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Country Visit Synopsis

Country Visited	United Kingdom
Purpose of the Visit	Component 3: Institutional Capacity Building Activity 3.4:Organise 3 five-day study visits (10 participants each) to OECD/EU member states and produce 3 country reports
Period	26.01.2014 – 01.02.2014
Participants	1. Kutluhan Taşkın, Ministry of Development 2. Melahat Kutlu, Ministry of Development 3. Mustafa Dinç, Ministry of Labour and Social Security 4. Hasan Hüseyin Erdoğan, Ministry of Energy and Natural Resources 5. Sibel Özmert Yılmaz, Prime Ministry, 6. Alpaslan Azapağası, Ministry of Justice 7. Davut Olgun, Ministry of Education 8. Emine Yetim, Ministry of Transportation, Maritime and Communication 9. İlker Bayram, Ministry of Culture and Tourism 10. Ahmet İnan, Ministry of Development
Presentations by	• Her Majesty's Treasury • Cabinet Office • Prime Minister's Delivery Unit • National Audit Office • The Office for Budget Responsibility • Department for Work and Pensions

Table of Contents

Note: since the late 1990s, many domestic policy responsibilities have been ‘devolved’ by the UK Parliament to semi-autonomous elected parliaments/assemblies and executive bodies in Scotland, Wales and Northern Ireland (see section II.4.2, below). Except where otherwise stated, the information in sections I and II of this paper, refers to the UK Government as a whole or, in some contexts, to England and Wales only.

I. General Information

I.2 Area

243,610 sq km (England, 130,280 sq km; Wales, 20,733 sq km; Scotland, 77,958 sq km; Northern Ireland, 14,150 sq km).

I.2 Population

63m (England, 53m; Wales, 3m; Scotland, 5.3m; Northern Ireland 1.8m). The population of London, the UK's capital city, is about 8.2m.

I.3 GDP and financial and budgetary situation

It should be noted that the figures cited here are averages, covering the UK as a whole. However, there are in practice substantial regional and local variations, particularly in respect of rate of economic growth, levels of wealth and personal incomes and levels of unemployment. For instance, the North of England has experienced much lower income levels and much higher levels of unemployment, and has been slower to recover from the recent economic recession than the more prosperous Southern, and in particular the South-Eastern, region of England.

As measured by its GDP, the UK has the sixth largest economy in the world and the third largest in Europe. In 2013, GDP: was £1.54[*] trillion and per capita GDP was £24.0K. Until recently, Government spending accounted for about 40% of GDP, but the economic impact of the recent recession, in particular the substantial debt legacy of bank nationalisations (see below) has increased the proportion to around 48%.

In the second quarter of 2008 – for the first time since 1990 - the UK economy entered a recession, generally attributed to the global financial crisis. The recession ended in the fourth quarter of 2009, after six consecutive quarters of negative economic growth. HM Treasury (the UK's Ministry of Finance) is currently estimating GDP growth at 1.4% in 2013 and is forecasting 2.5% in 2014. The beginning of the recession was accompanied and exacerbated by a domestic banking crisis, which led to the nationalisation or part-nationalisation of several major banks.

The recession led the Monetary Policy Committee of the Bank of England (which operates independently of ministers) to reduce the central bank interest rate very sharply. At the beginning of 2008, the rate stood at 5.25%; by the end of that year it had fallen to 2.0%;

[*] At the end of 2013, one British pound (£) was equivalent to US$1.66 and to €1.20.

further reductions followed and in March 2009, the rate fell to a record low of 0.5% - where it has remained ever since.
Unemployment rose from 1.6 million in January 2008 to nearly 2.5 million by October 2009. The high level of youth unemployment, particularly in urban areas in the North of the UK hit by a steady decline in mining and manufacturing industries, has been (and remains) a particularly challenging problem. By October 2013, UK unemployment had fallen to 7.4%, meaning that the workforce stood at more that 30 million for the first time. It is widely predicted that the unemployment level is set to fall further during 2014, perhaps to as low as 7.0% by the end of the year. The Governor of the Bank of England has indicated that the central bank interest rate will not be raised until unemployment falls below 7.0% - and it now looks as though this threshold may be crossed somewhat sooner than 2016, which had been anticipated by the Bank as the most likely date for the next adjustment of rates.

For many years the Bank of England's target for inflation has been set at an upper limit of 2.0% per annum, but this level has regularly been breached. The annualised rate of inflation (as measured by the official Consumer Price Index, CPI) was 5.2% in September 2008. Continuing recessionary pressures pushed it sharply downward, to a low level of 1.1% in September 2009 but low borrowing rates contributed to a gradual increase in inflation, which currently (end of 2013) stands at 2.3%. The Treasury's forecast for 2014 is around 2.4%, though it acknowledges that there is considerable variation in the estimates of different independent economic forecasters.

I.4 Main economic and commercial characteristics

The UK has a technically advanced, developed economy, dominated by the service sector (in particular, banking, insurance, business services, electronics telecoms and tourism), which accounts for 78.3% of GDP and employs more than 80% of the workforce. Financial services are particularly significant, with London ranking alongside New York as the world's largest financial centre. Manufacturing industries, particularly (aerospace, in which the UK ranks second or third in the world) and automotive manufacturing are also important, and the UK also ranks highly in the world rankings for pharmaceutical research and development. Agriculture (intensive and highly mechanized) employs only 1.4% of the workforce and contributes a mere 0.7% of GDP.

According to the most recent Treasury figures (July 2013), the United Kingdom's (UK) current account deficit was £59.2 billion in 2012, up from a deficit of £22.5 billion in 2011. The deficit in 2012 equated to 3.8% of GDP at current market prices, the highest since 1989 (4.6%). The trade deficit widened to £33.9 billion in 2012, from £23.3 billion in 2011. Britain's main trading partners are the other EU countries (headed by Germany), China and the USA.

Regarding natural resources, the UK has considerable, but declining, reserves of oil, gas and coal, but became a net importer of energy in 2005. There has been much recent political debate and controversy about energy conservation and about finding new, safe and environmentally 'friendly', sources of energy for the future – including continuing discussions about the development of 'fracking' (extracting gas by the hydraulic fracturing of subterranean rocks.

II. Government and Public Administration

II.1 Constitutional Structure (Head of State, Head of Government, Parliament, Judiciary)

It should be noted that the UK, unlike every other country in the world, apart from New Zealand and Israel, has no codified constitution, but it does of course have a 'constitutional structure', albeit an unusual one. Some important constitutional principles (for instance, those relating to the relationship between the UK Government and the 'devolved' governments of Scotland, Wales and Northern Ireland (see below) and the introduction of fixed-term Parliaments (see below) are set out in Acts of Parliament; but even though the subject-matter of such Acts may be constitutionally very significant, the Acts themselves are not constitutionally entrenched, and are therefore subject to amendment or repeal by subsequent Parliaments without recourse to special legislative procedures (such as a requirement of two-thirds majorities).

Other important constitutional principles, such as those defining the powers of the Queen as Head of State and her relationship with the elected Government, and the criteria for determining who is to become Prime Minister following a general election, can be found in non-statutory 'conventions', which are generally-agreed, but usually uncodified, 'understandings' among leading political actors and constitutional experts about how things should be done. This means that the ground rules for addressing novel constitutional circumstances (such as the emergence of a coalition government following the general election of May 2010) have usually to be agreed pragmatically, with little or any involvement of judges or lawyers.

But although there is no codified constitution, the UK is of course bound and sometimes constrained by its EU Treaty obligations and by rulings of the European Court of Justice. It is also bound by the European Convention on Human Rights, which was statutorily incorporated into UK law by the Human Rights Act 1998 and can be invoked in legal proceedings before the courts.

The constitutional structure is based upon a 'fusion' rather than a 'separation' of powers between the executive and the legislature: members of the political executive (Ministers) must, by convention, be members of one of the two House of Parliament – with the most important ministerial posts being held by members of the elected House of Commons, rather than by members of the non-elected House of Lords. The main elements of the constitutional structure are as follows:

1. **The Head of State:** The Head of State is a constitutional monarch, whose official duties are carried out entirely in accordance with the advice of the Prime Minister of the day. The present Monarch is HM Queen Elizabeth II, who succeeded to the throne on 6 February 1952, and was crowned on 2 June 1953. The Queen is also acknowledged as Head of the Commonwealth and is currently Head of State of 16 of the 53 member countries* of the Commonwealth.
2. **The Head of Government:** The Head of Government is the Prime Minister, currently David Cameron, MP. The office itself is not statutorily defined, but by convention, the Prime Minister, appointed by the Monarch following a general election (or on the resignation or death in office of a PM), is the leader of the largest political party in the House of Commons (though it is technically possible, if political circumstances seem to demand it, as last happened for a few years in the 1930s) for the PM to be the leader of a minority party in a coalition. In modern times, it became the usual practice for the PM to appoint a Deputy from among his or her senior party colleagues. The functions of this office have been rather vaguely and pragmatically defined, but it assumed greater significance when the general election of May 2010 resulted in the formation of a coalition government between the Conservative Party and the Liberal Democrat Party, and the latter party's Leader, Nick Clegg MP, became the Deputy Prime Minister.
3. **Parliament**: the UK has a bicameral (two-chamber) Parliament, comprising the elected House of Commons (650 MPs) and the non-elected House of Lords (about 750 peers, in several sub-categories). In the last 100 years, the House of Commons, underpinned by its electoral legitimacy has become the more authoritative of the two chambers of Parliament, with the House of Lords (not elected, and historically representative of a pre-democratic landowning aristocratic elite) nowadays having largely a revising and scrutinising role with respect to government policy and legislation. The Fixed Term Parliaments Act 2011 now means that the term of a Parliament is fixed at five years, ending the former situation whereby the Prime Minister could gain an electoral advantage by, in effect, choosing the date of a general election. The next general election is scheduled for May 2015. It should be noted that, although the UK Parliament has claims to 'sovereignty', with Acts of Parliament (in the absence of a codified constitution) being the highest form of domestic law, in practice it – and particularly the House of Commons, where the Government usually has a majority – is dominated by the Government of the day. It is the Government (whose ministers are themselves Members of Parliament) that initiates all significant legislation, and most of the Parliamentary timetable is taken up with Government business. MPs in the House of Commons, particularly on the Government side, are tightly controlled by party discipline, which means that the Government is able in practice to win nearly all significant votes. Many MPs attach particular value to participating in the work of one or more of the many Select Committees that scrutinise the performance of Government, which have all-party membership and, for much of the time, operate in a fairly non-partisan way. But although these Committees perform a valuable function by taking and publishing a lot of expert evidence and bringing important issues into the public domain, they can only offer criticisms and recommendations - and cannot usually force those recommendations on an unwilling Government that commands a majority in the House of Commons.

