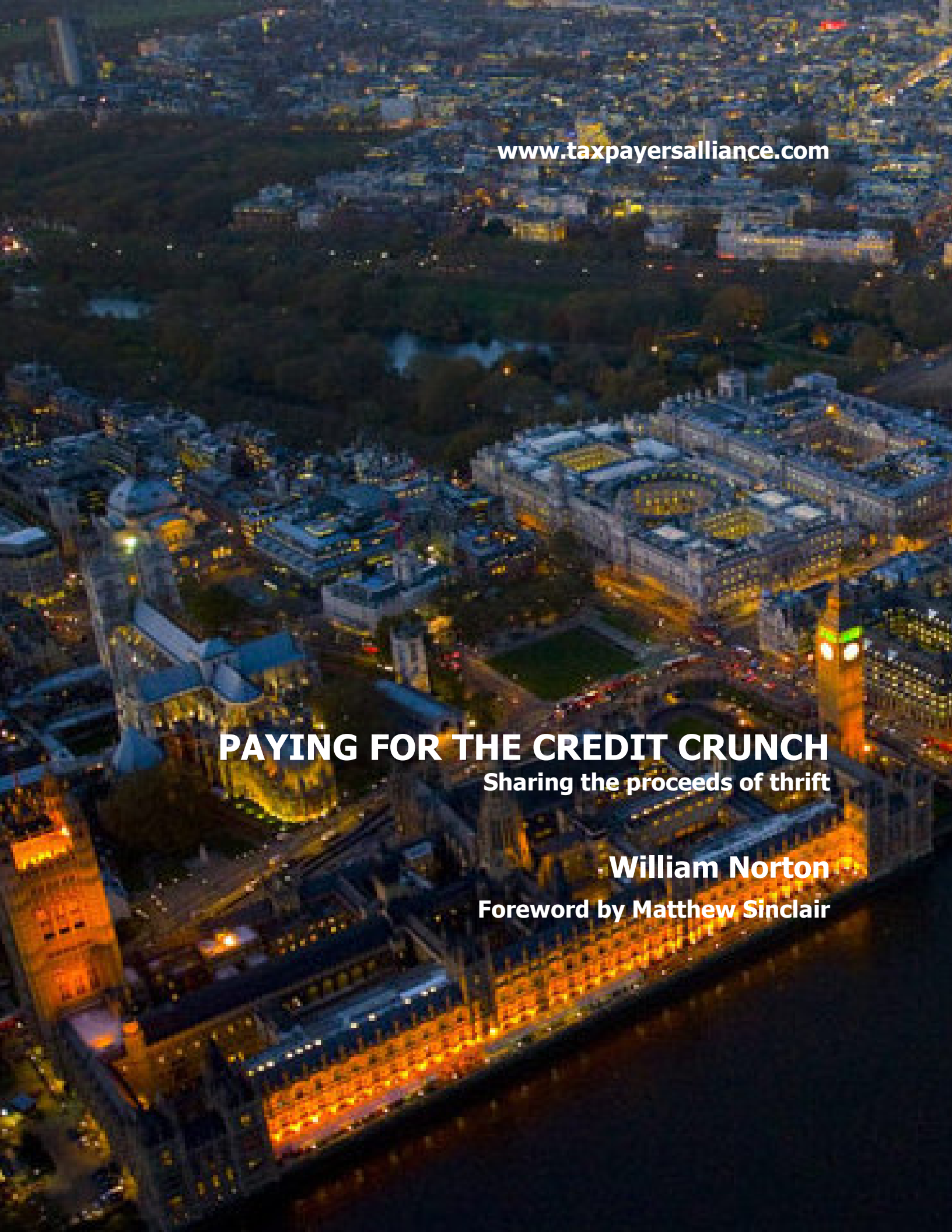


www.taxpayersalliance.com

PAYING FOR THE CREDIT CRUNCH

Sharing the proceeds of thrift

William Norton

Foreword by Matthew Sinclair

Contents

About the authors

William Norton, author of the report, is a qualified solicitor with over fifteen years experience providing tax and business advice in the City of London. He has been on the advisory panel for tax affairs and legislation to the Conservative frontbench since 1998. William was a member of the permanent staff of the *James Review on Taxpayer Value* (2004-5) and wrote the reports on Defra, DTI, the Department of Health and the Home Office. He was subsequently attached to the Conservative Party Policy Unit and oversaw the Kill Or Keep Review of quangos and the drafting of the Deregulation Bill proposals. William was also the Referendum Agent for the victorious No campaign in the North East Regional Referendum. He is currently a trustee of the Social Affairs Unit and a borough councillor in Worcestershire.

William is the joint author (with Charles Elphicke) of *The Case For Reducing Business Taxes* (CPS Perspectives, 2006), and the sole author of *The Machinery of Government* (And how to reform it) (ConservativeHome.com, 2006), *Flatlining: Analysing the institutions running the NHS in London* (TPA, 2006) and *White Elephant: How The North East Said No* (Social Affairs Unit, 2008).

Matthew Sinclair, author of the foreword, is the Research Director at the TaxPayers' Alliance. Since joining the TPA in May 2007, he has produced major reports on government capital procurement, environmental policy, NHS performance, the dynamic effects of corporate tax cuts, the economic and social burden of crime and the effects of aid policy, among others. He frequently represents the TaxPayers' Alliance on the television and radio, particularly in response to the economic crisis.

Foreword

Britain's public finances are facing a near perfect storm: Over a decade of big increases in public spending – mostly wasted by unreformed public services rather than putting in place essential infrastructure; tax revenues collapsing as the financial services firms that have powered the British economy are in free fall; a government set on responding to the crisis with crass Keynesian fiscal stimulus and rising demands on the state as unemployment increases.

Increasing the tax burden, after massive increases in recent years, is more likely to add to our woes than relieve them. In particular, increasing the burden on business could be catastrophic for our already weak economy as global corporate organisations are in a state of flux and firms can easily locate any new investment, or save jobs, elsewhere. While Britain's involvement in the war in Iraq may be coming to an end, the war in Afghanistan rumbles on and, with shortages in key equipment, any savings in the defence budget are likely to be ploughed back into keeping soldiers alive.

Even before the present crisis set in, the public had come round to the idea that spending needed to be curbed so that their tax burden could be brought down. Opinion polls showed a solid majority behind cutting public spending and then bringing down taxes in turn. It may be, though, that we will increasingly face a choice between choosing to cut spending now and being forced to cut spending when financing massive deficits becomes untenable.

In that context, it is vitally important that every consideration is given to how we reduce public spending. At the TaxPayers' Alliance, we're keen to publish the work of authors whose views might inform politicians and members of the public who want to reduce spending and build the conditions for lower taxes now and in the future. In this report, William Norton uses his policy expertise, built over decades including being one of the key brains behind the James Review for the Conservative Party, to presents a case for re-organising public services. He sets out, in unparalleled detail, why an aggressive waste-cutting Government can and should ease the pressure on the public finances.

Matthew Sinclair
Research Director
The TaxPayers' Alliance

Preface

In 2006 Tim Montgomerie, concerned at the escalation in government spending, asked me to write a paper for his ConservativeHome.com website summarising my work on waste in the public sector for the James Review of Taxpayer Value. The result, called *The Machinery of Government (And How to Reform It*), duly emerged and, given the then climate of opinion, duly disappeared from view.

I had summarised the scope for cutting government waste with the conclusion that "*It becomes a matter of political judgment and human nature (unless economic reality interrupts proceedings)*."

Well, since then, economic reality has interrupted proceedings with a vengeance. We have had the final efflorescence of an unstable boom, the flailing incompetence of a moribund government, a credit crunch, a banking crisis, a stock market crash, and now the spectre of world recession stalks the globe. It seemed worthwhile excavating my old paper and revising it in the light of current market conditions. Human nature has probably not changed much since 2006. What about political judgment?

Sharing the proceeds of growth, the stance that government spending should rise more slowly than the economy grows, is a perfectly fine economic policy. It is the policy on which the Conservative Party fought the general elections of 1997, 2001 and 2005 (although these days the slogans are sharper and they are accompanied by fewer figures and graphs). It is unclear now, and was never discussed then, what would happen if there was no growth in the economy.

In a sense, this does not matter now. The debates of the 1970s and early 1980s turned on the trade off between inflation and unemployment. Those of the late 1980s and 1990s concerned the relative merits of privatisation and state provision. Today the dilemma has become the right balance between stimulating growth and paying for the cost of government. As it were, we need a policy for sharing the proceeds of thrift.

Irrespective of how any UK government decides to respond to the crash of 2008, whoever holds power will have to face one overriding imperative. Cutting the cost of administering government is now the only game in town. Money will be so tight that, whatever the government plans to do it, it cannot afford to fritter any away on the seraglios and harems of Whitehall. This paper sets out how to axe the eunuchs of the quango state, and why this must be done.

You have a choice. Mrs Thatcher famously said that "*there is no alternative*" to her policies. She was wrong. In politics there is always an alternative. The programme which I outline in this paper will be at first unpopular, difficult, and slow. Gordon Brown is fond of attacking his critics as advocates of doing nothing. He prefers dramatic and drastic action – any action, so long as it is dramatic and drastic and, of course, expensive. But he is the

real advocate of doing nothing because he is willfully ignoring the structural defects of the system over which he presides.

It is always open to our government to choose to do nothing about these fundamental defects. And then, after a few years, we will all be eating grass.

William Norton
March 2009

Executive Summary

Since 1997 there has been a substantial increase in the size of Central Government without a corresponding increase in efficiency or productivity:

- In June 1997 there were 472,412 full-time equivalent civil service posts. By December 2007 this had risen to 498,960.
- This obscures the true extent of the state payroll. In March 2007 there were roughly 2 million people employed by government departments or quangos, excluding frontline staff.
- Adjusting for various attempts to fudge the figures, there were 1,814 public bodies operating in England or on a UK scale in 1998. On a like-for-like basis, by 2007 this total had risen to 2,247.

The post-war governments that offered the most radical policy change were often the most cautious in terms of reforming the machinery of Government:

- The Attlee Government essentially took over a machine designed to subdue Nazism and tilted it towards subduing capitalism but did not change the fundamental structure. Thatcherism, too, was more about changing policy than changing structures.
- By contrast, the theoretical basis for British Government was formed by Lord Haldane's *Report of the Machinery of Government Committee* under Lloyd George's Government. Equally, the Heath Government acted to rationalise the structure of Government, even if the reformed government wasn't directed to the best objectives.
- Gordon Brown has been on a one-man crusade to prove that Harold Wilson was right all along, that centrally planned increases in top-down expenditure backed up by detailed regulation can kick-start a non-inflationary, high-growth, high technology Britain built on social justice. This has been a grievous mistake.

Significant savings could be made in public spending:

- Estimates of waste range from £21.5 billion to £101 billion. The Government probably wastes in total about 15p of every £1 it spends.
- The difference between the Gershon and James Reviews' results, before the last election, represents the difference between the current Government and a Government more serious about cutting waste. Assuming a similar difference exists today, a serious waste-cutting Government could save at least £57.6 billion, just by focusing on the structural waste which the Government creates through its own irrational methods of organisation.
- With £57 billion of savings, Government could hold a banking bailout every year forever – or fight another 10 Iraq wars every year.

- On top of this, there is another £45 billion of operating waste created by Government incompetence in the way it carries out its business. This waste could be reduced significantly through smarter ways of working.

The enormous cost of the recession makes reducing the cost of Government vitally important:

- The Government is set to borrow more, on official figures adjusted for RPI inflation, than was borrowed in World War II, World War I or the Napoleonic Wars.
- The true extent of borrowing in the next few years will depend on the severity of the recession.
- An effective alternative to the VAT cut would have been a reduction in National Insurance Contributions.

Taxpayer value can be released by creating a clearer, simpler organisation:

- Shrink the Core Departments and cut out the overlap with the quangos.
- Outsource or privatise mechanical functions where it can be demonstrated it is cheaper to do so. In 2004 the James Review uncovered examples of this including the Rural Payments Agency, Job Centre Plus and the Army Base Repair Organisation (now part of the Defence Support Group).
- Rationalise the remits between agencies and eliminate duplication. For example, merge the Forestry Commission, Forest Enterprise and the National Forest Company, all of which are supposed to grow trees, and completely sell off the loss-making Forest Holidays venture.
- Withdraw from areas which are not working and where a better result can be achieved by a less expensive route. For example, why operate over 3,000 business support schemes with different eligibility criteria when you can achieve more effective help for small business with a standardised exemption from the more onerous regulations?
- Eliminate quangos which serve no useful purpose. For example, the regional assemblies and strategic health authorities.
- Eliminate profligacy at head office. End the expensive enhanced early retirement programme; reduce Government advertising (which is often pure propaganda); improve procurement spending; and above all address the chronic level of absenteeism. A recruitment freeze should also be implemented for the foreseeable medium term.

Irrespective of how any UK government decides to respond to the crash of 2008, whoever holds power will have to face one overriding imperative. Cutting the cost of administering government is now the only game in town.

Abbreviations

AGO	Attorney General's Office
BERR	Department for Business, Enterprise & Regulatory Reform (created 2007)
CO	Cabinet Office
DCA	Department for Constitutional Affairs (2003-2008)
DCSF	Department for Children, Schools & Families (created 2007)
DCLG	Department for Communities & Local Government (created 2006)
DCMS	Department for Culture, Media & Sport (renamed 1997)
DECC	Department of Energy and Climate Change (created 2008)
Defra	Department for Environment, Food & Rural Affairs (created 2001)
DES	Department of Education & Science (1964-1992)
DETR	Department of the Environment, Transport & the Regions (1997-2001)
DfEE	Department for Education & Employment (1995-2001)
DfES	Department for Education & Skills (2001-2007)
DfID	Department for International Development (created 1997)
DfT	Department for Transport (created 2002)
DH	Department of Health
DIUS	Department for Innovation, Universities & Skills (created 2007)
DPMO	Deputy Prime Minister's Office (2006-2007)
DTI	Department of Trade & Industry (1983-2007)
DTLR	Department of Transport, Local Government & the Regions (2001-2002)
DWP	Department for Work & Pensions (created 2001)
FCO	Foreign & Commonwealth Office
FSBR 2008	The Financial Statement and Budget Report for 2008
GDP	Gross Domestic Product, the total value of goods and services produced in the UK in any given year
GEO	Government Equalities Office (created 2007)
HMCPSI	HM Crown Prosecution Service Inspectorate
HMT	HM Treasury
HO	Home Office
LCD	Lord Chancellor's Department (abolished 2003)
MAFF	Ministry of Agriculture, Food & Fisheries (1955-2001)
MOD	Ministry of Defence
MOJ	Ministry of Justice (created 2007)
NAO	National Audit Office
NICS	Northern Ireland Courts Service
NIO	Northern Ireland Office
ODPM	Office of the Deputy Prime Minister (2001-2006)
ONS	Office for National Statistics (created 1996)
PBR 2008	The Pre-Budget Report for 2008
PCO	Privy Council Office
PMO	Prime Minister's Office
PSA	Public Service Agreement
SCO	Scotland Office (created 1999)
TSol	Treasury Solicitors' Department Agency
WO	Wales Office (created 1999)

1. The spiral of instability in the public sector

Why we need to declutter Government

For a while in 2004 there was an advert alongside the platform at Westminster Underground, on the Jubilee line. It depicted workmen digging up a road and it alerted passengers to the forthcoming elections for Mayor, Greater London Assembly and European Parliament – the gimmick was that one of the workmen was using a red traffic cone as a megaphone to shout out the message.

This advert captured succinctly everything that is wrong about modern British public services: the advert remained up well into September, although the elections had been held in the first week of June *(out-dated and irrelevant);* there were four workmen assigned to the task in the picture *(over-manned);* and none of them were actually doing any digging *(exactly)*.

If you want to live in a society where every citizen has a fair opportunity to develop to their full potential, then you cannot permit your Government to impose centralising uniformity.

If you want to live in a society which offers the greatest range of choice for its citizens, then you have to address government provision of the key public services.

If you want to live in a society which is enterprising and productive then you cannot afford a complex, disjointed bureaucracy which wastes taxpayer's money and over-controls to achieve misguided objectives.

If you want to survive the credit crunch, then you have to solve these problems, and quickly.

The British State is not delivering value for money. There is a widespread and systemic failure to understand the management of other people's money.

Dome Economics

Consider, for example, a proposal to demolish some perfectly good gas works to replace them with a large white pleasure dome. The site has been levelled, the building has begun, but our plans have gone awry. We have spent our £500 million budget and we have nothing thus far which can generate an income. It is estimated that, on a revised plan, the project will now require a further £500 million. Alternatively, we could sell off the site to recoup capital and cut our losses. What do we do?

Most people would probably say: if we do not commit the extra funds, the £500 million already spent will be "wasted". But this is a false judgment; it suggests that merely to spend money on completing a project will guarantee its success. Life is rarely so straightforward.

The real question is twofold: whether the project when completed has a

serious prospect of success; and if so, whether the likely level of success will generate a return which justifies the additional expense. In an ideal world, these questions would be considered prior to the commencement of a project.

In the case of our imaginary pleasure dome, the first £500 million has been spent already. It has gone and will not be coming back. Past costs are irrelevant. If the entire project is not likely to succeed, completed or not, then we have already wasted our first £500 million, whether or not another penny is spent.

The real choice is therefore: do we stop now and waste only £500 million; or carry on and risk wasting £1,000 million. In other words, we carry on only if we are reasonably certain the project will still generate an adequate return on a cost of twice the original estimate. Crossing your fingers to avoid a present embarrassment is no substitute for hard and constructive thinking. Too often there is a failure to undertake such thinking in Government.

Dome Economics, then, is the theory that spending money on something of itself guarantees success. It is a fast-spreading and evangelising doctrine. It finds ready converts wherever somebody has the power to spend someone else's money. The principle applies equally well to a middle-manager in a large corporation with inactive shareholders as to a bureaucrat in a quango. (We are only now discovering how many prominent and respectable banks were really being run on Dome Economics.)

Conversion to this new religion is encouraged where a decision-maker's promotion prospects are determined chiefly by non-financial factors. Buggins in the Department of Flannel might never become Buggins OBE if he owns up to wasting £500 million: far better to plough on and hope that he will have been promoted out of the firing line by the time his successor Juggins is found to have presided over a waste of £1,000 million. Juggins, of course, will not be held to account for a project he inherited from someone else.

We are always hearing about the need for this or that "bold initiative" or "imaginative proposal". Often the boldest and most imaginative decision is the realisation that it is time to cut your losses and move on. This also highlights the weakness of accountability in Government.

A rescue plan for the public services

The starting point for this paper is that the public sector faces a crisis: it has insufficient funding to achieve the objectives set for it. The crash of 2008, and the need to pay for it, makes this problem all the more acute. I believe that this crisis is structural, avoidable and starts at the top. The way in which the public sector is organised, and the cultural ethos of that organisation, means that our public services will always carry the risk of instability.

I shall not discuss any plans for the reform of any specific public service – because that would be irrelevant so long as the central flaw remains

unaddressed. Neither will I insult the reader's intelligence by suggesting that a mere change of governing party would be enough. The problem is not so much *what* the state does or *why* (although I have strong views on both) as *how* it does what it does.

I believe that the British people adopt a "black box" approach. They want decent services at a fair price. Views as to what is "decent" and what price is "fair" will vary from time to time and the relative importance of the two factors will shift from generation to generation. Fundamentally, however, people are interested only in what goes in (tax or charges) and what comes out (service) and what lies in between the two is irrelevant and can be consigned to a black box for someone else to handle.

This paper worries about what is inside the black box, and my argument is that the compartment known as the machinery of government must be fixed before you look at the wider questions.

The spiral of instability

The problems of the public sector arise in the machinery of government:

1. *There is an inexorable and inevitable tendency to expand the remit of "government".* Politicians react to public demands to "do something" – often an issue of genuine concern where action would be justified.
2. *Individual public service lines have their own inherent tendency to expand*. Even if the balance between public and private sector were exactly right and there was no political pressure, there would still be a tendency to expand headcount and expenditure in handling day-to-day functions. This expansion occurs because:
3. *There is no constraint preventing expansion*. A private household has to make trade-offs in expenditure decisions within a fixed income: holidays versus washing machines, consumption versus saving. The state machine is not subject to such constraint except at the extremes of economic collapse or financial crisis. The absence of constraint arises because of:
4. *Upwards management of the services*. Government agencies are run in response to central directives issued from on high rather than downwards in response to user demand. This is not unique to the British public sector, but equally the current system is not the only way things could have been structured. The root cause probably lies in the doctrine of ministerial responsibility – the transparent fiction that a government minister is responsible personally for every act of the state. As this has developed it has confined management within an internal dialogue which excludes the consumer of services. This causes and encourages:
5. *Dome Economics* or the tendency to throw money at an objective until it is achieved and avoid a rational financial assessment of activity. There is little or no attempt to calculate a trade-off between alternatives: each

service is being upwardly managed to attain an ever-widening list of objectives. In time the service reaches a point of:

6. *Overload*, a declining level of service because either objectives are being expanded faster than resources (political activism); or costs inflate faster than funding (the absence of a real market); or waste accumulates (Dome Economics is basically inefficient); or the simple impact of diminishing economies of scale; or all of them together.
7. At this point *the political masters make the wrong response:* new central objectives; or increased funding; and probably both. The spiral restarts until eventually:
8. *Economic collapse* occurs as the state absorbs too great a proportion of GDP to pay for failing services.

The resulting mess can be considered a **political-inflationary complex**, with its own vested interest in the continuation of this disastrous spiral. Britain needs a more mature political culture than this. The British public sector is rotting from the top.

What has happened since 1997?

- There has been a very substantial increase in the number of Central Government civil servants without a corresponding increase in efficiency or productivity. In June 1997 there were 472,412 full-time equivalent civil service posts. By December 2007 this had risen to 498,960 – at a time when there was an official policy under the Gershon Review of cutting the number of posts.
- This headline figure obscures the true extent of the state payroll. There has been a serious explosion in the "quango state", and their employees do not count as civil servants. As at March 2007, there were at least 2,071,288 people employed by government departments or quangos – and this figure excludes front line staff - policemen, military personnel and medical staff within the NHS.
- It is difficult to make direct comparisons because of the impact of devolution, numerous NHS reorganisations and the Government's attempts to conceal the truth. Adjusting for these changes, there were 1,814 public bodies operating in England or on a UK scale in 1998. On a like-for-like basis, by 2007 this total had risen to 2,247 (see Appendix V), an increase of 24 per cent.
- Although there are many new quangos handling functions previously discharged by central departments, there has been no corresponding reduction in the size of Government. As a result, there is widespread duplication and overlap of functions. The taxpayer is often paying for the same services twice.

- The Government is suppressing information about the true size of the quango state. To be fair, the Blair regime commenced with a flurry of openness. Then they began to fudge the quality and comparability of the data they were publishing, for example by claiming that all 302 Primary Care Trusts in the NHS only counted as one single quango "for statistical consistency". In 2006 they closed down the on-line directory listing quango information and confined publication to an annual booklet called *Public Bodies*, which has been getting thinner every year. Finally, when Gordon Brown became Prime Minister he disbanded the Cabinet Office unit which monitored quango activity. Apart from a few summary tables about a restricted list of bodies no information is released centrally at all.
- The public services are being undermined by a "targets culture". Front-line services are being forced to manage themselves to comply with centrally imposed targets, instead of being managed to satisfy the public. The purpose of regulation has been forgotten. It has become an end-in-itself.
- Central Government targets were enshrined in Public Service Agreements between HM Treasury and each spending department covering three-year funding allocations beginning in 1998. Each PSA was intended as a contract, binding ministers to minimum standards of performance by making responsible for satisfying certain targets. This sounds like a good idea – to anyone with only limited commercial experience, such as a New Labour spin doctor. Of course, the departments began to be managed in order to satisfy the targets, and the figures were fudged to 'prove' that they had achieved this limited objective. For 2005-2008 there were 20 PSAs.
- Gordon Brown the Prime Minister claimed at first that he wanted to move away from the targets culture introduced by Gordon Brown the Chancellor, but instead all he has actually done is to detach the individual targets from specific spending departments. This "simplified" system has:
    - 30 Public Service Agreements which apply equally to all Government departments, who are collectively responsible for achieving them; supported by
    - 30 Delivery Agreements between HM Treasury and the various departments with a remit which is affected by a PSA; together with
    - An overall Service Transformation Agreement with the whole of Whitehall; and
    - Numerous revised Departmental Objectives.
- The result is that accountability for each PSA is shared and therefore in real life nobody is now actually responsible for delivering any of the central targets. So Gordon Brown has achieved the administrative

brilliance of all the downside of a targets culture without the upside of having anyone to ensure the targets are ever hit.

- Regionalisation in England is not the same as devolution. There has been a proliferation in regional bodies since 1997, but instead of devolving power from Whitehall in practice they remain subject to central control and guidance. Most of them in turn exercise a "strategic" guidance over the local bodies which existed already, and which have ceded power to them.
- Poor cost control and weak financial systems are endemic. To take one example at random: the Department of Environment, Food and Rural Affairs (Defra):
    - In 2001/2 Defra had difficulty in monitoring its expenditure and its accounts were deficient.
    - In 2002/3 the Rural Payments Agency was reporting the wrong information upwards to Core Defra so that, in the words of the Auditor General, it "*did not have a clear idea of how the costs were allocated… until after the year end… The Department was not able to determine whether its expenditure …was within the Parliamentary limit for expenditure until 8 months after the year-end*" (this is not how budgets are supposed to work).
    - On the other hand "*For 2002-03, my staff found that the understanding of resource accounting had improved, especially in the accounts production team*" (a useful place to have it). Unfortunately "Further *work by the Department however, identified an error in the accounts that required the accounts to be re-signed….*"
    - Defra comprehensively bungled the Single Payment Scheme for agricultural subsidies in 2005/6 and 2006/7, with payments being made late and in incorrect amounts. By 2007/8 the NAO was reporting that Defra was actually beginning to get the hang of the system, and had implemented new working practices, "*although benefits will not begin to be realised until 2009*". Defra's accounts were still carrying a provision of £320m against likely fines to be levied by the EU for non-compliance with the rules.

So: how have we got here, and what can we do about it?

2. Previous reforms of the machinery of government

The historical background to reform

Understanding why the situation is in such a mess today will help us correct it and keep it on the right lines.

There have been three serious internal reappraisals of the machinery of government with effects which survive today. The most significant were undertaken by Lloyd George and by Edward Heath. It is striking that the great political milestones, 1945 and 1979, were less important from this point of view. Towards the end of Margaret Thatcher's administration there was a major change of approach, but it was not quite on the same level as 1919 and 1970. Appendix I contains snapshots of the expansion in ministers.

The 19th Century: the limits of liberalism

As late as 1830, Government was still run on mediaeval, or at any rate Tudor, lines. There was a whole mass of individual offices with overlapping functions (when they did anything), largely surviving as sinecures. Pitt the Younger had made a start at rationalising the system but for tactical reasons he preferred to suppress offices when their holders died rather than scrap them outright. There were surprisingly few bureaucrats, and ministers often undertook their own departmental paperwork when there was any to be done. The distinction between ministers and officials was unclear, other than a set of rules as to which office holders could not sit in the House of Commons.

The chief impetus to overhaul Government was at first the slightly irritating sense of reforming liberalism inspired by Adam Smith and Jeremy Bentham, which took hold of Britain in the 1830s. Outdated and inefficient traditions were junked and standards were raised as, in the name of reducing intervention by the state, the state acquired new powers to standardise and regulate.

Quangos were established during this period, at arms' length from the state to respect the principle of non-intervention and to embody high-minded Victorianism. The Victoria & Albert Museum and the National Portrait Gallery are good examples of such quangos.

Time would reveal flaws in the Reform outlook and it would give way eventually to the extremely irritating sense of liberalism inspired by Mill and Gladstone. But if Whitehall has forgotten Adam Smith, it still retains a rather prissy Benthamite belief that it knows what is best for everyone else.

Changes to Government occurred in a piecemeal fashion in response to various crises, generally either war or disease. The Crimean War led to army reforms; cholera gave us intervention in local government and health services; and a vague fear that we were falling behind Prussia prompted moves in the education field. Attempts had even been started to address the

abysmal state of the slums. Generally, new Offices would be formed on an ad hoc basis, and occasionally merged into Boards, as problems acquired seriousness. There remained, however, a preference for leaving the day-to-day handling of matters to the local level.

A major development was the Northcote-Trevelyan Report of 1854, which is really the foundation of the modern civil service. Out, at least in theory, went the old patronage network and in came a Civil Service Commission to oversee a uniform, standardised system based on merit and political neutrality. It also introduced a division between an "administrative" grade which engaged in policy formation and a "mechanical" staff which handled routine work. This was the origin of the good generalist all-rounder with a "first-class mind", that is to say a first-class degree (usually in Greats) from a first-class university (usually Oxford).

The biggest shock to the system was the Boer War, 1899-1902, which revealed that the British Empire could be held up by a few farmers with rifles led by a man who believed the Earth was flat. A period of profound introspection generated the National Efficiency Movement – which gave us local education authorities and which tried to give us euthanasia – but structural questions were never going to command the same attention as social disputes or the Irish Question.

The 20th Century: Lloyd George

The First World War confirmed that there was something badly wrong with the British state. Lloyd George came to power explicitly on the basis that he could run the war more effectively. This involved an overhaul of the central administration and the creation of such innovations as a small War Cabinet and the Cabinet Office.

The War Cabinet remained in being for some months after the Treaty of Versailles was signed, and it was only wound up following pressure from colleagues. (Churchill experimented in the 1950s with "overlord ministers" to control groups of departments, but this was not a success and the idea was soon dropped.) It is a well-known secret that nowadays an inner group of key ministers matter more than the full Cabinet. Probably, they always did. Lloyd George has some claims to be the first "Prime Minister" as we understand the role.

Central to his post-war reconstruction planning, Lloyd George commissioned Lord Haldane to deliver a *Report of the Machinery of Government Committee.* Haldane held scathing views about the amateurish conduct of the pre-war cabinets in which he had sat:

- "We have come to the conclusion, after surveying what came before us, that in the sphere of civil government the duty of investigation and thought, as preliminary to action, might with great advantage be more definitely recognised." This would require the development of specialist departments to build up collective experience and know-how.

- On balance, Haldane preferred to divide departmental responsibilities by function (the service provided) rather than client (the people using the services), for example a Ministry of Pensions rather than a Ministry for Old People. He may have been concerned to avoid each department seeing itself as the representative of a special interest group, but the real motive was practicality: there would be an infinite number of possible departments if government were organised by client.
- Haldane recommended that government be divided into ten functional lines: finance; national defence; external affairs; research & information; production, transport & commerce; employment; supplies; education; health; justice.
- He was aware of the risk of a "silo culture" (a phrase he did not use) where the wider organisation fragments into groups which focus narrowly on their own areas and fail to co-operate. His only solution was to emphasise the need for "co-operation between Departments in dealing with business of common interest."
- "Investigative and thoughtful" government required a partnership: non-party civil servants would provide advice, and a range of options, and ministers would make the final decisions. In very highly specialised and technical areas, executive discretion would have to be left to civil servants, and in some cases co-opted experts, but ministers would remain responsible for the actions of their departments.
- To an extent this also marked an attempt to row back from an over-hierarchical grading of administrative civil servants. Haldane had little faith in the abilities of a small select coterie of policy mandarins and believed ministers needed access to the experience of some of the mechanicals on the front-line.

This remains the theoretical basis for British Government. It is unclear whether Haldane would approve of how things have turned out. Patently, he under-estimated the risk of "producer capture", which is where a system is taken over by the providers of a service who then run it for their own benefit. Also, it is doubtful whether Haldane's ideal symbiosis between minister and civil servant (he was a noted philosopher) can operate in a quango state. Modern ministers do not appear to regard themselves as responsible for their quangos when they make mistakes.

The 20th Century: Attlee

1945 was a comparative non-event in organisational terms. Attlee and Morrison essentially took over a machine designed to subdue Nazism and tilted it towards subduing capitalism.

