Whitehall is a necessary pre-condition for improving public sector performance. Britain is at a stage in the political and economic cycle where resistance is building to getting more public sector outputs solely by pumping in more inputs.

Improving efficiency requires management. According to Peter Drucker, the manager is "the life-giving element." Yet go to Whitehall and ask: "Who manages?" It's not the politicians. But neither is it Whitehall's permanent secretaries, who lack the fundamental attributes required of the manager – delegated authority for which they are personally accountable.

Whitehall is unmanaged. It is not realistic to expect the rest of the public sector to adopt modern management structures and incentives centre of the public sector's core is governed by constitutional conventions which emerged in the middle of the 19th century within structures established at the beginning of the 20th – well before the management revolution that swept the private sector.

The need for civil servants to become managers was recognised by Oliver Franks after the second world war. It was formally articulated in the Fulton Committee report of 1968: "*The principles of accountable management should be applied to the organisation of the work of the departments.*" These principles were not implemented after the chancellor, Roy Jenkins, argued against taking action.

The next attempt at serious reform had to wait 20 years and the Next Steps initiative. It resulted in much activity but set up forces to roll it back. In doing so, it revealed two antithetical models of the civil service:

- The management model is about management and delivery of services to users of public services. It is crisp and results-oriented. Line managers should be accountable and have authority to manage. This requires delineation of responsibility, focus on delivering objectives and a system of incentives designed to reward delivery of those objectives.
- The traditionalist model is about ethos and service to ministers as policy advisers. It is amorphous, collectivist and anonymous; more concerned about culture and values than results. Responsibility is shared rather than delegated.

The Whitehall traditionalist model exhibits characteristics of a rigid organisation and an insider culture protected by its monopoly position:

- institutionalised risk aversion.
- resistance to having clear, specific objectives and priorities.

- time treated as a free good.
- an administrative/political mentality, where status and influence are seen as being a function of proximity to ministers and the core competence remains briefing ministers.
- weak policy analysis and design, reflecting the absence of a strong tradition of micro-economic analysis.

The fundamental lacuna in Whitehall's self-analysis is the failure to make the link between incentives and behaviour. To change behaviour, you have to change incentives to promote that behaviour.

A consistent theme of previous attempts at reforming Whitehall is the success of proponents of the traditionalist model to put reform of the 19th century constitutional convention of ministerial responsibility off-limits. This doctrine is based on the fiction that ministers are accountable for everything done in their name; officials being anonymous agents of ministerial will. It is behind the veil of ministerial responsibility that the traditionalist model seeks refuge.

A necessary first step if Whitehall is to make the transition from administration to management is to recast this doctrine and intelligently allocate responsibility between ministers and those who should manage government departments. Just as with giving the Bank of England operational responsibility for monetary policy, this should be done openly and confirmed by an Act of Parliament.

# 1. Overview



Whitehall and its senior civil servants are the guardians of the public sector. Yet the same people are expected to provide and implement solutions for system failure, when they themselves are products of a system that is part of the problem. Sound policy can be wrecked by weak execution, compromised design and insufficient attention to detail, qualities that are tolerated in Whitehall's culture of political pragmatism, of problem fixing rather than problem solving.

The great bulk of public sector activity is about managing existing programmes. These require management structures and disciplines which are not consonant with Whitehall's prevailing ethos of collegiality and administrative anonymity.

Whitehall's mission creates a bias against performance improvement because it is about administration rather than management, its focus is on providing ministers with justifications for the status quo and its default action is making ad hoc interventions. Policy drives performance: inadequate policy design capability and a culture that shies away from defining bottom line objectives result in poor performance, in turn leading to repeated interventions which further undermine the ability of managers to deliver. This reinforces the bundling together of policy and delivery, which results in neither being done very well.

Conceptually it is not hard to identify the structural requirements for successful delivery. These include making delivery organisations as independent as possible, with genuine delegation of management responsibility; monitoring of, and incentives for, performance; transparency; intelligence about the design of objectives combined with flexibility in how they are met; and, wherever possible, the ability for the public to make their own choices and trade-offs.

Policy is conceptually the hard part. It requires turning generalised outcomes of what is desirable (which are easy to list) into tightly defined objectives and having policies which do not require water to be pushed uphill. More often than not, apparent failures of delivery are the result of policy failure. Assessing the quality of policy advice is difficult as there is a long gestation period between implementation and outcome. But Whitehall's inbred, generalist culture, one that seeks internal consensus rather than inviting challenge and seeing openness as a means of improvement, its pre-disposition for telling people what to do and imposing constraints, rather than recognising that successful policy design is about setting the rules of the game to enable others to deliver, all constitute a brake on improving the performance of the public sector.

Whitehall exhibits weaknesses characteristic of a rigid organisation and an insider culture protected by its monopoly position:

- a culture of institutionalised risk aversion, in which individuals are not encouraged or rewarded for successfully managing risk, indeed where the concept of risk is not well understood, except in terms of political risk, with the result that risks get bigger because individuals' incentives are about avoiding individual responsibility and sharing problems as widely as possible rather than leadership in solving problems;
- a marked predisposition against having clear, specific objectives and priorities because doing so involves conflict, which runs against a culture which seeks to maximise internal consensus;
- a consensual environment in which time is treated as a free good, unlike the private sector (where time is money), or for ministers (who need to generate benefits within the electoral cycle), where it is difficult to 'force' agreement and which lacks internal pressure to commit to a course of action;
- an administrative/political mentality as opposed to one that values management skills, where status and influence are seen as being a function of proximity to ministers and the core competence remains briefing ministers;
- despite its predilection for policy over delivery, Whitehall is weak at policy analysis and design, reflecting the absence of a strong tradition of micro-economic analysis, issues being viewed more in terms of balancing vested interests, increasing the public sector's vulnerability to producer capture.

The fundamental lacuna in Whitehall's self-analysis is the failure to make the link between incentives and behaviour. If you want to change behaviour, you have to change incentives to promote that behaviour. White Papers on reforming the public sector can be eloquent in describing the outcomes they want, but they do not examine the core issue of how they are brought about in terms of the incentives required to promote the behaviour on which such outcomes depend.

The civil service is deeply uncomfortable with the language of behaviour and incentives. It requires being precise about objectives and giving individuals unpleasant messages about poor performance, contrary to Whitehall's highly consensual culture. Instead it retreats deep into its comfort zone to focus on process. Rather than asking what the right incentives are, it asks whether it has the right kind of skills or training. Critiquing a process is easier than critiquing individual performance, but that is what private sector managers have to do to make their organisations successful. It encapsulates the difference between management and administration.



There is a long history of attempts to reform the civil service and a striking continuity in both analysis of Whitehall's shortcomings and what is needed to put them right. Although the civil service can point to changes, this continuity suggests an underlying stasis. There are three main reasons for this:

- reform has been incremental, aimed at the periphery rather than the core to avoid challenging the nexus of the current system – an obsolete doctrine of ministerial responsibility, the corollary of which is the absence of accountability on the part of top civil servants together with incentives/sanctions to deliver what they are accountable for;
- partial structural changes, such as the Next Steps initiative, were not accompanied by thoroughgoing alignment of incentives to tightly defined objectives and have subsequently been rolled back;
- as a monopoly, the civil service faces no external challenge to its existence, so there is no internally-generated incentive to change in order to survive. The sole and necessary impulse for change is from the prime minister of the day – which up until now has been absent.

An unreformed core will exert a gravitational pull on the rest of the public sector, creating a tendency of reversion to the historic mean. If the senior officials of government departments, who are ultimately responsible for managing the public sector, are not individually accountable, efficiently incentivised and able to manage, then it is unlikely that managers of front-line services will be either. A bi-cultural public sector is not practicable or sustainable, not least because of the dependence of successful delivery on high quality policy design, objective-setting and monitoring functions which remain at the core of Whitehall.

The place to start is at the centre. Sustained improvement in public sector performance therefore requires reform right at the heart of government.

Successful reforms are transformational. Their narrative is self-explanatory; once enacted they become permanent: privatisation; clause 4 and New Labour; monetary policy and the Bank of England. Insiders and outsiders knew the world had changed.

Whitehall needs a similar approach and this paper makes the case for it. The next step of this project is to set out the objectives for a reformed Whitehall and develop a blueprint for delivering them, which will be published as the second part of this report.

## 2. Three views



This view on Whitehall's performance is not shared by the man who until recently led the home civil service. The challenges faced by the civil service are a function of its own success:

### **The view from the Cabinet Office**

*According to Sir Andrew Turnbull: "The higher we can show we can jump, the higher the bar is set." Visitors from around the world – from countries such as Australia and New Zealand, where civil service reform has gone much farther than here, to countries where to all intents and purposes there isn't one, such as Afghanistan and Nigeria – come to Whitehall "to learn more from what they've been told is one of the finest civil services in the world, finest both in terms of its values and standards, and in terms of what it is capable of achieving."*

*The drive for reform is because of the ministers' relentless pressure to deliver improved public sector performance: "I am challenged, quite rightly, to deliver a more effective civil service, one that is capable of delivering the Government's ambitions for better public services."*



<sup>1</sup>Speech to Civil Service reform event, 24 February 2004

The former head of the home civil service's comment that he is "challenged" is itself revealing about the unchallenged nature of a public sector monopoly. No chief executive of a private sector business would stand in front of his colleagues and say, "I am challenged." Instead he would challenge them and the organisation to perform better; if they did not, the implicit or explicit sanction would be that the organisation and people would be changed. Speaking at the same event, the prime minister was more critical than Sir Andrew. Nonetheless, he and the cabinet secretary demonstrated their shared emphasis on delivery:

#### **The view from No. 10**

*The Prime Minister had nothing but praise for the quality of Whitehall policy advice, which he said, was "intelligently crafted and usually utterly sensitive to political reality." Implicit in the Prime Minister's view is that there is no weakness in policy or the advice that has shaped those policies. "We need a Civil Service which aims to amplify the implementation of successful change." If success is elusive, it is the fault of the civil service because it is not delivering, not the fault of the policies themselves: "The principal challenge is to shift focus from policy advice to delivery." We have got the right policies, now it is up to the civil service to deliver them is the blunt message. In that regard, the Armed Forces had much to teach the civil service. Talking about the eradication of foot and mouth, the Prime Minister said that "the Armed Forces' intervention was critical to delivery." This focus on outcomes required, the Prime Minister said, "a change of operation and of culture that goes to the core of the Civil Service."<sup>22</sup>*

The Prime Minister did not say how the change in culture and operation would be brought about. But the Prime Minister's remark on the political aptness of Whitehall advice is itself a telling insight. In the dialogue between ministers and civil servants, one would expect politicians' comparative advantage to come from contributing an understanding the political context of policymaking. Of all things politicians bring to Whitehall, this is what they should be able to do for themselves; quality policy design often not, but surely an understanding of the politics. Here then is a doubling up of political capability to the detriment of policy design and execution capabilities.