* Fiji is currently suspended from membership. Gambia withdrew from the Commonwealth in October 2013.

4. **The Judiciary**: the hierarchy of courts in the UK is headed by the UK Supreme Court, which has the ultimate appellate jurisdiction over all courts in the UK, apart from the criminal courts in Scotland.* Although ultimate responsibility for the administration of justice in England and Wales lies with the Ministry of Justice (which is also responsible for the prison system), great importance is attached to the independence of the judiciary from Government influence; and since the enactment of the Constitutional Reform Act 2005, responsibility for the day-to-day management of the courts and the judiciary has been transferred to the Lord Chief Justice, who is the head of the judiciary. Judicial appointments are made, from the ranks of senior practising advocates, by an independent Judicial Appointments Commission, whose recommendations are in practice almost invariably rubber-stamped by the Minister of Justice. There are in total about 5,600 salaried, full-time, judges in England and Wales, plus some part-time judges paid on a *per diem* basis. The number of professional judges would be much larger were it not for the fact that most petty crime is tried by benches of specially trained but not legally-qualified lay magistrates (about 27,000 in total) who serve on a voluntary basis without payment, other than for reimbursement of their out-of-pocket expenses.

II.2 Central Bodies (Head of State, PMO, Ministries)

1. **Head of State:** the Queen, as Head of State, acts wholly on the advice of the Government of the day. She has a small staff of personal advisers and secretaries, who liaise where necessary with the relevant Government Ministries. The Queen also has a weekly meeting, in strict confidence, with the Prime Minister and has full access to official papers.

2. **The Prime Minister:** the PM does not have a Department, as such. The idea of establishing a Prime Minister's Department has been discussed from time to time, but it has generally been concluded that PMs can operate most effectively without being burdened with the tasks of overseeing such a department. In the PM's headquarters, at No. 10 Downing Street, central London, there is a small secretariat, headed by a high ranking Principal Private Secretary, and a team of hand-picked special advisers appointed on temporary contracts both from within and from outside the mainstream Civil Service. The PM's staff liaise with Ministries as necessary on the policy matters for which those Ministries are responsible. At present (January 2014), the PM has 19 special advisers and the Deputy PM has 14. The PM works very closely with the Cabinet Secretary – the top Civil Servant who heads the Cabinet Office and serves and advises the Cabinet collectively.

3. **Ministries:*** There is no fixed number of Ministries: incoming Prime Ministers usually make some redistribution of departmental functions, to reflect the new Government's policy priorities. The present Cabinet (see Annex A) has 22 members, which is typical of its size during the past few decades. The Cabinet always includes a few Ministers with non-departmental or co-ordinating functions (.g. the Leader of the House of Lords), so the number of 'spending' Ministries with specific policy functions is about 17 or 18.

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* It should be noted that the Scottish legal system and its judiciary are largely separate, and in some respects significantly different, from the rest of the UK.

* Note on terminology (see Annex): the main UK ministries are usually called 'government departments' (e.g. the Department for Education and Skills). Most of the Cabinet Ministers heading the main departments are designated as Secretaries of State. The latter should not be confused with Permanent Secretaries, who are top-ranking civil servants.

Most of these spending departments are headed by a Secretary of State of Cabinet rank, supported by a team of three to six junior Ministers (Ministers of State and Parliamentary Under-Secretaries) who are assigned specific duties by, and report to, the Secretary of State. The two most powerful departments, at the heart of central Government, are the Cabinet Office (see above) and the Treasury. The latter, uniquely, has two ministers in Cabinet, the Chancellor of the Exchequer and the Chief Secretary to the Treasury. Both the Cabinet Office and the Treasury are small departments, with a high proportion of very senior Civil Servants. Since the late 1980s, the much larger spending departments, responsible for managing and delivering public services, operate extensively through decentralised and semi-autonomous executive agencies, headed by Chief Executives, usually on five year contracts (and sometimes recruited from outside the Civil Service), who are answerable to Ministers but are also personally responsible for the agency's budget and for running and delivering a good standard of service in accordance with agreed business plans. To give an example: the Department of Justice's responsibilities for overseeing the courts and the prisons and probation service are entrusted to two large agencies – the National Offender Management Service and the Courts and Tribunals Service.

II.3 Civil Service (number, assessment, training, promotion)

An important point needs to be made at the outset. This section of the paper concerns the UK Civil Service - but: it must be borne in mind that the term 'Civil Servant' has a much narrower meaning than it does in many other countries, including most of the UK's European neighbours. The UK Civil Service consists only of the non-political (i.e. excluding Ministers) employees of central Government Ministries and their agencies. The total size of the wider public service must take account, in particular, of local Government staff (approximately 2m) and the employees of the National Health Service (more than 1m). The total size of the mainstream public sector is approximately 4.5 million, but the Civil Service – covered in this section of the paper - accounts for only about 9% of that total.

It should also be noted that the Civil Service was only put on a statutory basis very recently, in Part 1 of the Constitutional Reform and Governance Act 2010.*

1. **Civil Service Numbers:** since it came to office in 2010, the Government, in response to the recession, has pursued a policy of economic retrenchment, including big cuts in departmental budgets - resulting in cuts in staff numbers across the whole of the public sector. This means that the numbers are in flux, and that it is difficult to give precise figures as of now. Recent official statements suggest that the size of the Civil Service has been falling - from 480,000 in March 2010 to a predicted figure of 380,000 by March 2014.
2. **Assessment:** Civil Servants are subject to regular performance appraisals by their senior managers. The performance planning and appraisal arrangements for senior Civil Servants are set out in a manual published by the Cabinet Office.**

*The text of this Act can be found at: http://www.legislation.gov.uk/ukpga/2010/25/contents
** See http://www.civilservice.gov.uk/wp-content/uploads/2012/04/Performance-Management-Arrangements-for-SCS-2012-13-HR-Practitioners-Guide.pdf

Senior Civil Servants are appraised using a competence-based framework on an annual basis, but also with mid-year reviews on the achievement of objectives and competencies. These assessments provide the basis for salary awards. The competency framework assesses senior Civil Servants according to core Civil Service values and includes assessment of:

- Analysing evidence and thinking strategically
- Achieving commercial outcomes
- Managing a quality service
- Delivering at pace
- Seeing the "big picture"
- Leading and setting direction
- Making effective decisions
- Communicating effectively
- Managing and engaging people
- Managing finance and resources
- Managing and supporting programmes
- Demonstrating specific professional skills related to their particular Ministry, e.g. legal expertise, economic and financial skills, etc.

3. **Training:** the UK Civil Service has a much weaker tradition of pre- and post-entry training than is found in many other European countries. There is a strong 'generalist' tradition, dating back to the mid-19th century, which favours the recruitment of senior Civil Servants with good university degrees, but not necessarily degrees in subjects that are directly relevant to the practice of public administration. Civil Servants with professional qualifications (in law, economics, medicine, etc) are also recruited in considerable numbers, but they are assigned to separate professional groups and classes. Most post-entry training of generalists is based within departments and has taken the form of 'learning by doing', supplemented *ad hoc* by attending courses as considered necessary. In 1970, a Civil Service College was established, mainly to provide short induction courses for new entrants and more advanced and more specialised courses for established Civil Servants, including a Top Management Programme for those about to be promoted to top level posts. The College went through several changes of name and status, and was latterly called the National School of Government. But it was abolished in March 2012, mainly on cost-saving grounds. A few of its functions were taken over by a new body, Civil Service Learning, based in the Home Office.
4. **Promotion and Recruitment:** the principle of recruitment and promotion strictly on the basis of merit is a key feature of the core Civil Service, and adherence to this principle is overseen by the independent Civil Service Commissioners. This office dates back to the mid-19th century, and it was put on a statutory footing by the Constitutional Reform and Governance Act 2010. Although there is central oversight by the Commissioners and by the Cabinet Office, in practice most human resource issues, such as promotion and grading, have been devolved to the individual departments and their agencies.
However, for the most senior Civil Servants (in the region of 600 posts) at Permanent Secretary and Director level, the Civil Service Commissioners chair the selection board and approve the job description and the job advertisement. Jobs at this level are all advertised publicly and selection boards include an independent person from outside

the Civil Service. The Prime Minister can decide not to go ahead with an appointment if he or she wishes but in practice this is very rare and has only happened once. On that occasion, the Civil Service Commission had to run a new competition. Recruitment is based on a defined range of competencies. The Civil Service Commission reports annually to Parliament's Public Administration Select Committee. There are also separate arrangements for recruitment to the "Fast Stream", which recruits 650 young "high fliers" a year, following a rigorous selection process consisting of online tests, an assessment centre and structured interviews

5. **Accountability:** the top Civil Servant in each Ministry (known as the Permanent Secretary) is accountable to his or her Minister and Ministers, in turn, are accountable to Parliament. Permanent Secretaries are accountable for delivery of the business objectives of their Ministry, including a published Business Plan and/ or a Structural Reform Plan. They are also held accountable, to their Minister and to Parliament, for the efficient operation and financial management of the Ministry. They are obliged to manage public money prudently and to ensure value for money. Permanent Secretaries are personally responsible for controlling costs and managing budgets to ensure maximum value to the taxpayer.