Beveridge and the welfare state changed the sheer volume of money being gathered up, and the objects on which it was spent, and the yardage of law

required to run it. But whereas objectives had changed, and activity had escalated massively, the fundamental structure of the administration was still pretty much where Lloyd George and Haldane had left it. Most of the system of controls simply revived versions of whatever had been found to work during the First World War, and which were then carried over into post-war situations such as food rationing.

The Attlee Administration had the most left-wing goals of any government in British history, and erected the controls it thought would achieve them, but these are really matters of policy and degree. The Morrisonian model of nationalised industries would be more influential if we still had any worth bothering about – but since we have started to nationalise banks, perhaps it may return to fashion.

The 20th Century: Wilson

Wilson generated a lot of heat (white heat?) and noise across Whitehall – he had to, since he had come to power promising the benefits of state planning to modernise Britain. Most of this was hot air. History will write off Wilson's significance.

Most critically, he pioneered the use of special advisers. Ostensibly this was to provide specialist input, notably on economics and science, which the traditional Northcote-Trevelyan civil service was considered to lack. It was also meant to redress the "bias" of a mandarinate whose careers had been shaped by 13 years of Tory rule. This was something of a mixed blessing.

The 20th Century: Heath

Heath, on the other hand, merits a re-appraisal. He is the only prime minister who appears to have given serious thought whilst in opposition to the question of how he would run the machine once he got his hands on it, and how it could be reformed. The way his government turned out is not a happy precedent – but that's because he devoted his administration to some crackpot obsessions. He asked all the right questions; it's only the answers that can be criticised.

Within months of coming to power, Heath released a White Paper *The Reorganisation of Central Government* and conducted a major overhaul of departments. The principles on which he operated were intended to produce a more rational government structure.

- The Cabinet is becoming overloaded and forced to take short-term decisions in fire-fighting mode.
- There should be fewer but bigger ministries, to allow them to have a wider grasp of their remits. This would cut down on the need for inter-departmental discussion (for which read "time-wasting arguments").
- Fewer ministries mean a smaller Cabinet, which is better able to reach a collective view.

- Day-to-day executive management functions should be hived off to quangos, to ease the workload burden on ministers.
- A Central Policy Review Staff (the "Think Tank", headed by Lord Rothschild) would be established to give strategic cross-department policy advice for the Cabinet and so improve decision-making (and help prevent silo culture).
- Policy making would be improved by a system called Programme Analysis & Review, which basically required a continuous monitoring of efficiency (ditched after Heath lost power).
- Haldane's division of government departments by reference to function (the job to be done; the objective to be attained) was upheld.

In itself, this is not a bad set of ideas. The tragedy is that this programme was used to implement corporatism and an inflationary dash for growth. It failed for personal reasons: Heath believed in a "rational" non-party agenda which does not exist. He should have been Cabinet Secretary, not Prime Minister.

The 20th Century: Thatcher

The Thatcher Government came to power committed to "rolling back the state". Privatisation notwithstanding, 1979 does not turn out to be as a great turning point in terms of the fundamental *continuing* machinery of government as I had expected.

I stress the word "continuing". The intent was there; the rhetoric was deployed; the consultants were consulted. Parts of the machine were shut down, either because they could be privatised or because they were pointless, and management changes were introduced, with regulators established and quangos re-organised. Privatisation was a major achievement by any standard ("I have been elected to change the facts") which transformed the British economy – more by accident than design, since the original idea was to get loss-making red ink off the Exchequer's books rather than any theoretical enterprise drive.

But when the dust and noise had cleared, and the work was inspected - the engine had been re-tuned and serviced; the chassis had been re-sprayed and polished - it was still the same Heathite machine underneath. "Thatcherism" was more about changing policy than changing structures.

Thousands of civil service posts were scrapped – but you would never know that looking at the staffing numbers today. The Iron Lady abolished Heath's Think Tank – but effectively brought it back, serving her personally rather than the Cabinet, through an expansion of the Number 10 Policy Unit. The Civil Service Department was abolished – but it has now come back in an enlarged Cabinet Office. She reassembled Heath's DTI super-ministry (but made it run more sensible policies) and kept the basic Whitehall structure he

had established. She even hired Heath's anti-waste adviser, Derek Rayner, to run an Efficiency Unit (but couldn't save his efforts from being frustrated).

1988 is a more important date in administrative history. Rayner's successor, Sir Robin Ibbs, published his report *Improving Management in Government: the Next Steps*. This was a deliberate attempt to restart a stalled reform programme. Ibbs criticised the civil service for poor management technique and failure to act for long-term goals. His actual recommendation was that the civil service should concentrate on policy and delivery should be hived off to Executive Agencies. These bodies soon acquired the nickname "Next Steps Agencies".

This was really reciting Heath's objectives. The difference, as it usually is when comparing the Heath and Thatcher Administrations, is that this time Government did what they set out to do (but not perhaps with the results they intended). Next Steps status was presented as a half-way house: introduce commercial practice (and personnel) and there will still be efficiency gains even if the body is not a suitable candidate for privatisation.

The Thatcherite experiment had a number of administrative consequences:

- The guerrilla warfare needed to implement a new approach to the economy had forced the Prime Minister to rely on advisers at Number 10 rather than the Cabinet – although this merely continued a trend going back to Lloyd George.
- Conversely, individual departments reacted by trying to keep matters off the Number 10 radar – but defending your turf in Whitehall was hardly a new phenomenon.
- The legal powers taken to reform British institutions led to greater centralisation – continuing a process which started in the 19th Century.
- Executive functions, where not privatised, began to be delegated to agencies and quangos leading to the emergence of a new managerial class – although a generation earlier the same people would have been civil servants in the main Whitehall departments, carrying out much the same work (but perhaps staying in post for less time).
- In combination, the tendency to silo culture and fragmentation blossomed. The machine started to go out of control.

The 20th Century: Major

The Major Administration, to be fair, made some attempts to rein in the problems. Their success was another matter:

- Major adopted a more collegiate style. The Government acquired a reputation for disunity and disloyalty.
- He accelerated the Next Steps and privatisation programmes. The quango state began to proliferate and the overall cohesion of Government was weakened. This impression was reinforced during the

BSE crisis when the Department of Health and the Ministry of Agriculture appeared to be taking divergent views of the scale of risk for consumers. Railtrack did little to enhance the reputation of privatisation (unfairly).

- Major reorganised the grading system of the civil service so as to enable the delegation of more authority to junior ranks and improve the quality of decision-making. The net effect was actually to increase pay levels. His Government never acquired the aura of competence.
- At the same time certain ranks were recognised as falling within the "Senior Civil Service" of policy-makers, in an attempt to foster cross-department links and break down departmental silo cultures. The formation of Government Offices of the Regions to co-ordinate delivery of services was another nod in this direction.
- The Citizen's Charter was launched to empower the consumer of public services by setting out clearly defined standards for delivery. It quickly attracted derision with the celebrated traffic Cones Hotline.
- The Private Finance Initiative was launched to gain access to private capital and management for the public services – but hardly got off the ground.
- A Deregulation Act permitted a fast-track repeal of legislation which created "burdens" on business – but was very little used because the Government could not agree on whether any given regulation constituted an unqualified burden without any compensating benefit.

The Major Administration will not be remembered fondly.

The 21st Century: Blair

The years since 1997 have seen a lot of desk shuffling, name changes and a massive hiring of staff – but how much of this is significant?

In one sense the way Government was run changed out of all proportion: it became government-by-sofa. That's really a reflection of the personal style of Blair and the weakness of his colleagues. However, Blair did promise (among many other things) a more "joined-up government" as a recipe for the perceived incoherence of the Major regime. And in all honesty, underneath the hype and spin, there probably was some plan to be more "modern" in the way Government operated. Did it work?

The key developments which Blair made were:

- Constitutional reform. A mixed bag. Tinkering with the House of Lords is irrelevant for our purposes, as is Freedom of Information (which it seems Blair eventually decided to pretend had never happened). Human Rights legislation merely underlined the political correctness which the Government would have followed any way.

- Devolution is a different matter. For the foreseeable future there will be a lack of national coherence in certain policy areas. Whether you regard that as a problem or not depends on your taste for standardised uniformity – and whether you're a right-winger living in Scotland or Wales.
- Public expenditure. This ballooned recklessly – and without any serious attempt at structural reform. Blair reinforced failure and multiplied waste.
- Targets culture. This emerged through a twin-track process out of the Cabinet Office (which established several units dedicated to policing the targets and handing out orders to the public sector) and the Treasury (through the Public Service Agreements).
- Structurally this was little more than the Citizen's Charter with teeth. The Treasury has always had the upper hand in dealing with other departments (except, perhaps, under Heath) and if Whitehall felt the lash more keenly under Blair, that told us something about the character of the Chancellor who was wielding it.
- Quango formation. Ironically, Blair was elected on a platform of reducing the size of the quango state. Of course, the quango state exploded under Blair's stewardship.
- Special advisers. The numbers employed mushroomed, and the departmental press offices became colonised by party spin doctors. Creeping politicisation of the civil service led to a gradual erosion of credibility in most Government information. Now, no one believes a word they say.
- Public-Private Partnerships. The Private Finance Initiative was renamed, naturally. It was expanded massively. It was also bungled significantly. Contract negotiation was negligent and in many cases will prove ruinous financially. On the whole this was used as a mechanism for off-balance sheet borrowing to help the Treasury massage its figures. The time bomb is still ticking on this one.
- Deregulation. Major's Deregulation Act was, eventually, replaced by a Regulatory Reform Act intended to remove "burdens" on any activity, not just business – but was as little used, and for the same reasons. It was in turn replaced by a Legislative & Regulatory Reform Act with wider powers of repeal. There were no actual requirements for deregulation in the Act and it is interesting that, for once, the legislation excited considerable public unease, with websites dedicated to fighting the "Abolition of Parliament Bill". The provisions have been hardly used. Blair's Government was the most regulating administration since the Second World War.
- Joined-up government: Blair attempted to impose cohesion on his administration by superimposing a new level of central control from the Cabinet Office. A number of "cross-cutting initiatives" were launched. In

some ways this built on some of the ploys tried by Major. This did not clarify lines of responsibility. Instead it increased the complexity of decision-making and provoked further turf wars within Whitehall, such as the argument over which department would be responsible for handling the "respect agenda".

On its own terms the Blair Administration failed.

The 21st Century: Brown

Gordon Brown, selected unopposed as the new Prime Minister in 2007, promised a new style of government. How has he fared?

- Government by sofa. Brown does not have a sofa. It is not wholly clear that government-by-bunker has been a great improvement.
- Targets culture. As discussed earlier, Brown has bungled his reform of central targets and made the position even worse.
- Special advisers. Brown did actually reduce the number and cost of special advisers – but only because most of the expensive Blair-era spin doctors walked out. The figures, and costs, soon began to creep up again as Brown was forced to hire additional staff to handle a never-ending sequence of re-launches and recovery plans.
- National Economic Council. In October 2008, to handle the developing economic crisis, Brown announced the formation of the NEC "to help people and businesses to deal with the current economic uncertainties…coordinate efforts to help families deal with higher food and energy prices…provide the forum on how to equip the country for the future by making the right investments in education, skills, science and infrastructure" etc. etc. In theory there was already a body of people paid to undertake this role, called the Cabinet, and it is doubtful whether a "small" group of 19 will lead to improved or speedier decision-making. The exercise recalls Harold Wilson's formation of an inner Cabinet (known variously as the Parliamentary Committee or Management Committee) in 1968, also after a financial crisis. The very name itself is redolent of the doomed corporatism of the Wilson-Heath era, and it is notable that Brown, too, has followed the path blazed by Wilson, Heath and Callaghan by adopting an incomes policy for the public sector. This ploy is pointless.
- Government of all the talents. This is another Wilsonian throwback. Brown had some initial success in recruiting 'outside experts', but few of them has made any impact except to establish themselves as laughing stocks. The only real talent the Brown Administration has displayed is a rare skill at losing computer disks containing confidential information.
- Pointless re-organisation. For no apparent reason, Brown implemented a number of changes in the Central Government departments (described in

Appendix III). This betrays a Wilsonian desire to meddle. By breaking up the remits of DTI and DfES between three new departments (BEER, DCFS and DIUS) he has actually weakened Whitehall's ability to focus on some of his pet schemes for education and the family. The October 2008 gesture that created DECC resurrected an Energy department which was originally founded by Heath and abolished by Major. Not perhaps the company that a new Prime Minister ought to be keeping.

- Pointless duplicating gimmicks. A good example of Brown's fussy approach to administration was his appointment of nine "Ministers of the Regions". Their 'specific objectives' are to: (a) advise BERR on regional development agencies; (b) represent regional interests in the formulation of government policy; (c) facilitate our old friend 'joined-up government'; (d) champion their region at "high level events", which apparently means "be photographed in the local newspapers"; and (e) represent central government policy in the region.
- It is unclear what this remit achieves which is not – or should be – delivered already by the Government Offices of the Regions, which were established in 1994. If the Government Offices have not got a grip on their job in fourteen years then perhaps the correct approach is to abolish them, instead of creating something else which duplicates their role?
- Wasted money and wasted dreams. The credit crunch and subsequent banking collapse has clarified the truly unsustainable nature of Brown's much-heralded plans for long-term sustainable growth. Over-complicated and over-engineered systems, such as tax credits or the tripartite regime for regulating financial services, have wasted a lot of taxpayer money in being established; have wasted a lot of taxpayer money in being operated; have wasted a lot of taxpayer money in failing to address the problems they were meant to have cured; and will in due course waste a lot of taxpayer money in being reformed and replaced.

Gordon Brown's career has been dedicated to two purposes. Selfishly, he has schemed to secure his appointment as Prime Minister. More quixotically, he has been on a one-man crusade to prove that Harold Wilson was right all along, that centrally planned increases in top-down expenditure backed up by detailed regulation can kick-start a non-inflationary, high-growth, high technology Britain built on social justice. As with Wilson, a plethora of fussy, prescriptive and grandiose schemes have had to be quietly binned in the face of economic reality.

Both of Brown's purposes have been grievously mistaken. Our country has over-paid, twice.

3. How much waste is there?

At the start of the 2008/9 financial year the UK Government expected to spend £618 billion of your money. Subsequent events have rather overtaken these estimates. The structure of this expenditure is explained in Appendix VI. How much is wasted?

The European Central Bank: £83.0 billion (2004)

An ECB study *Public Sector Efficiency: An International Comparison* by Afonso, Schuknecht and Tanzi (ECB Working Paper 242) is often cited as evidence that Government waste in the UK is at least £83 billion.

The authors studied data from 23 OECD countries for the year 2000 covering administration, education, health, infrastructure and also the performance of Government in resource allocation, income distribution and economic stabilisation. Following a statistical analysis they concluded that the most efficient public sectors were to be found in the USA, Japan, Australia and Luxembourg. In relative terms the UK achieved a score of 0.84 for input efficiency, i.e. for the same level of income the UK Government was achieving only 84 per cent of the service output of the most efficient countries.

In other words, waste was at the 16 per cent mark for public expenditure in 2000, which would be £68 billion. Nevertheless, it is unlikely that the British Government has become more efficient in the intervening years, and projecting forward the ECB estimate to the pre-crash expenditure levels would give these results:

Year	Total Managed Expenditure £ billion	Estimated Waste £ billion
2000/1	426.8	68.3
2001/2	445.3	71.2
2002/3	467.3	74.8
2003/4	491.4	78.6
2004/5	517.2	82.8
2005/6	538.9	86.2
2006/7	549.8	88.0
2007/8 (estimate)	586.4	93.8
2008/9 (projection)	617.8	98.8
2009/10 (projection)	646.5	103.4
2010/11 (projection)	679.8	108.8

Source: based on FSBR 2008, Tables C9 and C15

The authors are not actually interested in calculating an estimate of Government waste in the UK. They want to derive a statistical model for comparing different governments and ranking them in a credible order of inefficiency. This method means that if, on more accurate data, Japan (say) were found to be less efficient than the authors thought, then the level of

waste in the UK would fall (because its efficiency relative to Japan would have improved). Neither is it obvious why the best measures of waste are the level of secondary school enrolment, the infant mortality rate or the World Economic Forum's views on the independence of UK judges.

Public sector waste in the UK may well be in the £90-£100 billion region, and probably is, but I am unconvinced that this statistical analysis can be cited as robust proof.

The Gershon Review: £21.5 billion (2004)

Gordon Brown announced in his 2003 Budget that he was commissioning a review to find "new ways of providing departments, their agencies and other parts of the public sector with incentives to exploit opportunities for efficiency savings, and so release resources for front line public service delivery."

As one would expect with a Government efficiency review, it was not until five months later, in August 2003, that Sir Peter Gershon, then head of the Office of Government Commerce, was asked to start work. Gershon had extensive experience in the private sector prior to his appointment, and was a Fellow of the Chartered Institute of Purchasing and Supply (and in fact he has since returned to the private sector).

He delivered his report, *Releasing Resources to the Front Line* in July 2004, and found that the following "efficiency savings" were available:

Department	Agreed efficiency target (£ million) 2007–08	Amount of "cashable" or "recyclable" gains (£ million)
Education and Skills	4,350	2,175
Health	6,470	3,235
Transport	785	393
Office of the Deputy Prime Minister	620	413
Home Office	1,970	985
Constitutional Affairs	290	145
Law Officers' Departments	40	20
Defence	2,830	2,122
Foreign and Commonwealth Office	120	60
International Development	310	7
Trade and Industry	380	190
Environment, Food and Rural Affairs	610	305
Culture, Media and Sport	260	130
Work and Pensions	960	480
Northern Ireland Office	90	45
Chancellor's Departments	550	275
Cabinet Office	25	13

Department	Agreed efficiency target (£ million) 2007–08	Amount of "cashable" or "recyclable" gains (£ million)
Smaller Departments	20	-
Local Government	6,450	3,225
Adjustment for overlaps:	-5,650	-2,325
Total forecast efficiency savings	**21,480**	**11,893**

Source: Gershon Review, Table 4.1, page 30, with additional column by the author

What is an "efficiency saving"? This is Gordon Brown-speak for "waste" when you cannot admit to wasting a single penny. Gershon's work was confined to spending within the Departmental Expenditure Limits, which totalled £278.7 billion in 2004/5 (as opposed to Total Managed Expenditure which was later found to be £491.4 billion). Finding only £21 billion of waste - at most 7.7% (but really 4.4 per cent) of spending - seems rather low.

The reader should focus on the final column "Cashable Gains", which amount to the much smaller figure of £12 billion, or 55 per cent of the target. This column does not actually appear in the Gershon Report and it has to be teased out of the notes at the back. Its significance will be explained later.

For completeness, I should add that Gershon also recommended a reduction in civil service headcount, by a mixture of abolition of posts, redeployment and relocation of staff out of London:

Department	Estimated reductions in Civil Service workforce *(April 2004 to April 2008)*		Expected relocations by 2010
	Gross reductions in posts	Net reductions in posts	after re-allocations
Education and Skills	–1,960	–1,960	800
Health	–720	–720	1,110
Transport	–700	–650	60
Office of the Deputy Prime Minister	–400	–400	240
Home Office	–2,700	–2,700	2,200
Constitutional Affairs	–1,100	–1,100	200
Law Officers' Departments	–50	–50	–
Defence	–15,000	–15,000	3,900
Foreign and Commonwealth Office	–310	–310	450
International Development	–170	–170	85
Trade and Industry	–1,280	–1,280	685
Environment, Food and Rural Affairs	–2,400	–2,400	390
Culture, Media and Sport	–30	–30	600
Work and Pensions	–40,000	–30,000	4,000
Northern Ireland Office	–130	–130	8
Chancellor's Departments	–16,850	–13,350	5,050

Department	Estimated reductions in Civil Service workforce *(April 2004 to April 2008)*		Expected relocations by 2010
	Gross reductions in posts	Net reductions in posts	after re-allocations
Cabinet Office	–150	–150	250
UK Trade and Investment	–200	–200	–
Total	**–84,150**	**–70,600**	**20,028**

Source: Gershon Review, Table 4.2, page 31

A net reduction of 71,000 posts is not so very impressive when you consider that there were 523,580 civil servants at the time (excluding those on maternity leave). The "efficiency" findings are even less convincing when the detail is considered.

The heart of the Gershon Review lies in "non-cashable productivity gains", which is the difference between the headline efficiency savings and my "cashable gains" column. They amounted to £9.6 billion or around 45 per cent of the Gershon total.

There are two ways in which an efficiency gain can be achieved:

- deliver the same result for less cost – this is "cashable" because you retain real cash sitting in a bank account somewhere; or
- deliver more output for the same cost, or rather, deliver output at a lower cost per unit – this is "non-cashable" because although your cash is being more productive you never actually see any of it back again (and may even spend more of it in total).

Either way, in theory this means making the public services work harder in return for the revenue spent on them, which sounds a good thing. However, alarm bells should begin to ring when we consider how this productivity gain is measured.

The Gershon methodology is best grasped by considering an example. (I would stress that the numbers used are purely fictitious to make the arithmetic easier to follow.):

> Dr Shipman is a GP.
>
> His salary costs come to £50,000 p.a.
>
> He has 2 weeks annual holiday.
>
> He works a 40 hour week.
>
> He sees 100 patients each week.
>
> So, Dr Shipman is employed to tend the sick for 40 x (52-2) = 2,000 hours per year.
>
> Therefore, 1 hour of Dr Shipman's time is worth £50,000/2,000 = £25.

Each patient takes up 24 minutes each of his time.

BUT every time Dr Shipman sees a patient he has to record the details on an NHS computer and it takes him 10 minutes per patient to do this because it is a very old and slow model with badly thought-out software and database.

Hence Dr Shipman is only spending 14 minutes per patient in actual treatment time, but taking up 24 minutes to deliver it, which is clearly unproductive.

So if the Department of Health spends some ridiculous amount of money (say £289,324,564,564) on a new computer network, we can implement a simpler records system which cuts his time at the keyboard down to 5 minutes per patient.

(Please note, expenditure on a new computer system will be a *capital* item, not revenue, so it falls in an entirely different area of the Department of Health's accounts, and it will not be counted as part of the cost of employing Dr Shipman.)

The new system means that Dr Shipman has extra time to see extra patients: in fact, his patient capacity increases by 26 per cent.

And if he's saving 5 minutes per patient he is boosting his productivity by 5x100x50 minutes per year = 25,000 mins = 416.67 hours.

At an hourly rate of £25 this productivity boost is equivalent to a non-cashable efficiency gain of 416.67 x £25 = £10,417 per year.

Now, suppose there are 50,000 GPs in the NHS (or whatever).

It follows that our new computer system will deliver non-cashable productivity gains of 50,000 x £10,417 = £521 million.

Any one spot the flaw in this method?

In Dr Shipman's case, it so happens that he's a mass murderer, so our new efficient system has actually increased his capacity to kill people by 26 per cent, too. But it might be that his colleague Dr Foster decides that with all this extra time on his hands he can see the same number of patients as before and bunk off early to play (more) golf. Or Dr Spock might spend 19 minutes treating each patient instead of the theoretical 14 minutes we've allocated, and so not actually treat any extra patients at all. On the other hand, down the corridor, Dr Watson is just simply a very bad doctor and it doesn't matter how many patients he sees or for how long, they're never going to get any better.

There is no guarantee that this juggling with numbers has any through-flow into quality of service. The key word to focus on in Gershon is "non-cashable", which means, of course that *it doesn't exist*.

I used to argue that, on Gershon principles, the best way to obtain value for money in the civil service was to close all the lavatories in Whitehall. With

no lavatories to go to, the pen-pushers would spend more time at their desks, and a greater number of forms would be completed in triplicate during the working day. It would create a massive non-cashable productivity gain on bureaucrats' hourly rates.

In fact, now I remember: when the soft-drinks machine broke down at Central Office I "proved" on Gershon principles that it was the single greatest contribution to the Conservative Party Election Campaign, because it was equivalent to a non-cashable donation of about £1 billion or something like that. Much to my surprise this did nothing to help morale.

A further flaw with the Gershon approach was its top-down nature. The existing structure, rationale and programme objectives of each department were taken as given. The machine was tinkered with, not overhauled. It was as if Sir Peter went to each department and asked "How much can you save, old chap?" Not surprisingly the answer returned: not much.

The Gershon Review therefore managed the ingenious feat of simultaneously over-stating the true achievable savings and under-estimating the amount of waste. This is not to disparage Sir Peter Gershon personally; his report is a perfectly competent and professional exercise. But casting a critical eye over it from the other side, we concluded that he had been given the wrong remit and that his result, a saving in the region of 5 per cent, was little more than could be expected from commonsense annual budget-setting.

Indeed, when the Public Accounts Committee came to inspect the post-Gershon implementation work, it transpired that all the Gershon Review had done was to collect in one document a summary of existing on-going efficiency programmes.

The James Report: £34.9 billion (2005)

The remit of the James Review of Taxpayer Value was described in the Central Office press release of January 2004 as "carrying out a comprehensive audit of Whitehall efficiency, exposing examples of where taxpayer's cash is being poured down the drain by the Blair administration, and investigating ways to ensure better value for money once Labour is booted out of office."

I was a member of the Core Team for the James Review. We soon re-drafted our role into an external due diligence exercise, akin to the process that takes place during a corporate takeover bid, with a view to redesigning the machinery of Government. Probably Central Office had in mind something along the lines of the later *Bumper Book of Waste*. What they actually got was a series of individual departmental reports of about 2,000 pages of closely argued analysis. Following fruitful and productive internal discussion (modelled on the old public expenditure rounds which used to precede the Budget each year) the final agreed positions were summarised in 173 public slides.

An early problem we faced was how we were going to deal with the Gershon

Review findings. Clearly, operational productivity gains would be a major part of generating taxpayer value once in office. Equally clearly, however, the information we would need to gauge the potential savings would not be available to an external due diligence team – but they were available to Gershon.

Although we had doubts about the figures, in the end we concluded that we would have to adopt some of Gershon's savings where we could not arrive at any reliable estimate ourselves. Interestingly, in the local government field, we identified different savings for the various aspects, but arrived at the same grand total as Gershon.

We studied the whole of Total Managed Expenditure and found the following savings in running costs:

Department	Own savings £ million	Savings accepted from Gershon £ million	Total James Review £ million
Constitutional Affairs	272	190	462
Culture, Media & Sport	76	260	336
Defence	1,658	3,000	4,658
Office of the Deputy Prime Minister	2,270	-	2,270
Education & Skills	1,554	4,133	5,687
Environment, Food & Rural Affairs	477	417	894
Foreign & Commonwealth Office	62	91	153
Health	3,711	4,246	7,957
Home Office	1,127	1,510	2,637
International Development	443	366	809
Local Government	4,430	-	4,430
Trade & Industry	749	256	1,005
Transport	201	689	890
HM Treasury	853	100	953
Work & Pensions	1,606	479	2,085
Cross Government[1]	1,093	-	1,093
Adjustment for overlaps	-2,597	-	-2,597
Adjustment to 2007/8 prices[2]	967	-	967
Other departments[3]	-	175	175
Total	**18,952**	**15,912**	**34,864**

Source: James Report, Summary Table with additional column by the author

Notes

1. *"Cross Government" refers to expenditure on advertising, management consultancy and pension fund accruals.*
2. *The analysis proceeded on the basis of published accounts for the financial year 2002/3. The monetary value of savings therefore had to be uplifted to take account of anticipated inflation, since they were to be delivered in 2007/8.*
3. *CO, NIO, Law Officers' Departments and Gershon's "Smaller departments"*

You will notice from the "Cross Government" line of this table that we had identified the potential for savings in the consultancy and advertising fields back in 2004.

I would stress that the James Review figures were savings in general running

costs following changes in either policy or delivery structure. We ignored specific, and past, one-off items of waste.

So, for example, in 2002/3 the Sea Fish Industry Authority made a loss of £0.9 million on the disposal of a headquarters building, and English Nature incurred a charge of £91.1 million in connection with the transfer of its pension fund. These were exceptional items which, by their very nature, are non-recurring. Therefore we ignored them in preparing our estimates of departmental waste, because we could not claim to make savings by un-selling a headquarters building or reversing a pension fund transfer. On the other hand, across Whitehall there is a policy of encouraging early retirement, which imposes costs on departments in buying-out the jobs of middle-aged civil servants. These expenses could be claimed as waste, because we would end the policy when in office. In the case of Defra, that gave a saving of £4m per year.

The James Review also had a selected target for headcount reduction, from bureaucracy across the wider category of public sector rather than just civil servants:

Department	Headcount reduction
Cabinet Office	150
Constitutional Affairs	3,100
Culture, Media & Sport	177
Defence	45,815
Office of the Deputy Prime Minister	3,385
Education & Skills	4,431
Environment, Food & Rural Affairs	7,675
Foreign & Commonwealth Office	905
Health	40,640
Home Office	4,162
International Development	294
Local Government	-
Trade & Industry	4,763
Transport	2,996
HM Treasury	22,659
Work & Pensions	94,234
Total	**235,386**

Source: Better Public Services, Better Value (Conservative Spending Plans 2005-2008), Table on page 11

This weighed in at a size around three times that of Gershon's casualty list. So much more encouraging, don't you think?

In parallel we had a programme of identifying assets for disposal. The proceeds of sale would have financed the voluntary redundancy settlements for the 235,386 casualties as an exceptional item.

These findings have been attacked by some commentators as being "wet". For all the quibbles which can be made with the figures published in the James Report, the underlying James Review nevertheless represents the

most serious analysis of the problem from a bottom-up approach which examines what is being delivered, and why. What a shame it was never published.

The Bumper Book of Government Waste: £82.4 billion (2006) and £101 billion (2008)

Matthew Elliott and Lee Rotherham, joint authors of *The Bumper Book of Government Waste,* have performed a great service to the nation in highlighting some of the many inane and stupid spending decisions of recent times. It is an interesting quirk that in their first edition (2006) they arrived at a similar answer to the ECB by a different measure but, as they admit themselves, this appears to be a coincidence. In passing they take a swipe at the James Report for failing to reach a total anywhere close to theirs.

Alistair Darling MP: £30 billion (2007) and £35 billion (2008)

The Spending Review 2007 committed the Government to launch a Son-of-Gershon programme. The details are due to be released in the 2009 Budget, but Alistair Darling was able to inform us that he was requiring £30 billion annual efficiency savings by the end of the three year period of the Spending Review. Since he was anticipating a Total Managed Expenditure of £678 billion for the final year of that period, a 4 per cent savings target is hardly aggressive.

The Government released the Gershon scorecard (called *2004 Spending Review: final report on the efficiency programme*) alongside PBR 2008. This revealed that over the 2004 Spending Review cycle, efficiency savings of £26.5 billion had been achieved against the target of £21.5 billion, and a headcount reduction of 86,700 civil servants had been achieved against the target of 70,600. Encouraged by these outcomes, Alistair Darling revised upwards his new efficiency savings target to £35 billion by 2010/11.

Detail is lacking, but a number of comments can be made:

- When Alistair Darling was Transport Secretary, he rubbished the James Review proposals to save £35 billion as dangerously irresponsible. He is now proposing to save £35 billion himself. It is clear from his revised figures for Departmental Expenditure Limits that the 2008 additional £5 billion saving is in fact an expenditure cut. By admitting that savings additional to Gershon are available, Alistair Darling has conceded that the James Review has won the argument.
- Of the final Gershon savings, only £16.5 billion were actually cashable. By an interesting quirk, the James Review had adopted Gershon proposals worth £15.9 billion for areas where we had not had access to reliable data.

- It is hardly surprising that the Gershon savings overshot their target. It can be expected that Gershon undercounted his published estimated savings in the same way that the James Review did. Both reviews appear to undercount by about 20 per cent.
- The above-target headcount reduction in civil servants is a further admission that the system was over-manned. Again, the outcome is not all that impressive. Personnel who qualify as official civil servants only account for about one-quarter of the total headcount of the quango state (see Appendix V). The Gershon scorecard explicitly "excludes reclassifications and other changes to the civil service workforce". It is unclear how many of the 86,700 reduction arises out of transferring employees outside departmental accounting boundaries into quangos where they do not qualify as civil servants.
- Appendix VII gives an example of how Whitehall has presented an actual increase in civil service numbers as a reduction in headcount, and it would not surprise me if the same approach had been adopted towards Gershon's cost saving measures.