<sup>22</sup>24 February 2004)

A somewhat different view comes from the reformers of the 1980s. For them, the current focus on delivery is misplaced; poorly designed policies can't deliver the results their authors intend. Having the public sector "playing at shops" in mimicking the private sector without the rewards and discipline of the market is bound to end in disappointment. Neither are ministers salesmen for policies developed by civil servants. The answer is having the right policies and these can only come from ministers themselves:

### The view from the 1980s

*Coming into the Treasury in 1979, civil servants added little to policy; in essence Whitehall was a passive resource to assist politicians who had developed their ideas in opposition. Officials were shell-shocked by the failure of the post-war economic consensus, but were naturally sceptical of any alternatives. They didn't add anything, but neither were they an obstacle, and the middle ranks in particular were grateful for having a strong ministerial lead – civil servants responded to the incentive of being associated with a successful policy.*

*Even in the private sector, trying to embed incentives for efficiency by rewarding employees for performance against targets can be problematic. In the public sector, the drive for value for money has to come from ministers. The permanent civil service attracts a particular type of temperament suited to public service, provides a store of knowledge and maintains certain standards. Within it, ministers could find talented individuals to help them refine and push through reforms against inevitable institutional resistance to any change to the status quo.*

Perhaps that view reflects the capability of those ministers but also the particular challenges of those years. In part, the task was winning an intellectual argument about replacing Keynesian attempts to manage the economic cycle and resetting macro-economic policy to deliver stable prices and sustainable public finances. It was about policy, rather than institutional change. It made for a good fit between ministers who knew what they wanted to do and civil servants responding to a new policy paradigm. Whitehall is skilled in drafting legislation (reforming the laws on industrial relations) and, given strong ministerial leadership, implementing disengagement policies (decolonisation in the 1950s, privatisation in the 1980s).

Today, the nature of the key challenges is different: the emphasis is not about reducing the role of government but about changing the nature of government interventions. In healthcare and schools, for example, successful reform involves turning the government from being a provider to being a funder as well as regulator. Detailed policy design and implementation skills are critical for success. Without these, the policy will fail and the principles on which it is built will be discredited for a generation. Would a government invest its political capital in structural reform of public services without having the necessary skills in Whitehall? Could the Department for Education and Skills design and implement a schools choice programme that actually worked?

### 3. Whitehall today



Whitehall is political. Its forte is crisis management: briefing ministers, preparing a statement to parliament, deciding the terms of reference of an enquiry and suggesting the right type of people to sit on it<sup>3</sup>. It is good at handling an event-driven issue such as a statement to parliament, where there is a clear deliverable and deadline. But most public sector activity is about ongoing managing existing programmes, and the lack of clear objectives and deadlines leads to a huge amount of activity and lack of hard deliverables.

The first thing that strikes a visitor to Whitehall is the number of people hanging around. Twenty people at a meeting suggests massive over-resourcing. Time is money for the private sector. Ministers are subject to the drumbeat of the electoral timetable; policy needs to be developed, designed, implemented and yielding clear benefits well before the next election. In Whitehall, time is treated as a free good.

There is a lack of good micro-economic skills and, as a subset of that, modern corporate finance skills, and limited understanding of private sector corporate governance. The lack of understanding by civil servants of their private sector counter-parties is a critical weakness for a government trying to deliver public outputs through public/private partnerships and more generally from more interaction between the public and private sector.

In the main, officials like the “white board” stage of policy, coming up with bright ideas. But they are less good at playing out the options and asking the question: “Will implementation create more problems than the one we are trying to solve or can we perform the routine tasks better?” It is a pragmatic, ad hoc approach to policy making without a coherent policy framework: the culture puts a premium on fire-fighting skills and short-term problem fixing to get issues off the front page, rather than long-term problem solving that addresses the structural causes of poor performance.

This leads to an approach that often does not relate policy to first principles and elevates the practical man or woman above the theoretical. As Keynes once said, practical people are in thrall to some defunct economist. The difference between those who use theory and those who do not is that the former recognise their assumptions and can examine them critically whilst the latter are unaware of them.

<sup>3</sup>Although in a real as opposed to media crisis, the classic Whitehall approach can leave ministers feeling totally unsupported. Peter Hennessy recounts how during one of the crises that swept the country during Ted Heath's premiership the cabinet secretary at the time, Burke Trend, did not see it as his job to tell the prime minister what he thought: 'Like the Greats scholar he was, Trend preferred the Socratic approach in his steering briefs for the Prime Minister – a series of questions from which, in Trend's view, the political chief could be expected to draw his own, and hopefully correct, conclusion' (Whitehall (2001), pp.237-238).

In the absence of a coherent policy framework, civil servants tend to see policy in terms of understanding the agendas of key interest groups in a policy area and devising something which balances or reconciles their interests. This requires the skills of the diplomat rather than the economist and the approach naturally favours producer interests over those of the consumer. More has stood still than changed since the 1950s, when a study of the key public sector players in energy policy concluded: "The Ministry of Fuel and Power displayed evidence of great gifts in the field of industrial relations, and all the government departments were clearly skilled in diplomacy."<sup>4</sup>

More often than not, economists are used like weathermen to make forecasts, the most problematic use of economics, producing numbers of passengers as an input into airport policy or numbers of new houses required for land use planning – rather than where they can add most value in hard policy analysis and design and using their understanding of the role of incentives in influencing behaviour, performance and outcomes. The currency of such policies is quantities, not value, which itself drives policy toward sub-optimal administrative solutions.

In other words, Whitehall's prevailing assumptions are pre-economic and its ethos is administrative. Outcomes can be delivered by passing laws and by administrative means, rather than aligning incentives and reducing transaction costs. The focus is on market failure rather than government failure. Policy is about shifting structures from one static state to another static position. The notion of change as dynamic is alien to this approach, and was the fundamental weakness behind rail privatisation, as no one had thought through what might happen if there was a 30 percent increase in volume. A similar static mentality can be seen in the NHS reforms of governments of both parties which inhibit organic evolution of structures, so that any structural change requires repeated exogenous political intervention, rather than occurring naturally as efficient responses to changing and revealed needs.

Skill sets are siloed; in particular lawyers and economists tend to be isolated, although in the Treasury, economists are more integrated. When a legal question arises, the government lawyer is asked, and then put back in his or her box. Advice from specialists, such as lawyers and financial advisers, is treated as minutely granular and its purveyors treated as tradesmen whose views on policy are irrelevant and whose advice is only to be sought where unavoidable by virtue of some procedural requirement or where it can provide protection against criticism from the National Audit Office or the Public Accounts Committee.

It is inevitable that the public sector exhibits greater caution than the private sector. The healthy use of caution is to improve the quality of policy design, test assumptions and see the scenarios under which the policy might begin to break down. Instead, caution is used to justify inadequate half-way house positions, compromised policy design and the proliferation of constraints on

<sup>4</sup>DL Munby, Investing in Coal, Oxford Economic Papers (October 1959)

delivery, which cannot make anything work better, but either will not bind or make it more expensive or less flexible.

Whitehall is well behind the modern policymaking paradigm found in the U.S., Australia and New Zealand, which blends economics and law to integrate them into the core of policy making, following the comparative institutional approach pioneered by the British economist Ronald Coase. The advantage of this modern approach to policy development over the traditional Whitehall one is the combination of economic analysis and implementation (whether resulting in legislation or contracts), its understanding of the principal/agent problem, the importance of property rights and reducing transaction costs and the richness of Common Law. Common Law should give Britain a real advantage over Civil Law jurisdictions, where the default position is that if the law does not say you can do something, then you cannot. But its practical benefits have been weakened by the inclination of civil servants to add constraints.

Whilst Whitehall's set of pre-economic assumptions often fits well with the preconceptions of their political masters, ultimately most politicians are interested in ends rather than means. They need a civil service that explains to them why their inclination for administrative methods is unlikely to deliver what they have promised voters, and when they move in the opposite direction – as has been the case with healthcare policy since 2000 – they have a high quality policy analysis capability to hand which helps rather than obstructs them, so that they can be confident that their policies have a high degree of system coherence and can actually work.

Hand in hand with Whitehall's preference for behind-the-scenes fixes is a culture that dislikes transparency. The Freedom of Information Act specifically excludes policy advice. Transparency in the conduct of monetary policy, with the publication of the Monetary Policy Committee's minutes, has raised the quality of policy. In other jurisdictions, publication of policy advice is seen by permanent officials as enhancing their ability to provide their political bosses with free, frank, professional advice. Whitehall has no competition to, or even external benchmarking of, its policy advice. Transparency would require politicians and civil servants to raise their game.

Rarely are the needs of policy and the exigency of politics in harmony. President Kennedy once told his national security adviser that he didn't need stacks of memos to understand political consequences. That was his business. "Politics," according to his biographer, "was a mistress, coming by every day, delightful and undemanding, but history was the goddess."<sup>5</sup> In today's Whitehall, there are too many senior civil servants playing the role of mistress and too few ministering to their true goddess.

<sup>5</sup>Richard Reeves, *Profile of Power* (1993), p.261

As anyone who has dealt with the younger generation of civil servants can see, there is no lack of energy or commitment. But there is frustration. The organisation is inflexible: it takes a long time to ramp up to meet a specific task, while staff are hoarded after they are no longer needed as senior managers fear being forced to forfeit their staff budget, or because in some quarters staff are a sign of status. These are organisations that are resistant to hiring people for task-specific activities and then letting them go to do something else.

