

# Public Accounts Committee

## Oral evidence: Centre of government, HC 107-i

Monday 7 July 2014

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Members present: Margaret Hodge (Chair); Mr Richard Bacon; Guto Bebb; Mr David Burrowes; Jackie Doyle-Price; Chris Heaton-Harris; Meg Hillier; Mr Stewart Jackson; Justin Tomlinson

Sir Amyas Morse, Comptroller and Auditor General; Sue Higgins, Executive Leader, Local Services, National Audit Office; Keith Davis, Director, National Audit Office; and Richard Brown, Alternate Treasury Officer of Accounts, HM Treasury, were in attendance.

*Witnesses:* Sir Bob Kerslake, Head of the Civil Service and Permanent Secretary, Department for Communities and Local Government; Sir Nicholas Macpherson, Permanent Secretary, HM Treasury; Sir Jeremy Heywood, Cabinet Secretary; and Richard Heaton, Permanent Secretary, Cabinet Office, gave evidence.

**Q1 Chair:** Welcome. We think it is a record to have four permanent secretaries giving evidence to one Select Committee. I know it has been difficult for some of you to come, so thank you.

This may seem quite nerdy to the outside world, but we think the role and influence of the centre are absolutely central to the work we are doing. I will start with the correspondence I have had with three out of the four of you and the subsequent letter I had from the two Ministers. It appears to all of us around the table that there is a disagreement between you on the approach to the role of the centre. Did you share your letter with Ministers before you sent it to me?

**Sir Nicholas Macpherson:** No.

**Q2 Chair:** So how do you reconcile the two views? Would it be helpful if I pointed you to where I think they differ? You say in your letter to me of 24 March that “the high degree of central direction and integration that you appear to recommend does not reflect the model that this government and previous governments have operated.” On the role of the Treasury, you say, “So long as the essentials—such as the controlled spending totals and collective agreement—are delivered and upheld, there is considerable freedom about implementation.”

However, the Ministers say to me, “We have also introduced the idea of government as a single customer of goods and services, so driving up standards and reducing costs. We have removed

duplication". They say the new post holder in your Department, Nick, "will ensure that in those areas where your committee has highlighted the need for a stronger, more effective corporate centre, that is what we are delivering." They also say, "Building strong functional leadership is work in progress." Finally, they say, "Like your committee, we are both committed to a model of government where the centre is effective, smart and challenging. Our two departments will continue to work hard to join government up, and to create the conditions for departments to succeed. We welcome the PAC's and NAO's focus on this area—indeed, we urge you to continue."

**Sir Bob Kerslake:** There is not a word in the letter from the two Ministers that went to you that I would not support, and I think that would be true of all of my colleagues. We do not see that there is a difference on this issue. We were actually addressing a different point. They have expanded on what I think has been some really excellent work since 2010 to tackle some key issues in Government, in terms of efficiency, consistency, coherence and driving forward innovation. We would support all of that and indeed, we say in our letter that there is an important role for the centre.

The issue we were trying to tackle in our letter was, if you like, to be clear about and reassert the importance of the accounting officer role, which is a long-established position that we have had. We felt it was important just to be clear that alongside these things that have happened to create a more effective and smart centre, we need to hang on to the importance of the accounting officer role. So I do not see a difference between the two.

**Q3 Chair:** Well, I beg to differ. I think the tone of the letter and the approach is very different, but let me just ask you this question: autonomy and accountability are not mutually exclusive, are they?

**Sir Bob Kerslake:** There has always been a control environment for accounting officers. There was before 2010, there is now, and it has always changed over time. There is always a situation where you have accountabilities, but you hold that accountability within a set of rules set by Government. It has never been the case that accounting officers have been completely autonomous to do their own thing. The question is what the balance is here. How much do you seek to control from the centre and how much do you leave to the discretion of accounting officers? I actually think that the moves that have been made so far still strike the right balance, but what we were pointing to is that you constantly have to watch that issue, because if you move to an over-controlling centre, you have, I think, a damaging impact on the accounting officer role, and it is something that has to be watched and reviewed.

**Q4 Chair:** I do not think anybody is suggesting an over-controlling centre. That was never suggested, either in our letter or in any of our recommendations. There is a frustration from this Committee on report after report—in fact, many of them are listed at the end of the report that brings it together today—where we see a failure of the centre to take appropriate action, leading to a waste of taxpayers' money. It is as simple as that, and it is getting a balance that reflects taxpayer interests that appears to be missing. Can I ask—Sir Jeremy, maybe—what the role of the centre is? Go on, tell us what you think between you. You are all there. Maybe we should not have four of you. Maybe having four is too many. What is the role of you guys there at the centre?

**Sir Jeremy Heywood:** Well, we have many different roles, as you know, and it varies again from one Government to another, depending on how centralised they want to run the system. It

ranges from at the one end, co-ordination of policy, through to development—turning political objectives into actual policy strategies. Under this Government, as you know, as we have just been discussing, there has been a much greater focus on efficiency and reducing public spending through cutting back-office costs, and the view has been—which we strongly support, as Bob has just said—that that needs a stronger centre. Sometimes it has had catalytical units, such as the behavioural insights team—a small unit, designed to catalyse good practice across Whitehall and then eventually reduce. We have had different mutations of an implementation unit, which used to be called the delivery unit. So it has multiple different strands to it.

**Q5 Chair:** So, let me take two examples. When there is a decision that you should exert the power of a big budget by acting together, is it the role of the centre to prescribe that, whether it is in procurement, goods, IT, or shared services? Is it the role of the centre to prescribe it—yes or no?

**Sir Jeremy Heywood:** Nick will want to come in on this, but fundamentally, we have a fiscal deficit reduction plan for a sustained period, and that is fundamentally the Government's economic plan. Part of that lies to the Treasury to enforce the budgetary ceilings imposed on individual Departments, and part of it lies with the Treasury and the Cabinet Office working together to think about which of those elements of Departments' budgets can be most efficiently controlled or managed through central action. But that depends not just on agreeing that, but on the centre having the capability, the people and the expertise to do it.

**Q6 Chair:** I accept that, but where a Cabinet committee decides that you can save money and be more efficient by doing things collectively, is it the role of you guys, whichever hat you're wearing, to ensure that that happens across Government? Is that the role of the centre? Yes or no.

**Sir Nicholas Macpherson:** Of course.

**Chair:** Of course?

**Sir Nicholas Macpherson:** Of course. As the very eloquent letter from the Chief Secretary and the Paymaster General sets out, there are a whole range of things that the centre is driving forward. Now, it is clearly a matter of choice over how many areas the centre operates direct control. Sometimes, as Jeremy says, it will be in a more supportive role. We have seen in many areas in recent years, such as in relation to major projects, the centre having far greater oversight of Departments' work, reporting to Ministers and so on and actually introducing controls or gateways at which point the centre can say, "If you want more funding for this, you are going to have to do a, b, c and d." I think we actually have quite an active centre.

Just briefly going back to the letter, our letter was simply about the framework. Even within the framework, accounting officers have an obligation to deliver value for money across the whole of the Exchequer—

**Q7 Chair:** But accounting officers have an obligation to implement Cabinet decisions.

**Sir Nicholas Macpherson:** Yes, absolutely.

**Q8 Chair:** So if there is a Cabinet decision to share services, that—

**Sir Nicholas Macpherson:** Of course.

**Q9 Chair:** There isn't a problem for accounting officers if the Cabinet Office sets up a whole load of shared services. We are still finding that Departments are not using them. You are not sticking to your timetable on them.

**Sir Nicholas Macpherson:** There is an issue of implementation of some of the decisions, which occasionally depend on making sufficient progress—

**Q10 Chair:** What is your role in that? You have a Cabinet decision to save money by sharing back-room services. You have the Cabinet Office setting up expensive infrastructure and it does not really happen. What is the role of the centre? Our frustration is that money is wasted.

**Richard Heaton:** Can I just say something about the letter? I want not only to endorse what Bob said, but also to say that the letter was trying to do two things. First, it was trying to explain and defend the role of the accounting officer, but maybe we were tilting at windmills and it was not necessary to do that to that extent. Secondly, it explained the energy with which the centre has tried to do things on the behalf of Government. Looking at the correspondence in retrospect, did we over-elaborate the first point? Possibly. Did we under-elaborate the second point? Possibly. It actually gave you in the House of Commons a good opportunity to make it political and for the Ministers to write a letter that explains, in a way that we perhaps missed the opportunity to do, how energetic we have been at driving a central agenda.

**Chair:** That's a very good, "Yes Minister" answer. Go on.

**Richard Heaton:** To take the example of shared services, they have more quickly in the past four years than in the past 15 years.

**Q11 Chair:** With the greatest respect, they have not met the timetable.

**Richard Heaton:** But two shared service centres are now up and running. The first of those is a joint venture and the second is an outsourcing model and Departments are joining them. That didn't happen—

**Q12 Chair:** Much more slowly than you wanted.

**Richard Heaton:** In one case, yes, but Departments are still joining both of them. The role of the centre is to run the project. In one case, it is the contracting authority. In the other, it is the joint venture partner with those two shared service centres. It then schedules the on-boarding of the Departments.

**Q13 Chair:** The role of the centre is not to ensure that the Cabinet Office policy is implemented as speedily as possible.

**Sir Jeremy Heywood:** I don't agree with that at all. If the Cabinet has decided something or PEX(ER), the sub-committee in the Cabinet that deals with such issues, has decided something, it is our job to try to enforce it, working with Ministers, permanent secretaries and Departments through the usual combination of ministerial letters or permanent secretary objectives or business plans. We have a set of tools at our disposal, but sometimes they do not work as fast as we would want.

**Q14 Chair:** Debt collection would be another thing that we have looked at recently that is a right old mess. There is a very clear cross-Government view on it, but there is absolute inertia. There is an attempt by the Cabinet Office to do something, even using the same debt-collecting agencies, but there is inertia.

**Sir Jeremy Heywood:** It is not for the want of trying, but it is a good example of where we are not happy either. Francis Maude and I are now chairing a centre-departmental group of permanent secretaries and Cabinet Ministers to try to give it another push, because we agree that progress has not been good enough on that. We do care strongly if things are not going as well as the Cabinet has asked for or wanted. In many cases, Departments do not need much prodding, because they need to make the savings themselves, so in a lot of cases I am finding increasingly—others will want to comment—that Departments are now actually looking to the Cabinet Office for expertise to help them to achieve increasingly difficult-to-achieve budgets.