Nevertheless, it would be churlish not to acknowledge that Mr Darling has begun to make fitful steps in the right direction.

The nature of government "waste"

Waste is often in the eye of the beholder. If a family decides to dine at McDonalds, are they wasting their money because they could have eaten more cheaply and nutritiously by staying at home and munching raw vegetables? Yes. And no. To pose the question is partly to pre-suppose its answer. One man's prestige development is another man's white elephant.

That is why, rather than identifying "waste" as such, the James Review hit instead on the idea of "taxpayer value": could the same services be delivered for a lower cost; perhaps: were there services which could be improved with appropriate redesign? "Waste" thus becomes the difference between what the state spends now and what it really needs to achieve the same results.

Once you realise this, you can see that there are actually different types of "waste".

- Policy waste: caused by Government undertaking certain activities for which it is unsuited or (more accurately) which you believe it should not be doing. For example, running a mass-production car industry – or, if you prefer, invading Iraq. This is an area for political dispute, and that is why we have General Elections.
- Procedural waste: caused by the administrative procedure itself being inherently wasteful. For example, university tuition fees where, in order to charge higher fees to students, universities have to apply to a quango and prove that they are not discriminating against disadvantaged pupils. Irrespective of the merits of the policy, it must incur costs which mean

the full amount of the higher fees is not recovered. This waste is recurring because it arises out of the very nature of the governmental machinery. The solution is to redesign the administration of the programme (assuming that you want to keep it going at all).

- Executive waste: caused by somebody making a bad decision, either through poor management judgment and a lack of relevant skills or the absence of critical information (what public enquiries usually call "bad luck"). For example, Sir Humphrey puts his money on red and the roulette wheel comes up black. This may or may not be recurring; it will depend on whether and where Sir Humphrey is posted next. The solution to this may be as simple as replacing Sir Humphrey and ensuring that the next chap in charge has a better idea of his job, which could involve higher training costs or a redundancy settlement for Sir Humphrey. At some point, however, questions will arise as to whether Government is best placed to be taking certain executive decisions. A good example here would be the negotiation of PFI contracts or any form of procurement arrangement.
- Exceptional waste: any of the above, but where the incident is of a genuinely one-off nature. For example, the Millennium Dome. However horrific the final cost of that project was, nobody is ever going to build another Millennium Dome. It is possible to cut down on exceptional waste by measures which minimise exposure to policy, structural and executive waste – but once it has been wasted, the money has gone forever. Such waste cannot be cut once it has happened. It is not possible to un-spend the money.

It is probably easier to regard the policy and procedural elements as comprising "structural waste", because they result from the structure which Government has created, and the executive and exceptional elements as comprising "operating waste", because they result from the way in which Government conducts its day-to-day activities.

Elliott & Rotherham would say that it is in the nature of Government that it seems to have recurring exceptional waste. They are right. But both versions of *The Bumper Book of Government Waste* are mainly catalogues of historic waste, of things which happened during a particular year. Neither amounts to a plan for waste-free Government in the future.

I'm sure they are correct to say, for example, that of the £12 billion spent on incapacity benefit at least £4 billion is wasted due to fraud – but that's the easy part. Unfortunately, it is actually easier to save £12 billion, by abolishing incapacity benefit outright, than it is to weed out the £4 billion of fraud. Some commentators on the left, if pushed, might argue that £4 billion in fraud was an acceptable price to pay for insuring that genuinely disabled people receive £8 billion. That becomes a political judgment; and Elliott & Rotherham were spared the joys of reporting to a Shadow Cabinet on the eve of an election.

To compare *The Bumper Book* with the James Report is to mistake the difference between accountancy (which looks back to a completed financial year) and management accounting (which looks forward as a strategic planning tool). The James Report identified £35 billion of waste *which we had worked out how to stop.*

Economists took decades to accept the idea of a "natural rate of unemployment", that it is not possible to have total employment without unacceptable inflation. We have to face the unpleasant possibility that all organisations will have a *natural operating level of waste*. Someone will always push the wrong number into the photocopier. Employees will always borrow pens from the stationery cupboard. And at what point does chatting around the coffee machine cease being useful for team-building and morale-boosting and become bone-idle time-wasting?

Government is an organisation which spends over £600 billion and which is not subject to the discipline of having to make a profit. Of course it is going to waste shed loads of money with access to that much cash on those terms. Elliott & Rotherham are saying that Government is inherently wasteful, and that the Blair/Brown regime has wasted about 15p of every £1 it has spent. Some of this waste can be attributable to policy and structural causes, and so it can be eliminated. But some of it will be executive and exceptional, and that can only be minimised.

Which answer is correct?

All of them. Each of the four studies discussed above is actually answering a different question, and doing so in a somewhat tautologous way.

- Gordon Brown and Alistair Darling would say there is no waste in the public sector, but that with a few efficiency measures you can get the equivalent of an extra £30 billion, or perhaps £35 billion, of output from the same input. They're quite right – in the sense that if the measures they describe have the results they predict, then they'll get the results they predict. Bravo! Totally useless.
- The authors of the James Review would answer that, if a particular restructuring of the machinery of government had been carried out in 2004 then it could have delivered more or less the same effective outputs for at least £35 billion less in cost. This is quite true. On the other hand, if you decide instead that you want to spend £135 billion less than at present then it will always be theoretically possible to do so: in extremis, just run out of money and stop paying people.
- The European Central Bank team of statisticians would answer that, if the British public services were as productive as those in the US or Japan had been in 2000, then they could be run for a cost which is 16% less than we are currently spending (a saving of about £96 billion). This is fascinating. Unfortunately it tells you nothing about how to achieve this, or whether you would want to.

- Messrs Elliott and Rotherham would answer that, in 2006, the British state spent £101 billion which they would not themselves have spent. This is interesting. Ultimately, however, they are simply saying that to achieve zero waste you should have a public sector which does not waste any money. This is not terribly helpful advice.

I can only comment on the robustness of the James estimates for savings in 2004. The £35 billion figure was calculated conservatively. Estimated savings were under-counted deliberately to provide comfort margins in the expenditure budgets. We were not given an explicit target at the start of the exercise, but we knew that Party spokesmen would feel comfortable defending a figure in the region £30-£40 billion. This could be converted into equivalents for each department. The early work on the first departments identified savings which exceeded these sub-targets, and human nature being what it is, our approach towards later departments was probably less rigorous.

It should also be recalled that by the time of the Election, overall public expenditure had increased beyond the data we had studied. We assumed that, even confining ourselves just to the 187 published James Review proposals, actual savings would exceed the estimates. To ensure our comfort margins were reinforced we did not adjust the estimates to take account of the further increase in public expenditure, merely upgraded them for inflation.

Neither should the political context be forgotten. This anti-waste programme was designed to finance a Medium Term Expenditure Strategy with six priority services (front-line policing; front-line Health; front-line schools; front-line Defence; front-line Transport; and international aid) where expenditure was equal to or higher than that planned by Labour. Priority services would keep their own savings and absorb up to £23 billion of the total released. The remaining £12 billion would be applied in tax cuts of £4 billion and £8 billion to handle the escalating problem of the National Debt.

You see, back in 2004, we had spotted that there might be a problem with Government debt.

In that situation there was no incentive to identify waste in the priority services beyond a credible amount: the money would be going back to the department anyway (so the budget was not reduced), and there was a certain nervousness about highlighting a large number which Labour would have attacked as being a "cut". At least one proposal involving the NHS, where savings would have been in the billions, was simply shelved from the published list because we got fed up trying to put a price on it.

Also excluded from the £35 billion total were any savings generated by James Review proposals which were never published but which were parked in the "pending category", some of which we intended to revive when in office. Ideas were parked in the "pending category" when we felt that we

did not yet have access to sufficiently firm data on which to draft concrete proposals. Sometimes ideas were removed from the publication list because they were not considered appropriate for a Conservative Opposition.

Taking these factors together, I would broadly estimate "core true waste" in the public sector identified by the James team as being somewhere in the region of £45 billion for 2004/5.

There was some internal discussion of the "problem of the 36th billion", of what to do once we were in office and had generated more savings than we had predicted in public. Although they took place, these discussions never really took flight. Nobody wanted to tempt fate. There was a natural reluctance to go beyond figures which were then in the public domain, and on which the Conservative Party was going to fight a General Election.

It is fair to say that, depending on how public borrowing was going, tax cuts in practice under a Conservative Government elected in 2005 would have been greater than promised. If the James Review were to be conducted today, I would expect a smaller share of the savings would be "reinvested" in front-line services, and a larger share would be devoted to debt repayment; it is an open question whether any would be assigned to tax cuts.

A new estimate for government waste

The James Review's private estimate of £45 billion waste for 2004/5 equated to about 9% of Total Managed Expenditure. Carried forward to the current levels of Government spending implies that there would be approximately £55 billion of eliminatable "structural waste" in today's government budget.

It would be fair to point out that the Gershon savings of £26.5 billion together with the Darling savings of £30/35 billion reach a total somewhere in this region. So, it might be asked: has some of the waste already been eliminated from the system?

This is undoubtedly an element of overlap between the savings proposed by the James Review and the savings achieved after Gershon. Furthermore, from the brief bullet point accounts given in official publications it is likely that some of the new Darling savings will be repackaged ideas from the James Review. But the real question is this: if Alistair Darling believes that £30 billion can be saved from the current level of government spending, what waste could be eliminated by somebody sensible?

Consider this very crude matrix:

Gershon's published estimate	X	1.6	≈	James' published estimate
(£21.5 billion)				(£35 billion)
Gershon's actual savings	X	1.7	≈	James' private estimate
(£26.5 billion)				(£45 billion)

Gershon's published estimate	X	1.2	≈	Gershon's achieved savings
(£21.5 billion)				(£26.5 billion)
James' published estimate	X	1.3	≈	James' private estimate
(£35 billion)				(£45 billion)

Such a matrix by itself proves nothing, but it provides a rough 'sense check' that the teams working on both projects were applying the same professional tolerances to their published estimates. So it would be reasonable to suppose that the evidence which led Alistair Darling's advisers to forecast savings of £30 billion would have led a modern James Review to assess waste as being:

£30 billion x 1.2 x 1.6 = £57.6 billion

On that basis, £55 billion of waste remains a defensible estimate.

Assuming Elliott & Rotherham are correct to say that about £100 billion of public expenditure was wasted in one form or another, I would break this down into current estimates of £55 billion of "structural waste" and £45 billion of minimisable "operating waste".

To place these sums in context, it is worth comparing them to the projected pre-crash tax revenues of the government as a whole:

Total waste (£ billion)	**100.0**	**Total revenue (£ billion) Of which:**	**549.9**
Structural waste	55.0	Fuel duties	24.9
		Stamp duty	14.3
		Tobacco duty	8.1
		Beer & cider duty	3.3
		Wine	2.6
		Spirits	2.3
Operating waste	45.0	Corporation tax	47.0

Source: FSBR 2008, Table C6

These figures, of course, are old-world pre-crash numbers. They are useful now because they illustrate how, in "normal circumstances" so much revenue was being raised just to cover waste in Whitehall. It might be better, and more relevant, to think of things in this way: at a time when the Government is proposing to invest £50 billion in the banking system as a bailout, if the current level of Whitehall waste were abolished then we could afford to hold such a bailout every year, forever.

So: how do we get rid of this waste?

4. Paying for the credit crunch

The Government's recovery plans comprise two elements.

- Stabilise the banking system. There has been a whole host of measures, implemented slowly and revised quickly. Money has been injected directly into the banks through investment in their shares, and indirectly through a variety of measures to guarantee or support their lending.
- Boost aggregate demand. The Government has brought forward its capital expenditure, introduced measures to support the housing market and made a 13 month cut in VAT to encourage consumer spending.

In outline, the Government plan to borrow their way to recovery. The numbers involved are staggering:

Year	Public Sector Net Borrowing
2008/9	£78 billion
2009/10	£118 billion
2010/11	£105 billion
2011/12	£87 billion
2012/13	£70 billion
2013/14	£54 billion
Total	**£512 billion**

Source: PBR 2008, Table B10

The rights and wrongs and whys and wherefores of this policy can be debated elsewhere. The borrowing proposals are now a fact, and likely to remain so for the foreseeable future, so we should consider what the implications are for the financing of the public sector.

It is useful to compare the current proposals with previous occasions when the British Government has needed to borrow large sums of money:

Public debt item	£ million historic prices	£ million today's prices
Aggregate gross liabilities[1] in 1792	241.6	
Aggregate gross liabilities[1] in 1816	744.9	
Debt burden of French Wars	**503.3**	**28,597.5**
Aggregate gross liabilities[2] in 1913	711.3	
Aggregate gross liabilities[2] in 1919	7,481.1	
Debt burden of World War I	**6,769.8**	**222,997.2**
Aggregate gross liabilities in 1938	8,149.0	
Aggregate gross liabilities[3] in 1946	24,806.3	
Debt burden of World War II	**16,657.3**	**495,221.5**
Public Sector Net Borrowing 2008/9 to 2013/14		**512,000.0**

Sources: Past debt figures taken from British Historical Statistics by BR Mitchell;
RPI indexing taken from http://www.measuringworth.com/ppoweruk/ up rating the additional debt from 1816, 1919 and 1946 to 2007 prices (most recent available);
2008/14 borrowing figures taken from PBR 2008, Table B10
Notes:
(1) Total of Funded and Unfunded debt components of National Debt
(2) National Debt plus outstanding external debt
(3) Aggregate gross liabilities with an additional £1,032.4m of outstanding external World War I debt added back which is otherwise excluded from the official statistics

Therefore, to place the current borrowing proposals in context, after updating to current prices through the RPI index, Alistair Darling plans to borrow:

- Over ten times the amount of debt required to defeat the French Revolution and Napoleon;
- Double the amount of debt required to win the First World War;
- Slightly more than the amount of debt required to win the Second World War.

As Appendix VI (which discusses how the public finances are structured) makes clear, however, the headline borrowing figures (known as the Public Sector Net Borrowing) somewhat understate the true amount of cash needed to keep the public sector running (a statistic called the Central Government Net Cash Requirement). It might be objected that GDP is now much higher than in 1816, 1919 or 1946, and that therefore this borrowing is more "affordable". That is quite true – the Government stresses it repeatedly – but it rather misses the point.

Borrowing £512 billion today may well represent a smaller proportion of GDP than £503 million in 1816, but that merely indicates the potential ability of the UK to lend to its Government. It does not mean that anyone will actually lend the money, or that the Government is able to borrow it. Governments write cheques for pounds sterling, not percentages of GDP.

What will the bailout actually cost?

For the British taxpayer, the banking bailout dissolves into this gamble: *can we prevent any banks from going bust during the recession without them losing more value through bad debts and loan defaults than taxpayers' earn through fees for guaranteeing loans and assets and recover on the shareholdings?* On balance, the answer is: nobody knows.

It all depends on the length and depth of the coming recession. Provided that the UK does not suffer a deflationary crisis such as hit Japan in the 1990s, whilst there may be an overall loss, it is unlikely to be a material amount *compared to the total sums involved*. The cost which the taxpayer suffers will be caused by coping with the wider recession, not the actual banking bailout itself.

The policy imperative: reducing the cost of government

The real significance of the credit crunch for the public finances is not, therefore, the amount of money injected into the banking system. The critical factor is confidence:

- The credit crunch has very rapidly induced a recession in the non-banking sector. This has caused a slide in the value of banking stock, but more importantly it will cause overall tax revenue to fall, and welfare expenditure to rise. This has caused public borrowing to rise, with the potential to hit the Government's overall credit worthiness.
- Politically, the Government has been forced to adopt a "recovery stimulus plan" to benefit anyone who isn't a bank. Any Government in this position would have adopted a stimulus plan. Such a stimulus plan could be a neo-Keynesian programme of infrastructure spending; it could be a supply-side stimulus through tax cuts; or it might be an aggressive series of interest rate cuts through the Bank of England.
- For our immediate purposes in this paper it does not actually matter what form such a stimulus plan takes. You might be able to guess which proposal I would favour. Financially, it is easier to borrow back money you have returned through tax cuts than to borrow more money from people you are already taxing heavily. At least with tax cuts we know that the money really does exist out there, somewhere. Tax cuts might have a dynamic effect which offers a more economical means of averting a deflationary spiral.
- The form of the recovery plan is less immediately important than the fact that the measures taken to encourage any recovery from recession will increase the short-term budgetary pressures which the Government faces. That is why the Government is now proposing to borrow £512 billion (net) over the next six years.

- Sucking £512 billion out of the real economy in borrowing and funnelling it through the public sector will lead to transaction costs and have a time lag effect which will slow down any natural post-recession recovery.
- In fairness, every major economy will experience the same effects, and the cost is far less than would have been suffered if the entire banking system had collapsed, but the effect will still be felt.
- There is a very real risk that the Government will use its shareholder power to interfere in the banking system to allow short-term political considerations to outweigh normal financial judgments. Ministers are unlikely to relish the thought of a state-owned bank repossessing the houses of voters, and are likely to press for more relaxed credit, although this will affect the solvency risk of individual banks (and thus the willingness of banks to lend to each other). At the same time the Government will be taking a dim view of any innovative financing proposals. There may not be any formal control by Government, but we can expect its views to be "highly influential". Whatever the formal designation by ONS, no one imagined for a moment that Network Rail was an independent entity, and the same reputation will probably attach to banks inside the bailout scheme.
- Either of these factors, or more potently the fear that one of them will happen, will add a further drag on the speed to recover of the British economy.
- The greatest risk of all is that a combination of the natural stabilisers which kick in during a recession (higher welfare spending), together with whatever grand-standing recovery plan is bolted together to stimulate growth, will result in a new equilibrium where the British state ends up controlling a higher proportion of GDP than before. Since 1997 this level has more or less hovered around the 40 per cent mark. There is a very good chance that it could now bounce up towards 50 per cent, and stay there. This would be another point on which we had returned to the 1970s. Margaret Thatcher would have swung her handbag in vain.
- It's all about cash-flow and weighing one side of the ledger against the other: Will the banking sector revive sufficiently so that the taxpayer can recover the cost of its investment in shares? Will the fees received for guaranteeing bank loans or swapping toxic debt for gilts cover the risk of default?

How the machinery of government causes waste

Consider as an example figures for Defra as at 31st March 2003 compiled as part of the James Review on Taxpayer Value in 2004. We shall compare financial data for the Core Department; the department as disclosed in its annual consolidated resource accounts; and finally the notional Total Department, which is what the figures would have looked like if they had included every possible Defra quango.

The Core Department statistics were:

CORE DEFRA:
- Income : £73.6m
- Expenditure: £1,949.2m
- Headcount: 8,138
- Average salary: £23,700

The statistics for Defra as consolidated within its resource boundary (Core Defra + 6 Executive Agencies + 40 other quangos) were:

Core Defra:
- Income : £73.6m
- Expenditure: £1,949.2m
- Headcount: 8,138
- Average salary: £23,700

Consolidated Defra:
- Income : £2,766.9m
- Expenditure: £5,109.0m
- Headcount: 14,180
- Average salary: £26,900

When all Defra entities were finally added in (1 Core Dept + 2 Public Corporations + 25 Executive bodies + 75 other quangos), and transfers between these bodies were eliminated out, the final figures became:

Core Defra:
- Income : £73.6m
- Expenditure: £1,949.2m
- Headcount: 8,138
- Average salary: £23,700

Consolidated Defra:
- Income : £2,766.9m
- Expenditure: £5,109.0m
- Headcount: 14,180
- Average salary: £26,900

Total Defra:
- Income : £2,712.2m
- Expenditure: £5,413.2m
- Headcount: 35,216
- Average salary: £26,100

The more significant implications of these figures are:

- The income of Total Defra (i.e. the real combined department) in 2002/3 was actually some £50m less than that of Consolidated Defra (i.e. the "official department" described in government publications). In other words, Defra was booking as income in its published accounts fees which it was charging to quangos outside the official accounting boundary. This is not real income. It is simply moving money from one taxpayer wallet to another. These public bodies were making work for each other and taking in each other's washing.
- The additional 21,036 people employed in Defra bodies falling outside the consolidated resource boundary merely handled an additional £304.2 million of public spending to the outside world. But the wage cost of employing these people was an extra £549.0 million. In other words, Defra was hopelessly over-manned. Furthermore, it was costing more to deliver the additional "benefit" of these bodies than the actual extra

benefit itself. Not only were these extra quangos not adding value, they were actually destroying it.

An alternative recovery plan: sharing the proceeds of thrift

The Government has been attacked for its reliance on a 2 per cent reduction in VAT as a stimulus for economic recovery. There are strong technical arguments as to why a VAT reduction offers the quickest efficient return for feeding into aggregate demand, and in fairness to the Government since it is a 13 month policy it is too soon to declare whether it has failed or succeeded.

However, that aside, a VAT reduction is not the policy I would have adopted. Consumer spending will not increase at a time when people fear that they may lose their job, so I would have targeted measures at making it easier for employers to retain staff. Neither would I have introduced the package of measures which the Government adopted in the autumn to support the housing market, since nobody is going to buy a new house at a time when there is a risk they will become unemployed. I am also dubious about the merits of accelerating the capital expenditure programme, principally because I doubt that the investment will come on stream quickly enough to make any difference.

In the interests of balance, I should also point out that this is not perhaps the time to introduce tax cuts for savers. People who are afraid of the future will curtail their spending and save, and they do not need a tax encouragement to do so. The time to change the tax system for savers will be when the recovery has arrived.

Therefore I would have introduced an immediate reduction in national insurance (which is a tax on jobs). The critical rate to adjust would be the employers', to help with their cash flow and persuade them not to start redundancy programmes, but there would also have to be some benefit to the employees since it is their confidence in the future which the policy seeks to bolster.

My alternative policy would have been a retrospective NIC reduction for the 2008/9 tax year, carried into effect by an adjustment to the PAYE withholding on wages from January 2009. Instead of a 2 per cent cut in VAT, I would have cut both employers' and employees' NIC rates by 2 per cent each. Since pay packets would have suffered tax at a higher rate for the previous 9 months, and the tax cut is retrospective, it means that workers and employers will have overpaid against their new liabilities. These overpayments would be set against the collection of tax collection at the new rate. In cash flow terms this would mean a significant cut in employment costs for employers and an increase in the real take-home pay of workers.

Consider someone who is paid £24,000 per year, which is on or around

average earnings, and who has not contracted-out of the State Second Pension Scheme. The impact of this policy would have been to give workers a significant boost in their actual take-home pay as follows:

	Gross pay £	PAYE £	Employee NIC (old rate) £	Employee NIC (new rate) £	Take-home Pay £	Gain £	
April	2,000.00	299.40	170.17	139.23	1,530.43		
May	2,000.00	299.40	170.17	139.23	1,530.43		
June	2,000.00	299.40	170.17	139.23	1,530.43		
July	2,000.00	299.40	170.17	139.23	1,530.43		
Aug	2,000.00	299.40	170.17	139.23	1,530.43		
Sept	2,000.00	299.40	170.17	139.23	1,530.43		
Oct	2,000.00	299.40	170.17	139.23	1,530.43		
Nov	2,000.00	299.40	170.17	139.23	1,530.43		
Dec	2,000.00	299.40	170.17	139.23	1,530.43		
Running total	18,000.00	2,694.60	1,531.53	1,253.07			
Overpayment				278.46			
Jan	2,000.00	299.40		-	1,700.60	170.17	11%
Feb	2,000.00	299.40		-	1,700.60	170.17	11%
March	2,000.00	299.40		139.23	1,561.37	30.94	2%

For employers, the savings would have been:

	Gross pay £	Employer NIC (old rate) £	Employer NIC (new rate) £	Cash cost £	Saving £	
April	2,000.00	198.02	167.08	2,198.02		
May	2,000.00	198.02	167.08	2,198.02		
June	2,000.00	198.02	167.08	2,198.02		
July	2,000.00	198.02	167.08	2,198.02		
Aug	2,000.00	198.02	167.08	2,198.02		
Sept	2,000.00	198.02	167.08	2,198.02		
Oct	2,000.00	198.02	167.08	2,198.02		
Nov	2,000.00	198.02	167.08	2,198.02		
Dec	2,000.00	198.02	167.08	2,198.02		
Running total	18,000.00	1,782.14	1,503.68			
Overpayment			278.46			
Jan	2,000.00		-	2,000.00	198.02	9%
Feb	2,000.00		-	2,000.00	198.02	9%
March	2,000.00		167.08	2,167.08	30.94	1%

It could be objected that it would have caused administrative disruption to change the PAYE coding of every employee in the country. That is a fair comment. But the Government caused a similar amount of disruption when they changed the VAT rate for every business. Under my proposal, employers would have had two months' notice of the change, which would have come into effect for the January payroll, instead of the one week notice given to traders by Alistair Darling, which took effect at the start of December.

Overall, this alternative policy would have cost slightly more, and would have been spent earlier in a more concentrated boost. The difference, £845 million, could easily be found out of general house-keeping measures such as a civil service recruitment freeze.

Expenditure item	2008/9 £ million	2009/10 £ million	Grand total £ million
Government proposals:			
September 2008 housing measures	200	665	
Stamp duty land tax holiday	130	150	
VAT rate reduction	3,800	8,600	
Capital spending brought forward	365	2,545	
Total	**4,495**	**11,960**	**16,455**
Alternative proposals			
Employer NIC 2% cut	10,000		
Employee NIC 2% cut	7,300		
Total	**17,300**		**17,300**

Sources: cost of Government proposals taken from PBR 2008; cost of alternative proposals taken from the ready reckoner issued with PBR 2007 (the current ready reckoner does not contain cost figures for 2008/9).

An obvious objection is that cash has not actually been saved by reversing the capital spending policy: the £2,910 million will have to be found for 2010/11. This is quite true. However, by this point measures to cut central government waste will be coming on stream. Not all of the £55 billion will be realised at once, but there will be enough spare cash in the kitty. How much, and when?

It is a reasonable assumption that the current estimates for structural and operating waste will remain the same for an unreformed Government. Large scale changes to the structure of Government will take time to pay-off, so we will assume that it takes three years for the savings to be fully realised (with one-third realised in the first year and two-thirds in the second). Let us equally take the pessimistic assumption that, since accidents will always happen, we can only ever eliminate one-third of the operating waste.

On that basis, a serious anti-waste Government starting from April 2009 could bring the public finances back into balance in less than four years, which is far faster than the current Government intends. This in turn would generate a windfall benefit of realising further savings by cutting the amount

of interest which Government has to pay on the outstanding Public Sector Net Debt.

Assuming all savings were used to repay debt, or reduce borrowing, the public finances would look like this:

	2008/9	2009/10	2010/11	2011/12	2012/13	2013/14
Planned Expenditure	**623**	**654**	**682**	**708**	**735**	**762**
Unreformed waste						
Structural (9% of TME)	55	59	61	64	66	69
Operating (7% of TME)	45	46	48	50	51	53
Realised savings						
Structural	-	20	41	64	66	69
Operating	-	15	16	17	17	18
Total	-	35	57	81	83	87
Planned Net Borrowing	78	118	87	70	70	54
Reformed Net Borrowing	78	83	30	-11	-13	-33
Estimated Interest saving	-	1	3	4	4	4

Source: PBR 2008, Table B10, together with the author's calculations. Interest savings derived from PBR 2008 Table B16 (effective rate of 3.6% for 2009/10 and 4.8% for 2010/11, which is carried forward to later years). Apart from the £5 billion reduction in DEL for the current Spending Round (which is a direct expenditure cut factored in to the proposed expenditure) Alistair Darling's "efficiency programme" is assumed to generate non-cashable savings.

A further objection to my proposal is that an NIC cut for January to March 2009 would not have operated for long enough to stabilise confidence among workers and employers. However, under my system there would be an extra £35 billion of savings in 2009/10. Some of this could be used to extend the NIC holiday for an additional year, and pay down borrowing more slowly. If this were to cost £17 billion, that would delay the budget coming into surplus until 2012, i.e. by a further year. That would still be three years ahead of Alistair Darling's schedule.

The windfall savings generated through lower interest costs could be utilised for tax cuts, and providing incentives for savers would be an entirely appropriate mechanism. A genuinely prudent Government which was paying down its own debts would then be able to reward taxpayers who had similarly done the responsible thing. We could call this policy "sharing the proceeds of thrift".

A blueprint for reformed Government

The secret to successful reform of the machinery of Government is to also reform the remit of Government. The Thatcher reforms reduced the overall

shape of the state without changing the centralised nature of what was left, and essentially reclassified civil servants as quangocrats. The James Review, at first sight timid in terms of projected savings, contained plans for a significant redesign of the administration.

Now, a fair objection would be to point out that "reformed Government" is a euphemistic way of saying "a Government which employs fewer people". In other words, that I am advocating a redundancy programme and no Government could contemplate such an action during a recession. Keeping people in employment, it might be said, is better for the public finances (which would have to pay them welfare) and the wider economy (which would benefit from the higher spending of employed people).

There are, indeed, political costs in sacking quangocrats. But we have passed the point of squeamishness. The cost, both political and economic, of a collapse in the creditworthiness of Government would be far greater. And it should not be overlooked that, by and large, *the jobs we are considering are not productive*. They add no value. That is why they are candidates for redundancy. Employing civil servants to push paper from one desk to another is only a more modern way of employing one group of workmen to dig holes and another to fill them in.

From a narrow financial perspective, it is better for the "wider economy" that the Government has to borrow in order to pay these people dole at a little over £3,000 p.a. (plus whatever income-related benefits might be due to other family members) than pay them on average in excess of £20,000 p.a. to sit at their desks. The difference of over £10,000, plus the costs of raising it, can be left in the real economy where it might actually do some good.

The classical argument against such a proposal is that, in a recession, employment should be maximised because employed people will produce goods and services, and spend money on other people's goods and services, and such activity is required to stimulate a recovery. That argument does not hold good:

- These non-jobs are not productive: they make nothing. We could pack them all off in a spaceship and no one would notice the difference.
- More critically: where do you think the money is coming from to pay them? Either it is being taxed from people who are in productive employment, thus reducing their ability to spend on goods and services, or it is being borrowed, thus starving capital from people who might use it to expand their production of goods and services. Wouldn't it be better to leave the money where it is at the moment and let it do some good?

The Keynesian argument for public spending in a recession is that it is necessary to increase investment to stimulate aggregate demand and so stave off unemployment. This is based on the observation that private individuals do not spend 100 per cent of their incomes, so there is a tapering off of consumption spending. The theoretical niceties can be debated, but

one point is undeniable. When Keynes advocated spending £1 million, he expected to get, say, a railway worth £1 million. He did not expect to get several thousand ethnic diversity monitoring officers passing pieces of paper between them and achieving nothing. Reshuffling consumption through the state destroys value. We do not have the money to burn.

But a critic would still attack this proposal as callous. And it *is* a callous proposal. Speaking as someone who has been made redundant in 1994, 2003 and now 2008, I will readily agree that unemployment is demoralising and wasteful. I would like to think that I am mature enough to accept that on each occasion when I have lost my job it has been because my then employer considered it was necessary to shed staff to stay in business. Employers always say that their people are their greatest asset. This is untrue. Cash is their greatest asset, and that is why redundancy programmes happen. Since only the Queen and the Pope have jobs for life, in a recession employees will be made redundant to preserve cash.

The real tragedy about the current recession is that, because of the massive amounts of money required to fuel Government, for the first time in living memory the public sector faces the same dilemma of cutting costs or going out of business. This is an unpleasant truth, but it is still the truth. It is the consequence of our country having spent so long living in the grip of a political-inflationary complex.

This is a real risk. The credit default swaps market, in simple terms, is a method of insuring against the risk that a debt will turn bad and not be repaid. The higher the chance of a debt turning bad, the more it costs to buy the insurance, measured by the 'spread' on offer. In February 2008, it was possible to buy insurance on British Government debt for a spread of 8 basis points, i.e. it would cost you 80p to buy insurance on £1,000 of British state debt. By January 2009, the spread had risen to 152 basis points, i.e. it now costs £15.20 to insure the same £1,000 of debt.