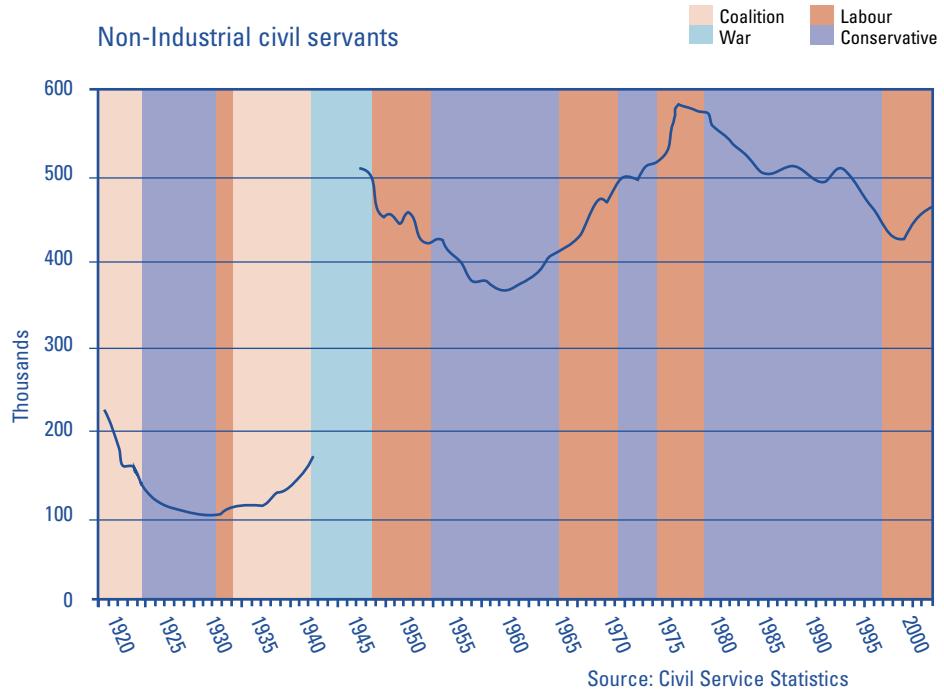
Civil service rules govern internal appointments with a requirement for onerous recruitment processes for jobs and competencies defined in Whitehall-recognised language as determined by the Cabinet Office. External recruitment is even more burdensome, with a heavy institutional bias to internal hiring; often managers can only make a case for an external hire when they have demonstrated that no internal candidate has the requisite competencies. Civil service salary bands and grading structures inhibit both the development of a responsive labour market and rewarding individuals on the basis of the value of their contribution to the organisation.

There have been improvements in recent years. There is now an emphasis on managing people as a competence: selecting and motivating teams, and staff development. The Treasury for example benefited from the 1994 fundamental expenditure review, which removed some deadwood and opened up more daylight. The arrival of the New Labour young turks in 1997 as special advisers helped precipitate a generational shift in terms of the organisation's receptiveness to younger civil servants. Elsewhere progress has been less assured. The DTI is seen by many as in the grip of older civil servants. Generally the top layers of the civil service are so tightly defined and structured that when someone retires there is a sense of inevitability about the people most likely to fill the empty slot.

The culture of the civil service and the structure of incentives and sanctions do not encourage the outcomes that ministers and ultimately voters want. In the private sector, if someone takes and manages risk and is successful, they are promoted or rewarded in some way (the reward being on the basis that motivates the individual concerned). If it goes wrong, providing it is not a case of culpable neglect, it is something to be learned from. First and foremost, it is a counselling or training issue until such time as personal capability becomes genuinely questionable, at which point, sanctions take place. By contrast, the incentives and sanctions in the civil service are about risk avoidance, not risk management. The talk about risk management is there, but the reality is not.

Meeting nineteenth century standards by being Trevelyan-compliant might be a necessary condition for a modern civil service, but it is no longer a sufficient one. The doctrine of ministerial accountability has been used to preserve the civil service as a system of public administration which neither has the skills to manage the 40 percent of GDP that passes through the hands of the public sector nor the incentives to do so efficiently.

## 4. Genesis and evolution



### Origins

Two people can claim parentage for the Whitehall we know today – Charles Trevelyan and David Lloyd George. Trevelyan's report argued that the orderly conduct of public business required a politically neutral, career civil service. To Trevelyan's permanent civil service Lloyd George added the modern "machinery of government", with the cabinet office co-ordinating collective decision-making and Treasury dominance of the home civil service.

The Northcote-Trevelyan report set the pace, if that is the appropriate word for its pre-steam age speed of implementation, for much of what was to follow in terms of speed of delivery and the culture it created. Published in 1854, it had to wait sixteen years for it to be implemented. Trevelyan followed Gladstone's suggestion in dividing work into "routine and intellectual categories", whose minute setting out of the report's terms of reference expressed the desire to establish "a proper distinction between intellectual and mechanical labour".<sup>6</sup>

So the division between policy and delivery, between those who use their brains and those who use their arms, became a founding feature of the civil service. Trevelyan's own lack of delivery brawn was demonstrated when he was put in charge of supplying the army during the Crimean war, his lack of management ability proved him utterly unsuited for the task.

Government employment tripled between 1891 and 1911, the machinery of central government retaining its 19th century methods. The scope and mechanics of modern Whitehall only came into being as result of the First World War and Lloyd George. Before the war, Lloyd George had pushed through the National Insurance Act of 1911 and developed the bureaucracy which would deliver it. But it was war that was decisive. Before becoming

<sup>6</sup>Hennessy, p.37

premier, Lloyd George created and led the Ministry of Munitions to drive war production, bringing in businessmen and other men of what he called "push and go" from outside Whitehall. Within a week of becoming prime minister, Lloyd George had created a War Cabinet serviced by a new Cabinet Secretariat, headed by the ex-Royal Marine Maurice Hankey, who was to serve as the first Cabinet Secretary until 1938. This provided the apparatus of collective decision-making and the authority to ensure that collective decisions were implemented.<sup>7</sup>

Lloyd George's machinery of government innovations became set in stone after the war with the Haldane report and the Treasury extended its authority over the home departments with its permanent secretary becoming head of the civil service, an arrangement that lasted until 1968. Thus the results of Lloyd George's fluidity and his genius for improvisation became solidified into Whitehall stone. No subsequent prime minister was to have – or to seek – Lloyd George's ability to change the Whitehall landscape to serve the priorities of their time; they would use the machinery and personnel bequeathed to them.

### **Consolidation and expansion**

In the 1920s, Sir Warren Fisher, the head of the Treasury and Civil Service, attempted to mould civil service into the civilian counterpart to the three armed services, as a fourth service of the Crown. It should have an *esprit de corps*. Regular sporting events against the military were organised and it was put on a par with the other services in terms of decorations and honours.

That quasi-military ethos, or put another way, Whitehall's command-and-control default policy setting, was reinforced by the Second World War when the government took control of the economy. The war created a premium on delivery and an urgent need to quickly implement solutions, pushing forward those who could deliver regardless of their provenance, rank or station. The arrival of outsiders led to a breakdown in the rigid distinction between the various grades in the service, which had become a feature of the staid Whitehall of the 1930s, with specialists being pigeon-holed and generalists taking all the senior positions.

For some commentators such as Peter Hennessy, this was Whitehall's golden period, to be followed by the atrophy and decline of the post-war years. Alongside Britain's soldiers, sailors and airmen, Whitehall's civil servants had won the war by mobilising the economy. According to this account, the war had drawn brilliant outsiders into public service, but the new blood was not refreshed in the post-war period, to the detriment of Whitehall's ability to win the peace.

An organisation that is not challenged will be subject to progressive institutional sclerosis, with insiders creating a self-selecting cadre to perpetuate the culture they value. According to Shirley Williams, "Departments are to a very great extent coloured in their attitudes by the last major reform that they undertook."<sup>8</sup> It could be said that Whitehall's biggest reform was winning the second world war. The exceptional circumstances of total war stamped on Whitehall an

<sup>7</sup>Unlike today's cabinet, Lloyd George's war cabinet could function as a genuine decision-making body as it only had five members all but one of whom were non-departmental ministers.

<sup>8</sup>Quoted in Hennessy, p. 380

outlook that was administrative and pre-economic, a mentality reinforced by the 1945 Labour government, whose key ministers had led the home front during the war and then extended wartime policies of control through nationalisation, planning and rationing.

The contrast with Germany could not have been greater. As soon as the allies had transferred power to Germans in 1948, Ludwig Erhard abolished rationing and restrictive regulations on production, distribution and capital movements. The German economy never looked back. In Britain, food rationing continued into the 1950s, but Whitehall's administrative mentality, which saw rationing as a solution to shortages rather than the cause of them, has carried on for decades right down to the present day.

### Fulton and the first stirrings of challenge

Dissatisfaction with Whitehall's performance and criticism of its reliance on generalists grew during the 1960s. In the main, the charge was led by economists who saw government taking economic decisions, large and small, uninformed by economic analysis.

Thomas Balogh, an economic adviser to Harold Wilson, wrote a scathing polemic on the amateurish culture of Whitehall entitled *Apotheosis of the Dilettante*. In 1961 David Henderson, later to be chief economist at the OECD, found that there were only a dozen economists holding economic posts in the senior ranks of Whitehall. "The result of this system is that specific questions of economic policy may be dealt with committees which not only include no economist, but may contain no single member who is really competent to pursue or to assess a connected chain of reasoning of a strictly economic kind," Henderson wrote.<sup>9</sup>

Both Balogh and Henderson served on a Fabian Society commission on civil service reform. The Fabian report, *The Administrators*, was published just before the election of the Wilson government. Its principal complaint was that Whitehall had not fully embraced the neo-Keynesian views held by most economists of the time, arguing that the permanent civil service had not sufficiently adapted to the new tasks of "forward economic planning and the modernisation of the national economy and industry."<sup>10</sup> If anything, their emphasis on Keynesian macro-economics in the 1960s created an additional barrier to the adoption of sound micro-economic analysis.

The Fulton Committee, which reported in 1968, also took aim at Whitehall's culture of what it called the "gifted amateur." It argued for the professionalisation of the civil service by creating a civil service college and recruiting more widely for senior grades. But Fulton's most striking contribution was its belief in the importance of management, anticipating the ideas of the New Public Management advocates by nearly two decades.