II.4 Reforms to the structure of Government (past, in progress, planned)

Examples of particularly significant areas of structural reform in recent years have included the following:

1. **'New Public Management':** the many important public sector reforms to which commentators have attached the label of 'new public management' (NPM), originated during the prime ministerial term of Margaret Thatcher in the 1980s. Although the term NPM is not used much nowadays, it has had a profound effect on the theory and practice of public administration. NPM included many elements – in particular:
   - A strong emphasis on performance targets and systematic performance measurement in all parts of the public sector;
   - Extensive privatisation and outsourcing of publicly-owned utilities (including energy, transport, water, telecommunications) and public services;
   - Creation of specialised executive agencies inside Ministries to deliver public services (see above);
   - Launch (in 1991) of a Citizen's Charter initiative, eventually covering the whole public service, identifying the users of public services as 'customers' who are entitled to high standards of service as set out in the relevant sectoral charters (e.g. heath, transport, education, the administration of justice, etc);
   - Extensive use of Public-Private Finance contracts (the Private Finance Initiative, PFI), involving commercial partnerships between the public sector – particularly for major infrastructure projects, such as roads, railway links, hospitals and schools.
2. **Devolution:** the transfer by the UK Parliament of many domestic policy responsibilities (e.g. in education and health) to separately-elected parliaments/assemblies in Scotland and Wales, by the Scotland Act 1998 and the Government of Wales Act 1998, both of which were enacted after the holding of referendums in the two regions. Northern Ireland also has a 'devolved' Government, though this came about through a separate (and more politically contentious) process and for different reasons. In November 2014,

the Scottish Government is to hold a referendum on its proposal to create an independent Scottish state, separate from the United Kingdom.

3. **Modernisation of the Courts:** in the last two decades, many steps have been taken to modernise the administration of justice and make it more efficient, more transparent and more accessible to the public. Some of these reforms have been incremental – e.g. streamlining civil and criminal procedure, and making the language used in legal proceedings less technical. Others have been more radically structural – in particular, the changes that followed the enactment of the Constitutional Reform Act 2005 (see section II.2.4, above), which paved the way for the establishment of the UK Supreme Court and transferred responsibility for managing and regulating the judicial branch of Government to the judges themselves, headed by the Lord Chief Justice.
4. **'Digital Government':** there have been extensive moves throughout the public sector to make public services accessible online – e.g. for filling in tax returns and paying taxes and charges; vehicle licensing etc. A Government digital service, DirectGov (based in the Cabinet Office) was established in 2004 to provide a single point of access to public sector information and services. This was replaced by another digital service, Gov.uk, in October 2012.
5. **Civil Service Reform:** in June 2012, the Government published a *Civil Service Reform Plan*,[*] which, among other things proposes the establishment of 'extended ministerial offices' (somewhat similar to the *"cabinet du ministre"* found in many continental European countries); giving Ministers an increased role in the appointment of departmental Permanent Secretaries; and enabling Ministers to bring into their departments a limited number of external appointees without going through open competition procedures.
6. **Part-privatisation of the Postal Service:** in October 2013 under the provisions of the Postal Services Act 2011, the Government launched a public floatation of the majority of its shareholding in the Royal Mail.

II.5 Key issues, lessons learnt, trends

1. **Upsides and downsides of target-setting:** a continuing preoccupation with performance target setting (often linked to funding) has sometimes led public bodies to manipulate – and sometimes even to falsify - their performance data in ways that are detrimental both to public accountability and to the quality of the service that they are supposed to provide. Recent examples have included concerns that some police forces, under pressure to show that crime rates are falling, have downgraded some reported crimes to less serious categories, or have failed to record reported crimes altogether; and cases where hospital managers have become so focussed on hitting Government targets that staff have been put under pressure to falsify patients' records, or even to postpone necessary treatments.
2. **Is digitalisation a solution to all problems?:** while making more and more services available online has certainly had important benefits in terms of efficiency and accessibility of public services, the main beneficiaries have tended to be educated, middle-class people, who have ready access to computers and the expertise to make use of them, rather than poorer and less well-educated people who have most need of

[*] http://www.civilservice.gov.uk/wp-content/uploads/2012/06/Civil-Service-Reform-Plan-acc-final.pdf

public services. Eagerness to make use of new IT systems has resulted in some very expensive and disruptive technical and procurement problems – e.g. the unsuccessful plan to establish a national database of NHS patients' records.

3. **Too many changes, too frequently:** it has been a regular complaint by professionals working in the public services that politicians (of all parties) have been over-keen to make organisational changes, before a previous set of reforms has had a chance to bed-down. Such changes are expensive, can be damaging to morale - and those given the task of managing such changes are uncomfortably aware that the changes they are making are likely to be changed again when there is a change of Minister. This phenomenon has been particularly noticeable in the education and health sectors**.**

4. **Lack of trust between Ministers and Civil Servants:** the continuing reforms mentioned in II.4.5 above are symptomatic of a tendency for Ministers to blame their Civil Servants for policy failures. While some complaints are probably justified, there has been a tendency for Ministers themselves not to give sufficient thought to the administrative feasibility of their favoured projects. The current reform proposals are intended to give Ministers more control over their departments, but this has some implications for Civil Service neutrality that need to be thought through. Meanwhile, the burdens on the Civil Service have been increased by continuing budget and manpower cuts – the cost-saving purpose of which has to some extent been undermined by Government having often to buy in expensive advice and management expertise from outside the service.

5. **Future of the United Kingdom:** if Scotland votes for independence in the referendum next November (see II.4.2, above), this will have a big social, cultural and economic knock-on effect on the rest of the UK.

6. **Cuts in public spending:** the continuing policy of substantial public sector spending cuts (particularly cuts in welfare entitlements) in the wake of the recent recession is having a huge impact on services across the whole public sector. Maintaining, the quality of services, particularly for the poor, the sick and the elderly remains the biggest challenge for Government – and will inevitably be a dominant feature of political debate and controversy in the run-up to the next General Election in May 2015.

III. The Process of Strategic Planning and Management

III.1 History of Strategic Planning in the UK

The UK Civil Service has horizon-scanned (looking forward for strategy and policy development) for hundreds of years. According to historian Lord Hennessy, the first horizon scanner was Captain Fitzroy, who persuaded the Government to set up the Meteorological Office in 1854. The first organisation to horizon scan in the modern form was the Committee of Imperial Defence in its analysis work in 1902. Lord Beveridge[1] used horizon scanning to underpin his blueprint for the welfare state in 1948. In 1959, Harold Macmillan[2] commissioned a 'Future Policy Study' to plan where Britain would be by 1970. It was accurate in many areas, including predicting industrial decline and isolation for the UK if it remained outside the European Union.

Strategy development progressed to **The Prime Minister's Strategy Unit** which was part of the Cabinet Office. It was formed to provide a clear focus for more centralised strategic thinking and policy analysis formulation and development to avoid duplication and to ensure cross-cutting issues were integrated across Government. It began operating in July 2002. The Strategy Unit reported through the Cabinet Secretary and operated during the premiership of Prime Ministers Tony Blair and Gordon Brown until its functions were transferred to other units in the Cabinet Office of Prime Minister David Cameron in November 2010.

The purpose of the Strategy Unit was to provide in-depth strategy advice and policy analysis to the Prime Minister on key priorities. Tony Blair said that the Strategy Unit would "look ahead at the way policy would develop, the fresh challenges and new ideas to meet them".[1] In this respect it had many similar responsibilities to the Central Policy Review Staff which served successive Governments between 1973 and 1982. The Strategy Unit had four main roles:

- undertaking long-term strategic reviews of major areas of policy
- undertaking studies of cross-cutting policy issues
- working with departments to promote strategic thinking and improve policy
- providing strategic leadership to social research across Government.

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[1] **William Henry Beveridge, 1st Baron Beveridge** KCB (5 March 1879 – 16 March 1963) was a British economist and social reformer. He is best known for his 1942 report *Social Insurance and Allied Services* (known as the *Beveridge Report*) which served as the basis for the post-World War II welfare state put in place by the Labour government elected in 1945.

[2] **Maurice Harold Macmillan, 1st Earl of Stockton**, OM, PC, FRS[2] (10 February 1894 – 29 December 1986) was Conservative Prime Minister of the United Kingdom from 10 January 1957 to 18 October 1963.

The Strategy Unit varied in size, having somewhere between forty-five and ninety staff. The Unit traditionally drew in "high fliers" from academia, the financial sector, top consultancy firms and think tanks and from the Senior Civil Service. The Strategy Unit worked closely with the No.10 Policy Unit which often commissioned topics for its strategy reviews.