This means that the markets have assessed that the British Government is now 19 times more likely to go bust than it was less than a year ago. As it borrows more, these spreads will widen – and even if the Government does not go into meltdown this will force it to pay ever more as the cost of borrowing. We have to reduce the cost of government.

De-cluttering the Machinery of Government

Taxpayer value can be released by creating a clearer, simpler organisation.

- Shrink the Core Departments and cut out the overlap with the quangos. This could be achieved either by returning the central establishment to its 1997 level or accelerating the devolution of executive functions to agencies and confining the Core to a pure policy/oversight function.
- Outsource or privatise mechanical functions where it can be demonstrated it is cheaper to do so. Examples we uncovered in 2004

were the Rural Payments Agency; Job Centre Plus; the Army Base Repair Organisation. (In 2008 the Government moved ABRO merged several quangos to form the Defence Support Group, but the basic point remains good.)

- Rationalise the remits between agencies and eliminate duplication. For example, merge the Forestry Commission, Forest Enterprise and the National Forest Company, all of which are supposed to grow trees, and completely sell off the loss-making Forest Holidays joint-venture.
- Withdraw from areas which are not working and where a better result can be achieved by a less expensive route. For example, the James Review queried the value of operating a Small Business Service to oversee 2,500+ schemes with different eligibility criteria when you can achieve more effective help for small business with a standardised exemption from the more onerous regulations. The Small Business Service has indeed been abolished (in name) – but by March 2008 the number of schemes had risen to over 3,000.
- Eliminate quangos which serve no useful purpose. For example the regional assemblies and strategic health authorities. We promised to disband 162 quangos and 6 central Government units. It is a measure of the quality of the James Review that the Blair/Brown Governments have in fact axed some of the quangos we identified, although they haven't done anything about the waste they were causing.
- Eliminate profligacy at head office. End the expensive enhanced early retirement programme; reduce Government advertising (which is often pure propaganda); improve procurement spending; and above all address the chronic level of absenteeism. A recruitment freeze should also be implemented for the foreseeable medium term.

On James figures this would have enabled the reduction of 235,386 bureaucratic posts in the central civil service and wider public services.

A revised model for a Government department

We proposed a structure for each Department in which there is a more rigid separation between personnel responsible for policy ("thinking") and delivery ("doing"). In reality, this is nothing more radical than a slight updating of the principles set out in the Haldane Report of 1918 or the Heath White Paper of 1970. The difficulty will be preventing drift away from this model.

Central Function (Core Department)

This would be headed by a Secretary of State responsible to Parliament for policy and for the monitoring of the delivery of policy (*not* execution). A small number of staff essentially applying a new risk analysis process to decision-making, and overseeing the work of the operating agencies.

The ability to evaluate policy options (including those on highly technical

scientific issues) with proper cost effectiveness criteria will be substantially strengthened.

Operating agencies (which term includes some current quangos)

A number of agencies delegated to carry out specific tasks (and kept strictly to those tasks by the Central Function). Each agency would be subject to a "sunset clause" whereby the agency would cease to exist after a pre-set date (say, 18 months following the dissolution of the relevant Parliament) so as to force a regular appraisal of the purpose and value of each agency. Each agency would be designed on the basis of being "Fit For Purpose", i.e. to minimise the risk of "mission creep", "empire building", overlap between agencies etc.

In effect this new entity of "Operating Agency" would have been a merger of the Executive Agency and the Executive NDPB categories (probably also most of the Non-ministerial departments) on a new statutory footing. They would not be Crown Bodies, and their employees would not be civil servants. They would exist simply to discharge functions subcontracted from the Department, and they would have a limited or nil policy creation function.

To an extent the Blair Government has tacitly accepted the force of the argument behind this thinking. The recommendations of John Reid's review of the Home Office has adopted some of the same proposals as the James Review for the same department, notably the slimming-down of the central function and the establishment of a new agency to handle immigration and nationality issues.

Procurement

A revised cross-Government procurement policy would apply to generate economies of scale, and create a centre of competence.

Advisory Quangos

These bodies provide independent/expert advice to Government, supported by staff released from the Core Department. They would be reviewed on a case-by-case basis and either outsourced completely (with the advantage of giving genuinely independent advice) or reabsorbed into the Core Department.

Tribunal Quangos

On the whole, these should be left as they are. Mainly they exist to fulfil an appeal function in some area which is regulated by the Core Department. If that regulatory function survives the Deregulation process (described later), then the associated tribunal will still be required.

Public Corporations

Either privatised or left alone.

It will be absolutely essential to guarantee a high level of linkage and communication between these functions to allow sound thinking and

development to flow both ways along the command chain.

A new model for the Cabinet?

I am not impressed by the history of redesigning portfolios and creating new departments. When the Department for Constitutional Affairs was created in 2003 – an exercise which basically involved re-naming the existing Lord Chancellor's Department – it added 1 per cent to the running costs. Greater reorganisations will entail greater adjustment costs, for lesser returns.

For once, only minimal tinkering is required. Blair has already carried out the James Review plan to convert ODPM into a Department of Local Government. In addition I would close down the Scotland and Wales Offices while designating two junior ministers as being responsible for Scottish and Welsh Affairs. I would not have created a Department of Energy & Climate Change, as Gordon Brown did in October 2008, but I cannot get terribly excited about closing it down.

My preference is to keep the departments we have at present, but change what they do. There might be merit in having a smaller central Cabinet, but this would merely formalise the current practice whereby the real decisions are taken through smaller sub-committees – and would waste time and energy in arguments between politicians as to who was included in the new smaller Cabinet.

The need to decontrol everyday life

As a matter of practical common sense if you are going to shrink the central state, then you have to narrow its remit so it has less work to do. Decontrol is actually something which is really is good-in-itself. You can only create a society in which people know where they stand, and can understand the rules, if the rules which govern them are clearer and fewer.

A detailed programme of study by the Conservative Party Policy Unit (before it was itself disbanded) identified and dissected five "drivers of regulation" afflicting British society:

1. The European Union, which in its mission to manufacture a continental polity is keen to acquire competence to legislate on as many issues as it can on a one-size-fits-all basis;
2. Gold Plating, the unfortunate tendency of Whitehall civil servants to take any regulatory proposal from Brussels and make it much more complex (often leaving Brussels to take undeserved criticism);
3. Big Government, the particular desire of the Labour Government to organise our lives for the better, because it knows so much better than the rest of us how to live;
4. Administrative Creep, the general tendency of civil servants to seek to expand their budgets and responsibilities, no matter who happens to be in power; and

5. Blame and Claim culture, the specific cultural effect of recent years whereby accidents have become opportunities to litigate and (which is more pernicious still) risk-averse action taken out of fear of this trend.

As part of the Conservative manifesto work in 2005 I estimated that in one year a Government committed to decontrolling everyday life could remove the burden of 5,099 regulatory provisions; rescind 11,524 pages of central guidance; scrap 1,351 central targets or other performance indicators; abolish at least 206 forms; and on the back of the rejection of the EU Constitution open negotiations to replace 372 pieces of EU law (although query whether that moment has since passed).

A programme for de-controlling Britain

These are very hard estimates. When I was working on the draft Deregulation Bill I had to read every candidate for abolition. I printed out the casualties and it came to a stack which was 7ft high.

The passage of time means that some of these items are now irrelevant. Even in 2005 a different team of people could have produced a different list, and I dare say if the Policy Unit were to reconvene today we might choose another group of targets. But the fact that there is such a wide field from which to select makes its own point: the amount of regulation of daily life has increased, is increasing, and ought to be diminished.

A one-off hit against specific regulations would, however, merely run into the sand like the deregulation attempts of the Major administration and the "better regulation" efforts of the Blair administration. The only real cure is a cultural change within Whitehall. To achieve that outcome three structural changes are required:

1. Regulatory budgets or annual limits on the costs which departments can impose on wider society through the regulations over which they preside, with a requirement for year-on-year reductions in this burden and a cut in the absolute number of regulations;
2. Regulatory Impact Assessment reform with the introduction of impartial and robust prior costing under the auspices of the National Audit Office, such that no new regulation could be introduced unless it could be demonstrated that its benefits were likely to outweigh its burdens; and
3. Sunset reviews for all new regulations after a preset period such that if in practice it could not be demonstrated that a regulation's benefits had outweighed its costs, and were not likely to in the future, then it would not have its legal validity renewed.

Can we risk deregulation?

I am open to the accusation that I am advocating a reckless programme of deregulation. Surely, it will be said, it was deregulation of the financial

sector which got us into this mess in the first place.

It is simply untrue that the last ten years have seen a ruthless campaign of reckless deregulation. When I first commenced work as a tax adviser the UK legislation was published in two annual volumes of perhaps six inches in width; now there are at least 5 volumes measuring over a foot across, printed in a smaller type and on thinner pages. The rules governing a financial services operator came in an A4 ring binder, rather lighter in weight than the average car owner's manual; today the regulations are so extensive that it is no longer feasible to publish them on paper and they are accessed as an on-line directory, and difficult to use.

Government has gone into the industrial production of laws, rules, regulations and guidance documents. If something moves, the state will establish a new quango to regulate it. If something doesn't move, the state will establish a quango to discover why, and then tax it.

What our country has suffered since 1997 has not been *de*-regulation but *bad* regulation. If the authorities have exercised a "light touch" then it has only been because their rules are too wide-ranging for anyone to get a grip on them. Any market will always need a degree of regulation, if only a rule which requires an agreed contract to be performed and enforceable. The question is rather what objective regulation seeks to achieve and the best means of achieving it. I suspect that when all the enquiries have reported we will discover that by and large all the spectacular casualties of the credit crunch – the Northern Rocks, the Bradford & Bingleys – were substantially compliant with the regulations as they stood at the time, but they had switched off their common sense.

It is possible to so over-regulate an activity that the people involved in it become anaesthetised to the point where compliance becomes an end-in-itself. Regulation that misses the point is worse than no regulation at all. Ask yourself, in all seriousness, what systemic risk to our society is averted by a law which tells you that you cannot hold a wedding in certain buildings, or which limits the number of times each year a railway company can alter its timetable, or which details the number of forms which a local authority must complete to report on the number of other forms it has completed in the last twelve months. What is the point of all this rubbish?

That is why I prefer to talk about "decontrolling", rather than "deregulation". The man in Whitehall does not know best. So why should we ask him to control what we do? To the critic who asks whether we can afford the risk of deregulation I would reply that we cannot afford not to decontrol our society.

Which is all very well, but many Governments have come into office with noble aspirations and plans. How do you actually manage to reform a government?

5. How to reform Government

How do you de-clutter Whitehall?

Managing change in any organisation is always difficult. They have a biological tendency to expand in size and scope. This is not always a bad thing, as for example when a company becomes more successful and takes on more staff. The great mistake is to confuse expansion with success, so that it becomes an end-in-itself. Without some external constraint, organisations merrily roll on forever, expanding and not changing.

Intelligent guidance from a senior level can keep a rein on expansion, so that it only occurs to the extent justified by real success, but if central control is too tight, it will inhibit the ability of the various operating units to innovate and create new areas of success. Once an organisation gets above a certain size, day-to-day management is never in the hands of the chap at the top and things are effectively being run by a group of people somewhere in the middle. Change management is about finding who those people are and either sacking them or improving them.

There is a particular obstacle facing all attempts at public sector reform: it isn't the private sector (and you don't want it to become so). How can you force private sector performance and motivation on the public sector without damaging the essential spirit which animates public services and public servants? How can you force impartial civil servants to accept a political party programme for reform without endangering their impartiality? If you import "outsiders" into Whitehall to manage the process, how can you stop them "going native"? Or protect them from being side-lined?

Three Principles of Public Sector Reform apply:

1. Reform can only be implemented successfully if there is a genuine culture change within the department being reformed. It cannot be imposed from outside.
2. Reform cannot be implemented unless there is genuine and consistent support from the Prime Minister, which is recognised as such throughout the public sector. It will not happen if the exercise is seen as another transient spin doctor's gimmick. ("Prime Minister" here is a convenient short hand way of saying "the Prime Minister, the Chancellor of the Exchequer and the Cabinet Secretary working in harmony and mutual trust".) It can be taken as a given that if a Secretary of State knows that the Prime Minister wants something to be done, then the Secretary of State wants it to happen, too. If this rule breaks down then there are wider problems within the Government, and you might as well forget any grand schemes.
3. Reform will not be implemented effectively in a climate where the departments and agencies ("us") see the reformers ("them") as hostile outsiders. Public sector bodies need to be persuaded of the

necessity and merits of reform, and must adopt them with zeal. In practice this means identifying the key management tier and persuading them to demonstrate the zeal.

Once these principles are fully digested, it becomes clear that an outside group of reforming experts cannot be parachuted into Whitehall: apart from the political difficulties of hiring expensive consultants during a recruitment freeze, nothing could be better calculated to demoralise the insiders who have to make the reform happen.

Creating a Value For Money culture

Instead of parachuting in outsiders, I would appoint in each department a "Value For Money Officer", drawn from the ranks of what used to be called Deputy Secretaries. Crucially, this individual would have other day-to-day duties, so that he cannot be side-tracked, and has no opportunity to create his own mini-empire (which would frustrate the object of shrinking bureaucracy). It is essential to create someone with a strong vested interest in successful reform, in a position to enforce change.

The Permanent Secretary would not be appropriate for this role, because somebody actually has to run the department while the change process is underway. I also rather suspect that for our purposes, the Permanent Secretary is not a member of the crucial tier. The image of evil Sir Humphrey has entered the public consciousness, but in reality he could only flourish in an environment of weak political direction (and with the support of his deputies).

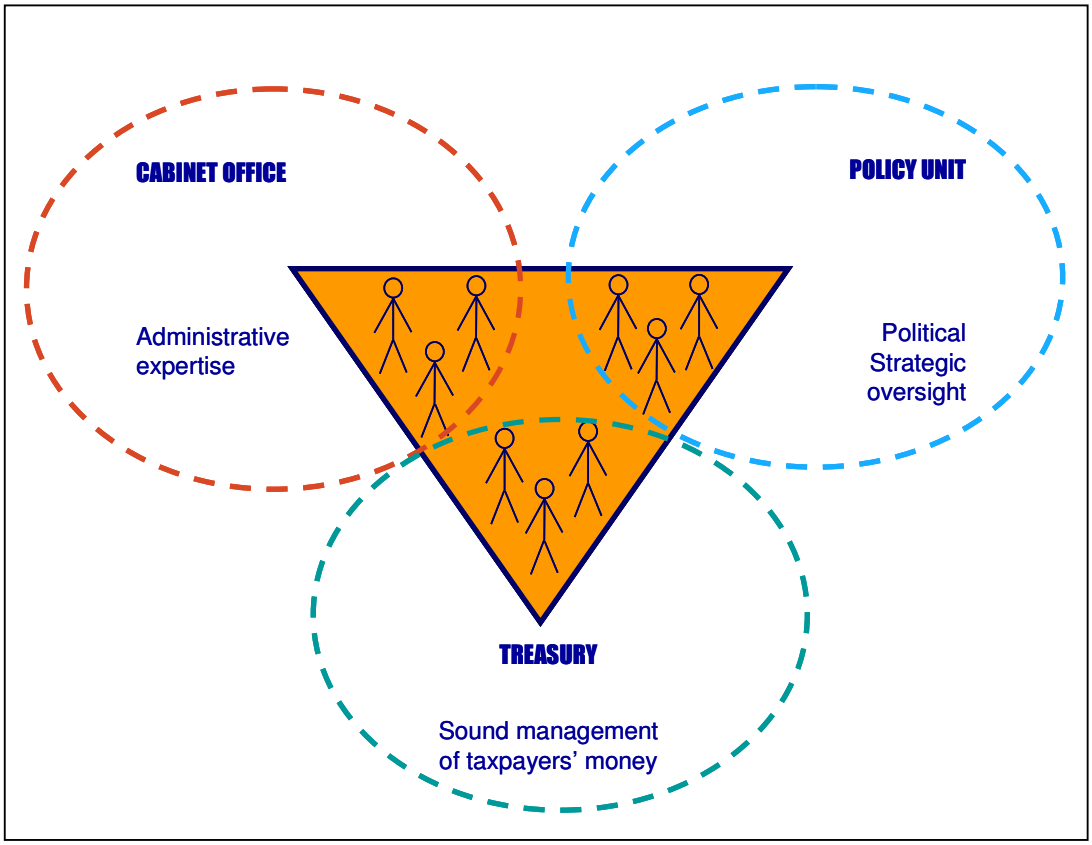
Neither is there much merit in assigning the key role to a political minister or (God forbid) an external political adviser or spin doctor. It needs to be someone who knows his way around the filing cabinets. The Secretary of State must be behind the process firmly and sincerely, to give it day-to-day sanction, but he is being employed to undertake a wider policy task.

The Value For Money Officer would assemble around himself a Departmental Value For Money Team, again of career civil servants with other duties, and together they would drive through the reform proposals for their department. Provided the right personnel are selected, this would create a cadre of change agents within each department – who would be pretty much left to get on with things within an agreed timetable.

Left to get on with things? Isn't that a recipe for obstruction and delay? Not quite. Who knows how to run a department better than the staff already there? Successful management turns on a combination of tight and loose rules: tell your staff exactly what is expected of them, and when, and leave them to get on with it and get off their backs. Their careers are now linked to the success of the reforms. But still have in place a system to keep an eye on things: observation, not control.

Policing the Value For Money culture

Overseeing the process on a day-to-day basis would be a Taxpayer Value Unit. Were this to be a new bespoke department in its own right it would fail. Either it would be side-lined, as happened to Lord Rayner's Efficiency Unit under the Thatcher administration, or it would become a distended bureaucratic monster as has happened to numerous Cabinet Office initiatives under the Blair administration.



Structure of the proposed Taxpayer Value Unit

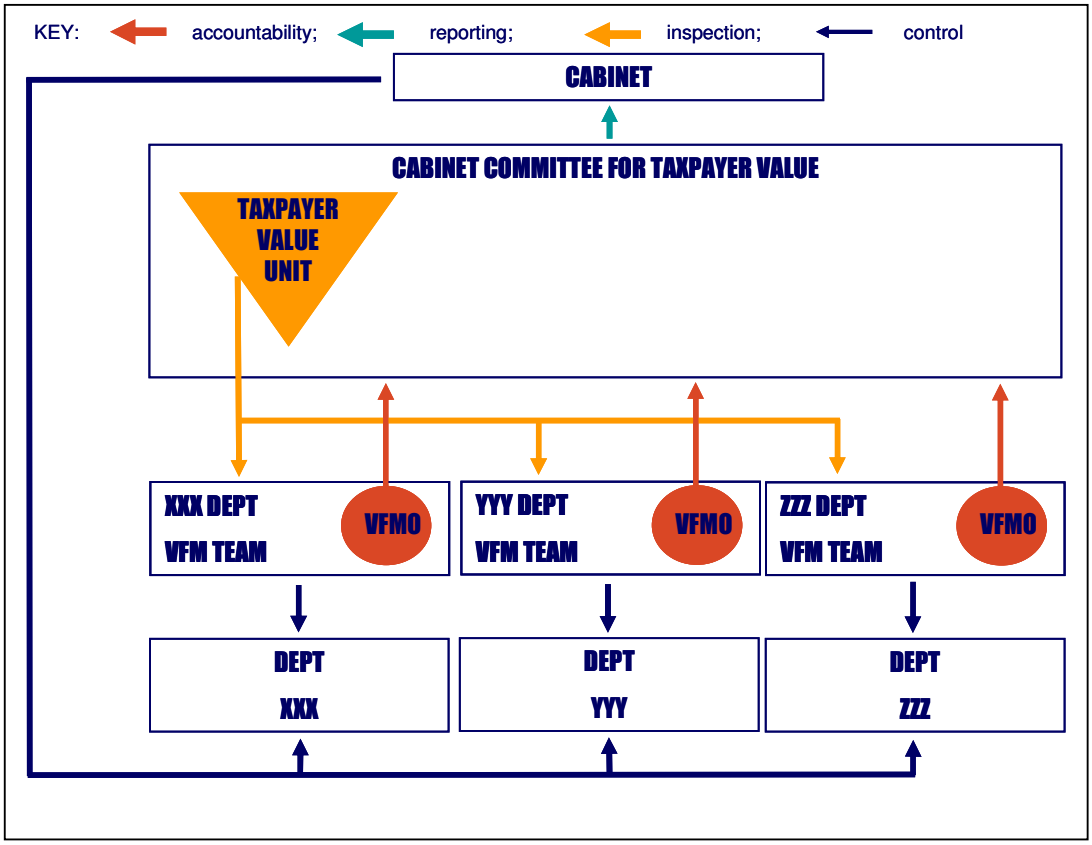
This Unit would be a virtual department – no more than nine staff drawn from other existing units: the Cabinet Office, the Treasury and the Prime Minister's Policy Unit. Using their blended talents this group would agree with each departmental team the reform proposals and timetable for that department. They would also be responsible for reviewing the "pending category" of proposals and advancing them as appropriate.

It was always intended to create a continuous reform process which went beyond the published James Review proposals and so widened the scope for tax cuts. Having de-cluttered Government, it is important to keep it simple, streamlined and fit-for-purpose.

Departmental ministers would also have to be committed to the local programme. Progress would be monitored by regular reporting by the Value For Money Officer and his Secretary of State to a Cabinet Committee. Given the need for firm political guidance and expert commentary on the detail of

reform, this would need to be a mixed committee of ministers and civil servants. An appropriate mix would be the Prime Minister, the Chancellor of the Exchequer, senior cabinet ministers and the staff within the Taxpayer Value Unit. Reform is less likely to become bogged down in irrelevance if the departmental Cabinet Minister and his Value For Money Officer are reporting to a group at this high a level.

There would either be Reform, or Blood.



Revised reporting lines within Whitehall

I would be quite relaxed about opening up the process to outside scrutiny, to keep it "honest". Certainly, the National Audit Office would have to expand its role (and, therefore, its eventual headcount). There can be few objections to a strengthened oversight role for House of Commons Select Committees to quiz directly the chiefs of the major quangos, and perhaps also vet their appointment.

Who scrutinises the process is less important than the spirit in which it is conducted. If it is simply a fishing expedition to find points to score off the Government then it will probably fail (although it could be argued the risk is worth taking anyway). Britain needs a more mature political culture than it has at present. The nature of ministerial responsibility has to be re-interpreted if the spiral of instability in the public sector is to be shattered.

Introducing reality

I once had the opportunity to explain these ideas in a convivial social gathering which included someone who had experience of working on the deregulation efforts of the Major Administration. She laughed out loud. My proposals basically expected civil servants to reform themselves, and that would never happen. The ideas were unrealistic. She had tried, and failed, and had come to the view that the civil service is beyond reform.

That sort of defeatism is the biggest challenge to any attempt to reform the public services. That sort of defeatism is comfortable with the second-rate and the not-quite-good-enough. That sort of defeatism displays the "common sense" and the "realism" which once believed that the trade unions could not be reformed, or that it was impossible for the private sector to run a national telephone network. That sort of defeatism is why the Conservative Party went into opposition, and stayed there.

So let us consider reality.

Government is just a firm. It is a bigger organisation than most firms. It has a highly unusual revenue base, and it is far less exposed to competition than the average business. It operates in markets which most firms avoid (or are prevented from entering). *But it is still a firm*: an organisational unit of ownership or control using resources to achieve certain objectives. And if Government is a firm, then it can be reformed with the same modern management tools that any other firm can be reformed (for good or ill).

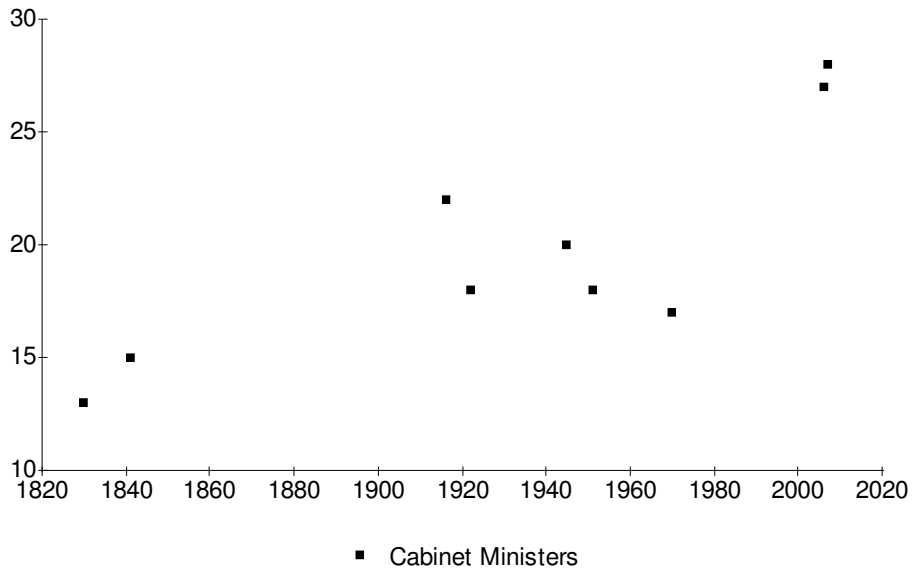
Civil servants are just employees. They are not a hermetic order of invincible wizards. They have more generous pension arrangements, and are harder to dismiss, than most employees. They may deliberately see themselves as even more divorced from the interests and objectives of their Board of Directors than most employees. *But they are still employees*. They have the same propensity to swing the lead as other employees, and the same basic desire to enjoy a fulfilling, satisfying work experience and the knowledge that they have achieved something worthwhile. (In fact, because they work in the public sector, there is an excellent chance that they have above-average levels of civic duty.) Above all, they will have middle-managers who want to become senior managers. They will respond to modern change management techniques in the same way that any other group of employees respond (for good or ill).

What our country needs is a new Thatcherite spirit. *Not* in the narrow partisan sense of a negative approach to the public sector, but one devoted to "compassionate" aims: a new generation of people prepared to change the facts once again. The programme set out in this paper is not impossible; neither is it suicidal. Our public services have to be rescued from the culture of mediocrity which emanates from Whitehall. Give people a strong reason for voting for you, and they will.

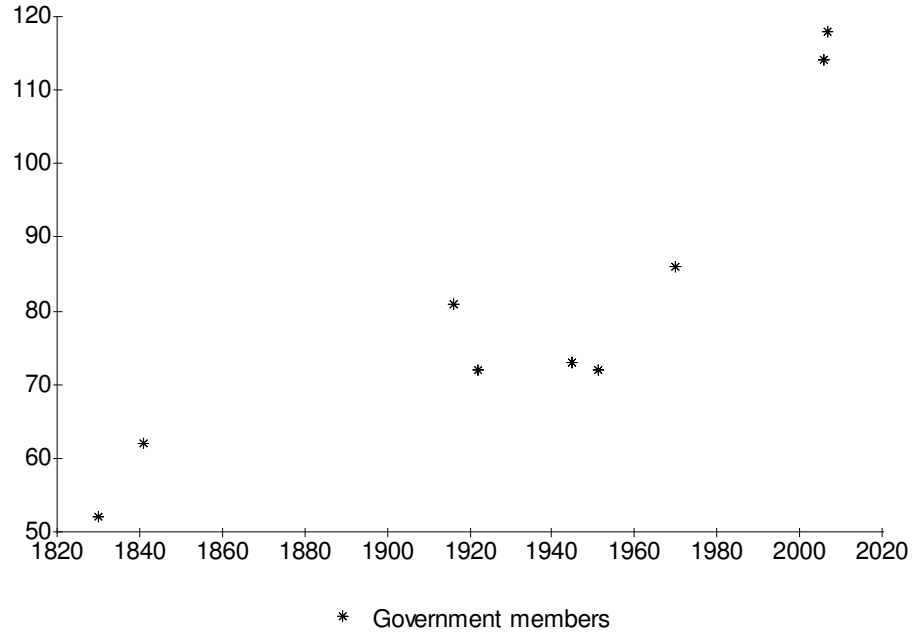
The only thing stopping us is ourselves.

Appendix I: Changes in the size of Government

The growth in the number of Cabinet Ministers:



The growth in the overall size of government:



1830: Lord Grey comes to power

At this starting point, there were 13 members of the Cabinet. A total of 52 individuals (a high proportion of whom were related to Grey) counted as

Government ministers.

Prime Minister	Earl Grey
Chancellor of the Exchequer	Viscount Althorp
Lord Chancellor	Lord Brougham and Vaux
Lord President of the Council	Marquess of Lansdowne
Lord Privy Seal	Lord Durham
Secretary of State for Foreign Affairs	Viscount Palmerston
Secretary of State for the Home Department	Viscount Melbourne
Secretary of State for War & the Colonies	Viscount Goderich
First Lord of the Admiralty	Sir James Graham
President of the Board of Control	Charles Grant
Chancellor of the Duchy of Lancaster	Lord Holland
Minister without Portfolio	Earl of Carlisle
Postmaster-General	Duke of Richmond

1841: Lord Melbourne leaves office

Following the Whig administrative reforms of the 1830s there was a re-rating of the importance of certain positions, and a demotion of others. The Cabinet expanded slightly to 15 members. Government now comprised 62 posts.

Prime Minister	Viscount Melbourne
Chancellor of the Exchequer	Francis Thornhill Baring
Lord Chancellor	Lord Cottenham
Lord President of the Council	Marquess of Lansdowne
Lord Privy Seal	Earl of Clarendon
Secretary of State for Foreign Affairs	Viscount Palmerston
Secretary of State for the Home Department	Marquess of Normanby
Secretary of State for War & the Colonies	Lord John Russell
First Lord of the Admiralty	Earl of Minto
President of the Board of Control	Sir John Cam Hobhouse
President of the Board of Trade	Henry Labouchere
Chief Secretary for Ireland	Viscount Morpeth
Chancellor of the Duchy of Lancaster	Sir George Grey
Secretary at War	Thomas Babington Macaulay
First Commissioner of Woods & Forests	Viscount Duncannon

1916: Lloyd George comes to power

At the highpoint of the ad hoc creation of special-purpose ministries, the Cabinet had expanded to 22 members, although a smaller War Cabinet of five (designated by a "W" in the list below) was the real executive centre. A total of 81 individuals now counted as Government ministers.

Prime Minister (W)	David Lloyd George
Chancellor of the Exchequer (W)	Andrew Bonar Law
Lord Chancellor	Lord Finlay
Lord President of the Council (W)	Earl Curzon
Lord Privy Seal	Earl of Crawford
Secretary of State for Foreign Affairs	Arthur Balfour
Secretary of State for the Home Department	Sir George Cave

Secretary of State for the Colonies	Walter Long
Secretary of State for India	Austen Chamberlain
Secretary of State for War	Earl of Derby
First Lord of the Admiralty	Sir Edward Carson
Secretary for Scotland	Robert Munro
Chief Secretary for Ireland	Henry Duke
Minister of Labour	John Hodge
Minister of Munitions	Christopher Addison
Minister without Portfolio (W)	Arthur Henderson
Minister without Portfolio (W)	Viscount Milner
President, Board of Agriculture & Fisheries	Rowland Prothero
President of the Board of Education	Herbert Fisher
President of the Board of Trade	Sir Albert Stanley
President of the Local Government Board	Lord Rhondda
Chancellor of the Duchy of Lancaster	Sir Frederick Cawley

1922: Lloyd George leaves office

Following post-war reorganisation along the lines of the Haldane Report, there were 18 members of the Cabinet, and a total of 72 government posts.

Prime Minister	David Lloyd George
Chancellor of the Exchequer	Sir Robert Horne
Lord Chancellor	Lord Birkenhead
Lord President of the Council	Arthur Balfour
Lord Privy Seal	Austen Chamberlain
Secretary of State for Foreign Affairs	Earl Curzon
Secretary of State for the Home Department	Edward Shortt
Secretary of State for the Colonies	Winston Churchill
Secretary of State for India	Viscount Peel
Secretary of State for War	Sir Laming Worthington-Evans
Secretary for Scotland	Robert Munro
Chief Secretary for Ireland	Sir Hamar Greenwood
First Lord of the Admiralty	Lord Lee
Minister of Agriculture & Fisheries	Sir Arthur Griffith-Boscawen
Minister of Health	Sir Alfred Mond
Minister of Labour	Thomas Macnamara
President of the Board of Education	Herbert Fisher
President of the Board of Trade	Stanley Baldwin

1945: Attlee comes to power

Government expanded once again to accommodate the needs of another world war. As hostilities came to an end there were 20 members of the Cabinet, but actually 22 posts (both Attlee and Alexander held two posts each, which were soon separated). The total number of ministerial posts was 73, although Attlee did not fill all of them immediately.