**Chair:** We don't notice that here.

**Sir Jeremy Heywood:** Well, I can give you plenty of examples.

**Sir Amyas Morse:** It seems to me—you have described it—that when you have stronger collective leadership, with people around the table discussing things together and working out the practical implementation, things move rather faster than they might do otherwise. So is that the pathway, in your view? When you want something to move ahead quickly, the answer is to set up a group, to get everyone together, to agree the objectives and to make sure that they drive them. That is a model that works. I am not saying that it is applicable in every case, but it seems to me—

**Sir Jeremy Heywood:** It is definitely one model that works.

**Sir Amyas Morse:** You would recommend it?

**Sir Jeremy Heywood:** Certainly in some cases, you have to move not at the pace of political desire, or even our desire, but at the pace at which we have the capability centrally, or in Departments, actually to do the new thing more effectively. It is not always the case of political will or civil service—

**Q15 Mr Bacon:** Sorry, could you repeat that, Sir Jeremy? Capability in Departments, or capability at the centre?

**Sir Jeremy Heywood:** Both.

**Sir Bob Kerslake:** There is a danger of saying that we have not made progress on any of these things—we have. If we take the functional leadership area, we have moved incredibly quickly to create a new model for managing personnel—

**Chair:** You'll have to speak up a bit.

**Sir Bob Kerslake:** I beg your pardon. We have done a lot of things. If you take the functional leadership area, which is covered in the joint letter from the MCO and the Chief Secretary, we have moved incredibly quickly to a new model for handling legal services, human resources, commercial, and so on. These things have happened quickly and effectively, and we should recognise that.

Other areas, like shared services, have been more mixed—that is right. I honestly do not believe that that is down to a lack of co-operational will on the part of Departments. It is the nature of what have been complex issues to deliver.

**Q16 Chair:** I would just put it to you that it might also be a lack of clear definition of the role of the centre and of accountabilities for implementing these cross-Government areas, where you decide that it makes sense to work across Government on a particular thing. I put that to you. It is not just that it is difficult; if you had greater clarity about the role of the centre and better understanding of real accountabilities, things would move more quickly and taxpayers' money would be saved.

**Sir Bob Kerslake:** I would not argue that accountability is not vital or that clarity of role is not vital. We do have that on a lot of the individual initiatives that we are taking forward. As Jeremy said, we have a clear idea of what we want the centre to do. So there has been no doubt—

**Q17 Chair:** I will tell you one thing that we would really love, and that we are going to ask you to do, is for you to write down the role of the centre. One of the things in the Report is that that is totally unclear; if you were to write it down—we were just talking about this, that this might be our very last hearing before the general election, to return to the matter with a better definition—we can leave this Parliament and go into the next one with a better definition of what you think your responsibilities are.

**Sir Nicholas Macpherson:** We would be very happy to write it down. We have written it down in the past, but we are happy to make an even better go at writing it down for the future.

**Mr Bacon:** There is nothing civil servants like more than writing things down, is there?

**Sir Nicholas Macpherson:** I know; it is a very good substitute for real activity.

**Q18 Mr Bacon:** You said that; I didn't.

On this question of "capability", Sir Jeremy first raised the word, but it is central and I am interested to hear from all of you on it. I was looking at the National Audit Office Report on the capability reviews, which was published in February 2009, studying a programme that started in 2005. Very wittily, it includes a picture of Burghley House, with a garden designed by Capability Brown—boom, boom!

One of the things that the Report draws attention to is that, in the 170 snapshots that the capability reviews looked at, two thirds of them in the first round rated the Department as "less than well placed". At the time, Colin Talbot described that as, "frankly, disturbing" and, in evidence to the

Public Administration Committee, said: “if you have, from the capability reviews, weak leadership still at the top of the Civil Service—and that is their own verdict, not mine—poor delivery and at best moderately good on strategy-making, I think there are some pretty serious issues that need to be addressed.” He went on to say, in perhaps the most astonishing admission, “the capability reviews did not look at...departmental capability on policy making.” That was actually excluded. As Professor Talbot said, “I have yet to find anybody who can provide me with any sort of rationale as to why they did not look at that, given that is one of the main things departments do.”

Plainly, a lot has happened in the last 10 years. No one who has followed this would pretend for one moment that there have not been lots of changes, but I do not think we are yet at the position where one would say we have the capability that we need in the right places, pretty much most of the time. In fact, John Manzoni of the Major Projects Authority told us just a couple of weeks ago there is a lack of “distributed capability” across Government. Those were his words.

This is nine years ago. It is nearly a second world war ago—not quite—since this report was published, and we are still talking about getting capability; so the question I would like to know an answer to is, whose responsibility is it to ensure that Government Departments have the capability that they require to do what is required of them? Does it have to be a Minister coming in, and saying, “You know what? I want one of the top priorities”—because we all know civil servants respond to Ministers’ priorities—“to be making sure you are capable”? Does a Minister have to say that: spell it out in words of one syllable and keep everyone focused on the fact that you need to be capable, or—second alternative—should the machine, by which I mean you gentlemen and those around you, be striving very hard anyway to produce that, because that is its job, so that when a Minister of any party comes into office he or she can say “I have got a machine that works”? As Charles Clarke told the Administration Committee, Ministers have the right to expect that the machine can deliver what they want. Yet here we are. Nine years after this process started we still have John Manzoni saying there is a lack of “distributed capability”. Where should the responsibility sit?

**Sir Bob Kerslake:** The responsibility, in my view, starts with the accounting officer. They run the Department. They have responsibility to ensure that capability is there. As you know, we have made building capability one of the top priorities, if not the top priority, in the civil service reform plan. We have a dedicated team working on this now. As part of their work they identified four priority areas, one of which is John Manzoni’s area, project and programme management, another of which is digital skills, the third of which is procurement, commercial skills, and the fourth of which is leading change.

**Q19 Mr Bacon:** Are these your game changers?

**Sir Bob Kerslake:** Building capability is one of the game changers, yes.

**Q20 Mr Bacon:** Because you had a longer list, and then you had—just remind me—a shorter list, which is the game changers. That is right, isn’t it?

**Sir Bob Kerslake:** No, the shorter list I have just given you is what are the four skills that we want to build on, and where we see as priority areas for building skills within the civil service; and what we have done for that is we have set out a clear plan. We are one year on from that, and we have published an update; and if you look at the update you will see quite a lot of progress has been

made. Of course, it should not have taken 10 years to get to that point, but we have now a clear plan with identified priorities. Each Department is doing its own assessment of where it is in terms of gaps.

**Q21 Chair:** What is the role of the centre, Sir Bob?

**Sir Bob Kerslake:** The role of the centre, I think, is to identify with Departments where the priorities are, and to set up systems where we can assess where they have got to, and to challenge them about their plans for improvement.

**Q22 Mr Bacon:** What amazes me is—you are right; it shouldn't have taken nine years to do it, but what you are actually saying is it shouldn't have taken nine years to get to the point where we are talking about what we need to do to assess whether we have got what we need, rather than actually getting the capability. This was full of capability and this identified all those years ago what was required. It is not rocket science. It is IT; it is property—having people who actually understand estates; it is HR and people who understand that, professionals. I know you are doing stuff with these different professional disciplines, but you are still talking in the language of the future, of things that are going to happen, rather than—

**Sir Bob Kerslake:** No I'm not, if I can say this, Chair. First of all, if you read the update report, you will see the action that has already happened, and I am happy to update you on that, by a letter, if you would like. What I am saying is there is more to be done. The job is not finished. It probably never will be, but quite a lot has happened, as John would have told you already, to build skills, and will go further.

**Sir Nicholas Macpherson:** Can I just add to that? All Departments can get better. The centre has a critical role in both encouraging them but also to sort of kick them, occasionally, to ensure they do get better; but before we get too depressed—and I understand this Committee, quite rightly, is focused on where things can get better—I do think a fair amount has been delivered in the last few years. You only have to look at the facts, which the National Audit Office has confirmed, about Francis Maude's efficiency programme. I think far greater progress has been made on that than was made in relation to the Gershon review 10 years ago.

I think there is more capacity in place. We are making progress on things like property and IT at a rate which we did not in the past. Of course we can get better—I totally accept that—but the centre has been demanding of Departments. The fact that Mr Manzoni has come before you actually reflects that we have a rather high-class person in charge of major projects who is driving forward progress. I do not want you to get too depressed about all this. We could not have administered the cuts on the scale that we have without manifest changes in the quality of service unless we had got better at administration.

**Q23 Chair:** I am going to bring Richard in, but to reflect on that, you will not be able to administer the cuts we need in the coming period if you haven't got a strong centre.

**Sir Nicholas Macpherson:** I totally agree. The centre is a lot stronger than it was.

**Richard Heaton:** Can I have a go at answering Mr Bacon's question about whose responsibility it is to keep the capability of the civil service up to where it needs to be?

**Chair:** You are all going to have to speak up a little.

**Richard Heaton:** Okay. I think it is unequivocally our responsibility as leaders of the civil service, led by Bob: that is to say, the permanent secretaries, as a college, led by the head of the civil service. It is our job, without ministerial pushing, to create a civil service that has the capabilities that the Government need. I think it is fantastic that we have been galvanised by a very active Minister in this area, but I think it would be remiss of us, as leaders of the civil service, not to keep up our capabilities. That is how I would answer the question. It is not all future.

**Q24 Mr Bacon:** Can I stop you on that point? Francis Maude is unusual in having held the same job as what used to be called Cabinet enforcer—Minister for the Cabinet Office—for a long period. How much difference do you think that has made to the palpable progress that you have made, even if there is more to do? How big a factor has that been compared with, say, if you had had regular turnover in which, once every year, somebody moves in and somebody moves out?

**Richard Heaton:** I think it has been beneficial to have a really strong and consistent political drive. Sometimes Ministers are not terribly interested in the civil service and in us as an organisation. The flip side of that is that it sometimes allows us to let it be a politically led thing rather than a civil service-led thing. However, as I have said, I think it is our job as leaders of the civil service to create a capable civil service.

**Sir Nicholas Macpherson:** There is a huge advantage in continuity. We have had the Chief Secretary to the Treasury throughout this Parliament. We have had David Gauke as the Revenue Minister throughout the Parliament. It makes a huge difference. They know a lot; in fact, in the last spending review, the Chief Secretary was beginning to complain that some officials knew less than him. Continuity and expertise on both the political and official sides makes a big difference.

**Q25 Jackie Doyle-Price:** You have just given us a big clue about how we can improve Government by leaving Ministers in positions longer than officials. Obviously, there is huge turnover there too, isn't there?

**Sir Nicholas Macpherson:** Certainly. In the Treasury, we are trying to reduce turnover. I think this is very important for the civil service, and this Committee has recommended it many times in the context of major projects, but on the political side, there are huge advantages too.