The Unit had a project-based approach to developing strategy. Projects announced to Parliament and short papers and reports outlining the scope of each project (including those produced by the Performance and Innovation Unit) were published on the Strategy Unit's website. Multi-disciplinary teams were tailored to the needs of each project and made up of Civil Servants and a wide range of people from outside Government, including those responsible for implementation and delivery. Through rigorous analysis the Unit used an evidence-based approach involving stakeholders early on in the process to achieve sustainable change.

III.2 Lead Body and Co-ordinating Bodies

The Strategic Capability Team

Established in 2003, the Strategic Capability Team are dedicated to fulfilling the Strategy Unit's remit to work with departments to promote strategic thinking and improve policy making. In addition to promoting strategy best practice through coaching, training and networks, the team are focused on working with departments to help them assess and improve their ability to create implementable strategy and meet their most important strategic challenges.

Government Chief Social Researcher's Office

The Government Chief Social Researcher's Office (GCSRO) was set up in October 2002 to provide leadership for social research across government. It aims to co-ordinate research planning and access to research knowledge across government, and ensure high skill levels and quality standards.

The **Number 10 Policy Unit** is a body of policymakers in 10 Downing Street. Originally set up to support Harold Wilson, a former Labour Prime Minister, in 1974, it has changed to suit the needs of successive Prime Ministers, staffed variously by political advisers and Civil Servants.

The Coalition Government of May 2010 disbanded two major parts of central infrastructure, the Prime Minister's Delivery Unit (PMDU) and Prime Minister's Strategy Unit (PMSU), as part of the Prime Minister's agenda to reduce the number of special advisers and end micro-management of the Civil Service (known as "Whitehall").[1] In their place, a strengthened Policy and Implementation Unit was launched in early 2011, staffed wholly by Civil Servants and reporting jointly to the Prime Minister and the Deputy Prime Minister under joint heads Paul Kirby[2] (Policy) and Kris Murrin (Implementation).[3] Members of the Policy Unit in 2010 represented different sectors of Government.[3] A new board was announced in October 2013[4].III. 3 The Strategic Planning and Management Cycle

An Introduction to Strategy in Government

Successive Governments set and publish strategy and policy through their manifestos. The current UK Coalition Government set out their programmes in a policy document[5]. It is the responsibility of various Ministries and Agencies to develop strategies for the implementation of those policies through consultation with key stakeholders and representatives of other interest groups. This is completed through a series of formal and informal communications with the public and registered organisations representing citizens, through consultative meetings and mechanisms like the internet.

Each Ministry consults and submits through its respective Minister papers or policies to Parliament for debate and enactment. The Department for Business Innovation and Skills (BIS), whilst having its own mandate, also has responsibility for testing many cross-cutting policies for other Ministries, Departments and Agencies. Annex B provides some examples of departments, policies and who and how they consult.

Developing guiding principles

The Government's strategy work aims to shape long term direction and approach. Rather than just being a collection of good proposals, strategies aim to establish underlying principles that provide a coherent reference point for future decision making. Guiding principles form the foundation for Government action and provide a consistent basis for the ongoing development of policies capable of delivering strategic objectives in a changing world. Establishing a set of guiding principles is pivotal in the strategy development process between reviewing the world as it exists today, and starting to define the desired state of the future. There are a number of key considerations:

- **Rationale for Government Intervention**

  An evaluation of the **rationale for Government intervention** should clarify the nature of the problem, and the role that Government can play in addressing it. Exploring the root causes of the problem helps to highlight why Government action may be needed, allowing the benefits of intervention to be weighed against its potential costs and the distortions it may cause.

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[3] Up to 2013 the members were [1]Susan Acland-Hood (Home Affairs), Paul Bate (Health and Adult Social Care),[4] Chris Brown (Education), Richard Freer (Defence),[5] Tim Luke (Business and Enterprise),[6] Michael Lynas (Big Society)[7] and Ben Moxham (Energy and Environment).[8] The Unit is supported by the Research and Analytics Unit.[9]

[4] Isabel Hardman (15 October 2013). "New Number 10 policy board announced". *The Spectator*. 19 November 2013

[5] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/78977/coalition_programme_for_government.pdf

- **Existing Government Values and Principles**

  The values and principles already established and held by Government are identified. For example, the **Principles of Public Service Reform** set guiding principles that additional strategic thinking must either adhere to or explicitly challenge. This includes principles explicitly or implicitly recorded in manifestos, Spending Reviews, Budgets and White Papers. In addition to centrally defined principles, relevant department-specific values and principles are also sought out and evaluated to assess their bearing on future strategic direction.

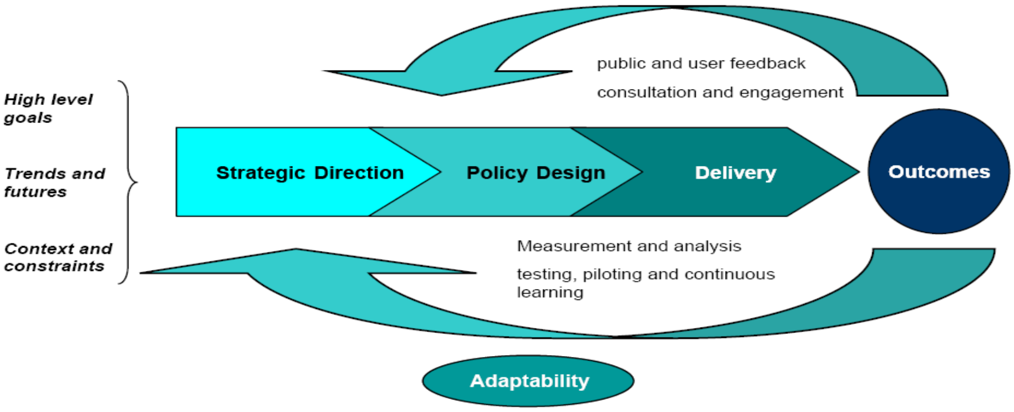
- **Public and Political Will**

  Effective **stakeholder engagement** and participation throughout the strategy development process is central to gauging accurately public opinion and common ground in the political arena.

As a rule, the best strategies in Governments and public services are:

- clear about objectives, relative priorities and trade-offs
- underpinned by an understanding of causes, trends, opportunities, threats and possible futures
- based on a realistic understanding of the effectiveness of different policy instruments and the capacities of institutions (strategies that work well on paper but not in practice are of little use)
- creative - designing and discovering new possibilities
- designed with effective mechanisms for adaptability in the light of experience
- developed with, and communicated effectively to, those affected by the strategy or involved in its funding or implementation.

Some strategies are very precisely defined and imposed top-down through organisational hierarchies. Others emerge in a more evolutionary and co-operative way from discussions, experiments and learning. In either case, taking a strategic approach ensures that decisions on strategic direction, policy design and delivery are seen as an end-to-end process of change management, with constant testing, feedback, learning and improvement. In a democracy, the end purpose is to create **public value** – services and outcomes that are valued by the public. Policies need to be developed within the framework of a longer-term strategy, taking into account the practicalities of implementation. Strategies need to be adaptable, with quick feedback and effective information flows to respond to new information, and take account of changing circumstances or unexpected events.



The Relationship Between Strategy and Policy

The terms strategy and policy are used in many different ways, and sometimes interchangeably. For the purposes of this guide, the following definitions are used:

- **Strategy** is the overall process of deciding where we want to get to and how we are going to get there.
- **Strategic direction** describes the desired future and sets out what needs to be achieved in order to bring it about. It provides the guiding principles that give context and coherence to action.
- **Policy** provides the means of moving in that direction – and often a number of policies need to work together to deliver particular strategic outcomes. Policy design work is concerned with identifying how to achieve strategic objectives, selecting the most suitable policy instruments for doing this, and detailing how these instruments will work in practice.

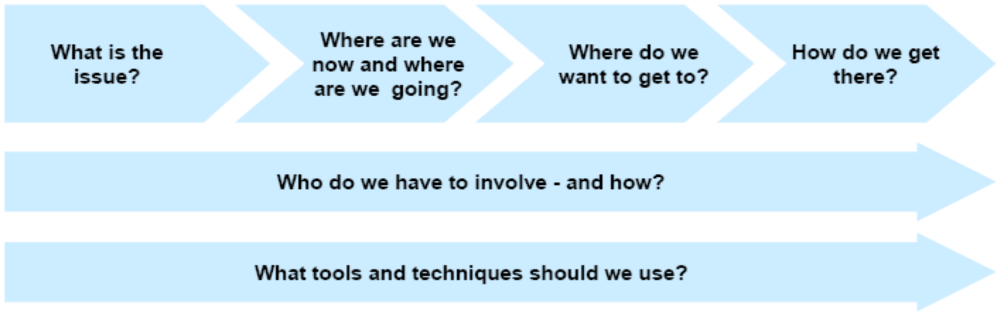
The relationship between strategy and policy is very close, and should be highly interactive. Strategies should be developed together with a realistic idea of how they might be realised, and policies should exist within a strategic framework that explains how they contribute to desired outcomes. Close integration will help to ensure that strategies are implemented using the most suitable policies, and that different policies are not contradictory, but work together towards strategic outcomes.

The Relationship Between Strategy and Delivery

Strategies and policies that are not deliverable are of little use. Strategy work needs to involve frontline practitioner knowledge from the outset, and proceed grounded in a realistic understanding of delivery capability. Feedback mechanisms are needed from delivery back into strategy and policy design in order to create adaptable learning systems that can evolve in the light of experience and unexpected results.