Prime Minister and Minister of Defence	Clement Attlee
Lord Chancellor	Lord Jowitt
Lord President of the Council	Herbert Morrison

Lord Privy Seal	Arthur Greenwood
Chancellor of the Exchequer	Hugh Dalton
Secretary of State for Foreign Affairs	Ernest Bevin
Secretary of State for the Home Department	James Chuter Ede
Secretary of State for Air	Viscount Stansgate
Secretary of State for the Colonies	George Hall
Secretary of State for Dominion Affairs	Viscount Addison
Secretary of State for India & Burma	Lord Pethick-Lawrence
Secretary of State for Scotland	Joseph Westwood
Secretary of State for War	Jack Lawson
First Lord of the Admiralty and Minister without Portfolio	A. V. Alexander
Minister of Agriculture & Fisheries	Tom Williams
Minister of Education	Ellen Wilkinson
Minister of Fuel & Power	Emanuel Shinwell
Minister of Health	Aneurin Bevan
Minister of Labour & National Service	George Isaacs
President of the Board of Trade	Sir Stafford Cripps

1951: Attlee leaves office

By this point the Cabinet had contracted back to 18 members, principally because the military departments were demoted, and some departments had been abolished to reflect changes in the British Empire. Note that Attlee also demoted Health from full Cabinet rank. The total number of government posts was down slightly to 72.

Prime Minister	Clement Attlee
Lord Chancellor	Lord Jowitt
Lord President of the Council	Viscount Addison
Lord Privy Seal	Richard Stokes
Chancellor of the Exchequer	Hugh Gaitskell
Secretary of State for Foreign Affairs	Herbert Morrison
Secretary of State for the Home Department	James Chuter Ede
Secretary of State for the Colonies	James Griffiths
Secretary of State for Commonwealth Relations	Patrick Gordon Walker
Secretary of State for Scotland	Hector McNeil
Minister of Agriculture & Fisheries	Tom Williams
Minister of Defence	Emanuel Shinwell
Minister of Education	George Tomlinson
Minister of Labour & National Service	Alfred Robens
Minister of Local Government & Planning	Hugh Dalton
Minister without Portfolio	Arthur Greenwood
President of the Board of Trade	Sir Hartley Shawcross
Chancellor of the Duchy of Lancaster	Viscount Alexander

1970: Heath reorganises the departments

In October 1970 Heath adopted a self-consciously stream-lined Cabinet of 17 (and would probably have chosen a Cabinet of 16 if the Chancellor of the Duchy had not been the minister overseeing negotiations to enter the Common Market). Wilson had left office with a Cabinet of 22. There were a

total of 90 ministerial posts, but some individuals held several posts and there were actually only 86 members of the Government.

Prime Minister and Minister for the Civil Service	Edward Heath
Lord Chancellor	Lord Hailsham of St. Marylebone
Lord President of the Council	William Whitelaw
Lord Privy Seal	Earl Jellicoe
Secretary of State for Foreign & Commonwealth Affrs	Sir Alec Douglas-Home
Secretary of State for the Home Department	Reginald Maudling
Chancellor of the Exchequer	Anthony Barber
Secretary of State for Defence	Lord Carrington
Secretary of State for Education & Science	Margaret Thatcher
Secretary of State for Employment	Robert Carr
Secretary of State for the Environment	Peter Walker
Secretary of State for Scotland	Gordon Campbell
Secretary of State for Social Services	Sir Keith Joseph
Secretary of State for Trade & Industry	John Davies
Secretary of State for Wales	Peter Thomas
Chancellor of the Duchy of Lancaster	Geoffrey Rippon
Minister of Agriculture, Fisheries & Food	James Prior

2007: Brown takes office

Following Gordon Brown's coronation on 28 June 2008 there were 22 members of the Cabinet, with a further 6 ministers entitled to attend meetings (an innovation used heavily by Tony Blair, probably to soften the blow of demotion or failure to be promoted). The wider Government contained 117 individuals holding between them 122 ministerial posts. This is actually a larger Government than that run by Tony Blair (which at its largest contained 114 members). On Peter Hain's resignation in January 2008, the Cabinet expanded to 23 with the inclusion of a separate Welsh Secretary and in October 2008 Brown created yet another new ministry, DECC, for Ed Miliband.

Prime Minister and Minister for the Civil Service	Gordon Brown
Chancellor of the Exchequer	Alistair Darling
Secretary of State for Foreign & Commonwealth Affrs	David Miliband
Secretary of State for Justice and Lord Chancellor	Jack Straw
Secretary of State for the Home Department	Jacqui Smith
Secretary of State for Business, Enterprise & Reg Ref	John Hutton
Secretary of State for Children, Schools & Families	Ed Balls
Secretary of State for Communities & Loc Govmt	Hazel Blears
Secretary of State for Culture, Media & Sport	James Purnell
Secretary of State for Defence and Secretary of State for Scotland	Desmond Browne
Secretary of State for Environment, Food & Rural Affrs	Hilary Benn
Secretary of State for Health	Alan Johnson
Secretary of State for Innovation, Universities & Skills	John Denham

Secretary of State for International Development	Douglas Alexander
Secretary of State for Northern Ireland	Shaun Woodward
Secretary of State for Transport	Ruth Kelly
Secretary of State for Work & Pensions and Secretary of State for Wales	Peter Hain
Lord Privy Seal and Minister for Women & Equality	Harriet Harman
Lord President of the Council	Baroness Ashton of Upholland
Chancellor of the Duchy of Lancaster and Minister for the Cabinet Office	Ed Miliband
Chief Secretary to the Treasury	Andy Burnham
Parliamentary Secretary to the Treasury	Geoff Hoon

Also attending Cabinet:

Attorney-General	Baroness Scotland of Asthal
Captain of the Gentlemen-at-Arms	Lord Grocott
Minister of State for Africa, Asia & the UN	Lord Malloch-Brown
Minister of State for Children	Beverley Hughes
Minister of State for Housing & Planning	Yvette Cooper
Minister for the Olympics	Tessa Jowell

Appendix II: The machinery of Government today

What is a quango?

Most British reference books will tell you that "quango" is an acronym for "quasi-autonomous non-governmental organisation". The term is actually American in origin and is just as likely to mean "quasi-non-governmental organisation". The point is clear: it is a body which is not a Government department, but which is involved in some way in the activities of governance, with a greater or lesser degree of independence.

The word was certainly well established in the UK by the 1970s. The practice of creating "quangos" predates this, however. The oldest British quango still in operation is the Trinity House Lighthouse Service (established 1514). The early model appears to have been the form of a trust, with a group of disinterested persons managing property on behalf of others to achieve some aim or fulfil a specified purpose. Ultimately, the inspiration may come from the religious foundations of the Middle Ages.

Officially, "quangos" ceased to exist in the 1980s (if they ever did at all) when the internal structure of government was reclassified. The term "public body" is now used when referring to any state entity – and "non-departmental public body" (NDPB) is the preferred term for something which is outside the immediate scope of central government.

There are many types of public body and "quango" is as good a word as any to describe all of them collectively. People know what it means.

How the machinery of government is structured

Government is divided into 34 different types of active entity. Arguably there are more – the official designations are driven in the main by the requirements to provide information in particular formats for financial reporting purposes. Although "Nationalised Industry" is no longer used as a separate designation they still exist, and there are various bodies which are deemed to be private sector but which are really arms of governance.

Appendix III gives an overview of Ministerial Departments, and Appendix IV discusses the Non-ministerial departments and Parliamentary bodies. Appendix V gives a high-level summary of the various governance bodies on 31 March 2007, the dawn of the Brown era.

Entities deemed to constitute part of "Central Government"

Ministerial departments

These are what everyone understands by "the Government": a group of civil servants led by a number of politicians. The key significance is that a Department is regarded as having Crown status, and all of its employees qualify as civil servants for accounting purposes. Some departments have a

statutory existence, such as the MOD, but most exist at the discretion of the Prime Minister. Usually UK legislation will confer legal powers on an unspecified "Secretary of State" who is identified in a subsequent statutory instrument. When departments are merged or abolished, further statutory instruments will describe the transfer of functions.

Departments are authorised to spend public money by annual parliamentary votes (optimistically called "estimates") which prescribe the purposes for which funds may be applied. They also prepare annual accounts, audited by the NAO, which are supposed to shew where the money went.

Departments are also the "sponsoring" bodies for quangos, and just as with a holding company and its subsidiaries the accounts of some – but not all - quangos will be consolidated within those of the sponsoring department. The group of entities consolidated in this fashion is known as the "resource boundary". Often, expenditure by bodies within the resource boundary consists of grants to sponsored quangos which are outside it, so it often difficult to discern the precise details of public spending.

Example: the Department for Transport

Non-ministerial departments

Legally, these are also Government departments, but headed by a permanent civil servant instead of a party politician. (It is worth recalling that the chief civil servant in any department is technically the Permanent Under-secretary of State.) All employees will count as civil servants, and the entity will be responsible for producing its own accounts.

These departments cover functions where direct political oversight is considered unnecessary or inadvisable, because of their regulatory or inspection function. Non-ministerial departments are cost centres in their own right, being funded direct from the Treasury and not via an intermediary. They also sponsor quangos of their own. They have to report to a Ministerial Department which has responsibility for the passage of their parliamentary votes. This Government minister will be accountable for parliamentary purposes, but will not be responsible for performance or delivery.

Example: HM Revenue & Customs

Executive Agencies

The latest guidance which is still available publicly states "Executive agencies were created to enable executive functions within government to be carried out by a well-defined business unit with a clear focus on delivering specified outputs within a framework of accountability to Ministers" – which doesn't really say much. Agencies have been carved out of a Core Department, but they are not regarded as having a separate legal status from the Crown. A General Executive Agency is one which is not a Trading Fund.

Example: the Government Car & Despatch Agency

Trading Funds

"A trading fund is a government department, or an executive agency or part of the department, which has been established as such by means of a Trading Fund Order made under the Government Trading Funds Act 1973." Note that the legislation dates from the Heath regime.

A Trading Fund is allowed to hold on to some of its income to meet expenses without having to pass all money up to the Treasury, and to do this at least 50% must come from external receipts, i.e. selling things, and the responsible Minister and the Treasury are satisfied that the setting up of the trading fund will lead to "improved efficiency and effectiveness in management of operations".

To add to the confusion, for national accounts purposes, the Office for National Statistics treats most Trading Funds as if they were Public Corporations.

Example: DVLA (the Driver & Vehicle Licensing Authority)

Government Offices of the Regions (GOR)

"Government Offices are the primary means by which a wide range of Government policies are delivered in the English regions." They represent, and manage the front-line expenditure of, eleven central government departments (BERR, CO, DCLG, DCMS, DCFS, Defra, DWP, DfT, DH, HO and MOJ). They originated as part of John Major's attempts to improve cross-departmental delivery of services. In his lighter moments, John Prescott liked to argue that they represented a decentralisation of power away from London, but they still count as central government units.

Example: Government Office of the North East

Cross-departmental bodies

These are units set up "to address a policy, initiative or issue and to reach a consensual conclusion with a range of stakeholders within Government." In other words this is an attempt at joined-up government. Typically a number of Departments with an interest in the subject will form a committee, to which the body will report. Sometimes the body sits within the Cabinet Office. Sometimes one of the ministers on the committee will be designated the "champion" of the unit, and it comes out of his budget. Sometimes, the body is accountable to more than one minister. Staff working for the unit will be career civil servants seconded out of the various departments involved.

Example: The Children's and Young People's Unit

Entities deemed to be "public bodies" but not part of "Central Government"

Executive Non-departmental public bodies

These are public bodies, often but not exclusively established by statute,

which carry out administrative, regulatory and commercial functions. They employ their own staff and are allocated their own budgets. The expenditure of an Executive NDPB is not always consolidated within that of the Core Department for resource accounting purposes. More importantly, its employees do not count as civil servants and it is not regarded as a Crown body. However, its budget and senior appointments are usually controlled by its sponsoring department.

Example: Legal Services Commission

Advisory Non-departmental public bodies

These bodies "provide independent and expert advice to ministers on particular topics of interest". Occasionally there will be a statutory basis for their operation. They do not usually have their own budget, and any staff will be seconded out of the sponsoring Core Department, leading to the odd result that officially they often have no employees or expenditure.

Example: The Government Hospitality Advisory Committee for the Purchase of Wine

Tribunal Non-departmental public bodies

Generally established to consider appeals against particular executive decisions and governed by the legislation which authorises the state activity in question. They will comprise outside specialists, paid on a time-basis, and the supporting staff will come from the sponsoring department. They tend not to have their own budgets, and for financial purposes may be regarded as part of the Core Department.

Example: Horserace Betting Levy Tribunal

Independent Monitoring Boards (formerly called "Boards of Visitors")

Governed by a 1952 Act, these bodies have existed in some form or other for over a century and date from the Victorian campaign to reform prisons. There is an IMB attached to every prison or Immigration Removal Centre. Their duty is to satisfy themselves as to the state of the premises, their administration and the treatment of prisoners/detainees. They comprise independent unpaid members of the public. Ultimately they fall within MOJ.

Public Corporations

Whether or not something qualifies as a Public Corporation depends on whether it is recognised as being part of the public sector for national accounts purposes. However, the Office for National Statistics and the Cabinet Office actually have different definitions. Crudely, the Cabinet Office regard something as a Public Corporation if the ONS regard it as such, and it does not qualify as some other type of public body.

The test for ONS purposes is whether something is a mainly trading body ("largely" recovering their costs from fees charged to customers – but customer here could be another government body); owned or controlled by Central Government, local authorities or other public corporations; and it has

substantial day to day operating independence so it should be seen as an institutional unit separate from its parent department.

Within this framework, there are several sub-types:

Chartered or statutory corporations

A company created by Royal Charter or legislation with legal functions to undertake or deliver a specific service to the public. The ability of the Government to intervene will usually be covered by a side memorandum with the relevant board.

Example: British Waterways Board

Public Broadcasting Authority

The BBC (which is a chartered corporation) and S4C (which is a statutory corporation) are apparently now viewed as a distinct category because of the functions they discharge.

Central Bank

EU regulations now harmonise the system of accounting which applies to central banks. Because it has its own separate rules for financial reporting, the Bank of England is therefore regarded as comprising a separate category of quango.

Government-owned companies

These are companies which happen to be owned by the public sector. The basis for trading is set out in the corporate documentation and the owner must refrain from operational interventions (although it can exert long-term strategic control). The shareholding is usually managed by the Shareholder Executive, which is itself a BERR unit.

Example: Royal Mail Holdings plc

Joint-Ventures and public-private partnerships

An enterprise run in conjunction with the private sector (as a source of either capital or expertise). Whether these are actually public bodies or not will depend on the given facts as to who really controls the entity.

Example: National Air Traffic Services Ltd

Nationalised Industries

This designation has been discontinued following the 2005 General Election, apparently because there were only two bodies left which qualified.

Example: British Coal Corporation

NHS Bodies

In addition to the normal run of executive NDPBs, advisory NDPBs etc, the Department of Health has its own special category of quango called an "NHS Body". Appointments to them are vetted by a special standalone quango,

the NHS Appointments Commission. There are eight types:

Strategic Health Authorities

Responsible for: planning health services in their local area; monitoring standards; making sure national priorities are integrated into local health service plans, i.e. they enforce the targets. Introduced in 2003, they were regionalised in 2006.

Example: West Midlands Strategic Health Authority

Primary Care Trusts

They provide front-line health and social care services. Introduced in 2002, they were reorganised in 2006.

Example: Ashton, Leigh & Wigan Primary Care Trust

Ambulance Trusts

They run the ambulance services in England and the control room which decides whether to send an ambulance to collect you when you call 999. Regionalised in 2006.

Example: East Midlands Ambulance Service NHS Trust

NHS Trust (strictly, NHS Acute Trust)

They manage the NHS hospitals. A given Trust may run more than one hospital, and it may be attached to a university and provide a training function for students. Some also run health centres and clinics.

Example: Ashford & St Peter's Hospitals NHS Trust

NHS Foundation Trust

An NHS Trust which qualifies for greater financial and operational discretion because it has satisfied certain performance measures (as adjudged by Monitor, the quango which regulates Foundation Trusts).

Example: Barnsley Hospital NHS Foundation Trust

Mental Health Trusts

Provide specialist care for mental health patients.

Example: Avon & Wiltshire Mental Health Partnership NHS Trust

Care Trusts

Joint ventures between the NHS and a local authority, where it is decided to co-locate mental health and social care services.

Example: Sandwell Mental Health & Social Care Trust.

Special Health Authorities

Bodies established under NHS legislation to provide a nationwide service, rather than to a specific local community. Operationally

independent they are nevertheless subject to ministerial direction.

Example: National Institute for Health & Clinical Excellence.

However, the DH itself has a different system of classification: "Arms' Length Bodies", which are the executive quangos plus the Special Health Authorities.

The Blair years saw a large escalation in the number of Arms' Length Bodies, with new ones being established on a regular basis to oversee ever more national functions. When John Reid was Health Secretary he held a review which set out a timetable to rationalise a very crowded field – in some cases announcing the scrapping of a body before the legislation which created it had come into effect. On the whole the review concentrated on amalgamating quangos rather than abolishing functions. As a result, although there were fewer bodies, the number of non-medical staff employed in the NHS actually increased.

Entities working to deliver Government objectives but not considered "public bodies"

Short term advisory bodies

These are entities which come together for a specific purpose, but which is not expected to last more than two years from commencement to the delivery of any report. Membership tends to be drawn from outside the department of the minister who commissioned the body – private sector, voluntary organisations or the wider public sector.

On the whole, they tend not to prepare their own accounts. Sometimes such a body is converted to full NDPB status, e.g. the Better Regulation Taskforce became the Better Regulation Commission. There are four types, and there does not appear to be much precision in deciding the difference.

Ad hoc advisory groups

Discussion groups formed to talk round an issue and report their views.

Example: Commission on Boundary Differences and Voting Systems in Scotland

Task Forces

Formed to investigate a specific issue, normally concerning future policy, and report back recommendations.

Example: Tobacco Task Force

Reviews

Usually, a named group or individual asked to investigate something which is already in operation and make recommendations for change.

Example: Independent Review of the Business Appointments Rules

Working Groups

Groups formed by ministers for one-off consultation purposes.

Example: Insulin Pumps Working Group

Internal Advisory Committees

These are standing bodies, usually with at least two-thirds membership from the public sector, handling issues of internal government management or government co-ordination. The personnel involved will all be treated as acting in the normal course of their other duties and any running costs will be absorbed in the overall budget of whichever public entity is treated as sponsor.

Example: the Civil Service Management Board Strategy Group

Stakeholder Advisory Groups

These are standing bodies whose members are organisations which then appoint or send their own representatives, and a majority of people involved will not be civil servants. They tend to be industry talking shops, and will not usually have a staff (any work will be undertaken by the department) or a budget (although they might be allocated funding by a sponsoring department to commission research).

Example: The Working Group on Positive Animal Health Action Plan

Expert Committees

These are distinguished from Stakeholder Groups in that they comprise outside non-civil service individuals who provide expert background advice to a department, rather than a Minister (who will typically have no involvement with it at all). Staff and budget arrangements will be the same.

Example: National Expert Panel on New and Emerging Infections

Independent entities of governance deemed officially to be wholly outside Government

Certain entities are excluded from the official tally of public bodies for "technical reasons" – which means that they will not turn up in any published information on quangos.

Police Authorities

There are (at the moment) 43 police authorities in England & Wales. They are bodies corporate established under statute with the duties of funding a police force in their area; setting its annual plan and three year plan; and appointing the Chief Constable.

Membership is drawn from local authorities, magistrates and independent members of the public and employees do not count as civil servants. The bulk of the budget is provided by Central Government, and the rest by local government, but for national accounts purposes they are treated as local

authorities, and technically that is what they are.

My view is that they are quangos. The Blair Administration's attempts to exert greater control over their activities, and the fact that it tried to reorganise them on a regional basis like other quangos, suggest that New Labour saw them that way, too. There seems no material difference between the relationship of the Department of Health towards a Strategic Health Authority (which everyone accepts is a quango) and that of the Home Office towards a Police Authority. The British Transport Police Authority and the Civil Nuclear Police Authority are accepted as being quangos (of DfT and BERR respectively).

Example: Devon & Cornwall Police Authority

Independent Statutory Office Holders

Legislation has created a number of individual official posts with specific duties. Individuals, who may or may not be civil servants themselves, are appointed to these offices. Their support staff are usually career civil servants seconded across for a limited period. It is rather precious to argue that these are not public bodies on the grounds that they are legally a single individual.

Example: the Independent Reviewer of the Terrorism Act 2000

Parliamentary Bodies

A number of bodies have been established which report directly to Parliament and not a Government department. Their employees are Crown Servants in law but they are not allowed to count as Civil Servants. This arrangement is designed to distance them from Government, and give them full (as opposed to quasi-) autonomy, but to all intents and purposes they can be considered quangos.

Example: the Electoral Commission

Statutory Investigators

The National Audit Office has a bespoke funding and accountability regime to ensure its freedom from government pressure. So does the Ombudsman (actually a single individual holding two separate posts, one relating to the health service and the other for administration generally). The Treasury cannot control their expenditure, although it does set aside an annual estimate to cover their cost.

Crown Bodies

Despite the best efforts of the Cabinet Office there remains a miscellaneous group of entities which do not fit elsewhere.

Example: HM Crown Prosecution Service Inspectorate, which has to be independent of both the CPS and politicians, and has ended up being run through the Treasury Solicitor's Department at one remove from the Attorney-General.

Near to Government bodies

The classification given above excludes certain "invisible" bodies which the Cabinet Office claims are private entities but which look suspiciously like quangos. The most notable examples of this type are the unelected regional assemblies – and, for many years, Network Rail. Students of financial disasters might like to know that, from the point of view of the Treasury's accounts, the Financial Services Authority falls into this category also.

Often they will be classified as local authorities. Ironically, some departments note the existence of such "near to Government" entities in their accounts because they are ultimately wholly dependent on central funding. I have treated these as quangos.

Appendix III: Ministerial Departments

There are 26 departments of state headed by a minister. The statistics quoted for each department are taken from their consolidated resource accounts for the year ended 31 March 2008, and refer only to public bodies within those accounting boundaries, unless otherwise stated.

AGO: The Attorney General's Office

What are its official objectives?

- TSol: To be our clients' best choice for the services we provide by providing high quality, value for money services that meet the needs of our clients; collecting bona vacantia on behalf of the Crown ; giving our staff the opportunity to develop themselves and their careers; and thus maintaining a high reputation.
- AGO: To provide high quality support and advice to the Law Officers.
- HMCPSI: To promote continuous improvement in the efficiency, effectiveness and fairness of the prosecution services within a joined-up criminal justice system through a process of inspection and evaluation; the provision of advice; the identification and promotion of good practice.

Statistics

Net assets:	£19.9 million*
Net operating cost:	£14.2 million*
Net staff costs:	£44.1 million*
Total headcount:	965*
Core Department staff:	60
Number of ministers:	2
Number of special advisers:	0

** aggregate total for AGO, TSol and HMCPSI*

History

The first recorded King's Attorney was Lawrence del Brok, appointed to represent the Crown in the common law courts in 1243. In 1461 John Herbert was appointed "Attorney-General for England" as the Crown's all purpose legal adviser. Until 1670 the post carried ex officio membership of the House of Lords. Richard Fowler became the first "Solicitor-General", also in 1461, to handle Chancery cases. The post was quickly established as the deputy of the other. It was not until 1893 that a Law Officers Department was established to assist them.

Strictly, the ministerial department is now the AGO (formerly known as the Legal Secretariat to the Law Officers), but in practice within Whitehall there is a collection termed **The Law Officers' Departments** comprising the AGO, the Treasury Solicitor's Department (an Executive Agency which used to be a non-ministerial department), HM Crown Prosecution Service

Inspectorate (a Crown Body), the Revenue & Customs Prosecutions Office, the Serious Fraud Office and the Crown Prosecution Service (non-ministerial departments). For operational purposes the AGO is amalgamated with TSol and HMCPSI and to all intents and purposes it has been merged into the non-ministerial arrangements.

BERR: The Department for Business, Enterprise & Regulatory Reform

What are its official objectives?

- Promote the creation and growth of business and a strong enterprise economy across all regions.
- Ensure that all Government departments and agencies deliver better regulation for the private, public and third sectors.
- Deliver free and fair markets, with greater competition, for businesses, consumers and employees.
- Ensure the reliable supply and efficient use of clean, safe and competitively-priced energy.
- Manage energy liabilities effectively and responsibly.
- Ensure that Government acts as an effective and intelligent shareholder and provide a source of excellent corporate finance expertise within Government.
- Provide the professional support, capability and infrastructure to enable BERR's objectives and programmes to be successfully delivered.

*Statistics**

Net assets:	£2,844.5 million
Net operating cost:	£3,434.9 million
Net staff costs:	£256.8 million
Total headcount:	6,789
Core Department staff:	3,015
Number of ministers:	6
Number of special advisers:	2

**includes staff and costs relating to what is now DECC*

History

BERR was created in June 2007 when the nuclear responsibilities of the old DTI were transferred to the Health & Safety Executive and its science remit was transferred to the new DIUS. Better Regulation units were moved into BERR from CO. For many years the DTI had been everyone's favourite candidate for abolition.

The Committee of the Privy Council for Trade & Foreign Plantations was established in 1621 as an enquiry into the decay of trade and scarcity of

coin. It continued to sit until the Civil War. There was a brief interruption, during which Cromwell appointed his own version, and it reconvened with the Restoration. William III put things on a formal footing in 1696 as a Board of Trade, headed by a President, responsible for the colonies, although it was in practice largely a slush fund for government supporters. It was in that capacity that Edward Gibbon was employed whilst writing the *Decline and Fall of the Roman Empire* (and contributing to the defeat of the British Empire). Lord Rockingham abolished the Board in an anti-sleaze crack-down in 1782.

It was soon discovered, however, that a body was actually needed to oversee enforcement of a trade treaty with France. Pitt the Younger therefore reactivated the Board of Trade on a temporary basis in 1783, made permanent in 1786. The Board hardly ever, if at all, actually met but it held a notional watching brief on economic matters and the Empire. Throughout the 19th Century it acquired actual duties as legislative regulation of industry increased. Correspondingly, functions were lost to newer departments such as the Colonial Office, the Board of Agriculture (1889), fisheries (1903), shipping (1916), employment and transport (1918), fuel and power (1942).

In 1964 the Ministry of Technology was spun out by Wilson, with responsibility for promoting industrial modernisation. This department also absorbed the Ministry of Power in 1969 and took over duties in relation to the nationalised industries. Wilson may have been trying to shape Technology into some form of national investment holding company, with the Board of Trade operating rather like a modern-day regulator. Competition policy went to a new Department of Employment & Productivity.

This was completely reversed by Heath. DTI Mark I was created in October 1970 by a merger of the Board of Trade and the Ministry of Technology. It also reacquired control of competition policy. The intention was to create a super-department to oversee national performance and to modernise the economy in preparation for entry into the Common Market (as it then was). The oil crisis prompted the formation of the Department of Energy in January 1974, and in March Wilson broke up the rest into the Departments of Trade (covering tariffs and Europe), of Industry (shovelling money into the nationalised industries) and of Prices & Consumer Protection (metrication, anti-inflation and consumer rights).

The Thatcher and Major governments then set about recreating the old DTI. The Prices & Consumer Protection ministry was abolished and its role transferred to Trade in May 1979. Trade was re-merged with Industry to form DTI Mark II in June 1983. Energy was abolished finally in 1992. Science was acquired, via the Office of Science & Technology, in 1995.

DTI remained more or less in that form until 2007, subject to a process of swapping various sub-units with Employment, National Heritage, Environment and the Cabinet Office. Briefly, after the 2005 General Election, Blair floated the idea of changing the department to "Productivity, Energy and Industry", but when it was pointed out that this would give it the

acronym DOPEI, the idea was dropped quietly. After little more than a year of operation, BERR once again lost the energy portfolio to the new DECC.

CO: The Cabinet Office

What are its official objectives?

- Supporting the Prime Minister: to define and deliver the Government's objectives
- Supporting the Cabinet: to drive the coherence, quality and delivery of policy and operations across departments
- Strengthening the Civil Service: to ensure the Civil Service is organised effectively and has the capability in terms of skills, values and leadership to deliver the Government's objectives

Statistics

Net assets:	£218.7 million
Net operating cost:	£341.2 million
Net staff costs:	£87.2 million
Total headcount:	1,414
Number of ministers:	7
Number of special advisers:	27

History

The CO dates from December 1916 when Lloyd George appointed Sir Maurice Hankey as the first Cabinet Secretary to serve the War Cabinet. It survived the return to normal Cabinet government in 1919, and the fall of Lloyd George in 1922 (when an attempt was made to absorb it into the Treasury). Its position is enhanced by the fact that its permanent secretary is generally the Head of the Home Civil Service.

Strictly, the CO exists to monitor the implementation of Cabinet decisions and to prepare and circulate papers for Cabinet meetings. In effect it is now a Prime Minister's Department and is the main vehicle through which Whitehall is controlled. This tendency began in the 1980s but has been accelerated massively under Blair and the Chancellor of the Duchy of Lancaster now oversees the department. The staffing and costs of the CO has ballooned since 1997. There are a panoply of units covering everything from the security services to public sector behaviour.

The CO is where the New Labour target culture originates. Towards the end of the Blair regime the department annexed the "Third Sector" agenda around charitable organisations and, possibly to disguise the size of its growth, some older units were moved out or re-established as non-ministerial departments in their own right. This continued under Brown, with the CO absorbing part of the PCO and DPMO.

DCFS: The Department for Children, Families & Schools

What are its official objectives?

- Secure the well-being and health of children and young people.
- Safeguard the young and vulnerable.
- Achieve world class standards in education.
- Close the gap in educational achievement for children from disadvantaged backgrounds.
- Ensure young people are participating and achieving their potential to 18 and beyond.
- Keep children and young people on the path to success.
- Lead and manage ourselves and our partners.

Statistics

Net assets:	-£352.3 million
(assets exceeded by current liabilities)	
Net operating cost:	£48,809.4 million
Net staff costs:	£131.0 million
Total headcount:	2,899
Number of ministers:	5
Number of special advisers:	2

History

DCFS dates from June 2007 when the higher and further education functions of DfES were transferred out to the new DIUS, and the Respect Task Force was moved across from the Home Office.

Political involvement in education dates back to 1833, when Treasury grants began to be made to voluntary bodies. In 1839 this was put on a regular footing under an Education Committee of the Privy Council, chaired by the Lord President. A standalone Education Department was formed in 1856 to support the committee and it gradually acquired competence over most government grants for training and education.

The Board of Education was founded in 1899, headed by a President. The Board never actually met (were they playing truant?). In addition to controlling grants, it acquired a general responsibility for education policy. Successive legislation increased its powers to support and guide schooling for ever-older pupils until the 1944 Act converted the Board into the Ministry of Education.

Lord Hailsham, the Lord President of the Council, had been designated "Minister for Science" by Macmillan with a brief to oversee scientific research and development. Wilson came to power in 1964 promising the benefits of the white heat of technology, and merged this role with that of Minister of Education to create the Department of Education & Science (DES) under a

Secretary of State.

The DES had a wide responsibility for overseeing all forms of education in England, and also the support of the arts, relations with the universities and control of the research councils. It had little or no role in Scotland, and its authority in Wales tended to shift about. Its power was at first limited to influence and recommendation – the abolition of grammar schools was not carried out by legislation

In April 1992, DES lost the Science portfolio, which was transferred to the Office of Public Service within the CO. This rump merged with the Department of Employment in July 1995. The theory seems to have been to create a single entity, the Department for Education & Employment (DfEE) with a remit to boost national productivity by improving the educational and training levels of the nation. The wider employment-related functions were transferred out again in 2001, leaving DfES, which in 2007 shrank into DCFS.