**Q26 Jackie Doyle-Price:** We were talking earlier about articulating a role for the centre. It is quite clear to me from the correspondence that we have had today that there needs to be a consensus on the role, as the NAO says on page 7 of the Report. Clearly there is not, because there are bits of division. When you come to write the role for the centre, start with pages 7 and 8, because they give a pretty good explanation of what we think the role of the centre should be.

On the specific area of disputes highlighted in the correspondence, can I direct you to paragraph 11.e? It says that the centre's role is "incentivising the right behaviour, including promoting collaboration, integration and innovation" and articulating the role of the accounting

officer, in terms of being operationally responsible for their own Departments. From each of your perspectives, what is going wrong here that it has led to this apparent difference in view between you and Ministers?

**Sir Bob Kerslake:** As I said earlier, I do not think there is a difference here. I agree with and support everything in the joint letter from the two Ministers. I see this from both sides: as head of the civil service, and also as permanent secretary to the Department for Communities and Local Government. I think there is a constant need to have an effective centre setting standards and doing the things that Jeremy spoke about: driving Departments to improve their efficiency, increase their clarity of strategic thinking and so on. All of that has got to be there in the centre, but the vast bulk of the implementation of that happens in Departments. You have also got to hold permanent secretaries to account for the delivery of what they are doing, and if you are going to hold them responsible for the implementation—and we all agree with that model—you have to be very clear about when they have the discretion to act and when they do not. That is the key.

**Q27 Jackie Doyle-Price:** But ultimately, when things go wrong, basically the accounting officer comes here and gets beaten up by Margaret. Really, shouldn't the centre be more proactive and encourage the right behaviours, to make sure that those sessions where we give him a good kicking happen a lot less?

**Sir Bob Kerslake:** Of course we want to reduce risk, and that is why we have the Major Projects Authority trying to reduce the risk of failure in projects.

**Q28 Jackie Doyle-Price:** But even then, the Major Projects Authority is not really empowered, is it? I was struck by your language just now, Sir Nicholas, when you said that the role of the centre was to kick and encourage. For me, the role of the centre is to lead and to ensure accountability and delivery.

**Sir Nicholas Macpherson:** That is just another way of putting “kick and encourage”. There is a serious point here. The PAC conducts its inquiries in public, and it is very visible. Where you think accounting officers have failed on the job you make it very clear, and quite rightly so. Long may that continue, because it helps us as well. We tend to do it more in private. We do not administer kickings in public.

**Q29 Chair:** But I do not know what your “good kicking” means, Nick.

**Sir Nicholas Macpherson:** The point that I am picking up on is that when projects—

**Q30 Chair:** Tell me, what is the good kicking on universal credit?

**Sir Nicholas Macpherson:** When projects fail or are running into difficulties, there is a huge amount of activity in the centre, often led by my friend the Cabinet Secretary, where capability and capacity are at the heart of the conversation. Is the SRO up to the job? Should he or she be moved on? What can we do to strengthen the underlying support of the project? That has a big effect. It feeds into performance management, and ultimately it feeds into whether the individual keeps their

job. I think there is a more active participation by the centre on these matters than at any time I can remember, and there is greater alignment between the Cabinet Office and the Treasury as well.

**Q31 Chair:** We will come back to that, but can I come in on the universal credit, because it is such a classic example? When the Major Projects Authority came before us recently, universal credit was not even ranked there, because of these magical new criteria—

**Mr Bacon:** It was, but it had its own special category.

**Chair:** It was reset, and therefore not ranked. I always say that this is a policy that commands support across the political spectrum, so there is no argument about the policy. This is entirely an implementation issue, and I cannot understand a centre that fails to intervene when there is such a classic failure at the departmental level on something that the centre says it is interested in, namely IT. This is supposed to be a digitisation exercise in the way we administer benefits so that we can integrate benefits. What we have got out there is not a digitisation; we have got an incredibly expensive, staff-intensive pathfinder. Why is the centre allowing that to happen? Why do you allow the MPA to do that? Have you signed off the business case?

**Sir Jeremy Heywood:** Just on universal credit—you have done plenty of hearings on this subject, and I am sure that you do not want to spend the whole hearing on it—it is, in my view, a very good example of where the centre did intervene very strongly, both the Treasury and the MPA—

**Q32 Chair:** Have you signed off the business case? Have you signed it off yet?

**Sir Jeremy Heywood:** On universal credit at the start of last year, the MPA, with support from the Treasury and with a lot of technical help from the Government Digital Service, played a very clear role in bringing to the Secretary of State's attention that the project was way off track. That was a very important intervention from the centre. It then followed up with the next technique that the centre has got, which was to provide support. Having provided assurance that things were not on track, it then provided considerable support in the form of seconding the then head of the MPA, David Pitchford, to help reprogramme the project. There was a lot of support from Mike Bracken and his team at GDS to help the digital underpinnings of it, but also some help on the commercial renegotiations on the contracts from Bill Crothers and his team. That is a very good example of where the assurance role, which the Treasury and the Cabinet Office exercised jointly in that case, was followed by a support role, and that continues.

**Q33 Chair:** Is it on track now, Sir Jeremy?

**Sir Jeremy Heywood:** In its current form, I believe it is.

**Q34 Chair:** What do you mean, "In its current form"?

**Sir Jeremy Heywood:** That is something we look at very carefully.

**Chair:** What does that mean?

**Mr Bacon:** It is going at the speed that the driver wants it to go at, which I think, personally, is very sensible.

Can I go back a stage earlier?

**Q35 Chair:** I just want to get one answer to the question. Have you signed off the business case, Sir Nick?

**Sir Nicholas Macpherson:** On universal credit? I think the Treasury—Sharon White and I, and Bob—have discussed this quite frequently. I believe that at each key milestone of the reset programme there is a Treasury decision to take.

**Q36 Chair:** Have you signed it off?

**Sir Nicholas Macpherson:** It is signed up, up to a point; up to the point—

**Q37 Mr Bacon:** Did you say, “Signed up”?

**Sir Nicholas Macpherson:** Up to the milestones.

**Mr Bacon:** Actually, Sir Jeremy, you have said that we do not want to spend the whole time talking about universal credit.

**Chair:** I want to get an answer on that.

**Mr Bacon:** You won’t get one.

**Q38 Chair:** I do want an answer. I want just a yes or no. Has it been signed off or not?

**Sir Jeremy Heywood:** I cannot speak for the Treasury.

**Chair:** No.

**Q39 Mr Bacon:** The great unscripted pauses on this subject are going to form part of parliamentary history, Sir Nick.

**Sir Bob Kerslake:** I think we should not beat about the bush. It has not been signed off.

**Q40 Chair:** It hasn’t been signed off.

**Sir Bob Kerslake:** We have had a set of conditional assurances about progress and the Treasury has released money accordingly. That is one of the key controls they have.

**Q41 Jackie Doyle-Price:** I just want to come to this, because I think you are managing to deflect and are saying, “Everything is hunky dory”, when neither we nor Ministers are satisfied with the rate of progress.

Coming back to paragraph 11.e, it states: “the centre can seek to influence and incentivise the right kinds of behaviour”. I get the feeling you are behaving like shop stewards, because you have really pushed back on this role of the accounting officer. Yet these things are not mutually exclusive. We are all in the business of doing more with less and that is not just a phenomenon under this Government and austerity. As Sir Nicholas has confirmed, every year when we look at the Whole of Government Accounts, this is a long-term challenge for the public sector. The centre has really got to drive behavioural and cultural change. The old Victorian model of the civil service just ain’t going to work.

**Sir Bob Kerslake:** I think you are absolutely right. There has to be drive by the centre and there has to be leadership by the centre and they have, in the Treasury and the Cabinet Office, some tough controls if things are not being handled properly. Nick has substantial powers, including, of course, to remove the accounting officer responsibility if he is not happy. So we should not get the impression that it is all about encouraging and incentivising people. There is a lot of tough correction and controls involved here.

**Jackie Doyle-Price:** When was the last time an accounting officer was—

**Sir Bob Kerslake:** Let me just finish. I think there are two points here. First, if you want things done, you cannot try and control everything from the centre; it is too big—£750 billion of expenditure does not allow you to try and manage everything from the centre. What you have to do is to have controls and input proportionate to the issue you are trying to deal with. Universal credit clearly went way off track and needed a strong intervention. With a load of other projects going on—well-managed, under control and happening in the way they were intended—the level of intervention is less.

One reason why, as part of the financial management review, Nick has put forward the proposal to have some proportionate approach to flexibility, according to performance, is so that you can concentrate the resources at the centre on the places where they really matter.

**Q42 Jackie Doyle-Price:** Yes, but a big part of that is leading the kind of behaviours that we want to see. Collaboration has got to be at the heart of that.

**Sir Bob Kerslake:** That is entirely right. That is one of the key elements, as you know, of the Civil Service Reform Plan.

**Q43 Meg Hillier:** I was just listening to the exchange about universal credit just now. It is all very well going in afterwards and saying, “We did this” or “We did that” and “We were strong on controls”, but it was pretty evident, was it not, from the beginning, that although universal credit was considered by the last Government and rejected as being very complicated—not on principle terms, but on practical terms—it was brought in by this Government with a five-year mission, an unusual type of Government that was therefore in a hurry. Surely, there needed to be a bit more early preparation and, surely, it is largely the role of the centre to ensure that no politician or permanent secretary, or indeed any team in a Department, is rushing ahead at a speed that is not

allowing that early preparation. Perhaps it is about saying to Ministers and others, “It cannot happen as quickly as you want.” Ministers are, by their nature, impatient, because they are politicians.

What went wrong? Did something go wrong that meant that the centre was not involved early enough in seeing the pitfalls of universal credit and the speed of its implementation? I do not know who I am directing that to: there is a surfeit of knights at the table.

**Sir Nicholas Macpherson:** I think one of the lessons of the last decade is that you want to have in place the sort of arrangements that we have now. In the year after the next election, we will have organisations such as the Major Projects Authority in place. We will have a Cabinet Secretary who is playing a advanced role in chasing progress and I hope—you can never be certain because, as you say, politicians are always ambitious—that we will have really good processes to ensure that we do not end up as we have with universal credit. I was around when the original tax credits went live in 2003, and I was involved in the policy side of that at an earlier stage. You can argue that it is disappointing that universal credit has not been delivered but at least it did not go off all at once and turn into a serious disaster.

**Chair:** Well, we don’t know how much you are going to write off. That will only become clear after the next general election. That is the honest truth.