In fact, the importance of public sector management had been raised by Oliver Franks at the end of the second world war. Franks had argued that the role of the civil service had changed from being purely regulatory to "more and more those of management. Instead of analysing the problems of others, the civil servant now had to tackle those problems himself."<sup>11</sup> Here the Fulton report broke new ground. Having the right management skills by itself was insufficient; structural reform was also required: "The principles of accountable management should be applied to the organisation of the work of the

<sup>9</sup>The Use of Economists in British Administration, 1961, Oxford Economic Papers, Vol 13, No 1

<sup>10</sup>Quoted in Hennessy, p.173

<sup>11</sup>Quoted in Hennessy, p.124

departments. This means the clear allocation of responsibility and authority to accountable units with defined objectives.”<sup>12</sup> Fulton’s prescription goes to the heart of the problem, yet Whitehall has successfully resisted implementing this axiom of effective management to the present day.

The report also recommended consideration of the “desirability of ‘hiving off’ activities to non-departmental organisations” (recommendation 20a). But this was not accompanied by a real attempt to set clearly-defined goals and put incentives and sanctions around them. As telling as Fulton’s prescience on the importance of management is the omission of these key recommendations in the summary of Fulton a recent cabinet office paper on reforming the civil service.<sup>13</sup> The reason why will become clear later in this report. Whether accidental or not, it is indicative that, if left to itself, serious civil service reform has been on an ebb tide for some while.

Fulton also argued for greater transparency, urging the government to have a further inquiry into “the ways and means of getting rid of unnecessary secrecy both in policy-making and administration.”<sup>14</sup> As noted earlier, policy-making remains veiled in secrecy. Although Harold Wilson wanted to implement Fulton, the chancellor, Roy Jenkins, argued in Cabinet against what he called “precipitate action”, i.e. any action at all – and the opportunity for real reform was lost for a generation.

### **The 1970s and 1980s**

Having survived Fulton and chosen to absorb its less contentious recommendations, Whitehall marked time through the 1970s. The job of the civil service was, according to Sir William Armstrong, its head in the early 1970s, “the orderly management of decline.”<sup>15</sup> Innovations during the Heath government, such as the programme analysis and review systems initiative and the Think Tank, do not appear to have had much positive impact on the quality of policy, which contributed to continued decline, but not of a particularly orderly kind.

The main imprint on Whitehall before the election of the Thatcher government was the IMF rescue. Volume-based public spending plans meant that during times of high and fluctuating inflation, cash spending rocketed and the Treasury lost control of the public finances. The experience seared the Treasury’s collective consciousness and resulted in a system of tight annual cash controls and detailed Treasury oversight of spending departments. It was not until 1994 and the Treasury fundamental review that the Treasury decided to cut back its role of second-guessing spending departments, although this move to a more strategic relationship was later reversed during the Blair

<sup>12</sup>Twelfth out of 22 recommendations and findings. The Civil Service, Vol 1, Crnd. 3638 (1968), pp.61-2

<sup>13</sup>paras 1.7-1.9, Civil Service Reform – Delivery and Value, Cabinet Office (2004)

<sup>14</sup>Recommendation 20b.

<sup>15</sup>Quoted in Hennessy, p.76

government's first term, when the Treasury instituted an overlapping web of public service and service delivery agreements with spending departments.<sup>16</sup>

The Thatcher government did not set out to reform the civil service, but ended up making more changes to it than any of its peacetime predecessors. According to Professor Geoffrey Fry of Leeds University, "the home civil service that the Thatcher government inherited in 1979 had many of the characteristics of being a pay and promotion system with the needs of the work seeming at times to be treated as a subordinate consideration."<sup>17</sup> Incoming ministers did not open their red boxes to find solutions to Britain's problems. They came into office with policies they wanted implemented by a civil service that was at best agnostic about the new direction and which in turn was thought by some ministers, including Mrs Thatcher, to have been an accomplice in national decline.

The Thatcher governments, according to Fry, treated the senior civil service as "an adversary, and the running costs of the civil service as a whole seemed to be perceived as an area that should be, first, quantified, and, secondly, reduced."<sup>18</sup> The attempt led to an inevitable showdown with the unions and to a civil service strike in 1981.

At that stage, the Thatcher government did not have a coherent alternative; it knew what it didn't like, but didn't know what to put in its place. Machinery of government questions aroused little interest. There was so much else to do. Having been one of Ted Heath's preoccupations as part of his "analyse the data" approach to governing, it was associated with the errors of the past. The main result of the 1981 strike was the abolition of the civil service department, which had been established after Fulton, and modest changes to civil service pay determination. A concerted attempt at real reform had to wait until 1988 and the Next Steps report.

In terms of policy, the Treasury did not provide the new government with its own alternative to economic policies that had failed. It had been a one way dialogue and completely unlike the meeting of minds between ministers and officials that was to take place in similar circumstances in 1984 in New Zealand. Then it was a left-of-centre party that had completely rethought economic policy in opposition. When appointed, Labour's new finance minister, Roger Douglas, found a Treasury that shared his analysis and could contribute positively to the new government's policies. Whilst loyally serving the previous government, key Treasury officials had decided a new approach was needed and ensured they were fully prepared when a new government came to power.

In part, the difference in performance between the Treasuries in Whitehall in 1979 and Wellington in 1984 can be explained by the latter's second mover advantage and size – the tendency of large organisations to believe that all answers come from inside whilst smaller ones are less insular. The New Zealand Treasury went on to pioneer comprehensive core public sector reform that was more complete and enduring than those undertaken in the UK.

<sup>16</sup>The reason why these agreements were programmed to fail is analysed in chapter 8 of Spending without Reform, Reform's Commission on the reform of public services interim report (2002).

<sup>17</sup>Paper presented to Indiana University School of Public and Environmental Affairs, 1997, <http://www.indiana.edu/~csrc/fry1.html>

<sup>18</sup>Fry, <http://www.indiana.edu/~csrc/fry4.html>

Pressure on public spending during the Thatcher years led to a more intense search for ways of getting better value for money and a renewed critique of a Whitehall culture that seemed to be a barrier to achieving this. Mrs Thatcher brought in Sir Derek Rayner from Marks & Spencer to head her new Efficiency Unit based in the Cabinet Office. Rayner had previously worked in Whitehall in the early 1970s. Before rejoining, he gave evidence to the Commons Expenditure committee, arguing that failure avoidance was the dominant trait in Whitehall. The culture of failure avoidance, Rayner said, led to slowness in decision-making and a blurring of responsibilities:

*"Efficiency in the civil service is dependent, as in business, on motivation, and whereas in business one is judged by overall success, in my experience the civil servant tends to be judged by failure. This inevitably conditions his work in dealing with the elimination of unnecessary paperwork, and in eliminating excessive monitoring, and leads to the creation of an unnecessary number of large committees all of which leads to delays in decision taking and the blurring of responsibility."*<sup>19</sup>

Organisations in which status and promotion come from having a spotless record, rather than a record of achievement, discourage risk-taking and leadership. Individuals are inhibited from learning from mistakes because there is a premium on not acting, as it involves risk. When responsibility is collectivised, organisations have an interest in suppressing or denying evidence of failure.

This culture has been blamed on confrontational scrutiny by bodies such as the National Audit Office and the Public Accounts Committee. But a similar situation is also present in large, unchallenged companies, a recent example being one of the major multi-national organisations, with entrenched insider cultures and the expectation of a lifetime career path. Organisations which give their staff expectations of careers for life often suffer from this syndrome. If people within an organisation expect to spend their whole working lives in it, they are likely to adopt risk-averse behaviour characteristics. When Sir Samuel Brittan was working in the Treasury in the 1960s, he wrote in his diary that "the Wilson solution is no substitute for a thorough reform of the Civil Service to make it natural for people to go in and out at all stages."<sup>20,21</sup>

The Rayner Efficiency Unit, with its similarities to Tony Blair's Delivery Unit, functioned as a searchlight on behalf of No. 10, providing intense but intermittent scrutiny of departments or aspects of departments' performance from the centre. Such organisations therefore can only be at best partial substitutes for structural reform. It is telling that both Mrs Thatcher and Tony Blair looked to small, free-standing units to promote improvement rather than addressing the real issues – how to embed the right behaviours and incentives in mainstream Whitehall activity.

However the importance of structural reform was acknowledged by the Efficiency Unit in its Next Steps report, published in 1988. Next Steps focused on the necessity of having accountable management to improve public sector performance, which had been identified in the Fulton report twenty years beforehand but to little avail. It turned out to be the high water mark in reforming the civil service. Since then, the main trend has been regressive.

<sup>19</sup>Quoted in Hennessy, p.263

<sup>20</sup>Quoted in Hennessy, p.184

<sup>21</sup>Opening up recruitment to people from outside the civil service is one of the themes in the 2004 paper Civil Service Reform – delivery and values (paras 5.4-5.6). But the document also demonstrates classic signs of an insider 'them and us' culture, for example saying the civil service should train and develop "more of our own people" as well as "bringing in people with skills we are lacking" (para 3.2)

## 5. Next Steps



The Next Steps report was very much a product of its time and the value for money culture of the Efficiency Unit. It took a team of three (two women and a man) 90 working days to complete a 35 page report at an estimated cost of £50,000. By contrast, the five man (no women) Fulton Committee drawn from the Great and the Good, published its 206 page report nearly two and a half years after it was announced in February 1966.

The Efficiency Unit's approach was insular. Members of the Unit visited a number of regional offices and an RAF base, but did not look abroad to what other countries might be doing. New Zealand was just embarking on reforms designed to deliver similar objectives and Sweden could be said to have provided the model of small, policy-making ministries and separate agencies.

The report's key finding, on which its call to action was based, was the under-valuation of the importance of delivery. It argued that institutionally the focus was on inputs, not outputs, on how much a department had to spend rather than what it produced:

*"As the PES [Public Expenditure Survey] round progresses, attention inevitably focuses on the absolute levels of spending. Furthermore, at the later stages, the debate is about spending at the margin of the total bid. The combination of these two factors – emphasis on inputs and 'marginality' – leads departments to feel that although increased stress is being put on results and outputs, it is inputs which still really matter."<sup>22</sup>*

Gaming the Treasury for additional resources went hand in hand with insufficient focus on the delivery of government services (as opposed to policy and ministerial support), even though the report estimated that 95 percent of civil servants worked in service delivery or executive functions.<sup>23</sup> These delivery organisations, with a workforce of about 570,000 civil servants costing then some £12bn a year, needed skilled, experienced managers to lead them.