Questions for Strategy Development

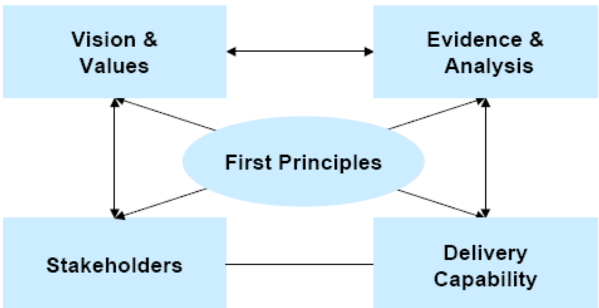
As the underlying framework that guides the Government's thinking and action, strategy is concerned with asking and answering a number of questions. The diagram below demonstrates that while strategic issues may be highly complex and ambiguous, the questions needed for strategy development are searching yet fundamentally simple. This does not detract from how difficult it may be to answer the key questions, but provides a valuable anchor at times when the complexity is overwhelming.



The first four questions (across the top of the diagram) cut to the heart of strategy development by establishing an understanding of the world as it is today and determining the desired state of the future. The further two questions (underpinning the process) recognise that effective strategy development cannot occur in isolation, but must occur collaboratively using open and transparent methods and approaches. These questions are closely mirrored by the typical phases of a **strategy development** project and highlight the importance of the full range of **strategy skills**.

Components of a Strategic Approach

In practice, strategic thinking may not be as linear as the above questions suggest, but may involve a more iterative consideration of a number of key components.



- **Vision & Values**: a vision of the desired state of the future founded on Government's wider values and principles that sets priorities, recognises trade-offs and describes the relationship to and fit with strategy in other policy areas.

- **Evidence & Analysis**: an understanding of the current situation, trends and likely states of the future, together with their drivers and causes, and a realistic evaluation of the effectiveness of different policy instruments based on broad evidence including economics, science, social research, and statistics and placed within a context of benchmarks and international comparisons.
- **Stakeholders**: a deep appreciation of their views, concerns and perspectives and a plan for how they should be involved in strategy and policy development, and the role they may play in delivery.
- **Delivery Capability**: an evaluation of the delivery system, and the culture and available resources of organisations within it that highlights potential barriers to change and successful delivery.

Strategic Solution Generation

Implicit in adopting a strategic approach is a rational and reasoned process for developing solutions. In contrast to an ad-hoc approach that is likely to result in a more 'random' set of solutions, a strategic approach is underpinned by **guiding principles** and a set of **appraisal criteria** that frame the generation and appraisal of alternative options.

The appraisal criteria that are used for this process are applicable to all decisions about Government action, and address the suitability, feasibility and acceptability of each option:

- **Suitability** – will the proposed actions address the key issues and deliver desired outcomes?
- **Feasibility** – will it work with the current or potential system capabilities and resources?
- **Acceptability** – is there sufficient political and public support to legitimise the proposed actions?

(see Annex D).

Building Strategic Capability

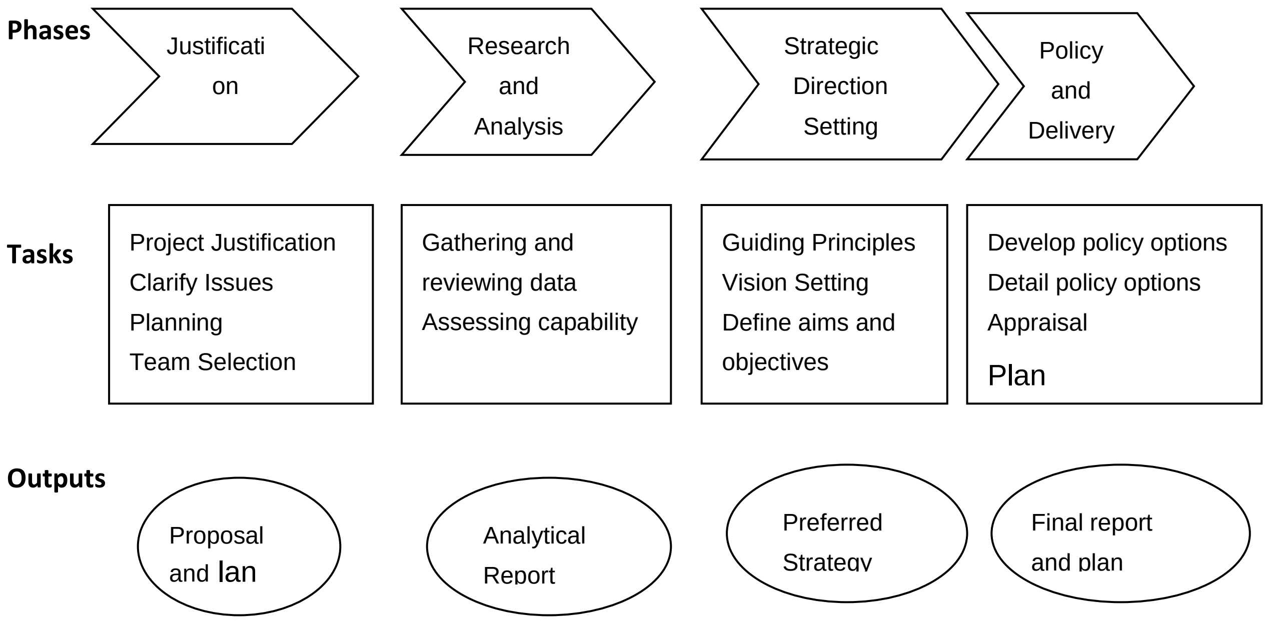
Building strategic capability, both in terms of the ability to develop strategies and the ability to maintain a strategic perspective (see Annex C) in day to day operations, requires a focus on creating:

- demand for better strategy work from Ministers, Chief Executive Officers, Directors, and senior officials
- a culture of bottom-up challenge that encourages strategic thinking
- organisational structures and processes which reinforce demand for a strategic approach
- an evidence base that provides an accurate understanding of issues and how to respond them

- skilled and confident people with diverse experience and access to best practice resources.

Strategy Development

Although the process of developing strategy in Government is complex and often iterative in nature, strategy projects tend to naturally move through a number of phases. The framework below describes these phases together with typical tasks and example outputs. The management issues and questions that arise at each phase are also highlighted. In practice the phases are unlikely to be entirely discrete and sequential, tasks may actually span across phases, and phases may need to be revisited as the true complexity of the project unfolds. The need to challenge, the space to think and the commitment of stakeholders are essential to question conventional thinking and generate change.



Monitoring and Evaluation (M&E)

Monitoring and evaluation is carried out by individual Ministries and Agencies either through their own annual reports and regular statistical and other qualitative data analysis. Major evaluations may also be outsourced to specialist public or private companies to undertake wider reviews or censuses. The Treasury is responsible for reporting to Parliament on Government expenditure as are other Ministries, which are required to report on the success of policy to various Cabinet or Parliamentary Committees as well as to the Public Accounts Committee on the efficiency and value for money of policies and other Government interventions.

The National Audit Office (NAO) focuses on the important role of evaluation in policy development. It provides an independent evaluation of all Government activity and reports to Parliament on the cost effectiveness of Government policy and Ministries' implementation plans. These cover Government spending, taxation and regulation, across the main Ministries and some of their related bodies.

III.4 Key Issues, Lessons Learnt, Trends

Strategy work needs to be informed by the highest quality and most up-to-date data and knowledge possible. Those involved in strategy work need to be aware of the breadth of data types and sources available, and be 'intelligent consumers' to know how to bring it to bear in a timely fashion to inform their thinking.

However, strategic thinking should not be paralysed by the absence of perfect information. Instead a pragmatic approach is needed to make judgements and take decisions based on the data available at the time. Strategies need to be adaptable enough to respond to new data as it emerges.

There is an ever-growing trend for strategy to be developed in consultation with stakeholders. Technicians, specialists (financial economic, scientific etc.) as well as the public and communities as a whole are being involved to ensure that strategy and policy meet the demands of the public, the business community, civil society organisations, etc.

Another trend in Government strategy making is the move from centralisation to decentralisation and back on numerous occasions as successive governments have tried to rectify 'faults'. Centralisation can lead to disenfranchising the wider community with multi-layered government sometimes failing to communicate and co-ordinate. Decentralisation can have the opposite effect in creating dysfunctional, fragmented and conflicting policy implementation. The increased use of technology has inevitably made communication easier and is providing more opportunities to involve a wider audience.

The current trend is for less centralised formulation of policy, with the centre - the 'Prime Minister's Office' - setting the main direction and leaving individual Ministries and departments to take responsibility for policy development, planning and implementation. Similarly, there is a greater emphasis on autonomy for local government, known as "localism".

References:

- The Strategy Unit discussion paper **Creating Public Value** describes the concept of public value, and how it can be used to think about the goals and performance of public policy.
- The **Strategy Survivors Guide** – UK Prime Minister's Office 2004.
- CIPD Journal Article '**Looking beyond the horizon'** Joshua Chambers 25 April, 2013.
- The **Green Book** from HM Treasury – supporting the appraisal of proposals and evaluation of activities.
- **Policy Hub** and the **Magenta Book** from GCSRO – encouraging the use of research and evidence in policy making.

- **Successful Delivery Toolkit** and **Gateway Process** from the Office of Government Commerce – supporting the management of procurement and delivery programmes and projects.