**Q44 Meg Hillier:** When we had the Major Projects Authority before us, we were heartened to hear that they offered training for Ministers. We learnt that two Ministers had gone on that training. We did not push them to say who but we congratulate those Ministers on sticking their necks out and doing that. I asked then how many Opposition, shadow Ministers are going to have that opportunity in the chats that the civil service has with the shadow teams because, surely, part of the issue is getting politicians to think about early preparation. That includes all parties, especially in the current climate. Are you doing that? Is that happening?

**Richard Heaton:** I was with John Manzoni at Oxford at the Major Projects Leadership Academy on Friday. We were talking about that with the cohort that is just graduating and it is a bit of a success story; 300 people are now project leaders. We would be delighted if the current Ministers or, indeed, Opposition spokesmen, nearer the time, were to come to learn at Oxford at the Major Projects Leadership Academy.

**Q45 Jackie Doyle-Price:** Just going back to what you said, Sir Bob, about it being not just about incentives, but about sticks. When was the last time an accounting officer was removed and had their responsibilities taken away?

**Sir Bob Kerslake:** I don’t have the list but senior responsible owners and others have lost responsibilities.

**Q46 Jackie Doyle-Price:** In the last two—

**Sir Bob Kerslake:** I don’t know about anybody who has lost their accounting officer responsibility. Nick, you’ll know if there is anybody.

**Sir Nicholas Macpherson:** From time to time, permanent secretaries fall by the wayside. That usually reflects extensive discussions between myself, the Cabinet Secretary and the head of the civil service.

**Q47 Chris Heaton-Harris:** I have a question for Sir Jeremy. I have had some experience of working with the European institutions. In those institutions, the roles of being the head of a directorate general and of being an accounting officer are separate. There is some logic to that. I do not want to ask the other three gentlemen because they hold both roles, but is there a problem with the same individual being the permanent secretary and the accounting officer, especially when it comes to accountability to Ministers for things that might not be going quite so well within their Department?

**Sir Jeremy Heywood:** That is an interesting question. I have not given it much thought, to be honest. My experience over the past few years has been that Ministers increasingly want their principal adviser and the person who is in charge of the administration of the Department to be one and the same. There was a tendency, maybe five or 10 years ago, to think you could have someone as permanent secretary who was a good leader of people but did not necessarily get that involved in policy advice to the Secretary of State. There has definitely been a trend away from that and now, the Secretary of State, increasingly—pretty much in every Department I can think of—would like the permanent secretary to be their principal policy adviser.

Frankly, anything that separates policy advice from administration is probably a step in the wrong direction because the one thing we know about excellent policy making is that if it gets divorced from the practicalities of delivery and implementation, it becomes less good policy. Those are a couple of observations but it is not something to which I have given a lot of thought. I do not see much political demand for that separation and, from the point of view of quality of administration and quality policy advice, I am not sure it would make sense.

**Q48 Chair:** I am going to ask a cheeky question and then go to Amyas. Richard, when I was preparing for today I learnt that you are accounting officer for Sir Jeremy and Sir Bob.

**Richard Heaton:** I am. I'm the accounting officer for everyone from No. 10 through to the civil service.

**Q49 Chair:** So have you reprimanded them? Do you hold them to account? You're their boss. You're their accounting officer.

**Richard Heaton:** I am responsible for their spend, certainly, and for the effectiveness of their programmes.

**Q50 Chair:** You're their accounting officer. You're responsible for them.

**Richard Heaton:** Absolutely, but I am not their line manager. Those are two different things. I am not their task manager.

**Q51 Chair:** So, as the accounting officer, you are accountable?

**Richard Heaton:** I am responsible for their spend on staff and for programmes if I don't think they need any major programmes.

**Q52 Chair:** So if they spend badly?

**Richard Heaton:** I carry the can for that, yes.

**Q53 Chair:** You carry the can for their bad decisions?

**Richard Heaton:** If that were to happen.

**Sir Nicholas Macpherson:** This is the sort of innovation that Mr Heaton-Harris—

**Chair:** We are having a bit of a joke about it, but it is daft.

**Chris Heaton-Harris:** I don't have a particular problem with that.

**Chair:** You don't?

**Chris Heaton-Harris:** No, I don't.

**Q54 Chair:** I think it's daft. You can't have somebody who is junior being the accounting officer for expenditure—

**Mr Bacon:** Yes you can: section 151 officers. It happens in local government all the time.

**Sir Nicholas Macpherson:** If it's any consolation, there was a long debate at the turn of the last century, around about 1900. The Treasury concluded that, obviously with one or two very important exceptions, you want these two things to reside in the same person so that, ultimately, you can point at that one individual and say, "You're to blame" and they can't shuffle off responsibility because the policy is in the way.

**Chris Heaton-Harris:** That is why I was interested in Jackie's question about when was the last time that an accounting officer actually took that level of responsibility for something that has gone wrong in their Department. That is where I see the tension. You gave an example, but I couldn't recall anything.

**Q55 Jackie Doyle-Price:** The only example I am aware of is somebody who had it removed from them in their last week of office. That was because there was some criminal investigation going on. That was in a non-departmental public body.

**Sir Nicholas Macpherson:** Well, people are removed from time to time, but I really don't want to get into naming names. Often, rather like politicians when they finally leave the Cabinet,

there is an exchange of letters where they say, “I planned to step down at this time” and “We always agreed that” and so on—

**Q56 Chair:** We only hope that they don’t get BBC-style pay-offs when they go.

**Sir Nicholas Macpherson:** Certainly not.

**Q57 Mr Bacon:** No, they get civil service-style pay-offs.

**Sir Nicholas Macpherson:** They are not what they were.

**Sir Amyas Morse:** Can we come back to the question of intervention and where projects are going awry? In thinking about the role of the centre, and I agree that there has been vigorous intervention when things have been at crisis point, what is not so clear to me is that you are in a position to intervene to prevent things from going wrong. In fact, what I mostly see is trying to find out what is going on in Departments and I find myself being asked every now and again if I can cast light. It is surely not a violation of a Department’s independence to say that at the centre we should be aware where the storm signals are coming from. We should have real transparency as to what is going on and be in a position to intervene when it would really save public money, which is at the beginning, not halfway through when it is already in a position of failure.

**Sir Bob Kerslake:** Part of the difficulty here is that, in a sense, the ones that we have got involved in earlier and hopefully put on track, you don’t see because we have done that. But we have two very powerful sources of information now about how projects and programmes are doing. First, through the MPA and secondly, through the implementation unit. Those two mechanisms give us quite a lot of information about where projects might be veering off track and might need intervention. Jeremy and I have jointly, and sometimes separately, done a whole series of stock-takes on the areas we see as the biggest potential risk. Does that stop any project going wrong? I wish it did. There are hundreds of them across Government, but I think it has proved quite an effective way of spotting potential problems and dealing with them. In a way, as Oliver Letwin said, the test of success is often the dog that doesn’t bark in the night and there are quite a few of those.

**Sir Amyas Morse:** That’s encouraging. I saw one recent major project where I think there had been 15 different reports before there was a really strong intervention. Perhaps I have missed the evidence of these early interventions, but I think it is crucial to give yourself the authority to do this.

**Sir Bob Kerslake:** We share your view.

**Q58 Mr Bacon:** Can I ask a question about a Government programme, how it works locally and how you might learn from it in the centre? There may be some of this going on already, but we had Louise Casey talking about what the DWP at the centre call troubled families, although for obvious reasons, local councils tend to call it something else. She suggested the startling idea that, if you put a social worker, someone from the jobcentre, a police officer, someone from a housing association and a community self-build project—that is another story—and a probation officer in the same room, for the same amount of money, or sometimes with less expenditure, you get startlingly better results. That is because all the public players who are helping this set of people—families or

individuals—are talking to each other. What and where can Government learn from that model at the centre?

**Sir Bob Kerslake:** Quite a lot, I think. As you know, troubled families are part of CLG, so ultimately I am the accounting officer for that project, but it works across the whole of Government. The first lesson is that one of the things we have to do is to identify those big issues that can be tackled only through whole-of-Government approaches. I think troubled families are one; health and care is another.

The second lesson we learn from it is that there is huge benefit in having a dedicated and strongly led resource, such as we have for troubled families under Louise. It is a small team—I think it's about 35—but it is a dedicated resource that focuses on this specific problem.

The third lesson is to have a clear relationship with local government about what we are expecting from them and how this works. There is a clear payment-by-results model, as you know. There is clear tracking of progress and regular dialogue from the centre.

Fourthly is, having set up the framework, we don't try to micro-manage each one of those local authorities. If they are failing on the numbers, they will be challenged, and that is what happens on a daily basis. They will be encouraged to do better, but in the end, they must take responsibility for their own programme in their own authority.

If you put all those together, and add one other thing, which is clear data that we get regularly about progress, which are published, you can see a package that works.

But the thing that really makes it work is where we have a common cause. It is as much in the interests of local authorities to tackle the problem of troubled families as it is for central Government, so you are on the same track on this issue, not having to force them to do things they don't want to do. They get the point, really.

**Q59 Mr Bacon:** You mentioned health and social care. Where else will that model be tried? I was with an ex-civil servant this morning, who now works for our local enterprise partnership. We were talking about the difficulty of getting Departments to talk to each other. While the LEP and the Department for Business think that local development orders to make things happen are a good idea, the Highways Agency has a rather different view. It says so bluntly and then slams the phone down. Which other areas of Government do you think you can try this model successfully?

**Sir Bob Kerslake:** Three at least. The first I'd pick out is local growth. We announced today 39 local growth deals with local enterprise partnerships. That is £2 billion to be spent next year, and then a programme of six years with £2 billion each. That money is levered in, and a whole set of private sector money as well.

The key point about it is that it is cross-Government—it involves pretty much all the Departments linked to growth: Transport, BIS, CLG and so on—and it has been done in a joined-up way. We have created a single local growth team that brings together staff from BIS, CLG and the Cabinet Office. The deals have been negotiated by a team working on behalf of Government, not just on behalf of individual Departments.

What we have got are, I think, deals that work powerfully locally and for central Government as well. It has not been an easy process; there has been a lot of debate and challenge with Departments, but the outcome has, I think, been some powerful innovation in how things are done.

The local growth deals are perhaps one of the most powerful examples of cross-Government working.

The one that has got less publicity, but the work is going on, led by the FCO, about creating one Department overseas—bringing together the different parties overseas—is an important example of a cross-Government initiative.

The last one is still in earlier days, I think. It is the work on blue light services. There are huge opportunities for efficiencies across our blue light services at local level. Some people are already taking the initiative on that and I think that is another one we are working on.