Wrapping executive and delivery functions in departments headed by politicians and administrators inevitably distorted management priorities. According to the report, "one top manager of a very large executive organisation told us that at present 90 percent of his time was spent dealing with Ministers and other pressures from the top and only 10 percent on managing the organisation."<sup>24</sup> Pervasive constraints and frustration at the lack of genuine responsibility meant managers did not have freedom to manage:

<sup>22</sup>Efficiency Unit, Improving Management in Government: The Next Steps, 1988, p.26

<sup>23</sup>The Next Steps, 1988, p.21

<sup>24</sup>The Next Steps, 1988, p.24

*"Although there is a general acceptance of the importance of delegating meaningful authority down to the most effective level, diffused responsibility still flourishes ... Middle managers in particular feel that their authority is seriously circumscribed both by unnecessary controls and by the intervention of Ministers and senior officials in relatively minor issues."<sup>25</sup>*

The skill sets of ambitious civil servants were oriented toward policy and ministerial support rather than management, policy being seen as the "golden route" to the top. As a result, the report said,

*"Very few have had direct experience of management in large executive organisations. This is reflected when senior civil servants are suddenly put in positions which do have management responsibilities. Either they neglect management, because the immediate pressures are dealing with day-to-day ministerial business; or they go about the management tasks in a way that lacks confidence and conviction .... Too few civil servants showed the qualities of leadership which would be expected from top managers in organisations outside the Civil Service."<sup>26</sup>*

One response to what the Efficiency Unit found would be to say, "Get the right people with the right skills and the problem is fixed." Without structural reform, it won't be.

Establishing clear accountability, responsibility and incentives is the necessary first step, not getting the right skills. Once an organisation has been restructured on these principles, the right skills will follow and, more importantly, those skills can deliver the value expected from them because now the responsible, accountable manager needs those skills. Transplanting private sector managers into an unreformed public sector organisation risks turning them into public sector administrators, where the rules of the game change from encouraging them to be efficient, value-adding, resource managers to being budget-holders gaming next year's spending increase whilst avoiding the inherent risks in managing existing resources better.

The *Next Steps* report grasped at least some of this and proposed fundamental structural reform of the civil service. In its own words, "the aim should be to establish a quite different way of conducting the business of government."<sup>27</sup> This would be achieved by a functional separation of departments' activities:

- **A strategic centre.** "The central Civil Service should consist of a relatively small core engaged in the function of servicing Ministers and managing departments, who will be 'sponsors' of particular government policies and services."
- **Arms' length executive agencies.** "Responding to these departments will be a range of agencies employing their own staff, who may or may not have the status of Crown servants, and concentrating on the delivery of their particular service."

<sup>25</sup>The Next Steps, p.3

<sup>26</sup>The Next Steps, p.24

<sup>27</sup>The Next Steps, p.15

- **Transparent objectives.** The centre and its agencies would be linked by “clearly defined responsibilities between the Secretary of State and the Permanent Secretary on the one hand and the Chairmen or Chief Executives of the agencies on the other.”<sup>28</sup>

Set out in a single paragraph in the *Next Steps* report, its core recommendation identified a fundamental cause of poor public sector performance and voter alienation. Note however the elision of the roles of minister and permanent secretary in the description of the centre’s relationship with the executive agencies. Whitehall’s continued ability to ensure that the relationship between a department’s political boss and its top permanent official is left both unexamined and unchanged is the pivot on which real reform does or does not take place.

The corollary of inadequate definition of objectives – and wherever possible, this should include a financial measure of value added – is bureaucracy and a fixation on process rather than on outputs and outcomes. As the American political scientist Aaron Wildavsky has written, where objectives are unclear, conformity to procedures replaces financial and other quantitative assessments as a test of appropriateness.<sup>29</sup> According to a Brookings review on the Clinton administration’s reinventing government initiative, “the harder it is for government to define and monitor its goals, the more it retreats to procedural safeguards. The more it formulates its procedures the further it seems from focusing on results and the more distant it can seem from citizens and their concerns.”<sup>30</sup> This surely is a syndrome which can be seen in Britain today.

And what of the impact of the report itself? Its implications created a lot of activity, but did it amount to change? By 1994, nearly 100 Next Steps executive agencies had been created, accounting for around two thirds of civil servants with agency chief executives having much greater autonomy over staff pay and conditions. Having set out the need for public sector organisations to have tightly defined objectives (which in the event tended to become broad and generalised), it did not address the need to change behaviour and incentives which is critical to delivering them. By missing out the importance of incentives, Next Steps turned out to be a “process answer” rather than a structural solution.

Seen from the perspective of 2004, the vision of a lean strategic departmental core is far from today’s reality. The extent of the roll-back from Next Steps principles can be seen in the NHS, the chief executive of which is also the permanent secretary of the Department of Health, so creating a clear risk of institutionalised producer capture.

The reason for this flowed from a key recommendation of the original report. In advocating a new structure which would mean radical change from the status quo, the report attempted to ease resistance to its implementation by presenting a smaller target to critics. It therefore recommended an evolutionary approach in keeping with the report’s title; “next steps” is less challenging than asking for a step change.

<sup>28</sup>The *Next Steps*, p.15

<sup>29</sup>Quoted in Christopher Foster & Francis Plowden, *The State Under Stress* (1996), p.151

<sup>30</sup>DF Kettl, *Reinventing Government: Appraising the National Performance Review* (1994), p.189

Experience of enduring structural reform suggests that this approach is mistaken. In the absence of a prime minister willing and able to commit his or her full authority to reform, it is not hard to see why a non-confrontational approach appears politically sensible, but it means losing the opportunity of signalling to insiders, parliament and to the public that the rules of the game have been permanently changed; that from that point on, everyone is in a new world. Being seen to break clearly with the past is a necessary component of successful reform.

The effective delegation of management responsibility should have been explicitly addressed in legislation to recast the doctrine of ministerial accountability so that parliament and the public knew where accountability is allocated between ministers and the heads of the executive agencies.

A prime example of the latter approach was Gordon Brown's decision to make the Bank of England independent and to transfer responsibility for implementing monetary policy to it. It was a big bang approach. Fresh legislation was needed. There was a clear before and after – and no going back.



## 6. Stepping backwards



Despite missing the key point about addressing behaviour and incentives, the Next Steps process turned out to be the closest the civil service came to having a coherent, disciplined strategy for dismantling control structures and the process compliance mentality that goes along with them, and replacing them with accountability for the use of resources and programme results. Instead it set up a countervailing reaction toward greater centralisation.

That tendency was already evident in the Fulton report. According to Fry, "when the Fulton Committee proposed a unified grading structure from the top to the bottom of the Home Civil Service, it was seeking to impose an even more centralised structure than already existed."<sup>31</sup> The authors of Next Steps were alive to the threat. A counter-theme running through their report is the dangers of centralisation:

- "the civil service is too big and diverse to manage as a single organisation."<sup>32</sup>
- "the advantages which a unified civil service are intended to bring are seen as outweighed by the practical disadvantages."<sup>33</sup>
- "the key themes which emerge as obstacles in the way of real change are ... the effects of treating the civil service as a single organisation."<sup>34</sup>

Reaction duly came in the 1994 white paper, *Continuity and Change*, which could be termed 90 percent continuity and 10 percent change – and that 10 percent was in any case of little use. It came laden with standard Northcote-Trevelyan pieties and self-congratulation ("...high reputation, nationally and internationally" ... "admired not only for those qualities but also for the effectiveness with which it has carried through recent reforms"<sup>35</sup>) – a sure sign of regression ahead. In reversing the logic of Next Steps, the white paper justified its key principles on the basis of the passage of time: "The importance of the civil service as a coherent entity, rather than simply the sum of the staff in individual departments performing specific roles, has been recognised for more than 150 years."<sup>36</sup>

The hook for much of what it proposed was maintaining the long tradition of political impartiality and non-political appointments. But as one observer has pointed out, the British civil service is not apolitical. Ambitious civil servants know how to present themselves subtly as politically sympathetic to ministers. Both sides know what is happening. A more accurate description would be to say that it is "politically anonymous,"<sup>37</sup> which is a different thing altogether. Political impartiality is a negative quality, the absence of something. Ministers need high quality policy advice and implementation skills. Contestability in the provision of policy advice was ruled out; in this case monopoly apparently is better.<sup>38</sup> And of course secrecy should continue to be the order of the day:

<sup>31</sup>Fry, <http://www.indiana.edu/~csrc/fry3.html>

<sup>32</sup>The Next Steps, p. 4

<sup>33</sup>The Next Steps, p. 5

<sup>34</sup>The Next Steps, pp. 29-30

"public disclosure and quotation of advice risks eroding the non-political nature of the civil service."<sup>39</sup> In reality, secrecy is necessary to protect anonymity, not neutrality.

The white paper began to reverse Next Steps by proposing to unify more tightly senior civil servants, including those in executive agencies: "The most senior staff in departments and agencies must, in the Government's view, continue to be seen as a cohesive service."<sup>40</sup> All individuals responsible for management, implementation and provision of policy advice, the white paper said, should be "identified as being members of the senior civil service."<sup>41</sup> This would, amongst other things, promote understanding of the collective interest of the government (which presumably people can get by reading the newspapers). A single form of contract would cover the senior civil service and recruitment would be subject to the approval of the Civil Service Commissioners. It therefore wanted managers to behave like civil servants – exactly the opposite of the right way to go.

Leaving aside the details, what we have here are two antithetical models of the civil service and how it should be managed:

- the model advocated by the Next Steps report but only partially implemented is about *management and delivery of services to users of public services*. It is crisp and results-oriented. Line managers should be accountable and have authority to manage. This requires delineation of responsibility and focus. Co-operation between units will occur to the extent it helps managers achieve their goals, otherwise it just gets in the way. With this model, furthering the government's collective interest is through the aggregation of their success.
- the traditionalist model is about *ethos and service to ministers as policy advisers*. It is amorphous, collectivist and anonymous, concerned more about culture and values than results. Responsibility is shared rather than delegated. It assumes that unless told what to do by the centre, managers will not act in a way that promotes the government's wider interests or maintain traditional civil service standards.