IV. The Process of (Performance) Budgeting in the UK Public Sector

IV.1 History (key events related to the Budgetary Cycle in the UK)

The word budget comes from the medieval French “bougette”, meaning little bag. The origins of the budget concept go back to the Normans 1066- 1154; the Normans maintained both a Treasury and an Exchequer. The word 'exchequer' comes from the Latin 'scaccarium', meaning a chessboard. The name was given to the court dealing *with the King’s finances because counters were moved on a square table to represent* different amounts of spending.

In the United Kingdom the first annual budgets date from the 1720s, and income tax was first introduced in the 1798 budget by the then Prime Minister, William Pitt. At that point income tax was a temporary measure to raise funds to fight Napoleon. However, income tax is still a temporary tax – it expires each year on 5th April. For up to four months until the Finance Act becomes law, the Provisional Collection of Taxes Act 1913 ensures that taxes can still be demanded.

In 1866 the Government introduced the Exchequer and Audit Departments Act, which set out the framework for public expenditure control and accountability, the duties of the Comptroller and Auditor General (C&AG) and provided for the audit of accounts. The Exchequer and Audit Departments’ Act of 1921 introduced the obligation for the C&AG to report to Parliament as to whether the voted money had been used in accordance with Parliament’s wishes. The C&AG further developed to the current role through the National Audit Act of 1983, making the C&AG independent of the Executive, and established the National Audit Office with powers to look at value for money of policies and expenditure in the public sector.

Responsibility for the implementation of monetary policy transferred from the Treasury to the Bank of England in 1998 through the introduction of “The Code for Fiscal Stability” and the Bank of England Act.

In 1998 the then Government introduced the first Comprehensive Spending Review, which set firm three-year Departmental (Ministerial) Expenditure Limits for 1999-2000 through to 2001-02, and introduced Public Service Agreements (PSAs). (The original concept of the Spending Review was originally conceived to last through to 2007, but this has been maintained on a 3, now 4, year cycle.)

PSAs are an agreement by a public body to provide a defined level of service, and for that service to be measured, monitored and managed through targets and performance measures. The concept of PSAs developed between 1998 and 2004 into the introduction of a form of target-based performance budgeting. Under this system, targets were set for services provided by a range of public sector bodies on a triennial basis as part of a multi-year budgeting framework. Thus, high-level targets for outcomes and outputs were set as an integral part of the budgeting process which, every three years, determined the core funding levels that each Ministry would receive for the coming three year period. Targets were set in the light of funding, and funding in the light of performance against targets.

A crucial issue here became whether the Ministries could clearly link funds to achieving targets set. This issue became increasingly important as the Government sought to influence more closely the quality and level of services provided for each £1 supplied.

Meanwhile in 2000 the Government Resources and Accounts Act was introduced to require Departmental estimates and accounts to be prepared on a resource, rather than a cash, basis, replacing the requirements of the 1866 and 1921 Exchequer and Audit Departments Acts. In 2001 Department Accounts were produced for the first time on a resource basis, and the Spending Review of 2002 set budgets for the first time on a full resource budgeting basis. The Government completed its staged move to a full resource basis for financial reporting and control in 2004, and since this point budgets have been set and monitored in resource terms. There are separate departmental budgets for resource (ie current) and capital expenditure. Also in 2004 the Government produced its first set of consolidated central Government accounts.

The changes in the basis of accounting, budgeting, monitoring and calling to account were all aimed at increasing the efficiency and economy in the use of resources, and the reduction in wasteful application of funds. Successive Governments grappled with the idea of strengthening financial management, and for over 40 years there had been a call for a professional finance group within Government as a key element in this strengthening process. It was not until 2003, however, that there was a formal requirement introduced for a professional (qualified) Director of Finance on all Departmental Boards by December 2006. This requirement was taken up initially relatively cautiously by Ministries, though it is now more or less uniformly the position.

The Government carried out a second Comprehensive Spending Review in 2007 to cover the period 2008-09 to 2010-11, and published proposals to align the budgets, estimates and Departmental accounts regimes to further strengthen its ability to demonstrate the application of funds. However in 2008 the global banking crisis hit most Western economies, requiring huge financial support to be directed to the banking sector. In the UK this resulted in Government/the taxpayer owning a significant share in several large banks. Government debt soared to over 60% of GDP – the highest level in peacetime.

With the advent of a severe fiscal crisis and the need to make cuts to expenditure (though as far as possible to maintain crucial services), in 2009-10 HM Treasury published detailed proposals to require Ministries to identify the links between funds, objectives, activities and targets under the Clear Line of Sight (Alignment) Project to be implemented by 2011-12. Ministries had to examine, and in many cases adjust, their information systems to ensure that funds, activities and performance could be clearly demonstrated to a high degree of granularity.

In 2010 the Government created the Office for Budget Responsibility, separate from HM Treasury, to assess independently the Government's policy impact and assess long-term fiscal sustainability. A new Spending Review framework was announced to focus on the (Coalition) Government's objective of fiscal retrenchment, and through this review administration budgets were cut by on average one third. The 2010 Spending Review was carried out against the background of:

- The largest Public Sector Borrowing Requirement since the 1940s;
- A forecast UK deficit of 11 per cent of GDP; and
- The IMF statement that the UK had the highest deficit of G7 and G20 countries.

Also in 2010, the Government disbanded the Public Service Agreement reporting framework in favour of aligning financial reporting to internal management reporting templates. The Efficiency and Reform Group also came into existence (part of the Cabinet Office), tasked with identifying and realising £81bn savings/efficiencies over the course of this Government.

In 2011 the Government took steps to further strengthen financial management across Government through the publication of a key document “Managing Taxpayers’ Money Wisely”. HM Treasury and the Cabinet Office jointly published “Corporate Governance in Central Government Departments – Good Practice Guide (June 2011)”, changing overall governance arrangements in Government spending. The lead Minister, or Secretary of State for the Department, now chairs the Departmental Board, which has itself an equal number of officials and Non-Executive Board Members (NEBM). The latter usually work part-time and are usually paid. Each Ministry is required to have a lead NEBM reporting to the lead Government NEBM at the Cabinet Office. NEBM’s also have a role in monitoring the objectives of the senior Civil Servants who are Board members.

The Commissioner for Public Appointments oversees the process of recruitment of Non-Executive Board Members but Ministers have the final choice of who is appointed to these positions.

The first-ever audited Whole of Government Accounts was published on an IFRS basis (November 2011).

In 2012 HM Treasury introduced “New Improving Spending Control (April 2012)” requirements which required Departments to apply a more stringent approval process for expenditure to ensure all policy activities/expenditure is evidence based. The first “Clear Line of Sight Departmental Accounts” was published in June 2012.

In 2013 the Government introduced a new four-year Spending Review, which aims to give more certainty to funding for Ministries.

The last 15 years or so has been a time of unprecedented change in central Government finance and control, allied with significant reshaping of the public sector and reduction in public expenditure.

IV.2 Lead Bodies (in the budgetary cycle)

HM Treasury
HM Treasury is the Government's economic and finance ministry, maintaining control over public spending, setting the direction of the UK's economic policy and working to achieve strong and sustainable economic growth.

Responsibilities
HM Treasury is responsible for:
- public spending: including Ministerial spending, public sector pay and pension, annually managed expenditure and welfare policy, and capital investment
- financial services policy: including banking and financial services regulation, financial stability, and ensuring competitiveness in the City (the financial sector)
- strategic oversight of the UK tax system: including direct, indirect, business, property, personal tax, and corporation tax
- the delivery of infrastructure projects across the public sector and facilitating private sector investment into UK infrastructure
- ensuring the economy is growing sustainably

Priorities
In 2013 HM Treasury priorities are:
- achieving strong and sustainable growth
- reducing the deficit and rebalancing the economy
- spending taxpayers' money responsibly
- creating a simpler, fairer tax system
- creating stronger and safer banks
- making corporate taxes more competitive
- making it easier for people to access and use financial services
- improving regulation of the financial sector to protect customers and the economy

HM Treasury has a constitutional role in controlling public expenditure. Government Ministries need Treasury consent before undertaking expenditure or committing to spending.

All legislation that affects spending must have the support of the Treasury before it is introduced. Policy decisions with financial implications must be cleared with the Treasury before they gain approval by the Cabinet. The Treasury runs the control process because Parliament expects the Treasury to control public expenditure as part of fiscal policy. The primary means through which the Treasury controls public expenditure is multi-year budgets, agreed collectively at Spending Reviews. The Consolidated Budgeting Guidance sets out the rules for their use. Treasury is responsible for the design of the budgeting system. It is only the Treasury which may finally determine the budgeting treatment of a transaction.

Office of Budgetary Responsibility (OBR)

The Office for Budget Responsibility was created in 2010 to provide independent[6] and authoritative analysis of the UK's public finances. It is one of a growing number of official independent fiscal watchdogs around the world.

It has four main roles, to:

- produce five-year forecasts for the economy and public finances twice a year; these forecasts accompany the Chancellor's Budget Statement (usually in March) and his Autumn Statement (usually in late November) and they incorporate the impact of any tax and spending measures announced by the Chancellor. The details of the forecasts are set out in their Economic and Fiscal Outlook (EFO) publications.
- use OBRs public finance forecasts to judge the Government's performance against its fiscal targets: The Government has set itself two medium-term fiscal targets:
  - first, to balance the cyclically-adjusted current budget five years ahead, and;
  - second, to have public sector net debt falling in 2015-16.