**Q60 Meg Hillier:** I'm interested to hear your positive descriptions of that particular project. Things might have moved on, but I have two examples from when I was a Minister. First, I went to talk to my own Minister of State, at which point my private secretary came to me and said, "We've had the discussion so you're going to say this and he's going to say that and then you're going to say this." That was my first week or so; it didn't last long like that, I can tell you, but that is often how Ministers are dragged into this. When I was on Cabinet Committees, my line was often to simply say, "We don't want to spend any more money in our Department," and just keep repeating the same thing. It's great if you tell me it's different, but how are you actually stopping that departmental desire to protect budget and stop "initiativitis", which takes away from other initiatives? That is the reality of a lot of Departments where people have slaved away at a pet project. I'm sure it still comes through but, if you're telling me it doesn't, that's great.

**Sir Bob Kerslake:** Put bluntly, old habits die hard. You wouldn't believe me if I said that none of that departmentalist approach happened during the local growth deals. Of course it did. What distinguished them, though, and why they moved on from that was having a strong cross-Government team with a very clear-sighted Minister leading the project. So when that sort of thing happens, it gets challenged. You also have cross-Government official teams working on the issues. That influences behaviour, because officials see that Ministers from the very top—the DPM and the PM downwards—want to do this differently. That is how it gets changed. So, does it still happen? Of course. Is it hard work? Of course. But I do genuinely think that, through this local growth process, something very big has been achieved.

**Sir Jeremy Heywood:** While we're on the troubled families stuff, I just wanted to add—obviously I totally agree with what Sir Bob said—that the starting point for this was a strange alliance, in a way, between the Prime Minister and the Chief Secretary to the Treasury. Both were very keen on the issue of how we could do early intervention—you could argue it was quite late, actually—with the so-called troubled families and save a lot of money down the track. It started off as a very strong political desire to grab that problem issue which didn't fall to any one particular Department. My task, with support from Bob, was to try to pool money from different Departments that could then go into a general pot, and find the right departmental home for it. All that happened before you then get on to the rest of Bob's story.

That depended on a very strong political commitment—in this case, from the top, but also from the Treasury—to try to make that cross-

departmental initiative work. It involved the Prime Minister chairing a number of meetings with Cabinet Ministers to get them brought into the overall exercise and agree to put some of their money into this pot. Once in the pot, it has been available to use for the purposes of the initiative. It's a very good example of how the centre, with close work between the Cabinet Office and the Treasury, came together and worked with Departments to crack a cross-departmental issue.

**Q61 Chair:** We think it is a good programme. The irony, when we looked at it, was that the DWP ran its own separate programme. That is a typical example of where it would have been much better to have a strong centre saying to DWP, "Shovel your money into this rather good initiative led by a very strong personality." If you had really wanted the co-ordination, you would have shovelled that DWP money into there, or would not have had two programmes going.

**Sir Bob Kerslake:** As you know—we went through this with the PAC—the issue was the stage at which the programme had got in DWP. It was an ESF programme that was well advanced and putting it into the other programme would have been quite tricky. What we did do, and we explained this to the Committee, was join the two things together. For example, for the first time, we saw officials from Jobcentre Plus getting located in each local authority.

**Q62 Guto Bebb:** I want to touch on a few issues of accountability and responsibility. Sir Nicholas, could you clarify how the Financial Conduct Authority is responsible to the Treasury? How do they account for their behaviour to the Treasury?

**Sir Nicholas Macpherson:** The Financial Conduct Authority has a degree of independence, not least because it has an investigatory role and you don't want that to be in the direct control of politicians. It was set up on a statutory basis, it has its own board, it is audited by the NAO and there is a regular dialogue between the Treasury and the FCA, and obviously if there were severe problems there would be scope for turning up the volume and intervening.

**Q63 Guto Bebb:** So in terms of accountability, is it problematic that the FCA seems to answer to two Departments in Government, rather than one? There is a degree of confusion about the involvement of BIS with the FCA. Do you think that involvement is helpful, or does it create a clouded line of accountability?

**Sir Nicholas Macpherson:** The primary accountability is through to the Treasury; there are special issues where there is a relationship with the Department for Business. I don't think that is a massive problem. You always want to have as much clarity as possible. If you can't have a completely direct reporting line, then you need to be clear on the basis when you are reporting on something else. I think that can be made to work, and it does work.

**Q64 Guto Bebb:** But given the financial stability that the FCA is supposed to provide, which is a key aspect of Treasury policy, it is an important instrument, in effect, of Treasury policy or Government policy. That would be a fair comment, wouldn't it?

**Sir Nicholas Macpherson:** It is early days in the FCA's shelf life. I have worked closely with the Bank of England and with the FCA's predecessor, the Financial Services Authority, over the

previous 10 years. I think clarity is important, but in the case of the FCA I think the current system seems to work.

**Q65 Guto Bebb:** Just a couple of points, then. I think it is in paragraph 1.16 that the NAO Report highlights the fairly high staff turnover within HM Treasury, and I think HM Treasury is pretty robust in defending that level of turnover. Are there any restrictions whatsoever on where those staff can end up once they have worked with the Treasury? Can they go straight from the Treasury to a commercial bank?

**Sir Nicholas Macpherson:** Yes, there are a whole lot of restrictions. There are business appointment rules. In fact, barely a day goes by without my having to opine in some way or another on the basis on which someone leaves the Treasury.

**Q66 Guto Bebb:** So somebody who is involved in the Treasury—intimately involved, for example, in policy towards a commercial bank—would not then be able to walk out of the door on a Friday and work in a bank on the following Monday.

**Sir Nicholas Macpherson:** It depends what level they are. If they were very junior, on the whole—unless they were working on something very market-sensitive—I don't think it would cause me a huge amount of problems. It is fairly standard to put in a restriction on lobbying Government, and obviously if they are somehow benefiting from commercial knowledge that they have built up, for example in relation to a specific project, I would want to ring-fence that.

For example, if you were dealing with a bank in the context of a domestic project, I would feel very uncomfortable if that official suddenly moved round to the other side of the table. For instance, I will not name a name, but a senior Treasury official recently left. He had not primarily worked on banking, but I was very clear that he was not going to work on anything in relation to the public sector for at least a couple of years.

**Q67 Guto Bebb:** On that specific point, regarding the comments you made about the FCA being ultimately accountable to the Treasury, would you be disturbed if, for example, the officer within the FCA who was responsible for developing a voluntary redress scheme agreed between 11 banks and the FCA promptly left to be employed by the bank that was responsible for the sale of most of the products that had been deemed inappropriate? No action has been taken against that individual moving straight from a job in regulating the bank and putting together a scheme that thus far has resulted in more than £1 billion of compensation to businesses. That individual went straight from the FCA to the banks with no intervention from the Treasury.

**Sir Nicholas Macpherson:** I would need to look at the particular case in question and I would be happy to write to you about it.

**Guto Bebb:** The issue has been raised on the Floor of the House.

**Sir Nicholas Macpherson:** I would hope, and I understand, that the FCA has standards around business appointments and I would hope that it would—

**Q68 Guto Bebb:** It would be useful if you would write to the Committee on that, because in addition to the individual who went to Barclays, another individual who was also responsible for developing the scheme promptly left and went to work for another of the banks in question. The Treasury has given the FCA responsibility on the regulation, confidence and stability of the system and it seems odd that standards that apply to Treasury officials are not being applied to FCA officials.

What is the Treasury's responsibility in terms of UK Financial Investments, the shareholding body that holds all of our shares in RBS and Lloyds?

**Sir Nicholas Macpherson:** UK Financial Investments is part of the Treasury group. It has its own board and so on, but ultimately it is accountable to the Treasury.

**Q69 Guto Bebb:** How does the Treasury view the importance of transparency and openness in the Government's behaviour and, for that matter, that of the arm's length bodies that are accountable to Government?

**Sir Nicholas Macpherson:** I can see which way this is heading, but I am confident that UKFI operates correctly and has sensible processes. In anticipation of your question—I do not know where we are heading—there will be occasions when it is sensible to withhold information for commercial reasons: to ensure that future share sales and so on can be effective.

**Q70 Guto Bebb:** I am asking these questions because since I have been on this Committee we have taken a huge interest in gagging clauses and that type of behaviour from Departments. Is it appropriate that banks owned by the taxpayer are reaching settlements with businesses and then getting solicitors—dare I say it, paid for by the taxpayer—to place and enforce gagging orders against businesses? Is it acceptable for a taxpayer-funded bank to place a gagging order on a tax-paying business?

**Sir Nicholas Macpherson:** It may well be.

**Q71 Guto Bebb:** So the Treasury would have no specific difficulty with that?

**Sir Nicholas Macpherson:** It would depend on the circumstances. I know that the Committee had a session on so-called gagging orders, but when you are seeking to negotiate a deal on a broad front, sometimes there will be a place for these agreements and sometimes there will not. In the case of the banks, they have offloaded a rather large number of employees in recent years.

**Q72 Guto Bebb:** Just to clarify, the standards that the Treasury would apply internally are not necessarily the same as those imposed on arm's length bodies.

**Sir Nicholas Macpherson:** The Treasury is not a commercial business, and when it comes to the civil service it is important that we should lead by example by seeking to apply the highest standards. Banking by nature is very competitive. That does not mean that the Treasury condones grubby practices in the banking sector—far from it—but we cannot run RBS like you run the Treasury. For a start, money means rather more to the people who like working in banks than it does

to people sitting on this side of the table, and you need to take those human characteristics—or failings—into account.

**Chair:** I think it will be helpful if you write on those prickly issues. That is a slight, but very interesting, diversion.

**Q73 Mr Burrowes:** The NAO described the changes in the sense of becoming “baked-in”, and I want to explore the necessary ingredients and chefs for that. Are the principles and applications of the Efficiency and Reform Group, which Ministers in particular have said produces good, effective operations at the centre, here to stay?

**Richard Heaton:** Shall I lead on that, because it is part of my Department? Who can tell? However, several ingredients of the Efficiency and Reform Group are becoming embedded in the mainstream. I will take three of them. On the Government Digital Service, it is inconceivable that any future Government would go back on the proposition of a single digital front end for Government. That is a really big achievement for the Government Digital Service and I would say that that is here to stay. The Crown Commercial Service, which is a trading fund and part of the Cabinet Office, will be responsible for £7 billion of collected Government spend. I would have thought it pretty unlikely that a future Government would want to row back on that.

We have already discussed the Major Projects Authority. It is pretty inconceivable that a future Government would want to retreat from knowing about their projects and building capability. Civil service reform and themes of a unified civil service with the capability to meet the challenges of the next decade—I would have thought that those are all things that are so firmly mainstream that a future Government would be almost impossibly unlikely to retreat from them.