These models can co-exist but they are not compatible as the traditionalist model undercuts the principles of management accountability and responsibility. Neither are there trade-offs between the two. A well-managed organisation can provide high quality advice to its clients (as investment banks and consultancies do in the private sector), but a poorly managed one is not capable of delivering the goods. How can managers manage when someone else chooses their top management team? The excuse that maintenance of non-political recruitment based on merit requires external supervision, in this case by the Civil Service Commissioners, does not stand up to scrutiny. Such requirements can be written into chief executives' contracts – then giving them the freedom to hire based on their assessment of candidates' ability to do the job.

<sup>38</sup>Continuity and Change, Cm 2627, (1994), p.6

<sup>39</sup>Continuity and Change, p.8

<sup>40</sup>Fry, <http://www.indiana.edu/~csrc/fry2.html>

<sup>41</sup>Continuity and Change, p.13

<sup>42</sup>Continuity and Change, p.17

<sup>43</sup>Continuity and Change, p.36

<sup>44</sup>Continuity and Change, p.36

## 7. Permanent secretaries and ministerial accountability



Before analysing progress under the Blair government, it is worth examining the position of permanent secretaries and their relationship with ministers. As suggested above, this relationship constitutes the nexus of the problem, the lever on which the management or traditionalist model prevails. Behind this sits the doctrine of ministerial accountability. The Reform report, *Spending without Reform*, described it as an “anachronistic fiction” – being accountable for everything, ministers were accountable for nothing.<sup>42</sup> Instead, they become fall guys when something has gone badly wrong, or perhaps more accurately, when the press says it has and a scalp is required. How can the Secretary of State for Health, faced with an NHS employing over one million people, sensibly be asked to account for a person kept waiting on a trolley in the A&E department in a hospital in Newcastle?

For politicians, this formulation visibly elevates their role and importance in the eyes of the public. But for the permanent bureaucracy, it gives them the best of both worlds – a privileged position on the inside without commensurate management accountability and responsibility. There is little question which party over the long term gets the better part of the deal, but the price paid for it is mediocre policy and poor results. Clarifying the relationship between ministers and permanent secretaries is the litmus test of real reform.

The essence of the doctrine of ministerial responsibility is that ministers are individually responsible to parliament for their own activities and all the activities of their public servants in the administering of their ministerial portfolios. The employees of the department are the minister’s agents; everything they do is in his or her name. The permanent official is an anonymous instrument of the minister.

The relationship was excluded from the terms of reference of the Fulton Committee. When he announced the committee, Harold Wilson told MPs that there was no intention “to alter the basic relationship between Ministers and civil servants.” “Civil servants, however eminent,” Wilson said, “remain the confidential advisers of Ministers, who alone are answerable to Parliament for policy; and we do not envisage any change in this fundamental feature of our parliamentary system of democracy.”<sup>43</sup>

<sup>42</sup>p.29

<sup>43</sup>Quoted in Hennessy, p.190

Although excluded from its remit, it was challenged by a senior Treasury official, Sir William Ryrie, in his evidence to the committee:

*"A great deal of the cumbersomeness and inefficiency of government can still be traced to the doctrine of a minister's responsibility for all the detailed operations of his department .... Far too many issues are referred to the top not because they are intrinsically important but because they could be brought up in a political encounter in Parliament. A large proportion of the time of Ministers is taken up in delving into small issues for this reason, or guarding against this danger. Consequently far too little time and energy is given to the important work of framing basic and long-term policies and objectives."*<sup>44</sup>

The Next Steps report also pointed to "confusion between Ministers and Permanent Secretaries over their respective responsibilities for the management of service delivery."<sup>45</sup> It was unrealistic to expect ministers to manage: "Most Ministers who are worried about overload are of the view that while changes in management that reduced the ministerial overload would be welcomed, provided they entailed no major political risks, Ministers themselves do not have the time or the experience to develop such changes."<sup>46</sup>

The report identified lack of clarity of management responsibility at the top of departments as a key obstacle to progress, and pointed out the extent of the procrastination in tackling it. Whilst the Thatcher government had accepted the recommendation of the 1982 Treasury and Civil Service Select Committee in its report, *Efficiency and Effectiveness in the Civil Service*, that the relationship between ministers and permanent secretaries on the management of departments should be clarified, six years on, it had done nothing about it.<sup>47</sup>

This was not some accidental oversight. It is not because the issue is peripheral, but precisely because reforming the relationship between ministers and permanent secretaries is critical to changing the performance and culture of Whitehall. An unreformed centre can directly and indirectly bring about reversion of reforms aimed at improving performance of executive agencies and the frontline, as the culture and priorities of the centre subvert those directly serving the public.

The traditional excuse that recasting this relationship would undermine parliamentary accountability is no longer tenable. Gordon Brown has shown with monetary policy how transparency and management responsibility can be enhanced within a context of improved parliamentary accountability. More recently when health secretary, John Reid announced that he was putting clear limits on ministerial accountability for the detailed operational performance of foundation hospitals. Rather than a press release or parliamentary written answer, a thoroughgoing recasting of ministerial accountability is needed to align it with ministers' strategic responsibilities, which recognises the delegation of day-to-day management responsibility and incorporated in legislation as part of the reform of the civil service.

<sup>44</sup>Quoted in Hennessy, pp.192-3

<sup>45</sup>The Next Steps, p.4

<sup>46</sup>p.4

<sup>47</sup>p.25

## 8. Whitehall under New Labour



After the stagnation that characterised the *fin de régime* years of the Major government, New Labour came to power with a sense of energy and an assumption that it would be relatively straightforward to get the government machine to deliver the new government's goals. The early years were marked by lots of enthusiasm and interest in changing the business of government, but a degree of illusion about how best to do so.

The vast majority of Labour politicians came into government with little professional experience of anything except politics and no previous experience of government or working in other large organisations. They brought with them the working methods used in opposition. This didn't provide them with the experience to challenge what the civil service was offering them, so they were uncritical of what was served up to them in the 1999 *Modernising Government* white paper, which was a thousand miles from what was needed to deliver the new government's objectives.

The scope of the white paper was much wider than Whitehall and the civil service, embracing local authorities, the devolved governments and the public services. In the main, it offered a sound diagnosis; it set out to be constructive in acknowledging progress made by the previous government, but its prescription – or rather lack of it – played into the hands of the prevailing Whitehall culture:

- **Diagnosis.** Mercifully free of Northcote-Trevelyan jingoism, the white paper argued that Whitehall risk aversion was a major obstacle to improved performance: "The cultures of Parliament, Ministers and the civil service create a situation in which the rewards for success are limited and penalties for failure can be severe."<sup>48</sup> Additional factors included focus on inputs rather than outcomes as factors in public sector underperformance.<sup>49</sup> Having the right policies was critical to delivery: "Government cannot succeed in delivering the outcomes people want if the policies and programmes they are implementing are flawed or inadequate."<sup>50</sup>
- **Consolidation.** The management reforms introduced by its Conservative predecessor, including privatisation, the Next Steps agencies and compulsory competitive tendering, were, the white paper says, designed to bring about better value for money in service delivery and had "brought improved productivity, better value for money and in many cases better quality services all of which we are determined to build on."<sup>51</sup>

<sup>48</sup>The Times, 18 October 2004

<sup>49</sup>Modernising Whitehall, Cm 4310 (1999), chapter 2

<sup>50</sup>chapter 1

<sup>51</sup>chapter 2

Indeed, the white paper implied intensification of this approach, “wherever practicable by giving the public the right to choose.”<sup>52</sup>

- **Prescription.** In contrast to the crunchiness of *The Next Steps*, the prescription of *Modernising Government* too often resorted to exhortation. “The public service must operate in a competitive and challenging environment,”<sup>53</sup> the white paper said, but of course it does not – and the paper had little to say on how it would bring this about. Under the heading, “What must change,” there are eight “we musts” as in “... we must identify the most talented early on,” “we must revise core competencies,” ending up with a “we must now change gear.”<sup>54</sup> But unless “we” is identified, it is hard to see what this achieves. There was little analysis of structure, incentives and improving accountability. Instead the emphasis is on institutionalised cross-agency collaboration: “too often, the work of Departments, their agencies and other bodies has been fragmented and the focus of scrutiny has been on their individual achievements rather than on their contribution to the Government’s overall strategic purpose.”<sup>55</sup>

In summary, it was long on ends and desperately short on means. One of the white paper’s few concrete proposals was to use the Civil Service Committee of Permanent Secretaries to develop “a more corporate approach to achieving cross-cutting goals and provide the leadership needed to drive cultural change in the civil service,”<sup>56</sup> as if a committee could ever provide genuine transformational leadership. Lou Gerstner, who did exactly that by rescuing IBM from being an inbred bureaucracy, had strong views on committees:

*“Committees,” Gerstner once wrote to his management team, “can become dangerous. They should never be used as decision-making bodies. Their main purpose is communication – up, down, and across. They should meet infrequently with focused agendas, and they should be disbanded regularly to protect against the view that committees play important roles in successful institutions. They do not. Personal leadership and task-specific teamwork drive our success.”<sup>57</sup>*

Thus New Labour ambitions and language were grafted onto the traditional Whitehall ethos model, pulling further away from the management model advocated in the Next Steps report. As a result, *Modernising Whitehall* turned out to be a sequel of *Continuity and Change* – lots of continuity, with change principally being stylistic rather than substantive.