  In the EFO, OBR assesses whether it has a greater than 50 per cent probability of hitting these targets under current policy. OBR also tests how robust this judgement is, given the uncertainty inherent in all fiscal forecasts.
- scrutinise the Treasury's costing of tax and welfare spending measures: During the run-up to Budgets and Autumn statements, OBR subjects the Government's draft costings of tax and spending measures to detailed challenge and scrutiny. OBR then states in the EFO and the Treasury's policy costing documents whether OBR endorses the costings that the Government finally publishes as reasonable central estimates.
- assess the long-term sustainability of the public finances: OBR's Annual Fiscal Sustainability Report sets out long-term projections for different categories of spending, revenue and financial transactions, and assesses whether they imply a sustainable path for public sector debt. The FSR also analyses the health of the public sector's balance sheet using both conventional National Accounts measures and the Whole of Government Accounts prepared using commercial accounting principles.

These four roles all focus on the public finances at a UK-wide level.

To fulfil the OBR's remit of analysing and reporting on the sustainability of the public finances, it works closely with Government departments responsible for forecasting the different revenues, spending streams and financial transactions that affect the public finances. The OBR also has an executive responsibility to the Chancellor of the Exchequer to deliver the fiscal and economic forecasts he needs to take tax and spending decisions. The OBR has no formal relationship with the Bank of England.

The Major Projects Authority

The Major Projects Authority (MPA) plays a key role in approval of plans for Ministries' application of their budget for major projects that require Treasury approval.

The MPA is supported by a clear and enforceable mandate and has the authority to:

- develop the Government's major projects portfolio, and in collaboration with Ministries provide verified, timely data, with regular reporting to Ministers

[6] A non-departmental public body under the Budget Responsibility and the National Audit Office Act 2011

- require, review and approve integrated assurance and approval plans for each major project or programme, including timetables for Treasury approvals, and validated by the MPA and the Treasury
- carry out assurance reviews where there is cause for concern and ensure that Ministries co-operate to take action to address any issues raised
- escalate issues of concern to Ministers and accounting officers
- intervene directly where projects are causing concern, providing additional assurance or commercial and operational support
- make a starting gate review, or equivalent, mandatory for all new projects/programmes to assess deliverability before project delivery gets underway
- work with Ministries to build capability in projects and programme management, including the nomination of suitably senior and experienced officials to act as reviewers on high risk projects and programmes at least once every 12 to 18 months
- require publication of project information consistent with the Coalition's transparency agenda
- collaborate with Ministries to publish an annual report on the Government's major projects

The Efficiency and Reform Group

The Efficiency and Reform Group (ERG) in the Cabinet Office works in partnership with the Treasury and Government Ministries to deliver efficiencies, savings and reforms on behalf of UK taxpayers. ERG aims to transform the way public services are delivered, improve user experience and support UK growth.

Responsibilities

The ERG is responsible for:

- delivering back-office savings to protect frontline services by ensuring that Government acts as 'one customer' – through combining Government's buying power, increasing its pool of suppliers to Government (including small and medium-sized enterprises) and buying more quickly
- supporting the delivery of Government's most significant projects, on time, within budget and to a high quality
- transforming public services, eg by using digital solutions, in order to improve user experience and make sustainable savings for Government
- supporting UK growth by allowing a wider range of UK businesses to bid for Government contracts and making new partnerships and businesses through public service mutuals
- reforming Government management information and driving a clear, evidence based approach to efficiency programmes across Government

Priorities

In 2012 to 2013 ERG priorities are:

- to work collaboratively with Ministries to make savings of at least £8bn in 2012 to 2013
- to support Ministries to innovate, digitize and use new commercial models to improve how public services are delivered
- to minimize losses due to fraud and error in the distribution of benefits and grants and improve collection of debts owed to Government
- to maximize economic growth for the UK economy

IV.3 The Budgetary Cycle

The UK fiscal year runs from 1 April to 31st March.

The Budget serves to be a “financial statement” for the Government of the day, and it will outline all forthcoming revenue legislation/ major changes to taxation for the year, estimate the total amount of revenue that will be raised, and highlight a few of the Government’s spending priorities.

The Budgetary Cycle classically involves 4 key steps:

Budget formulation

The budget cycle starts with the budgeting process, in which the Government, with legislative oversight, plans for the use of the coming year’s resources in accordance with policy priorities.

The Government uses the budgeting system to plan and control public expenditure. The system has two main objectives:

1. To support the achievement of macro-economic stability by ensuring that public expenditure is controlled in support of the Government’s fiscal framework; and
2. To provide good incentives for Ministries to manage spending well so as to provide high quality public services that offer value for money for the taxpayer.

The Budget serves to be a “financial statement” for the Government of the day, and it will outline all forthcoming revenue legislation/ major changes to taxation for the year, estimate the total amount of revenue that will be raised, and highlight a few of the Government’s spending priorities.

The Chancellor may also use the Budget to set spending caps on total Government expenditures (known as total managed expenditure or TME) and on discretionary spending (known as Departmental Expenditure Limits or DEL, and which is planned and set at Spending Reviews) and/or on mandatory spending (known as Annually Managed Expenditure or AME, which is more volatile and demand led e.g. social security benefits; not subject to multi-year limits like the DEL).

DEL – there are separate resource and capital budgets. Each of these budgets is divided into Departmental Expenditure Limits (DEL)[7] and Annually Managed Expenditure (AME). Resource DEL is further divided into administration and programme expenditure.

The resource budget controls the current expenditure of a department and largely follows the contents of resource accounts. Resource accounts are prepared in accordance with the Government Financial Reporting Manual, which follows International Financial Reporting Standards (IFRS) with such adaptations as are necessary for the public sector.
Resource budgets measure expenditure when it accrues rather than when the cash is spent. The annual resource cost to departments of the assets they use to deliver services is also

[7] Departmental expenditure limits (DELs) cover spending that the government argues can be controlled rather than being driven by demand. For example, most spending on the NHS, transport and education falls into this category. DELs are supposedly ‘firm limits’ for departments’ spending over a three to four year period.

included in resource budgets. This cost is in the form of charges for capital consumed in that year (depreciation).

Around half of public expenditure (TME) by value is in DEL.

Resource and Capital Budgets Summary Table

	Resource Budget	Capital Budget
Department's Own Transactions	Pay, current purchases, grants to individuals, subsidies Depreciation and impairments on the department's assets Take-up of provisions, movement in value of provisions and utilisation of provisions Bad debts Loss on sale of fixed assets Less income from sales of goods and services Less release of provisions Less profit on sale of fixed assets	Expenditure on new fixed assets Less book value sale proceeds of fixed assets Net lending to the private sector Investment grants to the private sector
Arm's Length Body transactions	As the Department	As the Department
Local Government	Current grants to Local Government	Capital Grants to Local Government Credit Approvals
Public corporations on an external finance basis	Subsidies paid to public corporations Less interest and dividends received from public corporations	Investment grants paid to public corporations Net lending to public corporations (including equity withdrawals from public corporations) Public corporations' market and overseas borrowing

The amount of their resource DEL that Ministries may spend on running themselves (e.g. paying most civil servants' salaries) is limited by Administration Budgets, which are set in Spending Reviews. Administration Budgets are used to ensure that as much money as practicable is available for front line services and programmes. These budgets also help to drive efficiency improvements in Ministries' own activities. Administration Budgets exclude the costs of front line services delivered directly by Ministries.

Since the Coalition Government gained power, and particularly in the last 18 months, the proportion of Administration Budget in the Budget as a whole has reduced markedly.
Ministries submit their detailed funding requests - "Main Supply Estimates" - to HM Treasury in late Autumn of preceding year and these are then subject to scrutiny by the Treasury officials. Meanwhile the Office of Budgetary Responsibility prepares economic forecasts.

Under long-established constitutional practice it is for the Crown (the Government) to demand money, the House of Commons to grant it and the House of Lords to assent to the Grant. Estimates are the means of obtaining from Parliament the legal authority to consume the resources and spend the cash the Government needs to finance Ministries' agreed spending programmes for the financial year (April to March).

Under recent Government reforms (termed: the Clear Line of Sight Project 2011-12), estimates, budgets and accounts are aligned. This gives greater fiscal control. Parliament gives statutory authority for the consumption of resources and capital and for cash to be drawn from the Consolidated Fund (the Government's general bank account at the Bank of England) by Acts of Parliament known as Supply and Appropriation Acts. This process is known as "Supply procedure".

The Main Estimates start the supply procedure and are presented by the Treasury around the start of the financial year to which they relate. Any necessary, New, Revised and/or Supplementary Estimates, asking Parliament for approval for additional resources, capital and/or cash or for authority to incur expenditure on new services, are usually presented in January.

Around July the Treasury presents the Public Expenditure Outturn Paper to Parliament providing provisional outturn figures for Public Expenditure by Departments.

Ahead of the budget, the Office for Budget Responsibility (OBR) will make independent forecasts for the economy and the public finances. They will produce the fiscal projections that will underpin Government policy in the budget.

In the June budget, the Government sets out the mandate that it will pursue for the public finances, against which the OBR will judge its fiscal policy. In November 2013 a further budget statement was announced introducing further cuts and some amendments to spending for particular Ministries.

The budget detail is announced by the Chancellor of the Exchequer in a speech to the House of Commons. There follows a debate in Parliament on the budget which may last several days.

Budget execution
Once the budget has been approved and the new fiscal year begins, HM Treasury and spending agencies embark on its implementation. HM Treasury manages the flow of funds and monitors and makes in-year adjustments to ensure compliance with the budget and Public Financial Management rules.