DCLG: The Department for Communities & Local Government

What are its official objectives?

- Tackling disadvantage by reviving the most deprived neighbourhoods, reducing social exclusion and supporting society's most vulnerable groups.
- Promoting the development of English regions by improving their economic performance so that all are able to reach their full potential.
- Delivering better services and devolving decision making to the appropriate level. Ensure adequate and stable resources for local Government and clarify the relationship between neighbourhoods and local, regional and central Government.
- Delivering a better balance between housing supply and demand by supporting sustainable growth, reviving markets and tackling abandonment.
- Ensuring people have decent places to live by improving the quality and sustainability of local environments and neighbourhoods.
- Reducing inequalities and building community cohesion.

Statistics

Net assets:	-£1,593.5 million
(assets exceeded by current liabilities)	
Net operating cost:	£33,072.5 million
Net staff costs:	£254.2 million
Total headcount:	5,194
Core Department staff:	4,435
Number of ministers:	6
Number of special advisers:	3

History

DCLG was created on 5th May 2006 from the old Office of the Deputy Prime Minister (ODPM) and various units handling equalities issues.

A Local Government Office was established within the Home Office in 1858, mainly to handle policing matters. In 1871 Gladstone decided to merge it with some functions of the Board of Trade and the Poor Law Board to become the Local Government Board, under a President who usually held Cabinet rank. It supervised the operations of local authorities. In June 1919 Lloyd George reorganised it as a new Ministry of Health, in which capacity it existed to enforce public health standards.

A Ministry of Works & Planning was formed in 1942. Apparently, the relevant ministers found it impossible to agree with each other, so this department was divided a year later into the separate Ministry of Works, and the Ministry of Town & Country Planning, the latter being expanded in January 1951 to encompass Housing & Local Government. This function now concentrated on building houses for the post-war recovery. Wilson retitled the post as Secretary of State for Local Government & Regional Planning in 1969 but Heath changed the name back prior to his own reorganisation.

Major change came in October 1970, when MHLG was merged with Transport and Public Building & Works to create Environment. This reflects Heath's faith in super-ministries to control wide-ranging briefs. It lost its transport functions in 1976, but basically remained intact until 1997. Environment was the department which abolished the metropolitan counties and introduced rate capping, abolished the rates and brought in the poll tax, and then abolished the poll tax and brought in council tax.

In May 1997, Environment was swallowed up in John Prescott's super-ministry DETR in an attempt to co-ordinate regional development, planning, local government and transport in a throwback to the Heath model. It was broken up again in June 2001.

ODPM was at first established as a sub-unit of the Cabinet Office handling "important cross-departmental issues" such as social exclusion, i.e. it was something for Prescott to do after the failure of DETR. The local government, transport and planning functions had been reformed as DTLR under Stephen Byers, but when he left government in May 2002 ODPM was promoted to full department status to run the local government and planning briefs and acquired fire services from the Home Office. ODPM then indulged in an orgy of regionalisation with a whole host of public bodies established across England with spurious boundaries. This department oversaw the triumph of the North East regional assembly referendum in 2004.

After the 2005 General Election a junior within ODPM, David Milliband, was promoted to full Cabinet rank as Minister for Communities & Local Government, presumably to "help out". When Prescott was sidelined in May 2006 to return to "important cross-departmental issues" such as social

exclusion, Ruth Kelly was transferred in to run a renamed department. When Gordon Brown took over, the equalities remit was moved out to the new GEU.

DCMS: The Department for Culture, Media & Sport

What are its official objectives?

- Further enhance access to culture and sport for children and give them the opportunity to develop their talents to the full and enjoy the benefits of participation.
- Increase and broaden the impact of culture and sport, to enrich individual lives, strengthen communities and improve the places where people live, now and for future generations.
- Maximise the contribution that the tourism, creative and leisure industries can make to the economy.
- Modernise delivery by ensuring our sponsored bodies are efficient and work with others to meet the cultural and sporting needs of individuals and communities.
- Host an inspirational, safe and inclusive Olympic Games and Paralympic Games and leave a sustainable legacy for London and the UK.

Statistics

Net assets:	£147.8 million
Net operating cost:	£1,844.6 million
Net staff costs:	£28.7 million
Total headcount:	654
Number of ministers:	3
Number of special advisers:	2

History

DCMS dates from May 1997, when the name of the Department of National Heritage was changed. The DNH was created in April 1992 out of functions held by other departments, chiefly Environment, Education and the HO. It is something of a rag bag covering policy on: alcohol & entertainment; architecture & design; arts; broadcasting; creative industries; cultural property; all forms of gambling in the UK, including the National Lottery; the historic environment; libraries & communities; museums & galleries; sport; and tourism.

DECC: The Department of Energy and Climate Change

Formed in October 2008 by the merger of the Climate Change Group from Defra with the Energy Group from BERR. No formal objectives have yet been announced. Appropriately for a 'green' ministry, its history indicates a large amount of recycling.

A bespoke energy department was first created in 1941 when the Ministry of Fuel & Power was carved out of the Board of Trade to run coal production and petrol rationing. This became the Ministry of Power in 1957 when it acquired responsibility for the iron and steel industries. It was merged into the short-lived Ministry of Technology in 1969. Heath returned it to his new DTI in 1970, and then U-turned with the formation of the Department of Energy in January 1974 following the oil crisis. The department was responsible for policy in relation to all forms of energy, including conservation and development of new sources and offshore drilling licenses.

With the privatization of the nationalised energy industries, the department was abolished by Major in 1992. Energy conservation went to the Department of the Environment and the remaining functions were returned to DTI. As with other areas of policy, Gordon Brown has reverted to a 1970s model. Presumably in 2026 it will be abolished again and returned to whatever BERR is then called (probably "DTI" once more).

Defra: The Department for Environment, Food and Rural Affairs

What are its official objectives?

- To protect and improve the rural, urban, marine and global environment; to lead integration of these with other policies across Government and internationally;
- To enhance opportunity and tackle social exclusion in rural areas;
- To promote a sustainable, competitive and safe food supply chain which meets consumers' requirements;
- To promote sustainable, diverse, modern and adaptable farming through domestic and international actions;
- To promote sustainable management and prudent use of natural resources domestically and internationally;
- To protect the public's interest in relation to environmental impacts and health; ensure high standards of animal health and welfare.

*Statistics**

Net assets:	-£1,032.9 million
(assets exceeded by pension liabilities in the Environment Agency)	
Net operating cost:	£3,278.0 million
Net staff costs:	£447.6 million
Total headcount:	12,412
Core Department staff:	3,549
Number of ministers:	5
Number of special advisers:	2

*NB these will include staff and costs subsequently transferred to DECC

History

Defra was formed on 8th June 2001 by the merger of the Ministry of Agriculture, Fisheries & Food (MAFF) and the environmental and countryside units of the Department of the Environment, Transport & the Regions (DETR). This was seen at the time as a response to, not to say a punishment for, MAFF's bungling of the foot & mouth epidemic of 2001, and before that BSE.

The shadow of war has long hovered over this department. In 1793 William Pitt the Younger had by royal charter established the Board for the Encouragement of Agriculture and Internal Improvement, headed by Sir John Sinclair the noted Scottish statistician and landowner. This body was close in form and substance to a modern-day quango. It received public funds to foster improvements in farming practice in England at a time of war with France and it was wound up in 1822. The present Royal Agricultural Society is more or less its direct descendant.

A variety of ad hoc bodies were established throughout the 19th Century to handle rural affairs as part of HO, or to handle disease control as part of the PCO, and these were merged by Lord Salisbury in 1889 to form the Board of Agriculture. In 1903 this absorbed duties from the Board of Trade to become the Board of Agriculture & Fisheries. The enlarged board was upgraded to Ministry status in 1919. At the same time the Forestry Commission was created.

A Ministry of Food had been established in 1916 to oversee rationing during the German submarine blockade, and it was wound up in 1921. The ministry was recreated by Order in Council on the outbreak of the Second World War in September 1939. This was not formally merged with Agriculture & Fisheries to create MAFF until 1955 (although the same individual had acted as Minister of the two separate departments since 1954).

Control of the Forestry Commission was lost in 1965 to the newly-formed Ministry of Land & Natural Resources, and then returned in 1967 when that ministry was dissolved. Following one of several health scares, in 1995 MAFF took over the meat inspection duties of local authorities, and then lost these in 2000 on the creation of the Food Standards Agency.

The Department of the Environment was created by Edward Heath in October 1970 from a merger of the Ministry of Housing & Local Government and the Ministry of Transport. The transport function was carved out in September 1976. It returned again in May 1997 when DETR was created. It went away again in June 2001 when DETR was broken up and the environmental protection functions were joined with MAFF.

Defra is a department which is still trying to overcome the Kaiser's submarines. It is a financial and administrative mess.

DfID: The Department for International Development

What are its official objectives?

- Reduce poverty in Sub-Saharan Africa.
- Reduce poverty in Asia.
- Reduce poverty in Europe, Central Asia, Latin America, the Caribbean, the Middle East and North Africa.
- Increase the impact of key multilateral agencies in reducing poverty and effective response to conflict and humanitarian crises.
- Develop evidence-based innovative approaches to international development.

Statistics

Net assets:	£2,191.5 million
Net operating cost:	£4,546.3 million
Net staff costs:	£109.7 million
Total headcount:	2,563
Number of ministers:	4
Number of special advisers:	2

History

DfID was created in May 1997.

Explicit responsibility for overseas development, limited at first to colonies, dates from 1929, when it was placed under a ten year spending cap. The various departments dealing with the Commonwealth had their own specialist units handling aid and technical assistance and in October 1964 Wilson brought these together in a Ministry for Overseas Development, to create a Cabinet post for Barbara Castle. From August 1967, Wilson demoted the post to non-Cabinet rank. Heath abolished the ministry in October 1970 and transferred its staff into the FCO as the Overseas Development Administration (ODA).

In May 1974, Wilson transferred the role out again and recreated Overseas Development as a separate, but still non-cabinet, ministry. He seems to have had second thoughts, however, since in June 1975 he converted the position into a junior ministry within the FCO and the Foreign Secretary was given the additional title of "Minister for Overseas Development". Margaret Thatcher abolished the ministry outright and converted it into back into the ODA in November 1979. A junior minister within FCO held the development brief until Blair converted the ODA into a Cabinet ministry once again as DfID.

For some reason, DfID requires two headquarters buildings in order to reduce world poverty – although one of them is in East Kilbride, which may reveal where the civil service mandarins think the Third World is.

DfT: The Department for Transport

What are its official objectives?

- To sustain economic growth and improved productivity through reliable and efficient transport networks.
- To improve the environmental performance of transport.
- To strengthen the safety and security of transport.
- To enhance access to jobs, services and social networks, including for the most disadvantaged.

Statistics

Net assets:	£87,497.7 million
Net operating cost:	£16,078.4 million
Net staff costs:	£290.1 million
Total headcount:	7,493
Core Department staff:	2,325
Number of ministers:	4
Number of special advisers:	2

History

DfT's present incarnation dates from 2002. It is somehow appropriate that its history seems to involve it going round in circles. In 2005 it had a long list of objectives containing dangerous words such as "punctuality", "reliability" and "reduce congestion", but if it has not managed to cut journey times the DfT has at least succeeded in cutting back its responsibilities to the bland and short list given above.

The Ministry of Transport (MOT) started out as another of Lloyd George's post-war innovations in May 1919. It took over duties from the Board of Trade, including at first responsibility for electricity under the mistaken hope that Britain's railways would soon be electrified.

A Ministry of Shipping had been formed to oversee the convoy system in December 1916, and this lasted until March 1921. In familiar pattern, it was resurrected in October 1939 and in May 1941 Churchill merged it with the MOT to create a Ministry of War Transport. Attlee changed the name back to MOT in July 1945. Churchill had also established a Ministry of Civil Aviation in October 1944, to find something for the aircraft factories to do after the war. When he returned to power in October 1951 he appointed the same minister to head the two separate ministries. Eventually in October 1953 he merged them to form the Ministry of Transport & Civil Aviation.

Macmillan changed the name back to MOT in October 1959, and it continued in this form until October 1970 when Edward Heath merged it into the new Department of the Environment, in which a junior member was revealingly designated as Minister for the Transport Industries.

Wilson renamed the junior office "Minister for Transport" in March 1974, and in September 1976, Callaghan carved out transport as a separate department under Bill Rodgers as "Secretary of State for Transport". In May 1979

Margaret Thatcher appointed Norman Fowler to the post, but downgraded his title to "Minister of Transport", although it kept its cabinet rank. In January 1981 she seems to have changed her mind and Fowler was upgraded to Secretary of State, and MOT became the Department of Transport.

It survived in this form as a separate Cabinet post until May 1997, when it was remerged with Environment to form the Department of the Environment, Transport & the Regions (DETR) under John Prescott. The railways had been privatised in the 1990s, and Prescott established a Strategic Rail Authority (SRA) to provide "direction" for the railways, although one might have thought that the tracks already fulfilled this role. SRA was established in "shadow" form in 1997, and did not actually acquire any legal powers until February 2001.

When DETR was abolished in June 2001, the function carried over to Stephen Byers as the Department of Local Government, Transport & the Regions (DLTR). This structure survived as long as Byers did, and when he resigned in May 2002, the function was once again liberated as a distinct cabinet rank, now called the Department *for* Transport. To complete the reformation of the old arrangements, in June 2004 it was decided to abolish the SRA. The re-absorption took effect in 2005.

DH: The Department of Health

What are its official objectives?

Objective 1 – health of the population.

- By 2010, increase life expectancy at birth in England to 78.6 years for men and 82.5 years for women.
- By 2010, substantially reduce mortality rates:
    - from heart disease, stroke and related diseases by at least 40% in people under 75, with a 40 per cent reduction in the inequalities gap between the fifth of areas with the worst health and deprivation indicators and the population as a whole;
    - from cancer by at least 20 per cent in people under 75 with a reduction in the inequalities gap of at least 6 per cent between the fifth of areas with the worst health and deprivation indicators and the population as a whole; and
    - from suicide and undetermined injury by at least 20 per cent.
- Reduce health inequalities by 10 per cent by 2010 as measured by infant mortality and life expectancy at birth.
- Tackle the underlying determinants of health and health inequalities:

- reducing adult smoking rates to 21 per cent or less by 2010, with a reduction in prevalence among routine and manual groups to 26 per cent or less;
- halting the year-on-year rise in obesity among children under 11 by 2010; and
- reducing the under-18 conception rate by 50 per cent by 2010.

Objective 2 – long-term conditions.

- Improve the health outcomes for people with long-term conditions by offering a personalized care plan for vulnerable people most at risk, and reduce emergency bed days by 5 per cent by 2008, through improved care in primary care and community settings for people with long term conditions.

Objective 3 – access to services.

- Ensure that, by December 2008, no one waits more than 18 weeks from GP referral to the start of treatment unless it is clinically appropriate to do so or they choose to wait longer.
- Increase the participation of problem drug users in drug treatment programmes by 100 per cent by 2008 and increase year on year the proportion of users successfully sustaining or completing treatment programmes.

Objective 4 – the patient and user experience.

- Secure sustained annual national improvements in NHS patient experience by 2008, as measured by independently validated surveys, ensuring that individuals are fully involved in decisions about their healthcare, including choice of provider.
- Improve the quality of life and independence of vulnerable older people by supporting them to live in their own homes where possible by:
    - increasing the proportion of older people being supported to live in their own home by 1 per cent annually in 2007 and 2008; and
    - increasing by 2008 the proportion of those supported intensively to live at home to 34 per cent of the total of those being supported at home or in residential care.

*Statistics**

Net resource budget:	£103,555 million
Staff paybill:	£6,102.1 million
Total headcount:	3,419 (central administration only)
Core Department staff:	2,178

Number of ministers: 6
*figures taken from the Departmental Report 2008

History

DH in its current form dates from July 1988. Its history bears out two themes: (1) creeping nationalisation; and (2) if in doubt, restructure whatever system you have inherited.

During the 18th Century the PCO acquired a general responsibility for dealing with problems of quarantine, and the practice developed of establishing ad hoc Boards of Health to deal with specific epidemics under temporary regulations. The Poor Law Commission also had powers to oversee vaccination programmes. In 1854 a General Board of Health was established, under a President, to sort out sanitation in areas of high mortality. Its legal powers expired in 1858, when its functions were either devolved to local boards or absorbed into the Local Government Office of the Home Office. These were all brought together in 1871 under the new Local Government Board, and continued through into the Ministry of Health created in June 1919, with sub-Boards of Health in Ireland, Scotland and Wales.

The Ministry oversaw the medical and public health functions of central government (which included confirming National Insurance benefits) and co-ordinating local health services in England and Wales. The Ministry lost responsibility for national insurance and pensions in 1945. On the establishment of the NHS in 1948 the Ministry became confined to supervising the local health boards and the provision of hospital services.

In 1968 Wilson decided to re-merge the welfare and health departments as the Department of Health & Social Security (DHSS) under a Cabinet minister known as the Secretary of State for Social Services. Over the years the balance of powers between devolution and centralisation, and the precise remit, ebbed and flowed. There have been many reorganisations of the health service as a variety of local and arms' length bodies were created, abolished, merged, or divided.

Margaret Thatcher redivided the DHSS, and the DH came into existence. Oversight of the Food Standards Agency was acquired in 2000. It is currently responsible for health and personal social services in England, including public health matters, the health consequences of environmental and food issues, and the provision of health services discharged through the NHS and independent contractors. The NHS is run through a separate Executive.

DIUS: The Department for Innovation, Universities & Skills

What are its official objectives?

- Accelerate the commercial exploitation of creativity and knowledge, through innovation and research, to create wealth, grow the economy, build successful businesses and improve quality of life.

- Improve the skills of the population throughout their working lives to create a workforce capable of sustaining economic competitiveness, and enable individuals to thrive in the knowledge economy.
- Build social and community cohesion through improved social justice, civic participation and economic opportunity by raising aspirations and broadening participation, progression and achievement in learning and skills.
- Pursue global excellence in research and knowledge, promote the benefits of science and society, and deliver science, technology, engineering and mathematics skills in line with employer demand.
- Strengthen the capacity, quality and reputation of the further and higher education systems and institutions to support national economic and social needs.
- Encourage better use of science in Government, foster public service innovation, and support other government objectives which depend on DIUS expertise and our remit.

Statistics

Net assets:	£17,051.6 million
Net operating cost:	£17,382.4 million
Net staff costs:	£42.6 million
Total headcount:	835
Core Department staff:	786
Number of ministers:	5
Number of special advisers:	2

History

DIUS was created in June 2007 through the merger of the science and innovation functions of the old DTI with the higher education and skills responsibilities of the old DfES. Quite why Gordon Brown decided to do this is unclear: on any significant area of science or higher education policy DIUS engages in cross-department initiatives with BERR (the successor to DTI) and DCSF (the successor to DfES), which rather defeats the object of establishing DIUS as a separate department.

The **Deputy Prime Minister's Office (DPMO)** was briefly a government department between May 2006 and June 2007. It was established to support, and thus justify the cabinet rank, of John Prescott after he was stripped of his local government role. When Gordon Brown became Prime Minister and decided not to appoint a formal deputy it was abolished and absorbed back into CO. It had about 20 staff and cost £2.5 million to run.

The **Duchy of Lancaster Office** manages the estate held by the sovereign in his or her personal capacity as Duke of Lancaster. It is presided over by the Chancellor of the Duchy of Lancaster, who is a Cabinet Minister, but his duties in this respect apparently take up no more than one day per week and he is now effectively responsible for running the Cabinet Office. As late as 2002, the Office seems to have been regarded as a public body, but since then any quangos reporting to the Chancellor have been transferred to DCA. Alan Milburn, when asked, was clearly under the impression that the Office was not a Government department (e.g. Hansard 17th January 2005, col 772W). It receives no public funds, and although it files accounts with Parliament they are not audited by the Comptroller & Auditor-General. Its staff are not civil servants.

This is effectively a property company which happens to be owned by the Queen. I do not regard it as a Government department, although since the Duchy does have certain legal privileges in Lancashire, it would be correct to regard it as a self-financing quango.

DWP: The Department for Work & Pensions

What are its official objectives?

- Ensure the best start for all children and end child poverty by 2020;
- Promote work as the best form of welfare for people of working age, whilst protecting the position of those in greatest need;
- Combat poverty and promote security and independence in retirement for today's and tomorrow's pensioners;
- Improve rights and opportunities for disabled people in a fair and inclusive society;
- Ensure customers receive a high quality service, including high levels of accuracy.

Statistics

Net assets:	-£2,437.2 million

(assets exceeded by provisions, chiefly to cover payments from the Financial Assistance Scheme for pensions otherwise due from insolvent employers)

Net operating cost:	£135,247.2 million
Staff costs:	£3,140.6 million
Total headcount:	109,462
Number of ministers:	6
Number of special advisers:	2

History

DWP was created in June 2001 by the merger of the Department of Social Security and parts of the Department for Education & Employment. It is interesting to note that its final objective used to be to "modernise welfare

delivery so as to improve the accessibility, accuracy and value for money of services to customers, including employers": apparently the department has abandoned any attempt to be accessible or value for money.

The system of workhouses and poor relief was established under a 1601 Act of Queen Elizabeth I, but administration was left in the hands of individual parishes. It was not until 1834 that a Poor Law Commission was formed with powers to enforce widely-hated rules for discriminating between the deserving and undeserving poor. This became the Poor Law Board in 1847, and merged with other functions to become the Local Government Board in 1871. The provision of social services was regarded as a joint local government/health matter. When national insurance was established in 1911 it fell within this remit. State pensions were introduced in 1909 but it was not until December 1916 that a separate Ministry of Pensions was formed to oversee them, and the foreseeable extra workload of war pensions.

With the Beveridge expansion of welfare services in mind, in 1944 a new Ministry of National Insurance (initially called "Social Insurance" for one month) was created out of the Ministry of Health. In 1952 Churchill merged this with Pensions, and added in the Assistance Board which oversaw unemployment benefit, as the Ministry of Pensions & National Insurance. Margaret Thatcher was briefly a junior minister. Wilson renamed the ministry "Social Security" in 1966 and then re-merged these functions with the health remit in 1968 as the DHSS. Social Security was separated out as a standalone department, the DSS, in 1988.

The Board of Trade had monitored unemployment levels before 1900, and labour exchanges had been established by Churchill as President. An actual Ministry of Labour had to wait until December 1916, when Lloyd George established it with a view to mobilising industry for the war effort. Responsibility for national service was added in May 1940 by Churchill, and removed when Macmillan abolished conscription in 1959. The ministry had to deal with unemployment in the 1930s and strikes in the 1950s, neither of which had much to do with "labour" as such.

The department escaped the attention of Wilson until April 1968, when he renamed it the Department of Employment & Productivity, and appointed Barbara Castle as the first, and only, Secretary of State. From this post she launched her doomed attempt to tame the trade unions. Heath dropped "Productivity" from the title in 1970 and converted it into an organisation for running training schemes and other devices for keeping people off the unemployment register. It retained this function until July 1995, when it was merged with Education to form DfEE. The Employment Service and a number of other quangos, most notably the Health & Safety Executive, were merged with the DSS in 2001 to create DWP.

DWP and its predecessor departments have all had qualified accounts, because no auditor has been prepared to sign off financial statements with so much fraud involved in claiming welfare.

FCO: The Foreign & Commonwealth Office

What are its official objectives?

- Making the world safer from global terrorism and weapons of mass destruction.
- Reducing the harm to the UK from international crime, including drug trafficking, people smuggling and money laundering.
- Preventing and resolving conflict through a strong international system.
- Building an effective and globally competitive EU in a secure neighbourhood.
- Supporting the UK economy and business through an open and expanding global economy, science and innovation and secure energy supplies.
- Achieving climate security by promoting a faster transition to a sustainable, low carbon global economy.
- Promoting sustainable development and poverty reduction underpinned by human rights, democracy, good governance and protection of the environment.
- Managing migration and combating illegal immigration.
- Delivering high quality support for British nationals abroad, in normal times and in crises.
- Ensuring the security and good governance of the UK's Overseas Territories.

Statistics

Net assets:	£1,792.5 million
Net operating cost:	£1,943.3 million
Net staff costs:	£477.2 million
Total headcount:	17,121
Core Department staff:	15,887
Number of ministers:	6
Number of special advisers:	6

History

FCO dates from the merger of the Foreign Office (FO) and the Commonwealth Office in October 1968.

The first identified King's Secretary was John Maunsel in 1253, responsible for handling the royal correspondence. From 1539, Henry VIII adopted the practice of appointing two officials to share the role, and by the end of the reign of Elizabeth I the title "Secretary of State" had become established for both of them. At the time of the Restoration a formal distinction emerged whereby the junior Secretary handled the correspondence for the Northern

Department (Northern England, Scotland, Protestant Europe) and the senior dealt with the Southern Department (Southern England, Wales, Ireland, America, Catholic Europe and the Muslim states).

This working relationship broke down under the stress of the American War, and the inability to suppress the Gordon Riots. A Secretary for the Colonies was tried between 1768 and 1782, but abandoned in favour of the creation of a Foreign Office and a Home Office each headed by a distinct Secretary of State. The Northern Department became the Foreign Office.

Further wars with France forced the introduction of a Secretary of State for War in 1794, whose title was amended to "War and the Colonies" in 1801 when responsibility for the empire was transferred from the Home Office. To reflect the spread of red ink over the map, this post was split in 1854 and the Colonial Office came into being.

Thereafter changes in the bureaucratic boundaries reflected the changes in empire itself. The India Office had a life of its own from 1858 to 1947, when it became the Burma Office for one year and was then abolished. In June 1925, relations with the semi-autonomous self-governing colonies were transferred to a special Dominions Secretary, whose title changed in 1947 to that of "Commonwealth Relations". Wilson merged this role with that of the Colonial Office in August 1966 to create a Secretary of State for Commonwealth Affairs, and took the final step of absorbing the role into the Foreign Office in 1968.

The number of special advisers has increased under Gordon Brown.

GEO: The Government Equalities Office

What are its official objectives?

- To address the disadvantage that individuals experience because of the gender, race, disability, age, sexual orientation, religion or belief.

Statistics

Net assets:	£nil
Net operating cost:	£83.0 million
Net staff costs:	£4.3 million
Total headcount:	72
Number of ministers:	1
Number of special advisers:	1

History

GEO was created in October 2007 out of units moved from DWP and DCLG. Just as the Blair administration suffered the headache of inventing a department for John Prescott to run, the Brown administration has problems with Harriet Harman.

HMT: Her Majesty's Treasury

What are its official objectives?

- Maintain a stable macroeconomic environment with low inflation and sound public finances in accordance with the Code for Fiscal Stability.
- Increase the productivity of the economy and expand economic and employment opportunities for all.
- Promote efficient, stable and fair financial markets for their users and the economy.
- Promote a fair, efficient and integrated tax and benefit system with incentives to work, save and invest.
- Promote UK economic prospects by pursuing increased productivity and efficiency in the EU, international financial stability and increased global prosperity, including especially protecting the most vulnerable.
- Improve the quality and cost effectiveness of the public services.
- Achieve world-class standards of financial management in government.
- Protect and improve the environment by using instruments that will deliver efficient and sustainable outcomes through evidence-based policies.

Statistics

Net assets:	£2,246.6 million
(including Northern Rock at an effective value of £nil)	
Net operating cost:	£179.0 million
Net staff costs:	£90.9 million
Total headcount:	1,628
Core Department staff:	1,252
Number of ministers:	5
Number of special advisers:	6 +

In addition, HMT bears the salaries of the Prime Minister and 24 Whips, at a cost of £1,302,500.

History

HMT appears to have acquired a separate existence, as opposed to being merely the Royal Treasury, around 1126 under Henry I. The Exchequer developed around 1110 as a six-monthly audit of tax receipts. It took until the 18th Century for it to be definitively confirmed that the Treasury was the dominant department of state, and early Prime Ministers when sitting in the Commons doubled as Chancellor of the Exchequer (and Leader of the House). Gladstone was the last person to try this for any length of time.

The term **The Chancellor's Departments** is developing as a catch-all description for HMT plus the various financial non-ministerial departments and agencies. When Gordon Brown was Chancellor, HMT had ten extremely long-winded and fussy corporate objectives. It is interesting to see that

Alistair Darling has managed to compress these into eight, and revealing to compare the changes. Then HMT wanted to create a stable macroeconomic "framework"; now it seeks a more wishy-washy, and less rigid, "environment". Originally HMT wanted financial markets that were "innovative, fair, competitive and efficient" but perhaps they have burnt their fingers with innovation as now they prefer markets to be "stable". Once HMT sought a "high standard of regularity, propriety and accountability in public finances", but now it will settle for "world-class standards of financial management". In a world which contains Zimbabwe, this is not encouraging.

HO: The Home Office

What are its official objectives?

- Help people feel secure in their homes and local communities;
- Cut crime, especially violent, drug and alcohol related crime;
- Lead visible, responsive and accountable policing;
- Support the efficient and effective delivery of justice;
- Protect the public from terrorism;
- Secure our borders and control immigration for the benefit of our country; and
- Safeguard identity and the privileges of citizenship.

Statistics

Net assets:	£66.3 million
Net operating cost:	£9,216.7 million
Net staff costs:	£916.6 million
Total headcount:	27,609
Core Department staff:	23,402
Number of ministers:	6
Number of special advisers:	2

History

HO formed out of the old Southern Department on the reorganisation of the Secretaries of State in 1782. The Home Secretary is the residual executive power for all functions relating to UK internal affairs which are not assigned to any other department.

Since 1782 HO has acquired by legislation wholly new powers to regulate aliens (from 1793), the penal system (from 1823), the police (from 1829), naturalisations (from 1844), the control of explosives (1875), guns (1920), drugs (since 1914), poisons (1933) and civil defence (1935). Over that period it has also lost functions to the War Office, the Colonial Office, the Local Government Board, the Ministry of Labour, the Ministry of Health, the Ministry of Transport, the Treasury, the Agriculture Board. It is also no

longer responsible for Ireland, Scotland or Wales.

A separate Ministry of Home Security was established during the period 1939-1945 but this position was held by the Home Secretary or a junior within HO.

Originally, HO confined itself to central administration and devolved actual execution to local bodies or autonomous agencies. From the mid 19th Century these executive roles were gradually absorbed into the central department, which correspondingly grew in size. From the late 20th Century there has been a contrary trend to spin out executive functions into arms' length agencies, but without any shrinkage in its size.

Initially under New Labour HO became a geyser gushing forth quangos. However, as the pettifogging waffle of its original corporate objectives suggested, it soon lost its way and famously became "unfit-for-purpose". It has now been cut back in scope and has lost out badly to MOJ.

MOD: The Ministry of Defence

What are its official objectives?

- Achieve success in the Military Tasks we undertake at home and abroad.
- Be ready to respond to the tasks that might arise.
- Build for the future.

Statistics

Net assets:	£99,836.4 million
Net operating cost:	£36,223.0 million
Net staff costs:	£2,835.9 million (civilian)
	£8,649.1 million (service personnel)
Total headcount:	83,930 (civilian)
	193,610 (service personnel)
Number of ministers:	4
Number of special advisers:	2

History

MOD dates from April 1964 with the merger of the Admiralty, the War Office and the Air Ministry.

The post of Lord High Admiral of England, being the commander of the Royal Navy, dates from the Duke of Exeter in 1413. The practice was established of dividing the post between a commission of Lords of the Admiralty, headed by a civilian First Lord with Cabinet rank. Henry VIII founded the Council of the Marine, later renamed the Navy Board, in 1546 to oversee the administration of the fleet. The Admiralty took over the Navy Board in 1831.

The War Office grew out of the mediaeval Council of War. The first "Secretary at War" was appointed in 1661 and contrived to get himself killed

at sea five years later. This office was confined to administrative duties in relation to the Army, and was only one of 15 military departments. It had no policy role. In 1794 a Secretary of State for War was also appointed to assist with the fight against Napoleon, although from 1801 the "War Secretary" really ran the Colonial Office. The system was put on some form of rational basis in 1854 with a reorganisation which created the War Office proper as the political and financial control for the Army. Tensions still remained between War Secretary and Commander-in-Chief and it was not until 1904 that the Army had a structure similar to that of the Navy, with an Army Council chaired by a Secretary of State.