**Q74 Mr Burrowes:** Dealing with the chefs and whether the chefs have such an impact, the Cabinet Office came with a particular worked-up agenda on civil service reform and other Ministers were involved. How much is it dependent on the particular individual agenda of the Ministers, or has what has happened over recent years, not least the fact that we have a coalition, had a particular impact on the effectiveness of the centre?

**Richard Heaton:** Take civil service reform. I have spent the past three weeks out and about doing a thing called “Civil Service Live”, in Liverpool, Newcastle and Bristol. Although sometimes down here it still feels like civil service reform is some contested area, down there, it is extraordinary. You get people from DWP talking of their own volition—no prompting from me—about digital. HMRC has a stall about its capabilities drive. These things out there are becoming non-contested mainstream things. There is an energy there, and it would have been nice if we had had that energy four years ago from officials, but we have now got it. The basic building blocks of civil service reform are pretty firmly embedded.

**Q75 Mr Burrowes:** In terms of the wider cross-government work and the centre, is coalition good or bad for that effective working in the centre?

**Sir Jeremy Heywood:** Is it good or bad for what?

**Q76 Mr Burrowes:** In terms of the effectiveness of cross-government work and the particular unique relationships of the coalition and the workings of the quad, has that helped the effectiveness, smartness and challenging nature of the centre to which the documents refer?

**Sir Jeremy Heywood:** I do not think the coalition itself has made much difference to the effectiveness of the Administration or handling cross-cutting issues.

**Q77 Mr Burrowes:** It has not made a difference?

**Sir Jeremy Heywood:** I do not think it has, in itself. Both parties in the coalition were interested in moving to more reliance on Cabinet Committees and more collective consideration of some issues. The fact that they are in coalition possibly reinforced that, but it has not made much difference to the question of how cross-departmental issues are taken forward. Those are difficult issues. We have talked about troubled families and we found a way of dealing with that one that has been quite successful so far, although there is a long way to go. Bob talked about local growth. Again, there has not been a strong coalition dimension to that. In this case, it was probably George Osborne who originated the first drive to do that, with strong support from the Deputy Prime Minister, Danny Alexander, Eric Pickles and so on. It has not really been led by the quad; it has been led more by the Local Growth Committee, to be honest.

**Q78 Mr Burrowes:** Finally, on the Cabinet Office, we have a particularly large number of Cabinet Office Ministers. Has that had any impact on the effectiveness of the centre?

**Richard Heaton:** Not really. The Cabinet Office is both a Department driving things and a convenient place for Ministers close to Downing street to reside. Some Cabinet Office Ministers have a clear departmental role and some have a role more closely aligned to No. 10. In so far as the Department drives business, we have just the right number of Ministers.

**Q79 Chair:** I want to cover the three areas, but I just want to pick up on what Sir Jeremy said. You said that there was a real interest in troubled families from the Prime Minister and the Chief Secretary, and so it happened. We are trying to look at something a bit more structural than that. It was great that it happened, and the Committee did a very positive Report on troubled families. Let us not look at it universally—think of Atos and its performance and the fact that that was not picked up until after it had been given another contract for personal independence payments. Nobody picked that up. I do not know whether that was the one that Amyas was referring to. Think of the armed forces and the use of reserves there, where we are playing around with the nation's security. No one has picked up whether that was a viable route down which to go. It is a bit worrying that all these things depend on the PM or *The Mail on Sunday* or whatever it is to get that traction at the centre. We want to see something more structural.

**Sir Jeremy Heywood:** There are several different issues. First, there is the question of those challenges, problems and issues that do not fall to one particular Department. Many Governments over many years have struggled with the issue of how to ensure that cross-departmental issues are taken forward with the same vigour as issues that fall to one Department. That is one class of issues. In the case of reservists and, indeed, Atos, the issue is whether the responsible Department—DWP or the MOD—was sufficiently alive to the emerging picture. In my view, that comes down to first, as I think Nick referred to in relation to the universal credit, whether, before the thing became a project

to start with and before it became announced as a priority of the Government, there was a sufficiently hard-headed assessment done at that gateway stage. That is one question.

Secondly, the perennial issue is whether we have adequate, timely, real-time information about what is going on. If I may say so, you are conflating several different issues. I am happy to take all three of them, or the one that is most particular. Some are about cross-departmental issues and some are about whether individual Departments are spending enough time thinking about the practicality.

**Q80 Chair:** Okay, but the two I raised are individual Departments, aren't they?

**Sir Jeremy Heywood:** Yes. So you want to talk about those.

**Chair:** Amyas—

**Sir Amyas Morse:** I just wanted to ask something.

**Chair:** Does it follow on?

**Sir Amyas Morse:** Yes, it does.

**Q81 Chair:** Shall we get on to that?

**Sir Amyas Morse:** There are characteristics about some projects and I am sometimes bemused as to whether there is a discussion about the relative risks of projects. Some, I agree, are the business of the Departments to initiate and so forth, but some have much wider-ranging reaches and risks across Government in terms of the reputation of Government. Others are clearly solely the business of the Department. Is there any means of knowing what that is? Is there a systematic approach to assessing what those risks are? How does that get looked at? I am genuinely asking for information.

**Sir Jeremy Heywood:** Bob mentioned this earlier. I think we start with the premise that the organising principle is stock-takes between the centre and individual Departments. That is our starting point. We have, as Bob said earlier, stock-takes based on work by the implementation unit that give us the management information. It is a unit effectively working to the Treasury and the Cabinet Office on the priority projects that central Government have set out. We have stock-takes based on information from the Major Projects Authority. We have also introduced the concept of portfolio stock-takes looking at the whole portfolio of a Department's projects.

If you start with those meetings, which take place probably about once a month or once every six weeks, they will often flag up an issue where one or other of our experts—a digital expert, the MPA, the Treasury spending team—thinks that a project is getting too risky, or has already fallen behind and is not meeting its milestones and so on. That may lead to a dialogue more intensively about that specific project. If it is an issue of general applicability, and not just of applicability to that one Department, then of course we can have a follow-up meeting with a broader set of Departments.

The work on G4S and Serco is a good example. What started off as a particular Department's problem—the MOJ's contract—ended up with Bob and I chairing meetings on a weekly basis throughout a large chunk of last year with lots of other permanent secretaries to understand which other Departments would be affected by those two contractors and whether any other contractors were in the same position.

It has to start somewhere. You have to start by bringing some order to it and the way we have chosen to do that is to have these departmental stock-takes that flag up the issues, and then it goes beyond that. It is not random and it is not dependent on the Prime Minister's interest. A lot of it is well below the political horizon altogether.

**Sir Amyas Morse:** But it does sound, if you will forgive me, reactive.

**Sir Jeremy Heywood:** No, it is not reactive at all.

**Sir Amyas Morse:** Well, okay, let me say what I am concerned about in other words. It seems to me, for example, that if we take NHS reform, it was a massive initiative being launched early on in this Government. It had fantastic political risks, I would have thought, as well as project risks, and it has required several resets. Was there some discussion that some of the projects have risks that you can see from the moon and others don't? Is there a strategic discussion before the commitment takes place?

**Sir Nicholas Macpherson:** Can I use the example of NHS reform? Often, these things are in a party's manifesto so there is the early part of an Administration when a Government comes in with lots of missionary zeal. They have already announced they will do some things, so it is a question not of whether, but of when.

**Q82 Chair:** That is a bad example because the manifesto said no reorganisation.

**Sir Nicholas Macpherson:** But nevertheless, it was a very early announcement—

**Q83 Chair:** Ministerial commitment.

**Sir Nicholas Macpherson:** A commitment made by an individual Minister early in an Administration. The point I was making earlier is that it is something we need to learn from. I am not saying that it is going to be easy. We have got the spending review in 2015, come what may. It is going to be really important that the disciplines are observed, whoever the Government are, in ensuring that things are announced as a coherent package.

Coming back to your earlier question, I think the issue of cross-departmental programmes and the success of troubled families needs to inform the next spending review. We have been over this a number of times over the past decade. Under the last Government there was a great emphasis on joined-up government and cross-departmental PSAs and so on. It is important to incorporate the learning that we have derived from the various experiments to ensure that, as we approach the SR 2015, we have a rather more sophisticated and nuanced discussion around cross-departmental programmes.

**Sir Bob Kerslake:** I want to add one thing to what Amyas said. We have now introduced a clear gateway zero, as it's called, where the accounting officer has to sign off the do-ability or feasibility of the project. That can sometimes come after the announcement. It is quite clear that whatever has been announced has to be ultimately signed off as a doable project from the off. That is now part of the process.

**Q84 Jackie Doyle-Price:** I am reflecting on what you said about the importance of political leadership to drive real change here. Recognising that every organisation is a function of the personality of the person at the top, it strikes me that we are only going to get a strong centre if an incumbent Prime Minister wants there to be one. Obviously, at the moment we are in a coalition, so there have been different dynamics at play. It is interesting to hear what you have said about a lot more being done through Cabinet Committees. In terms of the structure, the structure that we have very much reflects a Cabinet system, with the No. 10 Policy Unit and so on beneath the structure of the Cabinet Office. Is there an argument for strengthening that so that the office of Prime Minister is driving the power of that centre? That would become by definition more accountable because the buck will clearly stop at the top of Government.

**Sir Jeremy Heywood:** I would make one point about your opening section of that question. I don't think I said that it always requires strong political leadership to get anything done. What I did say was that in issues that cross departmental lines, if you want to get all Departments to participate with money, skin in the game and so on, it does require the Prime Minister, the Chancellor or the Deputy Prime Minister to be providing some political leadership, particularly in those cross-departmental issues and particularly at the start when you are trying to gather budgets together from all around Whitehall. After that, Louise Casey has more or less got on with it under Bob's leadership, and it has not required constant prime ministerial attention at all.

I don't think most things require constant political leadership either. Once the course is set, the budgets are allocated and we have agreed it is a priority, the civil service can get on with it. It is our job to ensure that it does. That is why we have constant official-level stock-takes and delivery meetings and so on.

On the issue of strengthening the centre, I haven't really commented on this particularly, but I do think that the premise that the centre is unfocused, un-coordinated, weak, is just wrong. It is certainly not in my experience.

**Q85 Jackie Doyle-Price:** I don't think we have said that.

**Sir Jeremy Heywood:** In my experience, we have a stronger centre now than we have ever had. As Nick said, I have been working at the interface between the Cabinet Office and the Treasury for about 25 years off and on. I don't think there has ever been a time when we have been better co-ordinated, whether that is on policy, delivery and implementation or in terms of efficiency reform and so on. Whichever part of the centre you are talking about, I think we are better co-ordinated and more capable. I don't think this would be the time to start messing around with the structure of the Cabinet Office and creating a Prime Minister's Department. I don't think that would help at all.