<sup>52</sup>chapter 4

<sup>53</sup>chapter 6

<sup>54</sup>chapter 6

<sup>55</sup>chapter 2

<sup>56</sup>chapter 2

<sup>57</sup>Louis V Gerstner, *Who Says Elephants Can’t Dance?* (London, 2002), p.317

Indeed, the white paper signalled a rejection of the Next Steps approach of creating arms' length executive agencies. "An increasing separation between policy and delivery," it claimed, "has acted as a barrier to involving in policy making those people who are responsible for delivering results to the front line."<sup>58</sup>

That view now serves as the point of departure for the current approach of the Blair government. It has three main components:

- **Turning departments into corporate head offices of their delivery arms.** Departments are seen as being leaders of the service for which they are responsible, providing a headquarters function for the relevant service. Thus the Department of Health in effect has been taken over by the NHS, the chief executive of which is also the department's permanent secretary. Similarly the Department for Skills and Education is increasingly being staffed with people from the education system.
- **Bringing in new corporate skills.** To execute their head office functions, departments need similar skill sets as private sector corporate head offices, including finance, human resources and IT, functions that have tended to be filled by people who did not make it in policy. The Professional Skills for Government initiative will, it is claimed, end the cult of the generalist. In future, there are three career groupings – policy delivery, corporate services and operational delivery. Civil servants will be assessed three times over their careers for their proficiency in the skills appropriate to their career path.<sup>59</sup>
- **Creating a more powerful strategic centre.** In addition to the Treasury's traditional financial monitoring role, central functions it shares with the cabinet office include the strategy and delivery units and operating functions such as procurement to lever up standards across departments.

Some intermediate observations can be made about this approach:

- **Institutionalised producer capture.** Letting departments be taken over by providers weakens departments' ability to provide independent policy analysis. This has always been a risk in Whitehall, but this change institutionalises it. A policy adviser on the privatisation of British Telecom found that the Department of Industry as the lead department had difficulty in developing telecommunications policy and so relied on the company, although it was the company's unions which were most proficient at generating policy positions. Under the new approach, *de facto* producer capture risks becoming *de jure*.
- **Unclear role of ministers.** Ministers are seen as analogous to chairmen of public companies, with permanent secretaries acting as CEOs. But this leaves unresolved the issue of ministerial accountability and without a clearly delineated and substantive leadership role in policy, there is a risk of politicians intervening directly in delivery in order to manage the next day's headlines and gain visibility, in the process subverting managers' ability to manage.

<sup>58</sup>Modernising Government, chapter 2

<sup>59</sup><http://psg.civilservice.gov.uk/>

- **Centralisation of policy-making.** The demarcation separating policy and delivery, which the *Modernising Government* white paper wanted removed, has not been removed but is being shifted from departments to the centre of government.

A further example of this trend to the “corporatisation” of Whitehall is the establishment of departmental boards. Importing external forms from the corporate world into a setting with entirely different lines of accountability is a classic case of Whitehall displacement activity, diverting focus from tackling the fundamental causes of public sector underperformance to creating activity which achieves little. Together with their own non-executives, these Potemkin boards come with a code of corporate governance superficially analogous to the private sector, except that it can’t be.

Company directors have legal responsibilities. Boards of directors are responsible for managing companies and chief executives are accountable to them. In government departments, ministers are accountable to parliament, not to departmental boards. The governance code states that boards “should collectively provide leadership in the department,” but then five paragraphs later says, “ministers should consider the best way to run their departments.”<sup>60</sup> The code makes no attempt to square this circle. Unlike the private sector, departmental boards cannot be instrumental. Instead they are likely to give rise to process-generating, box-ticking compliance.

With the prospect of a deceleration in the rate of growth of public spending, by 2003 the government began to focus on the need to improve public sector efficiency. Sir Peter Gershon, the chief executive of the Office of Government Commerce, was duly asked to lead a review. His report, published in July 2004, stressed the importance of embedding efficiency in the fabric of the public sector. It reads much like a management consultant’s report, identifying the scope for savings and specific processes that could be improved (it notes in particular procurement and back office functions), but does not analyse the institutional setting and its impact on incentives and behaviour which gives rise to the problem in the first place.

There is some talk about incentives and Sir Peter concludes that “it will be important to report on the successes of efficiency delivery and reward those who deliver in just the same way as those who deliver improvements in effectiveness have been rewarded”, but that is the extent of the analysis.<sup>61</sup> The value of an organisation is its ability to generate more value than the cost of its inputs. Activity in the public sector should be managed and measured and capital allocated in ways that improve value creation, which is what economists mean by economic efficiency.

The report identifies potential for £21.5bn of annual efficiency savings, 80 percent of which are from three areas – health, local government and education.<sup>62</sup> How are these savings to be realised? This is the weakest section of the report: “Each departmental Secretary of State will be ultimately responsible and accountable for delivering efficiencies within their departments, its NDPBs [non-departmental public bodies], agencies and relevant parts of the wider public sector.”<sup>63</sup> Gershon’s restatement of the traditional formulation perpetuates the myth of ministerial

<sup>60</sup>Paras 2.1 and 2.6, Corporate Governance code for central government departments, HM Treasury, July 2005

<sup>61</sup>Sir Peter Gershon, *Releasing resources to the front line* (2004), para 5.3

<sup>62</sup>ibid, table 4.1

<sup>63</sup>ibid, para 4.5

accountability, when in reality it is the heads of the permanent bureaucracy who should be tasked to manage, but who have consistently shied away from being held accountable for doing so.

It doesn't make sense to hold a minister in Whitehall accountable for something, in this case local government, for which he does not have management responsibility. In health and education too, the report reinforces a tendency for greater central control and away from structural reform which gives individual units incentives for efficiency. Furthermore, centralising procurement runs the risk of encouraging a "national mega-project" mentality and colossal waste by taking procurement out of the decision-making chain and individual business unit discipline and their assessment of value generation and affordability.

The underlying but unarticulated view of the Gershon report is that departments are essentially passive. Improvements therefore have to come from the centre of government (the Office of Government Commerce, various 'change agents', external audit bodies, Office of the e-Envoy, the Prime Minister's Delivery Unit and so on).

With the important exception of Gershon's recommendation that all departments appoint board-level finance directors, the critical weakness of the lack of proper management structures, accountability and incentives within Whitehall departments is neglected. The approach adopted by the Gershon report is a continuation of a previous trend – attempting to prop up internal weaknesses with external scaffolding as a substitute for internal restructuring and incentivisation around deliverable objectives, which is the only durable way to achieve sustained improvement.

Reforming Whitehall is a pre-condition for genuinely achieving the scale of efficiency gains identified in the Gershon report. Absent such reform, these gains will be for the birds.

Do the changes made over recent years have sufficient momentum to lead to a transformation of Whitehall performance? Before answering that question, it's worth recounting the culture that needs transforming and why.

It is a self-selecting, in-bred system that promotes people who care about public service and are conditioned to be more comfortable making suggestions than taking responsibility – managing upwards, not down. The analytical capability of much of Whitehall is not impressive; it is a culture that is more about providing ministers with a plausible line to take – administratively-inclined journalists, one might say, whose expertise is understanding the politics of a policy rather than analytical depth.

Hand in hand with a preference for narrative over numbers goes weak internal finance functions. In the best private sector companies, internal financial reporting is much more than about cash control; it's about providing management with real-time data about value creation, risk and detailed business performance. In the public sector its main purpose is less about providing management with information on how to better manage the activity, but to report past performance, achieve an artificial year-end financial balance, measure what has been achieved against government targets and game the Treasury.

In other words, Whitehall is weak at management and analysis. Simply injecting relevant skills into the middle layers of unreformed structures is not sufficient to automatically bring about the necessary change behaviour, which is driven by incentives. Such skills will atrophy unless they are valued and used by those at the top of the organisation. Change therefore has to come from the top.

In turn, that means turning permanent secretaries into accountable and responsible managers. The previous section outlined a consistent pattern of Whitehall rejection of various attempts to clarify the relationship between ministers and permanent secretaries, which is the pre-condition for turning administrators into managers. Through Fulton and Next Steps, this pattern has prevailed. And it has done so to the present time.

The last page of the 2004 cabinet office paper *Civil Service Reform, Delivery and Value* has a before and after table (see table below). Under yesterday's success story, the permanent secretary is described as 'the Minister's senior policy adviser.' He, or more rarely she, is transformed into tomorrow's success with the addition of two words – 'delivery agent.'

Yesterday's success story	Tomorrow's equivalent
<ul style="list-style-type: none"> <li>• Joined straight from university for life</li> <li>• Committed to the Civil Service</li> <li>• Core values of integrity and impartiality</li> <li>• Fast stream training</li> <li>• Deployed ad hoc where talent needed</li> <li>• Almost exclusively working in policy and ministerial support roles</li> <li>• Follows precedent</li> <li>• Widens experience by short secondment within public sector</li> <li>• Scholarship to study social policy in U.S.</li> <li>• Aims to lead the development of a major policy area</li> <li>• Permanent Secretary – the Minister's senior policy adviser</li> </ul>	<ul style="list-style-type: none"> <li>• Joined at a variety of entry points, moving easily between different sectors</li> <li>• Committed to public service</li> <li>• Core values of entry, impartially and delivery</li> <li>• Career-long development and learning</li> <li>• Deployed around a career anchor, using and building talent</li> <li>• Varying roles between operations, policy, specialists skills and Ministerial support</li> <li>• Creates precedents</li> <li>• Widens experience by taking a private sector role</li> <li>• Career break to look after elderly parents</li> <li>• Aims to deliver the outcomes of a major policy area</li> <li>• Permanent Secretary – the Minister's senior <b>delivery agent</b> and policy adviser</li> </ul>

Agent is an interesting word. Agents typically do something on behalf of someone else, often they are intermediaries or advisers acting on one or other side of a transaction, who then melt into the background once it's completed. They have duties, but they don't have responsibility.

By contrast, a manager is a person to whom specific responsibility and objectives have been delegated and is fully accountable for exercising it and for their success in meeting those objectives. A manager therefore needs to have decision-making authority. Typically they are expected to improve the efficiency of the use of resources they manage and to increase output. In managing large organisations, the skill is to delegate hugely and manage the performance and reward of more junior managers and, if necessary, change them. Well-managed organisations are supple and responsive. They deliver more and they get more out of people because they are more rewarding and challenging places to work.

Politicians are not managers. Apart from the rare exception like Michael Heseltine, ministers have little expertise or interest in management. Their interest is in policy and publicity, and not necessarily in that order. The organisations that comprise Whitehall are not well managed because its culture is antipathetic to the notion of management accountability for the exercise of delegated responsibility. For decades, the top ranks of the senior civil service have successfully resisted attempts to apply what the Fulton committee called the principles of accountable management *to them as individual managers* and thus bring Whitehall into the modern world. Changing the roles of departments and strengthening the centre of government are not substitutes for tackling this fundamental issue.