The Air Ministry was formed in January 1918 to oversee the merger of the Royal Flying Corps and the Royal Naval Air Service into the Royal Air Force (although the Navy set up their own Fleet Air Arm again in 1937). In 1940 responsibility for supplying aeroplanes was transferred to a Ministry of Aircraft Production.

As a result of Churchill's anti-appeasement campaign a Minister for Co-ordination of Defence was appointed in 1936 with cabinet rank to oversee re-armament. Once war broke out, the position was found to be redundant, and Chamberlain abolished it. Churchill, however, appointed himself "Minister of Defence" in addition to being Prime Minister, to create clear lines of responsibility for the prosecution of the war.

When Attlee came to power in 1945, he appointed a separate Minister of Defence, and the three traditional service ministers were demoted from the Cabinet. He also amalgamated the Ministries of Aircraft Production and Supply in 1946 to create a general production ministry which also handled nuclear power and weaponry.

The Conservatives continued this arrangement at first. In 1959 the Ministry of Supply was broken up between the Air Ministry, the new Aviation Ministry and the War Office. Eventually it proved simpler to merge the service departments into one. In 1971 MOD finally acquired full control over weapons procurement by absorbing responsibility for production of military aircraft.

MOJ: The Ministry of Justice

What are its official objectives?

- Strengthen democracy, rights and responsibilities.
- Deliver fair and simple routes to civil and family justice.
- Protect the public and reduce reoffending.
- Ensure a more effective, transparent and responsive criminal justice system for victims and the public.

Statistics

Net assets:	£8,739.0 million

Net operating cost:	£45,740.9 million
Net Staff costs:	£3,667.0 million (inc. SCO and WO and judiciary)
Total Headcount:	97,495
Core Department staff:	4,722
Number of ministers:	6
Number of special advisers:	2

History

MOJ is New Labour's latest piece of constitutional vandalism and dates from May 2007, when the Department of Constitutional Affairs (DCA) absorbed the criminal justice system responsibilities from HO. It also took over the Privy Council Office secretariat at the same time.

The DCA itself was only created in June 2003 when merger of the Lord Chancellor's Dept, the Scotland Office and the Wales Office was announced in an exciting package of reforms to abolish the post of Lord Chancellor, modernise outdated traditions etc. etc.

The post of Lord High Chancellor is said to date back to Angmendus, appointed in 605 (so the job actually predates "England" itself). A safer bet would be Herfast, who was in post between 1068 and 1070. Whichever, it took until 1885 for Whitehall to get around to creating the Lord Chancellor's Office with a permanent staff to support him. The department really dates from 1972 when changes to the legal system in England and Wales regularised and centralised the administration of the justice system through a Lord Chancellor's Department (LCD).

MOJ is basically the old LCD without the power to appoint judges but with control of the prison and probation services, plus back-office administration of the SCO and WO. It has a notional responsibility for watching over the Constitution.

NIO: The Northern Ireland Office

What are its official objectives?

- Supporting the devolved institutions in Northern Ireland and encouraging further political development through positive and constructive relations with the Assembly and Executive and Irish Government and effective contributions to the British-Irish Council and British-Irish Intergovernmental Conference;
- Building and sustaining confidence in the effectiveness and efficiency of the police service and police oversight and accountability arrangements in Northern Ireland;
- Promoting and building confidence in a criminal justice system in Northern Ireland that is efficient, effective and responsive through implementing the published plan of agreed changes deriving from the accepted recommendations of the review of the criminal justice system established under the 1998 Agreement;

- Upholding and maintaining the rule of law by developing and maintaining a policy, legislative and strategic framework that takes account of the need to secure justice and rights of the individual, that provides for a sufficient counter-terrorist capability and seeks to minimise the potential for and causes and effects of public order disturbances and community strife;
- Lessening the impact of crime by working in partnership with other criminal justice agencies; to maintain and develop policies aimed at preventing or reducing the threat of crime, fear of crime and incidence of crime and to provide support for the victims of crime;
- Ensuring that the supervisory and custodial sentences imposed on offenders by the courts are delivered appropriately to protect the people of Northern Ireland and help reduce the risk of re-offending; and
- To ensure a cost effective prison service.

Statistics

Net assets:	£265.7 million
Net operating cost:	£11,604.5 million
Net staff costs:	£166.8 million
Total headcount:	4,140
Core Department staff:	1,233
Number of ministers:	2
Number of special advisers:	nil

History

NIO was established in March 1972 to administer direct rule of Northern Ireland on the suspension of the local parliament and government. Although there is now a devolved Northern Ireland Executive, and fewer ministers in Westminster, the NIO remains in existence and indeed has actually increased its staff since devolution, and despite the fact that some functions have been transferred to NICS.

The departmental objectives have been corrected. In 2006 I noted that NIO was committed to reducing the risk of re-*conviction* of criminals, instead of re-offending (which is a rather different matter). It is somewhat disappointing to see that a general NIO objective of "value for money" has been narrowed to merely a cost effective prison service.

The Office of the Advocate General for Scotland was founded in 1999. On devolution the Scottish Law Officers became part of Scottish Executive and it was necessary to create the new post of Advocate General as adviser to the UK Government on Scottish law. The department is part of the MOJ.

The **Office of the Leader of the House of Commons** was created in June 2003 when Peter Hain MP was appointed Leader of the House of Commons

without also being Lord President of the Council, and so not having the support of the Privy Council Office (which instead supported Baronness Amos, the Leader of the Lords). This position has continued under his successors. The department does not actually appear to exist. It's just a website. The support functions are now run out of the Cabinet Office.

The **Office of the Leader of the House of Lords** appears to be the new name for the **Privy Council Office (PCO)**. Originally PCO serviced the Privy Council, an institution dating from mediaeval times which was an early forerunner of the Cabinet. The office of Lord President of the Council was founded in 1530, and first held by the Duke of Suffolk (Henry VIII's brother-in-law).

In 2007 Gordon Brown divided the PCO functions between MOJ (royal proclamations and charters, judicial support) and CO (ministerial support for the whips). Although it now exists as a Secretariat and no longer carries departmental status, the Downing Street website still links to it for the Office of the Leader of the Lords.

The **Prime Minister's Office (PMO)** is now recognised as a Government department in its own right, which is a change since 2006. Most probably this was prompted by the need to give John Prescott a Deputy Prime Minister's department (for surely the Prime Minister deserved a ministry of his own if his useless Deputy merited one?). It is difficult to distinguish at times between PMO and the Cabinet Office, and their financial details are reported together.

SCO: The Scotland Office

SCO was created in 1999 in succession to the Scottish Office.

Following the Act of Union, a Secretary of State for Scotland was appointed in 1709, but the post was allowed to remain open after 1746. During the 19th Century it was felt that the lines of accountability of certain administrative functions north of the border were unclear, and so in 1889 Gladstone created a Secretary for Scotland to oversee the Poor Relief Supervision Board, the Scotch Education Department of the Privy Council and the General Board of Commissioners in Lunacy. This post achieved Cabinet rank in 1892 and was upgraded to full Secretary of State status in 1926. Eventually this Scottish Office grew in size and acquired functions mirroring most of the domestic operations of the other departments of state in regard to England.

Post-devolution, the bulk of the Scottish Office transferred over to the Scottish Executive, leaving a rump behind as SCO to oversee reserved matters and budget negotiations. A separate Scottish Secretary sat in the Cabinet following devolution, but since 2003 the post has been held by other Scottish cabinet ministers. The SCO merged into DCA in 2003 and is now

part of MOJ, but apparently retains some form of separate existence.

WO: The Wales Office

WO was created in July 1999 in succession to the Welsh Office.

The practice developed in the 1950s of designating a particular "Minister of Welsh Affairs" in addition to other duties. When Wilson came to power in 1964 he appointed a Secretary of State for Wales, and in April 1965 a Welsh Office was created. As with the Scottish Office this in time acquired functions which shadowed those of the other departments in regard to England.

The WO oversees reserved matters and budget negotiations. A separate Welsh Secretary remained in the Cabinet but when Peter Hain was appointed Leader of the Commons he retained the post, and again when moving to Northern Ireland. WO also has some form of separate existence within MOJ.

Appendix IV: Non-ministerial departments and Parliamentary bodies

Non-ministerial departments

There are 31 departments of state not run by a minister. Some of these also have Executive Agency and/or Trading Fund status.

In the case of one department, the Office of the Paymaster-General, there actually is a minister (the Paymaster-General) but the department has to all intents and purposes ceased to have an independent existence and the day-to-day conduct is run by an Executive Agency of the Treasury. For that reason it has been counted here and not in Appendix III. All financial data given is as at 31 March 2008 unless otherwise stated.

Assets Recovery Agency (ARA)

Established in 2003 as the specialist arm of law enforcement to take assets out of the criminal economy. Shut down 1 April 2008 and its 220 staff transferred to other HO units. It was technically insolvent throughout its existence, and at one point was spending public money in breach of its parliamentary authority.

Central Office of Information (COI)

What are its official objectives?

- To improve the effectiveness of, and add value to, its clients' (i.e. Government departments) publicity programmes through its consultancy, procurement and project management services across all communication channels.

Statistics

Net assets:	£8.3 million
Operating cost:	£392.7 million*
Staff costs:	£44.2 million
Total headcount:	744

**Officially, COI costs only £0.5m to run, but as a trading fund it generates its turnover by invoicing other Government departments on a cost-plus basis. This figure is the true underlying operating cost.*

History

Established in 1946 as the successor to the wartime Ministry of Information. Cabinet Office has parliamentary accountability. In recent years COI has doubled in staff, partly because CO staff have been re-assigned.

Charity Commission

What are its official objectives?

- To increase public trust and confidence in charities;
- To promote awareness and understanding of the operation of the public benefit requirement of charities;
- To promote compliance by charity trustees with their legal obligations in exercising control and management of the administration of their charities;
- To promote the effective use of charitable resources; and
- To enhance the accountability of charities to donors, beneficiaries and the general public.

Statistics

Net assets:	£2.6 million
Net operating cost:	£36.2 million
Net staff costs:	£19.6 million
Total headcount:	493

History

Charitable purposes evolved in the Middle Ages and were first codified in the Charitable Uses Act 1597, revised 1601, as part of the same package of anti-social behaviour measures which led to the Poor Law. Parliament legislated to permit trusts to operate for certain good causes as a means of promoting philanthropy after the Reformation destroyed the old religious foundations. The 1601 Act appointed commissioners to oversee these trusts but the body fell into desuetude and ceased to exist.

Regulation of charities on an efficient footing did not start until the establishment of the Charity Commission in 1853, and that is essentially the body we have today, with a major overhaul of the administration side in 1960. The Blair regime, naturally, decided to change the definition of "charitable purposes" and the department was essentially re-founded by the Charities Act 2006. CO now has parliamentary accountability as part of the Third Sector initiative.

Commissioners for the Reduction of the National Debt (CRND)

What are its official objectives?

- The investment and management of Government funds.

Statistics

Now consolidated within HMT.

History

CRND was established by the National Debt Reduction Act 1786 passed under Pitt the Younger to restore confidence that Government was serious about repaying the National Debt following the American War. An arms'

length Sinking Fund was established under the control of six figures (now eight: Chancellor of the Exchequer; Governor and both Deputy Governors of the Bank of England; Speaker of the House of Commons; Master of the Rolls; Accountant General of the Supreme Court; Lord Chief Justice).

The Commissioners stopped meeting in 1860, and their debt functions are now handled by the Debt Management Office (DMO) of HMT. The department has effectively become the Treasury's in-house fund manager. HMT has parliamentary accountability.

Crown Estate

What are its official objectives?

- To maintain The Crown Estate as an estate in land (with such cash or investments as may be required for the discharge of their functions) and to maintain and enhance its value and the return obtained from it, but with due regard to the requirements of good management.

Statistics

Net assets:	£7,328.0 million
Net operating cost:	£211.0 million contribution to Consolidated Fund
Staff costs:	£17.0 million*
Total headcount:	393

**before capitalising £3.4m of costs*

History

On his accession in 1760 George III surrendered his (rather low) income from the Crown Lands to the Treasury in return for the Civil List payment to support a large part of the executive functions of Government. These were managed from within HMT until a Board of Commissioners established under the Crown Estate Act 1961. The department receives a parliamentary grant of £2m to run its head office, accounting for 39 staff, and makes a sizeable net contribution to public funds in return. HMT has parliamentary accountability.

Crown Prosecution Service (CPS)

What are its official objectives?

- To deliver a high quality prosecution service that brings offenders to justice, helps reduce both crime and the fear of crime and thereby promotes public confidence in the rule of law, through the consistent, fair and independent review of cases and through their fair, thorough and firm presentation at court.

Statistics

Net assets:	£23.5 million

Net operating cost:	£632.7 million
Net staff costs:	£348.3 million
Total headcount:	8,520

History

Established in 1986 in response to concerns about the Police management of prosecutions. It is unclear whether switching potential corruption for actual incompetence has greatly "promoted public confidence in the rule of law", except perhaps Murphy's Law. AGO has parliamentary accountability.

Export Credits Guarantee Department (ECGD)

What are its official objectives?

- to achieve the Financial Objectives set for it by Ministers;
- to operate in accordance with its Business Principles, so that its activities accord with other Government objectives, including those on sustainable development, human rights, good governance and trade;
- to promote an international framework that allows UK exporters to compete fairly by limiting or eliminating all subsidies and the adoption of consistent practices for assessing projects and countries on a multilateral basis;
- to recover the maximum amount of debt in respect of claims paid by ECGD in a manner consistent with the Government's policy on debt forgiveness;
- to ensure ECGD's facilities are, in broad terms, complementary to those in the private sector;
- to provide an efficient, professional and proactive service for customers which focuses on solutions and innovation; and
- to employ good management practice to recruit, develop and retain the people needed to achieve the Department's business goals and objectives.

*Statistics**

Net assets:	£1,231.0 million
Net operating cost:	£403.8 million profit
Net staff costs:	£17.1 million
Total headcount:	257

*Figures relate to 2006/7

History

The Department dates from the 1920s but currently operates under legislation passed in 1991. BERR has parliamentary accountability.

Food Standards Agency (FSA)

What are its official objectives?

- Our primary aim is to protect the health of the public, and the interests of consumers, in relation to food.
- Our general objectives in relation to this overall aim and the functions it covers are:

  a. To develop effective policies relating to food safety and to other interests of consumers in relation to food. These policies will be based on close consultation with those who stand to be affected, and with other interested individuals and organisations.
  b. To provide clear, practical advice, information and other forms of assistance to all stakeholders. Our stakeholders are all the individuals and representative organisations who have a direct interest in our activities, or are likely to be affected by them.
  c. To build and maintain a reputation for expertise and excellence in matters connected with food safety and other interests of consumers in relation to food.
  d. To maintain effective working links with devolved administrations, other public bodies and stakeholder organisations with an interest in food safety and standards, in the UK and elsewhere.
  e. To make decisions and take action proportionate to the risk, and with due regard to costs and benefits.
  f. To ensure that the interests of UK consumers in relation to food are effectively promoted within the European Union and in other international forums

*Statistics**

Net assets:	-£60.6 million

(assets exceeded by amounts owed to creditors, and provisions for a deficit in the employee pension fund and to cover the cost of an early retirement scheme)

Net operating cost:	£149.9 million
Net staff costs:	£83.2 million (England/Great Britain)
Total headcount:	2,052 (England/Great Britain)

**These figures are the "Westminster accounts" only, i.e. ignoring devolved agencies in Scotland, Wales and Northern Ireland.*

History

The Meat Hygiene Service was established as an Executive Agency of MAFF in 1995, taking over inspection powers from local authorities in response to a health scare. Following further health scares, and the view that MAFF ought not to be responsible for both food production and standards, FSA was established in 2000 and the MHS transferred across. DH has parliamentary accountability for England.

Food standards are a devolved matter. The work of FSA Headquarters and the MHS in England is funded through resource based supply. The costs of the FSA in Scotland, Wales and Northern Ireland are funded by the relevant

devolved authority.

This department is out of control. It has sprawled beyond its original inspection role into an advocacy and campaigning mode. It is also spawning its own mini-quangocracy. The list of official objectives is not encouraging.

Forestry Commission of Great Britain

What are its official objectives?

- Increase the contribution of forests and woodlands to local economies and rural development (England).
- Expand the role of woodlands in supporting the economic regeneration of former industrial land and disadvantaged communities (England).
- Promote public access to woods and forests and develop diverse recreational opportunities (England).
- Conserve and improve the biodiversity, landscape and cultural heritage of our forests and woodlands (England).
- To take the lead in development and promotion of sustainable forest management and to support its achievement nationally (Great Britain).

Statistics

Net assets:	£14.7 million
Net operating cost:	£74.4 million
Non-staff administration costs:	£22.5 million
Programme expenditure:	£58.8 million
Staff costs:	£24.6 million
Permanent headcount:	758
Temporary staff:	4

History

Environmental protection per se is a recent innovation. A Surveyor General of Land Revenues was first appointed in 1625 and over time he acquired further responsibilities relating to the game laws and land enclosure. In 1810 the post was reformed as the Department of Woods & Forests, later the Department of Woods, Forests & Land Revenue, and merging with the Office of Works in 1832. Eventually the rural functions of this body ended up in the Forestry Commission.

In 1919 the Forestry Commission was established to create a national strategic timber reserve following a shortage of wooden pit props for coal mines during the First World War. Forestry is now a devolved matter. A Forestry Commission still exists as a UK non-ministerial department, but in practice it operates as four separate organisations with a Great Britain headquarters function. The figures given above relate to the consolidated Great Britain and England functions. Most of the day-to-day activity of

growing trees is handled by separate corporations under the general name of Forest Enterprise, which fall outside the main resource accounts, and which could be privatised easily.

For many years, the Commission has been running a holiday cottage line, Forest Holidays, which has been making persistent and significant losses. The James Review in 2004 recommended selling off this business. In 2006 the Government transferred the business into a joint venture with the Camping and Caravanning Club (and cocked-up the accounting treatment of the transfer). The Commission has not, so far, received any income from this venture and still records Forest Holidays as loss-making.

Defra has parliamentary accountability for England.

Government Actuary's Department (GAD)

What are its official objectives?

- Provide actuarial advice to Ministers, Government Departments and other GAD clients in respect of employer-sponsored pension arrangements and other employee benefits; and to provide actuarial advice necessary to underpin Ministerial decision-making on general pensions policy.
- Provide the actuarial advice necessary for the regulation and supervision of financial institutions overseas.

Statistics

Net assets:	£2.6 million
Net operating cost:	£0.7 million (gross cost before fees of £10.8 million)
Staff costs:	£7.2 million
Total headcount:	96

History

A Chief Actuary was appointed to advise the National Health Insurance Joint Committee on pension matters in 1912. By 1917 he was being consulted by other departments and had his post title upgraded to Government Actuary. In 1919 he was provided with a department to support him and he acquired the function of advising Parliament on the actuarial impact of changes to unemployment and health insurance. The department now operates as a pensions consultancy on a fee-charging basis for the UK public sector, and also for overseas clients. HMT has parliamentary accountability.

HM Land Registry

What are its official objectives?

- Continue to make improvements to the delivery of services to all stakeholders.

- Deliver timely and effective secondary legislation in relation to land registration.
- Create a comprehensive Land Register for England and Wales.
- Introduce an electronic conveyancing system through which most property transactions will be effected.
- Develop a broader range of services for property professionals, the public and others.

Statistics

Net assets:	£592.2 million
Net operating cost:	£90.4 million profit
Net staff costs:	£247.2 million
Total headcount:	8,457

History

The Land Registry was established in 1862 in the first attempt to convert England & Wales to a system of registered title to land – a process that only became successful in 1925. Although technically a department, it operates as a Trading Fund and Executive Agency of MOJ.

HM Revenue and Customs (HMRC)

What are its official objectives?

- Improve the extent to which individuals and businesses pay the amount of tax due and receive the credits and payments to which they are entitled.
- Improve customer experience, support business and reduce the compliance burden.
- Strengthen frontier protection against threats to the security, social and economic integrity and environment of the United Kingdom in a way that balances the need to maintain the UK as a competitive location in which to do business.

Statistics

Net assets:	£513.8 million
Net operating cost:	£15,199.8 million*
Net staff costs:	£2,651.3 million
Total headcount:	89,865

**This figures includes programme expenditure of £10,878.5m (child benefit and child trust funds), £83.7m (tax relief on mortgages, insurance, charities and stakeholder pensions), £29.3m (net local authority rates payable by HMG).*

History

HMRC was formed out of the merger of Customs & Excise and the Inland Revenue in April 2005. The merger has not been a happy one and the

department has acquired a reputation for clumsiness. HMT has parliamentary accountability, through the Paymaster-General.

HM Customs & Excise dealt with two distinct areas of taxation. "Customs" were the customary duties on imports and exports to which the Crown was entitled without recourse to Parliament. They can be traced back to the Assize of Winchester of 1203 under King John. "Excise" were duties levied on inland goods at their time of manufacture. In legal form they date to a financial expedient of the Long Parliament in 1643. The administration of the two was not amalgamated until 1909.

HM Inland Revenue dates back to the Board of Taxes established in 1665 to raise revenue to fund a war with the Dutch, and they were kept in being to collect an assortment of taxes assigned to them, notably the land tax (from 1692) and the income tax (intermittently from 1797). Legislation established the Inland Revenue in the form it came to be known and loved in 1849.

The National Archives (TNA)

What are its official objectives?

- Lead and transform information management: Shaping policy on information from its creation to re-use showing leadership across the public sector and helping to develop a common infrastructure of services and guidance.
- Guarantee the survival of today's information for tomorrow: Preserving the nations existing paper records and working across Government and the wider public sector so that digital information can continue to be accessed for both today's business and tomorrow's history.
- Bring history to life for everyone: Providing people worldwide with access to our records and helping everyone use them to excite and enrich their lives.

Statistics

Net assets:	£107.2 million
Net operating cost:	£42.1 million
Net staff costs:	£22.8 million
Total headcount:	589

History

Formed in 2003 from the combination of the Public Record Office (established 1838) and the Historic Manuscripts Commission, which are still to an extent separate entities but the same individual is the head of both departments. Run as an Executive Agency. MOJ has parliamentary accountability.

National Savings and Investments (NS&I)

What are its official objectives?

- To provide retail funds for the Government that are cost effective in relation to funds raised on the wholesale market.

Statistics

Net assets:	£9.9 million
Net operating cost:	£153.6 million
Net staff costs:	£8.9 million
Total headcount:	146

History

Palmerston established the Post Office Savings Bank in 1861. This was converted to a government department as National Savings in 1969. It acquired simultaneous Executive Agency status in 1996. The name was changed to the present form in 2002. HMT has parliamentary accountability through the Economic Secretary to the Treasury.

National School of Government (NSG)

What are its official objectives?

- To provide a centre of excellence for learning and development in support of the strategic business priorities of Government.

Statistics

Net assets:	£17.1 million
Operating cost:	£28.9 million*
Net staff costs:	£11.9 million
Total headcount:	239

**NSG has a small amount of parliamentary funding of around £1m and covers most of its costs by charging "external customers" for training courses and consultancy, but these appear to be other government departments.*

History

A Civil Service College to run training courses in administration and management was established at Sunningdale in 1970 as one of the recommendations of the Fulton Report. This eventually ended up inside the CO, from which it was spun out as a separate department in January 2007. CO has parliamentary accountability.

Northern Ireland Court Service

What are its official objectives?

- To promote confidence in the Criminal Justice System
- To promote a modern and efficient Civil Justice System
- To reform publicly funded legal services
- To modernise the Coroners' Service

- To deliver e-business and give effect to the Government's modernisation targets
- To improve value for money in service delivery
- To improve corporate governance
- To improve the management of funds in Court
- To increase the efficiency of case management
- To support the Northern Ireland Legal Services Commission to improve the targeting and efficiency of publicly funded legal services
- To improve customer service
- To become a more community facing organisation
- To have the right staff with the right skills
- To achieve a workforce that is reflective of the community it serves

*Statistics**

Net assets:	£171.2 million
Net operating cost:	£136.1 million
Net staff costs:	£19.2 million
Total headcount:	765

**Resource accounts for 2006/7*

History

Formed by statute in 1978. DCA has parliamentary accountability.

Office for National Statistics (ONS), now the UK Statistics Authority (UKSA)

What are its official objectives?

- Objective 1 – To be an authoritative and trusted publisher of statistics about the UK economy and society; drive the development of National Statistics; contribute to the leadership of the statistical system of the European Union; and ensure that engagement in international statistics is effective in the breadth of issues important to the UK.
- Objective 2 – To ensure the efficient and accurate registration of key life events.

Statistics

Net assets:	£84.9 million
Net operating cost:	£172.1 million
Net staff costs:	£123.2 million*
Total headcount:	4,040

**before capitalising £1.5m of costs*

History

Formed in 1996 by the merger of the Central Statistical Office (CSO) and the Office of Population Censuses and Surveys (OPCS). It also inherited some statisticians from what had been the Dept of Employment. HMT had parliamentary accountability for ONS.

The Board of Trade established a statistical department in 1834 as part of the Benthamite reform movement, but it was not until 1941 that the CSO was formed to assist the War Cabinet.

The first census was in 1801, but that was handled by the Privy Council. It took until 1837 for a General Register Office to be formed to oversee the ten yearly census and the registration of births, deaths and marriages. In 1940 the Ministry of Information established a Wartime Social Survey to monitor morale, and in peacetime this became the Social Survey Division of the COI. The two units were merged to form OPCS in 1970.

ONS had been formed in order to improve the timeliness and accuracy of the statistical information available for central government, but as an Executive Agency of HMT it came under criticism for apparent bias in its interpretation, notably the strange conclusion that Network Rail was not a public company. To answer these concerns, from 1 April 2008 the Statistics & Registration Services Act 2007 converted ONS into the UK Statistics Authority as a Parliamentary body.

Office for Standards in Education, Children's Services and Skills (OFSTED)

What are its official objectives?

- Better outcomes: To deliver planned inspection programmes which maximise the impact of inspection and regulation on the quality of provision for children, young people and adult learners – with a particular focus on vulnerable and underachieving people – so that their life outcomes and general well-being are enhanced. To identify strengths and weaknesses in priority areas – nationally, regionally and locally – and to make effective use of that information to drive improvement.
- Better inspection & regulation: To ensure that inspection continues to develop as high quality, coherent and well matched to the needs of the user and the quality of the service, with an increased focus on targeting inspection where it makes most difference. To use the views of users, stakeholders and key partners, to influence how, what and when we inspect, to promote improvement and to track future improvement. To ensure that we take swift enforcement action, acting quickly to drive improvement.
- Better communication: To ensure that all Ofsted's communications are clear and accessible to the whole range of audiences at an appropriate

level, and support informed choice and drive improvement. To ensure quick and effective responses to enquiries and complaints.

- Better consultation: To ensure that consultation with users, stakeholders, partners and the public is inclusive and effective.
- Better value: To ensure that value for money is a continued focus for improvement. To ensure that our operational and business support functions provide good value for money and compare well against external benchmarks.
- Better ways of working: To achieve excellent performance through a high quality workforce that appropriately reflects the diversity of the communities it serves. To be an exemplary employer, committed to its staff, responsive to employee views and focused on development and continuous improvement.
- To build and develop Ofsted's capacity for improvement.

Statistics

Net assets: (assets exceeded by amounts owed to creditors)	-£22.7 million
Net operating cost:	£213.2 million
Net staff costs:	£115.5 million
Total headcount:	2,686

History

Established 2007 as the sole inspectorate in England & Wales for children, young people and adult learners through the merger of the original Ofsted, the Commission for Social Care Inspection, the Children and Family Court Advisory & Support Service, HM Inspectorate of Court Administration and the Adult Learning Inspectorate. DCSF has parliamentary accountability.

The idea behind the original OFSTED was the laudable aim of ensuring adequate standards of teaching in state schools. Unfortunately, it ran amok and had to incur an horrifically expensive reorganisation. It is unclear whether merging this slimmed-down department with other inspectorates will achieve anything.

There is some disagreement over the status of the **Office of Communications (Ofcom)**. Some Cabinet Office material includes it in the list of non-ministerial departments, and this would be in keeping with the status of other statutory regulators. However, BERR – and, more importantly, the Ofcom accounts – clearly treat it as a Public Corporation.

Office of Fair Trading (OFT)

What are its official objectives?

- Make markets work well for consumers by delivering high impact work efficiently, focussed on priority areas, and spanning the OFT's enforcement and non-enforcement functions.
- Monitor markets pro-actively, systematically and transparently.
- Evaluate the impact of our work, and use this evaluation to inform strategy and future work.
- Provide effective education and advice for consumers, including through Consumer Direct.
- Promote innovative approaches in our work.

Statistics

Net assets: (assets exceeded by amounts due to creditors)	-£5.5 million
Net operating cost:	£68.8 million
Net staff costs:	£36.1 million
Total headcount:	747

History

Established by statute in 1973 and recast by further statute in 2002. BERR has parliamentary accountability.

Office of Gas and Electricity Markets (Ofgem)

What are its official objectives?

- Creating and sustaining competition.
- Regulating network monopolies.
- Helping to protect the security of Britain's energy supplies.
- Providing a leading voice in Europe.
- Helping to protect the environment.
- Helping tackle fuel poverty.

Statistics

Net assets: (assets exceeded by creditors)	-£4.3 million
Net operating cost:	£0.7 million*
Staff costs:	£19.1 million
Total headcount:	302

**Ofgem raises £38.9m in fees, the majority of which are charged to non-government entities.*

History

Formed by the merger in 2000 of the Office of Electricity Regulation (established 1988) and the Office of Gas Supply (established 1986). Post-privatisation market regulator. Ofgem is constitutionally run by a board

known as the Gas & Electricity Markets Authority ("GEMA") comprising senior staff within Ofgem and outside non-executives. Only 4 staff are engaged on better regulation. BERR has parliamentary accountability.

Office of Rail Regulation (ORR)

What are its official objectives?

- Improving health and safety performance.
- Securing improved efficiency and performance.
- Securing robust plans for 2009 and beyond.
- Improving and aligning relationships and incentives.
- An effective combined safety and economic regulator.

Statistics

Net assets: (assets exceeded by amounts owed to creditors)	-£0.9 million
Net operating cost:	nil (costs recharged to rail industry)
Net staff costs:	£19.9 million
Total headcount:	353

History

The Office of the Rail Regulator was established by statute in 1993. By statute in 2003 this was changed to the ORR. The same individual also headed the Office of the International Rail Regulator, and the two departments were merged in November 2005. DfT has parliamentary accountability.

In 1992 the science remit was taken away from the DES to form the Office of Science & Technology (OST) as a non-ministerial department within CO. This was transferred to the DTI remit in 1995. The department was renamed the **Office of Science and Innovation (OSI)** in 2006. On Gordon Brown's reorganisation of Whitehall, OSI merged into the new DIUS.

Office of the Paymaster-General (OPG)

What are its official objectives?

- To provide a secure, value for money account and banking transaction service, which encourages public sector bodies to maximise the value of funds available to the Exchequer, and to provide accurate and timely cash flow information to the Treasury.

History

The post was created in 1836 by the merger of the positions of Paymaster of the Forces (established 1661), Treasurer of the Navy (1546), Paymaster and

Treasurer of Chelsea Hospital (1681) and Treasurer of the Ordnance (1544). From 1848 to 1868, the post was held concurrently with that of Vice-President of the Board of Trade. The Paymaster-General is now a junior Treasury minister. From 2002 the OPG was merged with HMT and its functions are discharged by the DMO.

Postal Services Commission (Postcomm)

What are its official objectives?

- To ensure the provision of a universal postal service at a uniform tariff protecting consumers and promoting competition.

Statistics

Net assets: *(assets exceeded by sums due to creditors)*	-£1.4 million
Net operating cost:	£nil (covered by industry licenses)
Net staff costs:	£4.4 million
Total headcount:	62

History

Established by statute in 2000 as an independent regulator with a view to the opening up of the market to full competition. At first Postcomm tended to outsource its work to consultants rather than undertake it in-house, but recently it has begun to expand staffing. BERR has parliamentary accountability.