**Sir Nicholas Macpherson:** The focus on coalition misses a point. All Governments are coalitions. I have worked under Tory Governments where Chancellor and Chief Secretary weren't really speaking to each other. I have certainly worked under Labour Governments where that was

the case. There are certain ingredients to a strong centre. There needs to be strong alignment among the people sitting here. There also need to be really good relationships between the Prime Minister, the Chancellor, the Chief Secretary, the Minister for the Cabinet Office and so on.

**Q86 Chair:** Why three Departments? Why a Treasury, a Cabinet Office—you see yourself as a junior partner—and No. 10? Why?

**Sir Jeremy Heywood:** No. 10 is not a Department; it is part of the Cabinet Office.

**Q87 Chair:** Okay, but in effect it is an entity. Why three?

**Sir Nicholas Macpherson:** Well, all countries have Finance Ministries. The United States, I suppose, is the nearest—you've got an Office of Management and Budget—but actually the Treasury is separate in the States.

**Q88 Chair:** But structurally—if we stand back from personal relationships, which I agree with you change over time—the way Government works is that at the moment you have separate entities: there is an incentive to compete and there is an incentive to become silo-driven. If you happen to get a good relationship between those managing those two Departments, that is minimised, but structurally, the way we are set up leads to a heck of a lot of waste—obviously, we are talking about my experience under Labour—so I can't understand: why can't it all be integrated?

**Sir Nicholas Macpherson:** It has become increasingly integrated. Most of the Cabinet—

**Q89 Chair:** Only because you have got a good relationship at the top.

**Sir Nicholas Macpherson:** Well, no. Coming back to structures, the most important structure is the Treasury building. Most of the Cabinet Office now work in the Treasury building, so we see each other the whole time.

**Q90 Chair:** I am laughing because all the banks on the Royal Mail told us they had good Chinese walls, although they work in the same buildings. I am not sure if working in the same buildings creates necessarily close working.

**Sir Nicholas Macpherson:** Well it certainly makes it a lot easier, I can tell you.

**Q91 Jackie Doyle-Price:** I want to come back on something Sir Jeremy said. I don't think we would say there is a weak centre; we would say it is not strong enough. I think we would also accept that there has been a strong direction of travel in the right direction, but what we are conscious of is that Ministers are impatient with that pace. What we want to do is come up with those recommendations that will get to the pace of delivery that we want to see. It does strike me—and your response when we talked about structures just illustrated it—that we are driven by the machine we have, which is a Cabinet structure, but there has to be some kind of challenge. I can't see any other place to do that than from a strong Prime Minister's office of some description.

**Sir Jeremy Heywood:** We want to see a strong centre too, and I am sure—well, it definitely can be improved. I would think myself that the area with the greatest room for improvement is not on clarity of roles or duplication or rivalries, or whatever; I think it's capability. It is making sure we have brought in some very good people, particularly into the Cabinet Office—the Treasury has always been extremely well resourced in terms of good quality people, but in the Cabinet Office we have not always been able to attract into all parts of the Cabinet Office really world-class people. I think that is increasingly happening, but it is still a long way to go before we have got strength in depth in all of these key functions.

We have had a debate about functional leadership and that issue is now complete. Everybody has bought into the model. What we need to do now is not reorganise or restructure or introduce a stronger Prime Minister's Department, in my view; it is just to continue on the path we are on, accelerate and build the capability of person at all levels down, so we can help Departments who need help from us or we can assure Departments where we are basically having to trust them, but give them some challenge.

That would be the area I would focus on. I don't think there is a lack of clarity about what we each do: as I say, I think we work pretty seamlessly together now, certainly on policy. The implementation unit and MPA are basically almost joint units. The efficiency and reform group has always, from the outset, been led by a combination of Francis and Danny Alexander. It works really closely together. Part of the reason why it is working is that we have got a very clear trajectory of savings that just have to be delivered. That is a jointly owned path. A lot of those components the Treasury has the lead on, like pay policy or pensions; others the Cabinet Office. All of them use the Treasury's own controls—some of them are sub-delegated to the Cabinet Office—so we are working finger in glove on a joint plan to deliver a clear objective. I don't think lack of clarity or lack of co-ordination is the issue; the issue remains whether, in all dimensions, we have got the full capability.

**Q92 Mr Bacon:** And that, surely, is related to how you attract people, and that includes pay. Sir David Higgins was reported the other day as saying that he was planning to hire 30 people for HS2 who will be paid more than the Prime Minister. I remember when I heard it on the radio thinking, "Phew, thank goodness for that"—that somebody understands the importance of getting quality people. He did it for the Olympics and it worked. We have just seen a new deal at the Ministry of Defence, outside of the rules. Sir Bernard Gray had sat where you are sitting, telling us that he could get plenty of administrators, but he could not get enough of the right people. He had serious shortages in certain areas and they found a way through that. So this is a theme; it does not relate just to one area. What I would like to know is: what is the answer in the rest of the civil service? One answer might be to have considerably fewer policy civil servants, but pay them more.

**Sir Bob Kerslake:** I do not think we can just buy our way out of the issue of skills and capabilities. It has to be a mix of buying in people and paying more where jobs are highly sensitive to the market and market-facing, but we also have to invest in building the skills of the existing civil service. In truth, that is where we are going to get most of the growth in capability—through that route. That is why we have got the plan I talked about earlier and why we are committed to a big programme of investment and learning development, and why we have created a new approach to talent management.

**Sir Nicholas Macpherson:** Just to pick up on that, the Treasury is receptive to arguments on pay for specific areas, a good example being High Speed 2. We want to ensure that we do not lose

control of pay across the board; so this is something that will develop further during the course of the next Parliament, as we move to a rather more sophisticated approach to controlling pay. Your point about controlling the pay bill, in effect, is a good one.

**Richard Heaton:** Just to add to that, there are devices that the Treasury is supporting, such as the pivotal role allowance, to support particular roles that need to be more remunerated, to get key people in place, but just for the first time we are seeing fast streamers—that is to say, our best graduate entrants—wanting to do commercial work, because suddenly we have made it something that is really attractive in central Government. That is appealing to people who have a public service ethos, but want to do this work because it is important, rather than second-rate work. As Bob says, we have to grow our own as well as simply playing the market.

**Q93 Mr Bacon:** You are preaching to the converted.

The fear I have is about the risk relating to the Major Projects Leadership Academy producing these folk with greater skills, who hopefully will go back and refresh during the process—you have mentioned 300 people so far. What plans do you have in place—I hope you have some—to prevent those people, who are suddenly more attractive because of their extra level of skills and training, being siphoned off to the private sector? You may, instead of paying them a bit more when they could get double in the private sector, end up hiring them back from the private sector at three times what you would have paid in the first place.

**Sir Bob Kerslake:** That goes to the point of knowing which jobs are most vulnerable to that—it is not all the jobs we have—and recognising that in the pay and things like the pivotal role allowance. We are absolutely alert to that and we are doing things about it to retain people.

**Sir Nicholas Macpherson:** I am not bothered if they go to the private sector, providing they come back.

**Q94 Chair:** Why? If you pay for them as consultants, you are paying much more.

**Sir Nicholas Macpherson:** Well, yes and no. I have quite a lot of experience now in the Treasury of people who go off and make a lot of money in the City and find it very boring.

**Chair:** Yes.

**Sir Nicholas Macpherson:** And they come back on much less pay. My good friend, John Kingman, second permanent secretary to the Treasury, went off to Rothschild's for a couple of years. I have never asked him what he was paid at Rothschild's, but I am pretty clear that he got paid a lot more than he is being paid now. He has chosen, of his own free will, to come back to the Treasury.

**Q95 Chair:** We are all going to pat each other on the back for doing public service.

Can I just come back to the issue of the relationship between Cabinet Office, Treasury and No. 10? You are sitting here as the leaders of that and you say, "We're getting on really well," and, "It's all working well." I have to say to you that in the evidence that we get on a range of projects, down underneath you, those relationships are not as positive and as strong as you pretend they are.

I want to ask you a positive question. What are you going to do to make them better, so that the centre becomes more effective in delivering value for money? What would you—between you—be saying to the Prime Minister needs to happen to get that working better at the centre?

**Sir Jeremy Heywood:** I do not really accept the premise of the question, in the sense that when I look at the working level of staff in the Cabinet Office and Treasury, often in the same meeting—I chair a lot of meetings and, when we are pushing and probing, I have the Treasury and the Cabinet Office on one side of the table with me and the Department on the other—they are generally speaking co-operatively, to prepare the brief, and so on. Maybe this just takes time; perhaps that's the issue.

The Prime Minister and Chancellor obviously send a strong signal, working closely together themselves. That is helpful, because people take their cue a lot from what they see their political leaders doing. Obviously Nick and I, Richard and Bob work closely together.

**Q96 Chair:** Is this all personal relationships?

**Sir Jeremy Heywood:** No, but you get into a habit of co-operating with people on the agreed plan, realising that pretty much in every meeting you are on the same side of the argument, and you—

**Q97 Chair:** I think if you had some of the people lower down who are working on things like debt collection—I'm trying to think of some of the ones we have had up here; let's take debt collection, which I think we had recently—I do not think there's that feeling from those guys struggling in Richard's Department to get across Government. There is a lot of money out there in debt—£20 billion-odd or whatever it is; I can't remember—and I think the guys struggling at the coal face in Richard's Department trying to get it would not wax lyrical about Sir Nick's staff and the co-operation they get there, or the ability to deliver across Government. That goes to you, Sir Jeremy and Sir Bob, as shared heads of the civil service. I do not think that that really reflects what we hear back here. I do not know whether the NAO agree with that.

**Keith Davis:** I think perhaps debt is a good example. It feels like very recently, around the debt market integrator, the Treasury and Cabinet Office have come together. However, for quite a long time it was very much the Cabinet Office team pushing at that very hard, and I am not really sure I saw how engaged in it the Treasury people were for quite some time until recently.

**Sir Nicholas Macpherson:** A lot of this is about how we organise ourselves. There may actually be occasions where it makes perfectly good sense for the Cabinet Office to be totally taking the lead and for the Treasury not necessarily to be at the table. These are both small Departments and we have got to prioritise our resources. Nevertheless, in terms of our relationships with Departments and our engagement with major programmes, it is very important that the Cabinet Office and the Treasury are working very closely with each other and are at the table at the same time. What is really irritating if you are a Department is if you are having to have separate conversations with the Cabinet Office and the Treasury. That just encourages Departments to play one off against the other and it wastes a lot of time. In terms of all our processes, our own internal efficiency agendas are forcing us in this direction, whether we like it or not—personally, I do like it—and we have got to work in a very integrated way.