## 9. One hundred and fifty years on



In any organisation, the precondition for change is the recognition of the need for it. Sometimes this comes from within; more often it derives from external pressure and change of leadership. This year, 2005 saw the 150th anniversary of the Northcote-Trevelyan report, a time of stock-taking and an occasion for Whitehall to assess its performance.

The prevailing tone of self-satisfaction can be gauged from a book published to mark the event. In her introductory essay, first civil service commissioner, Baroness Usha Prashar, put the focus on values rather than effectiveness, a theme taken up by the outgoing cabinet secretary. Turnbull argued strongly in favour of having a clear majority of life-long career civil servants "because of the extent to which the civil service's strength as an organisation comes from its values."<sup>64</sup>

As is common nowadays, the book is littered with references to the allegedly unprecedented rate of change of the present day. But the tenets of Northcote-Trevelyan and its aim of having a politically neutral service are, in this view, unchanging and unquestioned and can lead to angels-on-a-pinhead type of reasoning. In his valedictory lecture given around the same time, Sir Andrew talked of the subtle and delicate nature of the system. "The borderline between what civil servants do and do not do is very fine ... We frequently present ministers' cases ... On the other hand, we should not praise a policy in a way which could be held to imply support for the approach of the party in power, or undermine the opposition's confidence that we would serve them with equal commitment."<sup>65</sup> One has to ask whether this is so important. Surely what matters is effectiveness, but making such a subtle distinction the capstone of the structure of the British civil service has been turned into a shield to protect obsolete structures and poor performance.

Although Sir Andrew says the civil service no longer claims a monopoly of policy advice, the implications of this have not been fully followed through. Wrapping all Whitehall's functions (with the partial exception of ministers' special advisers) under the sacred cloak of political neutrality also means that there is not a clear understanding of what functions really do require political neutrality – such as maintaining transparency and accountability in the use of public money and institutional checks to ensure the non-arbitrary use of public power<sup>66</sup> – and which do not, such as provision of policy advice.

<sup>64</sup>Andrew Turnbull identifies four key functions for the civil service: strategic policymaking; service delivery; efficient use of public money; and upholding "our core respected values of integrity, impartiality, honesty and objectivity" (Changing Times, p.64). Perhaps this is somewhat less compelling in the light of the evidence presented during the Railtrack misfeasance trial.

<sup>65</sup>Changing Times, The Office of the Civil Service Commissioners (2005), p.70

<sup>66</sup>27th July 2005, [http://www.civilservice.gov.uk/publications/speeches/rft/sat\\_valedictory\\_lecture.rtf](http://www.civilservice.gov.uk/publications/speeches/rft/sat_valedictory_lecture.rtf)



Turnbull denies a central contention of this paper, that Whitehall has not responded to the need identified by Fulton to transform administrators into managers. "Many of the criticisms noted by Fulton ... [including] the lack of management ability ... have long since been tackled," according to Turnbull.

This is to ignore the fundamental problem which, as Fulton emphasised, is the lack of genuine management *accountability* and, a theme of this analysis, the incentives which make it bite.<sup>67</sup>

Turnbull's successor takes what might be considered a more objective view. Blowing away some Northcote-Trevelyan froth from the anniversary celebrations, Gus O'Donnell noted that an early 20th century Treasury permanent secretary was not above undermining the prime minister, "worth remembering when reference is made to a bygone age of unimpeachable propriety and professionalism in the civil service."<sup>68</sup> He identifies the fundamental skill set of Northcote-Trevelyan civil service as revolving around the provision of policy advice and the ministerial *consigliere* function.<sup>69</sup>

Noting that whilst Northcote-Trevelyan values are a necessary but not a sufficient condition for the civil service of the future, the new head of the home civil service concluded that Whitehall needs "an ongoing, rigorous analysis of what the professional challenges for government are in the years ahead, an honest assessment of how well – or badly – we are equipped to deal with them, and the flexibility and leadership to bring about the required change."<sup>70</sup>

<sup>67</sup>Changing Times, p.72

<sup>68</sup>Ibid., p.78

<sup>69</sup>Ibid., pp.80-81

<sup>70</sup>Ibid. p.86

## 10. Conclusions



The aim of structural reform is to at least maintain what an organisation already does well and transform what it does not do well. The core public sector is fundamentally different from the private sector and simply transferring personnel and techniques is unlikely to be of much long-term benefit. Experience shows that the most straightforward and successful answer has been to transfer activities from the public sector to the private sector rather than transplant people from the private to the public sector.

But today the problem is how to improve activities which are not going to be transferred to the private sector. Finding public sector entrepreneurs is not the solution to problems whose cause is structural and where the context of the public sector is different from the private sector:

- the public sector does not have a single value objective analogous to profit (however it is measured) in the private sector;
- in the absence of product and capital markets, there is no automatic feedback mechanism providing managers with objective data to assess and change what they are doing;
- unlike the private sector, much intelligent public policy is about improving the rules of the game – creating markets rather than directly supplying them itself;
- because it is dealing with public money and public powers, government activity requires a much higher level formal accountability and transparency than a private sector company. Government is not the property of the ruling party of the time.



There are two linked functions at which Whitehall excels or, putting it another way, where its performance is not a sufficient cause for fundamental reform:

- **Continuity of the State.** When a new administration takes over in the U.S., it inherits a blank sheet of paper. Desks and filing cabinets are cleared and computer hard drives removed. Somehow the U.S. manages, but one has to ask whether this discontinuity contributed to America's lack of preparedness before 9/11.<sup>71</sup> Whatever else it does, Whitehall immediately puts the full resources of the government machine at the disposal of an incoming government. The continuity of the permanent bureaucracy minimises the risk of losing vital threads in the transition to a new government, but comes at a cost.
- **Institutional memory.** Nations have long-term interests and the government of the day needs to know what they are and how they've been served. George Shultz, one of America's foremost public servants, has talked of the importance of the U.S. Foreign Service as "the custodian of our country's diplomatic experience in the world – not theories or abstractions, but actual experience .... So much of what we do today depends upon our understanding of the past." This function requires the traditional bureaucratic function of record keeping. According to Shultz, "there is now a widespread and conscious reluctance to create records, and a disposition to destroy them if made. What I worry about is our ability to conduct our affairs with precision and to portray history accurately if such records are not at hand and the statesman tries to rely on his or her own memory, which is invariably flawed in significant ways."<sup>72</sup> Whilst Whitehall seeks to accommodate itself to ministers' preferences for conducting public business, the civil service has a strong cultural proclivity for assiduous record-keeping.

The main value of these functions is in the areas of diplomacy and national security, and perhaps, to a more limited extent, to national finances. In other words, they are most applicable to the classic activities of the pre 20th century state before it expanded its scope over the last 100 years. For this reason, the skills and approach of the traditionalist model are more appropriate to areas such as diplomacy and national security and are therefore outside the focus of this report. Indeed, the Diplomatic Service is administered separately from the home civil service.

The old fashioned virtues of the traditionalist model are of less value and often impede what is now called delivery – managing large spending programmes and in policy analysis and design. Provision of policy advice is not a natural monopoly. Monopoly of detailed knowledge of how the system works becomes a barrier to change and monopoly of policy advice results in poorer quality advice. Institutional memory can take the form of institutional resistance. Overcoming it requires policy analysis of a high order. But time and again, Whitehall puts officials with inappropriate skills and mindsets in areas way outside their competence. If you put a Home Office official who has been responsible for drugs policy in charge of a review of the railways, don't be

<sup>71</sup>Robert McNamara, defense secretary in the Kennedy and Johnson administrations, has written about 'the lack of an effective way to transfer knowledge from one administration to another – and the heavy price we pay,' In Retrospect (1996), footnote on p.35

<sup>72</sup>Speech to the George P Shultz National Foreign Affairs Training Center, 29 May 2002



surprised if you get an unworkable command-and-control outcome. Whitehall lacks modern management skills because Whitehall is not led by managers or even by people who understand management. Rather it resembles an old fashioned partnership, but without the discipline of a shared bottom line. The prerequisite for improved performance is to clarify the relationship between ministers and senior civil servants to define who is responsible for what:

- ministers are not managers, but the nineteenth century doctrine of ministerial accountability prevents delegation of management responsibility and genuine accountability to those best able to exercise it;
- someone needs to manage government departments on behalf of ministers to provide them with policy advice and for the delivery of services to the public (even if that function is best discharged by outsourcing delivery) – both of which Whitehall performs inadequately;
- Whitehall's system of public administration, protected by politicians' failure to recast the doctrine of ministerial responsibility, its rigid structure and inbred, collectivised culture have created risk-averse patterns of behaviour that put key objectives of this government (and those of any other party) beyond reach;
- once a realistic scope of ministers' accountability has been defined, it is possible to delegate appropriate responsibility to managers, set them specific objectives and put in place incentives and sanctions for their delivery.

The civil service environment is fundamentally different from normal organisations. In these, people who wish to bring about change harness external forces to promote internal forces for change. The external ones are customers, shareholders, creditors and competitors. They then require the right internal factors. These include determined leadership, clear vision and objectives together with the ability to communicate them and put in place incentives on individuals that match those objectives. The public sector lacks these external forces. This puts even more emphasis on the internal ones and the leadership of the prime minister.

Several elements of today's Whitehall impede better public sector performance. They include the bundling together of policy and delivery, reversing the logic of the Next Steps initiative; a rigid grading structure; an institutional bias against external hires; a culture which suppresses individual responsibility and promotes pan-Whitehall consensus in policy design and filling senior posts, and the continuation of the 19th century doctrine of ministerial accountability into the 21st century. As a result, the civil service too often produces outputs which do not reflect the cost of the inputs or ministers' and the public's priorities.

The focus on delivery risks misleading people into thinking that the problems are downstream, when the cause of poor performance flows from what happens upstream. In other words, the causes are systemic. Getting better performance requires higher quality policy analysis and policy design and delegation of management responsibility for delivery, with appropriate incentives/sanctions for performance. It means changing what Whitehall does, redefining the role of the civil service in relation to ministers.

Our next report aims to examine these issues in greater depth and will develop a detailed blueprint for civil service reform, setting out the necessary steps for achieving it against a checklist of defined objectives.

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