Public Prosecution Service for Northern Ireland (PPSNI)

What are its official objectives?

- To provide the people of Northern Ireland with an independent, fair and effective Prosecution Service.
- To improve service delivery.
- To enhance value for money achieved through modernisation and the better use of resources.
- To value, empower, develop and recognise our staff.
- To develop and maintain an independent, fair and effective prosecution service.

*Statistics**

Net operating cost:	£38.0 million
Net staff costs:	£16.5 million
Total headcount:	584

**Source: PPSNI Annual Report 2007/08*

History

Created in June 2005. The Attorney-General has parliamentary accountability (although it appears to be funded out of the NIO budget).

Public Works Loan Board (PWLB)

What are its official objectives?

- To consider loan applications from local authorities and other prescribed bodies and, where loans are made, to collect the repayments.

Established in 1793 on an annual basis, which was made permanent in 1817. From 2002 it merged with the Debt Management Office of HMT.

Revenue and Customs Prosecution Office (RCPO)

What are its official objectives?

- Responsible for the prosecution of all HM Revenue and Customs cases in England and Wales.

Statistics

Net assets:	-£2.4 million
(assets exceeded by sums due to creditors)	
Net operating cost:	£31.0 million
Net staff costs:	£14.0 million
Total headcount:	323

History

Formed in April 2005 to separate the prosecution of tax fraud and drug trafficking cases from the tax inspection departments. AGO has parliamentary accountability.

Royal Household

What are its official objectives?

- The Civil List: the sum provided by Parliament to meet the official expenses of The Queen's Household so that Her Majesty can fulfil her role as Head of State and Head of the Commonwealth. It is not in any sense 'pay' for The Queen.
- Property Services Grant-in-Aid (via DCMS): the Occupied Royal Palaces in England are held by The Queen as Sovereign, and they are used to fulfil the role and functions of Head of State.
- Royal Travel Grant-in-Aid (via DfT): the Royal Household now receives annual funding to meet the costs of official Royal travel.

Statistics (limited to funding for Head of State activities)

Net assets:	£10.4 million

Net operating cost:	£40.0 million
Net staff costs:	£14.1 million
Total headcount:	431

History

The Royal Household has existed for as long as the monarchy and was the original arm of government. It is a moot point whether the Household is strictly a government department in the same sense as the others considered in this study, and if so whether it is ministerial or non-ministerial. It is certainly not a "public authority" for the purposes of the Freedom of Information legislation.

There are 15 office holders within the Household who count technically as ministers, of which 3 are purely domestic officials attendant on the Royal Family (although their offices were once of Cabinet rank), 11 are Government Whips in either House of Parliament undertaking notional services for the Sovereign, and 1 acts as the parliamentary representative for the Church Commissioners (the investment arm of the Church of England) and who probably sits here because there isn't anywhere else for him.

On balance it seems right to count this as a non-ministerial department, in that it does perform state services financed out of the Treasury but no ministerial is responsible for its executive functions. It is on the whole run efficiently and economically and, since the net operating cost is dwarfed by the income taken out of the Crown Estates (see above), it represents an absolute bargain for the taxpayer. Perhaps we could persuade the Queen to run the Home Office?

Royal Mint

What are its official objectives?

- The manufacture and distribution of United Kingdom circulating coins under a Service Level Agreement (SLA) with HM Treasury;
- The manufacture of circulating coins and blanks for overseas central banks and mints;
- The manufacture, marketing and distribution of United Kingdom and overseas collector coins and medals; and
- The manufacture of official medals, seals and dies.

Statistics

Net assets:	£58.2 million
Net operating cost:	£7.2 million profit (£3.9 million paid to Exchequer)
Staff costs:	£24.2 million
Total headcount:	754

History

A mint was founded in London in 886, and moved to the Tower in 1279, but it only acquired a royal monopoly position under the Tudors. As well as being a department, since 1975 it has been a Trading Fund and in 1990 it acquired Executive Agency status. For many years under Blair the Royal Mint achieved the rare feat of actually making a loss whilst coining money, but after a heavy redundancy programme it has now returned to profit. HMT has parliamentary accountability, and the Chancellor is the Master of the Mint.

Serious Fraud Office (SFO)

What are its official objectives?

- Investigate cases and bring them to a successful conclusion as quickly as individual circumstances allow.
- When a decision to prosecute is made, to prosecute fairly and in a way that enables the jury to understand the issues.

Statistics

Net assets:	£3.7 million
Net operating cost:	£43.2 million
Net staff costs:	£18.5 million
Total headcount:	375

History

Established by statute in 1987 as a specialist prosecutor of cases of serious and complex fraud. AGO has parliamentary accountability.

UK Trade and Investment (UKTI)

What are its official objectives?

- To enhance the competitiveness of companies in the UK through overseas trade and investment.
- To ensure a continuing high level of quality foreign direct investment.

Statistics

Net assets: *(assets exceeded by intergovernment liabilities)*	-£11.8 million
Net operating cost:	£87.8 million
Net staff costs:	£0.5 million
Total headcount:	12

History

Established as British Trade International in 1999. Renamed in 2003. Responsibility for UKTI is shared jointly by BERR and FCO, and they share its administrative costs. The financial data above relates solely to the core team of trade consultants and advisers.

Water Services Regulation Authority (OFWAT)

What are its official objectives?

- Protecting consumers: monitoring and enforcement, leakage targets and special investigations;
- Promoting value: operation of the water supply licence regime, competition policy development and launch of the 2009 price review; and
- Safeguarding the future: security of supply, environmental and water quality improvement.

Statistics

Net assets:	-£3.6 million
(assets exceeded by pension fund provisions)	
Net operating cost:	nil (costs recharged to water industry)
Net staff costs:	£8.3 million
Total headcount:	197

History

A Director-General of Water Services was established by statute in 1988 as the post-privatisation regulator of the water industry. He was supported by an Office known as "Ofwat". On 1 April 2006 his powers were transferred to a new department, the Water Services Regulation Authority, which retained the old shorthand title.

Parliamentary bodies

A further 6 bodies are not strictly government departments, and report direct to Parliament along separate lines, but they clearly constitute major arms of the governance of the UK. In Appendix V they are counted as quangos rather than departments.

Electoral Commission

What are its official objectives?

- Integrity and transparency of party and election finance.
- Complete and accurate electoral registers supported by a well-run electoral registration process.
- Well-run elections and referendums which produce results that are accepted.
- Public understanding of the way our democracy works.
- Fair boundary arrangements for elections.

Statistics

Net assets:	-£2.3 million
Net operating cost:	£22.3 million
Net staff costs:	£7.7 million
Total headcount:	148

History

Established in 2000. Generally ignored by the Government and of dubious value. Accountable to Parliament through a committee chaired by the Speaker of the Commons.

Office of the Comptroller & Auditor-General
NAO: the National Audit Office

What are its official objectives?

- Financial Audit: providing Parliament with assurance that departments' and other bodies' financial statements have been properly prepared and give a true and fair view; that resources have been properly applied to the purposes intended by Parliament; and providing assurance on the assessment and collection of tax revenue.
- Value for money work: providing Parliament with independent information and advice about economy, efficiency, and effectiveness. The Office aims to produce about 60 reports each year examining the whole range of public services.
- Reviews of departmental systems: encouraging good governance and providing assurance on the management of risk through reviews of financial systems; validating systems underpinning Public Service Agreement targets and work on regulatory impact assessments.
- Direct support to Parliament and the public and work for other organisations: supporting the Committee of Public Accounts and other Select Committees; responding to enquiries from Members of Parliament and members of the general public; and the provision of advice and training to support the effective scrutiny of public finances in other countries.
- Comptroller function: the Comptroller and Auditor General's statutory responsibility to approve the release of funds from the Exchequer to departments.

Statistics

Net assets:	£35.6 million
Net operating cost:	£80.6 million
Net staff costs:	£52.5 million
Total headcount:	845

History

An Auditor to the Exchequer was first appointed in 1314, but the position

eventually became a sinecure office. Elizabeth I appointed Auditors of the Imprest to monitor payments in 1559, but this role was allowed to lapse. It was not until 1780 that a Commission for Auditing the Public Accounts was established by statute, and from 1834 these commissioners worked with the Comptroller of the Exchequer, who controlled the issue of funds to government departments.

Gladstone reformed the system by statute in 1866 to merge these two roles to create the office of Comptroller & Auditor-General, in control of the Government account at the Bank of England, with the duty to authorise all payments and then audit them. For the first time departments were required to produce annual accounts. This system became unworkable as the state expanded its activities and it had to be relaxed in 1921.

In 1983, in response to backbench pressure, the Thatcher Government established the NAO and the Comptroller became an independent Parliamentary officer rather than a Treasury official. Important new powers to investigate whether spending constituted value for money, and to initiate its own investigations, were also conferred. In 2000 the government accounting methods were brought up to date with current practice in the form of resource accounting (rather than the Gladstonian cash-based accounting) – although Whitehall has not quite got the hang of this yet.

The NAO is responsible to an independent Public Accounts Commission, which vets its budget. An unfortunate aspect of its independence from Government is that it is extremely difficult to remove the Comptroller, and whilst in normal circumstances this would be an admirable thing, it proved tedious to dislodge Sir John Bourn from office after the emergence of certain irregularities in his expense claims. It may be unclear who guards the guards, but in respect of who audits the auditors the answer appears to be: nobody.

Office of the Parliamentary Commissioner for Administration
Office of the Health Service Commissioner for England

What are its official objectives?

- To deal with all complaints referred to the PCA impartially, objectively, effectively and expeditiously.
- To deal with all complaints referred to the HSCE impartially, objectively, effectively and expeditiously.

*Statistics**

Net assets:	£5.1 million
Net operating cost:	£19.3 million
Net staff costs:	£13.3 million
Total headcount:	293

*Resource accounts 2006/7

History

The office of Parliamentary Commissioner for Administration was established by statute in 1967 to investigate cases of maladministration by public bodies. The role was taken from an official position established in Sweden, although the precise structuring of the post was based on the Comptroller & Auditor-General.

The Health Service Commission was established in 1993.

Since 2004 the two positions have been held by the same individual, and audited together, but in law they are distinct offices. Associated with this function is the **Commission for Local Administration**, which is the local government ombudsman, established in 1974.

Devolved administrations

It could be argued that the Scottish Executive, the Scottish Parliament, the National Assembly for Wales and the Northern Ireland Executive are themselves massive quangos, and within their remit they have inherited a vast empire of public bodies. However, this is a study of the machinery of central government, which now has no responsibility for much of the administration of Scotland. I therefore tend to agree with the Cabinet Office that these entities are not "public bodies" in the sense discussed here.

Appendix V: The quango state as at 31 March 2007

Resource centre	Staff			Governance Bodies	
Central Government Departments					
AGO	914			3	
- Crown Prosecution Service	8,546			1	
- PPS Northern Ireland	550			1	
- RCPO	277			1	
- Serious Fraud Office	376			1	
		10,663			7
Cabinet Office	1,641			18	
- Central Office of Information	701			1	
- Charity Commission	495			3	
- National School of Government	261			1	
		3,098			23
Prime Minister's Office	(within CO)				1
Deputy Prime Minister's Office		20			2
DCA	28,706			264	
- HM Land Registry	8,593			1	
- The National Archives	582			6	
- Northern Ireland Court Service	851			13	
		38,732			284
DCLG		12,965			145
DCMS		44,827			79
Defra	34,507			142	
- Forestry Commission	1,726			16	
- OFWAT	188			1	
		36,421			159
DfES	15,035			38	
- OFSTED	2,214			1	
		17,249			39
DfID		12,011			4
DfT	80,303			46	
- ORR	379			1	
		80,682			47
DH	1,069,245			502	
- Food Standards Agency	2,124			7	
		1,071,369			509
DTI	257,522			86	
- ECGD	257			2	
- Ofgem	315			2	
- OFT	683			1	
- OSI	-			1	
- Postcomm	61			1	

Resource centre	Staff			Governance Bodies	
		258,838			93
DWP		123,158			31
FCO	26,941			17	
- GCHQ	4,500			1	
- MI6	2,500			1	
		33,941			19
HMT	6,036			15	
- CRND	-			1	
- Crown Estates Commissioners	390			1	
- GAD	101			1	
- HM Revenue & Customs	95,810			4	
- National Savings & Investment	143			1	
- Office for National Statistics	4,173			1	
- Office of the Paymaster-General	(tfer to HMRC)			1	
- PWLB	-			1	
- Royal Mint	861			2	
		107,514			28
HO	107,200			709	
- Assets Recovery Agency	219			1	
- MI5	3,000			1	
		110,419			711
MOD		102,450			57
NIO		4,803			42
PCO		90			2
UKTI		5			1
Parliamentary Bodies					
Electoral Commission		153			3
NAO		875			3
Ombudsman		489			3
Royal Household					
Various Household offices		435			1
Duchy of Lancaster Office		21			1
Total		**2,071,228**			**2,294**
					of which 47 count as Gov depts. Leaving **2,247** quangos

Appendix VI: The structure of public finances

What is actually spent?

The official figure for public spending is now the Total Managed Expenditure (TME). It comprises three elements:

- Public sector current expenditure, or the amount spent by Government on pay, goods and services, grants and related costs less any receipts from sales;
- Public sector capital expenditure, or the amount spent by Government on acquiring assets such as schools, hospitals, roads, computers etc. plus capital grants plus the increase in value of agricultural stocks less any receipts from sales such as privatisations, council house disposal, surplus land etc.
- Public sector depreciation, or the charge recognised to reflect the annual decrease in value of public sector assets due to wear and tear.

In the historical tables published with each Budget, the last of these two items are combined and disclosed as *public sector gross investment* (although the result is actually a net figure because sale proceeds are deducted in arriving at the total). The point to be borne in mind is that TME – which everyone quotes as the level of "public spending" - is a net, not a gross, amount: the state is spending more than this, but it is taking back some cash from the private sector in a non-tax form.

What is borrowed?

The "National Debt" as such no longer exists, in the sense that Government has ceased to publish a figure for it in 2004 and it long ago lost any significance as a factor in public financial planning. In strict technical terms the National Debt simply represented the total gross liabilities of the Consolidated Fund, the principal bank account of central government (from 1968, also including the liabilities of the National Loans Fund). This measure failed to include large parts of the public sector, and did include loans between government departments, so it did not really represent an accurate picture of how much debt the taxpayer was underwriting.

In 1986, Net Public Sector Debt (NPSD) was introduced to track the amount of debt issued by Government to meet its Public Sector Borrowing Requirement (PSBR). NPSD measured the amount of debt issued at its redemption value, not its market value, less cash held in bank deposits and foreign exchange reserves. PSBR was simply the cash shortfall between spending and taxes in the course of a financial year. Because they were calculated on a different basis, and neither followed the latest accounting practice, the two figures rarely coincided.

Naturally, therefore, Gordon Brown decided to change the statistical

framework as part of his overhaul of the government accounting system. From 1998 the amount of cash which the state requires to operate has been published as the Public Sector Net Cash Requirement (PSNCR). Its outstanding liabilities have been measured as Public Sector Net Debt (PSND), and the annual increase reported as Public Sector Net Borrowing (PSNB).

Two points are worth highlighting about PSND. It is, of course, another net figure, so the true amount of outstanding debt will be higher. Following on from this, and of more topical relevance, is the fact that the PSND measure excludes "financial sector interventions", i.e. borrowing to finance the banking bailout. According to PBR 2008 there are two reasons for doing this:

- PSND is meant to be a net figure: since through the banking bailout the Government has acquired some financial assets (e.g. Northern Rock shares, bank preference shares etc) the value of these assets cancel out any debt taken on to buy them. This is a convoluted, and not quite reassuring, version of the analysis given above in Chapter 5, that the cash loss on this activity is likely to be low compared to the sums involved. The debt still exists, but whether it can be netted off completely relies on the value of the assets acquired. What happens if, or when, that value deteriorates?
- PSND as a financial statistic falls within the remit of the ONS, and they have not yet decided how some of the intervention measures (principally the Special Liquidity Scheme) will be recorded. Therefore they have been ignored. This is not just wet; it is elevating Enron accounting to a whole new art-form.

To highlight the significance of these points, it is worth comparing PSND ("official national debt") with the future projections for General Government Gross Debt (GGGD) figure compiled under the Maastricht Treaty, and which the Treasury obliging publishes at the time of every Budget and Pre-Budget Report. Maastricht debt is open to technical objections as to what is counted – the debt of most public corporations, for example, is ignored – but it does give an indication of the gross amount of taxpayer debt swilling around the economy. As can be seen, the official figures understate the gross debt position by an amount greater than the amounts which Alistair Darling is now proposing to borrow:

	2008/9	2009/10	2010/11	2011/12	2012/13	2013/14
PSND ("official debt")	602	729	842	938	1,020	1,084
GGGD ("Maastricht debt")	774	896	1,008	1,106	1,191	1,258
"Hidden debt"	72	167	166	172	171	176
PSNB ("official borrowing")	78	118	105	87	70	54

Source: PBR 2008, Table B10, with the author's additional calculations. All figures are £ billion.

A further consequence is that the projected borrowing figures themselves, the PSNB, understate the true debt issued by the Government because they are also net figures.

For a clearer picture of the national overdraft, the true statistic to follow would be the Gross financing requirement, which is the amount of cash which is the amount of cash which the Government actually needs to function, and it takes into account such further items as the redemption of gilts and the maintenance of official reserves. However, there is limited published information about future projected trends in this figure. A reliable alternative estimate can be obtained from the Central Government Net Cash Requirement (CCGNR).

Despite its name, it is not strictly a cash statistic since is based on accruals accounting (liabilities are spread over the period over which they are created) rather than a cash basis (expenses are recorded only when the cash leaves the bank account). The CGNCR is what remains when the proceeds from National Savings & Investments and the financing costs of gilts and reserves are subtracted from the Gross Financing Requirement. As such it is a fair measure of the amount of money which the Central Government needs to remain a viable enterprise.

Officially, the statistic which is now supposed to reveal this amount is the PSNCR. However, the CGNCR is only one of three elements which make up the PSNCR, the others being the borrowing needs of local authorities and public corporations. Perversely the cash requirement of public corporations is subtracted from the total of the other two. The argument, again, is that money passed from government to a public corporation represents a loan, which is an asset that should be netted off against the gross amount. Since this is where most of the banking bailout funds are going, it might be more appropriate to add them back.

The result, for the limited data available, suggests that even Alistair Darling's announced borrowing is somewhat short of the real position:

	2008/9	2009/10
PSNB ("official borrowing")	77.6	118.3
PSNCR ("official overdraft")	88.8	117.8
CGNCR ("real overdraft")	152.9	125.9
Gross financing requirement ("real money needed")	168.7	n/a

Source: PBR 2008, elements from Tables B19 and B20, with the author's additional calculations. All figures are £ billion.

What is budgeted?

For internal budget purposes, TME is separated between two categories, which include both revenue and capital items.

The major part of Government spending now falls under the Departmental Expenditure Limits (DEL). These cover the resources allocated in advance to each ministry in three year Spending Reviews.

In pre-1997 days annual spending rounds were conducted in a series of negotiations between the Treasury and the departments, with disagreements being resolved through a Cabinet Committee known popularly as the "Star Chamber" with a view to announcing the outcome in an Autumn Statement

(with the tax measures to pay for the spending unveiled in a Budget in the spring). Towards the end of the Major Administration, the Budget and Autumn Statement were combined.

That arrangement has gone. Today, the Chancellor of the Exchequer sets out spending in three year cycles, and requires each department to enter a *Public Service Agreement* (PSA) setting out performance targets as notional conditions of receiving the funds. It is unclear what the sanction is if a department breaks the conditions of its PSA, but it is obvious that this arrangement effectively passes control of the spending departments to the Treasury. Also, since each ministry has to report progress back to the Treasury, they are in turn forced to impose equivalent targets on their subsidiary quangos. PSAs are, therefore, the ultimate origin of the Whitehall targets culture.

In the Spending Review 2007, DEL was divided into 25 spending plans. This has been expanded in PBR 2008 to 28 expenditure lines, to allow for the creation of DECC and the introduction of the optimistic items "Allowance for shortfall" and "Additional Value for Money savings":

Service line	2008/9	2009/10	2010/11
Children, Schools & Families	52.9	56.4	58.7
Health (inc. NHS England)	98.7	105.5	111.1
Transport	13.7	14.7	14.0
Innovation, Universities & Skills	18.6	19.7	20.0
Communities	11.8	12.9	10.6
Local Government	24.9	25.7	26.5
Home Office	9.9	10.2	10.4
Justice	10.4	10.2	10.1
Law Officers' Departments	0.7	0.7	0.7
Defence	45.3	43.4	45.6
Foreign & Commonwealth Office	2.2	1.8	1.8
Energy & Climate Change	2.6	2.7	2.9
International Development	5.8	6.9	8.0
Business, Enterprise & Regulatory Reform	1.6	1.5	1.4
Environment, Food & Rural Affairs	3.3	3.5	3.4
Culture, Media & Sport	2.6	2.1	2.4
Work & Pensions	8.1	8.3	8.0
Scottish Executive	27.9	28.7	30.0
Welsh Assembly	14.6	15.2	16.0
Northern Ireland Executive	9.1	9.5	9.9
Northern Ireland Office	1.3	1.3	1.3
Chancellor's Departments	5.1	4.9	4.8
Cabinet Office	2.5	2.6	2.8
Independent Parliamentary Bodies	1.0	0.9	0.9
Modernisation funding	0.4	0.4	0.1
Reserve	1.3	3.4	3.7
Allowance for shortfall	-1.8	0.0	0.0
Additional Value for Money savings	0.0	0.0	-5.0
Total	**362.1**	**380.6**	**386.8**

Source: PBR 2008, Table B18. All figures are £ billion.

On the whole, comparing the Spending Review 2007 with PBR 2008, across the three years of the programme aggregate DEL has been increased slightly, and with expenditure originally budgeted for 2010/11 brought forward to 2009/10. This is in line with Alistair Darling's policy of accelerating expenditure to stimulate a recovery from recession.

In theory, DEL covers all departmental running costs and programme expenditure. Annual Managed Expenditure (AME) covers items which are "not being reasonably subject to close control over the three year period". The items which fall into this category are:

- Social security benefits.
- Tax credits (these have to be added back in because elsewhere Gordon Brown chooses to count them as "negative taxation" instead of welfare benefits, which is what they really are).
- Common Agricultural Policy payments (NB: in the published National Accounts this amount is treated as a direct payment to farmers from the EU and so does not count as "public spending").
- Net public sector pensions, i.e. pensions paid out less contributions paid in.
- National Lottery funding received for "good causes".
- Non-cash expenditure items, i.e. depreciation, accounting provisions and the cost of capital (the Treasury requires departments to recognise a notional cost for the use of public assets as if it were a company which had acquired them via a loan).
- Other expenditure by departments not identified elsewhere in AME.
- Net payments to the European Union (NB for expenditure planning purposes, part of the UK's contribution to the EU Budget is treated as a form of overseas aid, so this figure will usually be an under-estimate).
- Locally financed expenditure, i.e. spending by local authorities which they have raised themselves through, e.g. non-domestic rates (the Scottish Executive counts as a local authority for these purposes, and if it ever uses its power to vary income tax rates north of the border, the revenue raised would be counted here).
- Central Government debt interest.
- Capital expenditure by public corporations which is not financed by central government.
- AME margin, which is basically a margin of error to provide spare cash should it be needed (and which tends to be a negligible amount).

- Accounting adjustments, which are non-cash items to reconcile what is really spent in TME with what is declared to be spent in the National Accounts (usually because the two sets of figures use different definitions).

Clearly, AME contains some significant items. Typically, about 40 per cent of TME will fall within this grouping and so outside Gordon Brown's framework for long-term stability in public expenditure.

The pre-crash anticipated expenditure levels of Spending Review 2007 can be compared with the revised projections of PBR 2008:

	2008/9	2009/10	2010/11
DEL	374.1	393.0	400.1
AME	248.9	260.8	281.7
Total Managed Expenditure	**623.1**	**653.8**	**681.8**
Change in DEL	+1.7	+3.5	-9.8
Change in AME	+3.8	+3.7	+13.3
Change in TME	+5.5	+7.2	+3.5

Source: PBR 2008, Table B16 compared to Spending Review 2007, Table B11. All figures are £ billion.

The AME changes are largely down to increases in social security benefits and interest payable on debt. The reduction in DEL for 2010/11 represents in part the acceleration of capital expenditure to earlier years, but it is still the case that across the 2007 Spending Review programme, total DEL will be lower than anticipated when the programme started. In other words, Alistair Darling is planning to make a spending cut.

Furthermore, the overall increase in TME compared to the original plans (£32 billion) whilst sizeable in no way compares to the amount of borrowing required even on the narrow PSNB measure (£301 billion). There can be no clearer evidence of the fragility of the public finances and the unstable nature of the Government's expenditure plans.

The budgetary framework

As part of its general do-gooding plans to change life for the better, New Labour came to power determined to construct "a policy framework that would deliver stability" (to quote Alistair Darling from his 2008 Mais Lecture). The Government duly implemented a Code for Fiscal Stability, legislated under the Finance Act 1998, which committed itself to conduct tax and spending policy in accordance with principles of transparency, stability, responsibility, fairness and efficiency.

Arguably, the Government has broken each principle consistently – and in the case of tax credits, simultaneously. The Code was another example of Early New Labour's touching faith that publishing an official document was tantamount to making something happen. It has become another victim of Late New Labour's cynical practice of mendacious distortion and brute suppression of inconvenient truths. Like the Treasury, we can ignore the Code for Fiscal Stability.

Of more significance were Gordon Brown's two Rules:

- *The* Golden *Rule*
  Over the economic cycle, the Government will borrow only to invest and not to fund current spending.
- *The* Sustainable *Investment Rule*
  Public sector net debt as a proportion of GDP will be held over the economic cycle at a stable and prudent level.

Both Rules ran into trouble, chiefly through the suspicion that an "economic cycle" had come to mean "whatever period of time is needed to ensure that the Government does not break either of these Rules". Following a period during which Alistair Darling dropped heavy hints about the need for "flexibility in a recession" they have been abolished in practice if not in theory.

Fiscal policy is now driven by a "temporary operating rule" *to set policies to improve the cyclically-adjusted current budget each year, once the economy emerges from the downturn, so it reaches balance and debt is falling as a proportion of GDP, once the global shocks have worked their way through the economy*. In other words: we will borrow a lot and spend it all now, and then slow down the growth in expenditure until we have paid it all back again. Apparently that will take until 2015/16, even though the recession is supposedly going to be over by the end of 2009.

In fairness to Gordon Brown, the actual Sustainable Investment Rule as originally promulgated does not include an express commitment to keep borrowing below 40 per cent of GDP. However he did foster the understanding that this would be his rule of thumb, and having crowed about keeping below this threshold during the good times, he deserves to suffer for breaking it during the bad times. The Government's favoured PSND measure is projected to go as high as 57.1 per cent of GDP by 2011/12.

I have never quite understood the magic behind a 40 per cent debt limit, either as a general economic policy or, more importantly, as a budgeting tool. Neither, for that matter, am I a great fanatic for balanced budgets, over the economic cycle or otherwise. I am more concerned about cash-flow and its management. The keystone of stability depends on the answers to two questions: can we pay for the debt we have incurred, and can we afford to service any new debt? Thus the most important factors are the interest rate which the Government must pay to borrow money, the revenue it can raise in taxes and what it plans to spend on anything else (with the implication that spending will be limited by tax revenue and interest rates). Therefore any "sustainable" threshold will vary from year to year, and any Rule which describes the threshold will be too complicated to explain. It is likely to cause more trouble than it is worth to bother with Rules.

The most effective route to fiscal stability is to have control of the Government's budget, and that means having spending departments which are managed by a value-for-money culture. The market will be able to anticipate the level of taxes and borrowing required and thus it will have

confidence in the economic environment. So will the public sector. As for whether there is a magic percentage of this or that factor: it is always easier to control a small budget than a large one.

What Parliament is told

Government departments may spend only money which has been voted by Parliament. Each year Departmental Estimates are presented and voted upon, ideally before the start of the financial year although in some cases Supplementary Estimates are presented during the year where it appears that the budgets are going wrong. Where a department over-spends its Estimates it has to seek an Excess Vote to ratify its breach of authority. Defra has had something of a problem in this area.

The most spectacular cock-up of all involved the Assets Recovery Agency. A specialist department established in 2003 to seize the ill-gotten gains of criminal gangs, the ARA was meant to be self-financing. However, it soon became clear that the ARA was unable to cover its own costs, and was in fact technically insolvent, so the primary legislation was amended in 2005 to enable it to retain funds and pay some of its expenses direct (instead of surrendering all proceeds up to the Treasury for re-grant). Unfortunately, someone in the ARA confused the difference between 'net' and 'gross' expenditure, with the result that the department was actually spending money in excess of its parliamentary authorisation for two years. A unit of crime-fighting financial specialists who are insolvent and spending public money unlawfully is not a great advertisement for Whitehall.

Following the end of each financial year, each department is required to draw up annual accounts, which are audited by the NAO. In theory, these accounts are now prepared along the same lines as a commercial company and they are known as resource accounts. There are statutory deadlines, just as there are deadlines for any company to file its accounts, but no direct sanction. The Home Office broke the rules for 2004/5.

The Estimates are presented to Parliament in the form of Requests for Resources (RfR). There are, it would seem, no firm rules as to how many RfRs each department will present. The items listed in each RfR do not match up with the DEL/AME budgets, and neither do they correspond directly to the official objectives for the department. The test would appear to be the ease with which the department can collect the data to prove that it has kept to its Estimates.

That is not, of course, how budgets are supposed to work.

Appendix VII: how to hide civil servants

The Cabinet Office is the nerve centre of Whitehall. Its website describes its overarching purpose as "making government work better".

The Gershon Review set a target for the Cabinet Office of a reduction of 150 civil service posts by 2007/8. On the basis of the resource accounts published for each year, it would appear that indeed there has been a consistent shrinkage of the Cabinet Office, and that they are well ahead of their target:

	31 Mar 05	31 Mar 06	31 Mar 07	31 Mar 08
Cabinet Office resource accounts staff	2,372	2,015	1,603	1,414

However this has actually been achieved by:

In 2005/6:

- Transferring around 300 civil servants in the Government Car & Despatch Agency to the Department for Transport.
- Redesignating civil servants in the Government News Network as employees of the Central Office of Information (which is a separate reporting entity).
- Transferring the support offices of the Whips to the Privy Council Office.
- Transferring the Government Social Research Unit to HM Treasury.

In 2006/7:

- Transferring the Media Monitoring Unit to the Central Office of Information.
- Redesignating 261 civil servants in the National School of Government as a new non-ministerial department with its own separate annual report and accounts.
- Transferring responsibility for civil service statistics to the Office of National Statistics.
- Transferring the Office of Public Sector Information to The National Archives.

In 2007/8:

- The Better Regulation Executive was moved to BERR.
- The Prime Minister's Delivery Unit was moved to the Treasury (Why?)
- Direct.Gov was moved to the Central Office of Information.
- The support staff for the whips and the leaders of the Commons and the Lords were moved in from PCO, and the DPMO was abolished and absorbed, but these were negligible changes.

- Two quangos were established outside the official accounting boundary (so their staff and costs are not reported in the CO annual accounts).
- The establishment of the Office of the Third Sector, a new unit within the CO, in May 2006, also saw the department's remit being expanded as responsibility for the Charity Commission moved across from the Home Office. To fully appreciate the true extent of the staffing level within the CO remit, these employees should also be added in.

When these changes are factored in, a rather different picture emerges:

	31 Mar 05	31 Mar 06	31 Mar 07	31 Mar 08
Cabinet Office whole remit staff count	2,819	2,641	3,098	2,721
Government Car & Despatch Agency	-	310	316	292
Net transfer of staff to other depts.				99
Total	**2,819**	**2,951**	**3,414**	**3,112**

A reported cut of 958 employees was, therefore, in reality an increase of 293 jobs.