**Sir Jeremy Heywood:** I think your question was a line with two points. One was Treasury and Cabinet Office discussions at working level, and one was broader cross-government issues, where you say Bob and I come in. I think that is more problematic. I readily accept that whereas the Treasury and the Cabinet Office, particularly in this period of austerity and trying to drive out efficiency and so on, are working really closely together—more closely than ever before, I would argue—we are making less progress on finding the magic bullet to how we get cross-departmental working right the way down.

That depends a lot on Ministers working co-operatively together, having been asked to by the Prime Minister, and on permanent secretaries coming together in groups and agreeing: “We will get our teams to work together.” That is more of a culture problem, because people are still more inclined to defend a departmental line. So I think that is the bigger challenge than the Treasury and Cabinet Office. I do not think that we have got the answer to that. We have got things like troubled families, the joint units we are putting together and—I would argue, over time, as they get more proven—social impact bonds. We have a variety of different tools.

**Sir Bob Kerslake:** Can I just add two points to that? First, if you ask people outside Government, they would say the same as Jeremy has just said. They would say, “We need to be more joined up in government when we are dealing with issues.” One thing that I think will make a difference over time is our investment in developing talent in the civil service, which we are doing across Government through programmes that work across all Departments. When you meet the people who are on those programmes, one of the most powerful things you hear from them is the benefit of being in a cross-government process for development. I think that is one example of how the way we develop talent in the civil service will get more of a cross-Government approach.

**Sir Amyas Morse:** I think it is just worth looking at it from a slightly different perspective. In terms of achieving coherence in central Government, you have probably had some unique sets of circumstances driving more coherent activity, and it would be nice if you could achieve and maintain coherence without necessarily having to be in distress, having to take out costs or, indeed, in the possibly historically unusual circumstances of having a coalition Government where there are a lot of structural reasons why there is relatively little change in ministerial briefs.

Those give you an opportunity to drive a more coherent centre, but they will not go on for ever. The real question is: will something be built—not just examples of good things—that can be maintained when we are no longer in distress, when money is not as short and when the cuts are not having to be implemented? That is surely the test of whether a lot of the learning in this period has been worth while.

**Sir Jeremy Heywood:** To which my answer is that that is a very good point and a very good way of putting it. It comes down to the quality and durability of the institutions that Richard was talking about earlier. If the CCS turns out to be brilliant at procuring common goods and services on behalf of Whitehall because it has got some really good people and a proven track record, not only will the Treasury continue to buy into it, but the rest of Whitehall will love it as well. If GDS continues to be world-beating in the quality of its digital advice and Departments continue to look to it as a source of advice, it will be an enduring part of the system. In the end, it comes down to the quality of the resource at the centre. Even in good times, as opposed to times when we are trying to cut £20 billion in efficiency savings, people will still look to those central units for advice if they are full of really good quality people, and the Treasury will as well. It is a fair point that you have propitious circumstances, very aligned political leadership, plus a real task in hand and good personal

relationships at the top. That is a fair point. There are reasons to think that if you build the right capability, it will endure.

**Sir Amyas Morse:** The only thing, if I may say, in your reply is the optional nature of the way you express the co-operation on the part of the Departments. I agree with you that if you have services and they are really excellent, they will get demand pull. On the other hand, if those services are not as good as they should be—if you say, “Each Department can decide optionally to opt in or opt out”—you will very soon have things unwinding. Really, what you want to do is say that if things aren’t good enough, they should be used and fixed, with a very engaged response from the user community, not that individual Departments can think that they can opt out—maybe I picked it up wrongly.

**Sir Jeremy Heywood:** Bob will be talking about the functional leadership model, but it is not an optional model.

**Sir Bob Kerslake:** It certainly isn’t. You take a collective decision and then mandate the model, so it is clear.

**Q98 Chair:** There is one last question that we haven’t covered, which is the financial review. That was completed in December. You have Julian Kelly in post now. I have two questions around that. One is: what are you expecting him to achieve? Where is your action plan? What is he going to do? Secondly, who is his accounting officer?

**Sir Nicholas Macpherson:** Those are all very good questions. We have Julian Kelly in post. I think he has been in post for only a few weeks, so it is still early days. The review set out a number of objectives. I would hope that you will begin to see progress through this autumn.

What areas will be particularly focused on? First, as with a lot of these issues, it is around capability, ensuring that we have got the talent and that it is in the right place, and developing future financial capacity. It is also about improving financial management, having a far better understanding of our cost base and how that can then drive decision making and the allocation of resources.

It is issues such as having a common charter of accounts that will begin to make things like whole of Government accounts—which I am much looking forward to discussing with you again—even better. We are making progress; even you accept that we have made some progress but, quite rightly, you are demanding that we make faster progress still.

The other functional leadership point is that we are going to be a lot more proactive in the performance management of finance directors across Government. If we feel we have an issue with a finance function, we are going to lay it squarely on the table with the relevant accounting officer and, if necessary, say that this person needs to move on, which is important. I have always taken the view that we can’t run finance like the Treasury, but we can have a far stronger grip on what is going on in Departments. You will see progress on all those fronts.

Julian Kelly works in the Treasury and reports to Sharon White and through her to me. He is physically located about six yards across the open plan in the increasingly small area that the Treasury senior leadership inhabits, in contrast to the Cabinet Office, of course.

**Q99 Chair:** We did notice that you are expanding not contracting.

**Sir Nicholas Macpherson:** Although not dissimilar from Mr Heaton. We talk to each other regularly; indeed, I was speaking to him just before I came here. I want to be able to illustrate for the Committee that we are making progress. As and when we have a detailed plan, I will be happy to share it with you and discuss it with you.

**Q100 Chair:** Can you share that with us? That would be really helpful.

**Sir Nicholas Macpherson:** Yes; and, indeed, discuss it.

**Q101 Sue Higgins:** Following on from contraction and expansion through the FMR, you talked about having the capability and talent in the right place. Does that mean you will adopt the principles of the Cabinet Office model of having specialist finance available in the centre that Departments can use?

**Sir Nicholas Macpherson:** Yes and yes. Part of this is about increasing capacity and specialist capability within the Treasury. But it is also about picking up the really good points about commercial skills and the major projects academy. It is actually raising the status of finance in Government. It is not seen as some sort of tedious bean-counting job. It is actually about driving the agenda across Government.

**Q102 Chair:** One final thing, and perhaps you can come back to us. Will he be looking at something that frustrates us like mad? We had a hearing on it last week. We all know that the early PFI contracts were not well written. You have got them better now; there is a bit more sharing of profits. Last week we looked at the new green energy contracts—I cannot remember what they are called.

**Mr Bacon:** Contracts for renewables.

**Chair:** Contracts for renewables. We are going to come up with a critical Report on it, because you see to your horror that they are signing up contracts based on tenuous information, and there could be excess profits. We will obviously have to wait and see. And there is no ruddy clause in there to say that there will be a sharing of profits.

**Sir Nicholas Macpherson:** We have a huge interest in having certain contracts. This will involve the finance and commercial arms of Government working very closely together. I look forward to reading your Report.

**Q103 Chair:** No, but structurally, Nick, this is the frustration. You are going to strengthen the finance function—I really look forward to looking at the action plan—but structurally there does not seem to be an automatic mechanism that says, “Hang on, we’re doing some new contracts here. They are not unlike the contracts around PFI. What are the lessons we learnt from PFI? How can we translate them into doing better contracts?”

**Sir Nicholas Macpherson:** Inevitably and rightly, you tend in this Committee to focus on contracts that fail. We need to learn the lessons from those and move forward. As Jeremy said earlier, there were issues around some of the Serco arrangements. We are not perfect, but we are ambitious. These are the sorts of areas we really have to make progress on.

**Q104 Mr Bacon:** Yes, but they have not failed yet. They were let only a few weeks ago. It is just that we were surprised to find, given all the experience of the '90s—nearly 20 years of experience now—that there were no refinancing clauses. Norfolk and Norwich University Hospitals was a key example. The chief executive said they would have liked a refinancing clause, but they were told they could not have one by the Department of Health. When they asked why, they were told the Treasury had told the Department of Health that there could not be such a clause. Then, there were all these ex-post hoc 70:30 arrangements, and then eventually it became normal to have a sharing clause. It's not as though there wasn't any learning or expertise available; there had been quite a lot. Then we come along to a completely new set of contracts, which in some ways are very similar, that had no refinancing clauses. There is considerable potential for embarrassment—to use the CAG's word—because of the potential for huge increases in rates of return. What I heard the Chair ask—which you answered by saying “We are ambitious”—is: where is the structural system that ensures that these lessons from the past are learnt? I do not see it.

**Sir Nicholas Macpherson:** Well, this Committee took a very great interest in the private finance initiative over many years. I think that we have done a much better job in recent years in dealing with so-called PF2 and so on.

If there are lessons from your hearing and what you were looking at last week, we had better take them away and understand why this happened in this particular case. There may be very good reasons. I have not read your report—

**Q105 Jackie Doyle-Price:** They throw up a different set of challenges, but make a really good argument for the Treasury and Cabinet Office to be more involved in this. Ultimately, DECC's objective is to meet the targets for decarbonisation and climate change, so value for money for the taxpayer is way down the list. That is a perfect example: we would have so much better outcomes for the taxpayer if that challenge was there early on. As it is, now we have got these contracts.

**Sir Jeremy Heywood:** Few subjects have been more discussed and debated between the Treasury, DECC and the Cabinet Office than the contracts for difference proposal. It could be that the scrutiny hasn't been adequate, but the idea that there hasn't been scrutiny and that the value-for-money question wasn't asked—it replaced a system which would have been much more expensive. I have not seen your Report, so I should not comment on—

**Chair:** We haven't written it yet—but I can tell you what it will say.

**Sir Jeremy Heywood:** Just to be clear, contracts for difference are very different from PFI contracts. You can have a contract where, if it goes against you, you end up having all your money recouped. That is not a contract for difference, and it would have meant a much more expensive contract. We need to see your Report, but these are not PFI contracts; these are contracts for difference, which is a very different concept.

**Chair:** Good. Thank you very much for that session, which was very helpful. It is a really difficult area. We look forward to our very final session: the role of the centre and perhaps a little more on your financial management—the development, the action plan and the outcomes we hope to see from that—would be very helpful as they are important. No doubt we will have other ideas when we write the Report on this session, but those seem to be two important areas. Thank you all for your attendance.