HM Treasury publishes a vast amount of guidance for Ministries on financial management issues which is available through the main Government website list of publications. HM Treasury expects Civil Servants to apply good and best practice, as described in their guidance and through other sources such as benchmarking with other similar organisations, though there is freedom to be innovative and to identify new approaches to delivery of services.

The Treasury delegates authority to apply funds for purposes granted in legislation to the Accounting Officer, usually the Permanent Secretary of a Government Ministry. The

Accounting Officer is appointed in legislation. This authority may be further delegated to key officials according to role, responsibilities and status.

A new organisation, the Major Projects Authority works collaboratively with Ministries in the approval of major, typically capital, projects. Typically this “extra layer” of control as Ministries tend to see it, has the potential to delay the approvals process as it carries out intense scrutiny of the evidence to support the basis of projects put forward, the identification of potential risks involved and proposals for mitigation and management of risks, and the forecasting of resources and funds flow allied to the project. However, some Ministries find this additional scrutiny to be very beneficial in identifying important gaps and possible weaknesses prior to full implementation. Some key projects fail this approvals process, and are either stopped entirely or are sent back for revisions. It is important that only robust, tightly managed and controlled projects go forward with least risk of later failure and waste of taxpayers’ money.

During the year some Ministries may be subject to a review by the Efficiency and Reform Group, and a report prepared for both internal management and Treasury on their findings. The report aims to identify areas where further efficiencies can be made by transformation programmes within Ministries.

Accounting and reporting

Each Ministry is required to have a governance framework to control and monitor expenditure, and an accountability framework to ensure that there is adequate scrutiny of the results of expenditure.

The Accounting Officer is required to ensure there is a strong internal control environment with the Ministry and he/she will both seek assurance from their senior officers and give assurance that the system of internal controls was operating satisfactorily throughout the accounting year, providing a signature to that effect in the annual report and accounts. Ultimately the Accounting Officer can be called to explain to Parliament in person the reasons for their actions.

As part of the system of internal control, each Ministry will have either an in-house or access to an Internal Audit Service. The Head of Internal Audit is independent of the organisation, but should have complete right of access to all papers required in the course of their reviews. There may be in addition a fraud investigation unit.

Internal Audit will carry out a programme of audit across the Ministry based on their understanding of the key business risks identified by the Board and officers in the Ministry, and the actions taken by management to mitigate those risks.

Ministries are required to carry out in-year monitoring of their budget and budget outturn, to prepare forecasts of outturn ahead of spend and to assess performance against outturn at various points during the year.

Throughout the fiscal year, each spending agency is required to maintain a robust system for recording its expenditures (accounting). These systems will produce accounts which form the annual accounts for the Ministry, and which are also consolidated centrally by HM Treasury. The accounts are subject to external audit.

Each Ministry publishes its annual accounts, together with a written report on its performance and application of funds, on the web.

A “whole of Government Accounts” is produced each year bringing together the totality of public sector funding and expenditure for the whole of the UK.

Ministry accounts are required to be published by a statutory deadline each year which is set in legislation. In practice this generally means prior to mid-July, the time when Parliament goes on recess for the summer break.

External oversight
This report is then subjected to external scrutiny. The Supreme Auditing Institution in the UK is the National Audit Office, headed by the Comptroller and Auditor General (C&AG). The NAO scrutinizes public spending on behalf of Parliament.

The audit of central Government has two main aims. By reporting the results of audits to Parliament, the NAO holds Government Ministries and bodies to account for the way they use public money, thereby safeguarding the interests of taxpayers. In addition, NAO’s work aims to help public service managers improve performance and service delivery.

The Comptroller and Auditor General, Amyas Morse, is an Officer of the House of Commons. Both he and his staff at the NAO (some 860) are totally independent of Government. They are not Civil Servants and do not report to any Minister. The NAO can be effective only if it retains its ability to comment objectively and independently on what Government does, and it cannot therefore act as adviser on the specific decisions the Government takes. Oversight of the NAO is carried out by a Parliamentary Committee, the Public Accounts Commission, which appoints the NAO’s external auditors and scrutinizes their performance.

The NAO reports annually to the Public Accounts Committee (PAC) and it also submits all its reports on Ministries and Agencies to the PAC. In 2012-2013, 82% of the PAC’s recommendations were accepted and 63% of the organizations audited by the NAO make changes to their approach to financial management and control as a result of the NAO’s work. The NAO also monitors implementation to see that its recommendations have been followed. During the 2010-2012 Parliamentary Session, the Government reported that it had completed implementation on 265 of the 455 recommendations made by the NAO and that it was in the process of implementing a further 146.

Parliament has a high degree of confidence in the NAO’s work as it gives Members of Parliament the ability to scrutinize Government by carrying out investigations into areas of concern such as tax avoidance, public procurement, making efficiency savings, etc,

The NAO focuses their output on:
- informed Government, to encourage Government to do more to base its decision-making on reliable, comprehensive and comparable information;
- financial management, to improve management of activities and to encourage the finance function in Ministries to make its full contribution; and
- implementation, to encourage Ministries to understand better the key elements in the delivery cycle and what they cost.

The NAO publishes their work after first "laying" the report in Parliament, and the reports may be taken as the basis of a session of the oldest select Committee in the House of Commons – the Public Accounts Committee.

Approval

New controls have been introduced since the fiscal crisis emerged, particularly on major project expenditure. Ministries are required to follow the rules set out in HM Treasury's "Managing Public Money". The controls operate within those rules, and specifically within the framework of Treasury approval of expenditure and the practice of Treasury delegating authority to Ministries to enter into commitments and expenditure within predefined limits without specific prior approval.

For the majority of the controls, the Treasury has lowered the level of delegation and will not approve expenditure without Cabinet Office's prior approval.

For some controls, Cabinet Office approval is required for levels of expenditure above certain thresholds in areas that have been collectively agreed as Government policy at the Public Expenditure Committee (Efficiency and Reform).

There are 3 levels of approval:

1. Ministerial approval (Cabinet Office control delegation e.g. £5m for ICT equipment)
2. Cabinet Office led approval in collaboration with Treasury (Ministerial delegated limit £50m)
3. Government Major Project Portfolio spend - approval led by Treasury in collaboration with the Major Projects Authority and the Cabinet Office Controls Team

Cabinet Office will support Treasury in its approval of major projects that have elements of Level 2 expenditure – for example a major project with an ICT element. In addition, the Major Projects Authority will continue its role to lead on major project assurance and responsibility for the Government's Major Project Portfolio (GMPP).

With respect to the controls, Accounting Officers should ensure *'...that the organisation's procurement, projects and processes are systematically evaluated and assessed to provide confidence about suitability, effectiveness, prudence, quality, good value and avoidance of error and other waste, judged for the public sector as a whole, not just for the Accounting Officer's organization'.*

If an Accounting Officer is concerned that expenditure does not represent value for money for their organization, despite representing good value for money for the public sector as a whole, then they are required to discuss this with the Treasury and Cabinet Office.

With respect to the budget and estimate process, the Treasury:

- designs and runs the financial planning system
- oversees the operation of the Estimates through which Ministries obtain authority to spend year by year;

Within the standards expected by Parliament, and subject to the overall control and direction of their Ministers, Ministries have considerable freedom about how they organize, direct and manage the resources at their disposal.

IV.4 Key Issues, Lessons Learnt and Trends

Statement on HM Treasury website:

'Controlling spending is what any well-run organization should be doing as a matter of course and with an annual budget of over £700 billion, the Government should have the most effective spending control possible. We must also make sure we are spending people's money responsibly and providing value for money.'

At the June 2010 Budget, the Government set out plans for a significant acceleration of the structural current budget deficit over the course of the Parliament. The fiscal mandate, against which the independent Office for Budget Responsibility judges the Government's plans, is to eliminate the structural current budget deficit over a five year rolling horizon.

The Spending Review 2010 set out how the Government will deliver this unavoidable deficit reduction plan, reducing spending by around £80 billion by 2014-15.

Since then the UK economy has been hit by a series of shocks that have significantly weakened the economic and fiscal outlook. In the November 2012 Autumn Statement the Government outlined its plans to ensure it continued to meet its fiscal targets and protect the economy.

The financial crisis and the economic damage associated with it opened up a structural hole in the public finances that, if left unaddressed, would be impervious to the economic recovery and would put public sector debt on an unsustainable path. The Coalition Government faces a significant challenge to restore the public finances to better health. The global financial crisis, which began in 2007, was probably the biggest shock to hit the UK economy in living memory. Since the beginning of this crisis, much has happened that might previously have been thought impossible: the virtual nationalization of two of the UK's largest banks, a Government deficit in double digits, a negative watch on the UK's AAA credit rating, a Bank of England base rate 150 basis points below its previous all-time low, and a £200,000m. programme of quantitative easing. These momentous events have demanded a fundamental reworking of the traditional analysis of the UK economy.

Further Ministry spending cuts are required as part of the Government's overall plan to reduce public borrowing.

Ministry Cuts 2015-16 (announced Autumn 2013)

Home Office	6%
Business, Innovation and Skills	6%
Work and Pensions	9.5%
Energy	8%
Environment	10%
Justice	10%

Source: http://www.bbc.co.uk/news/uk-politics-23053693

Total Government spending, of which the amount spent by Ministries is only a part, should come down to 40.5% of national income by 2017-18 if the Government reaches its targets.

That is a big fall from its peak in 2009-10, when it hit 47.4% of national income. But that was unusually high as a result of the loss to national income associated with the financial crisis and recession.

So actually, after eight years of austerity, the Government share of national income is forecast to be back to the level it was in the mid-2000s.

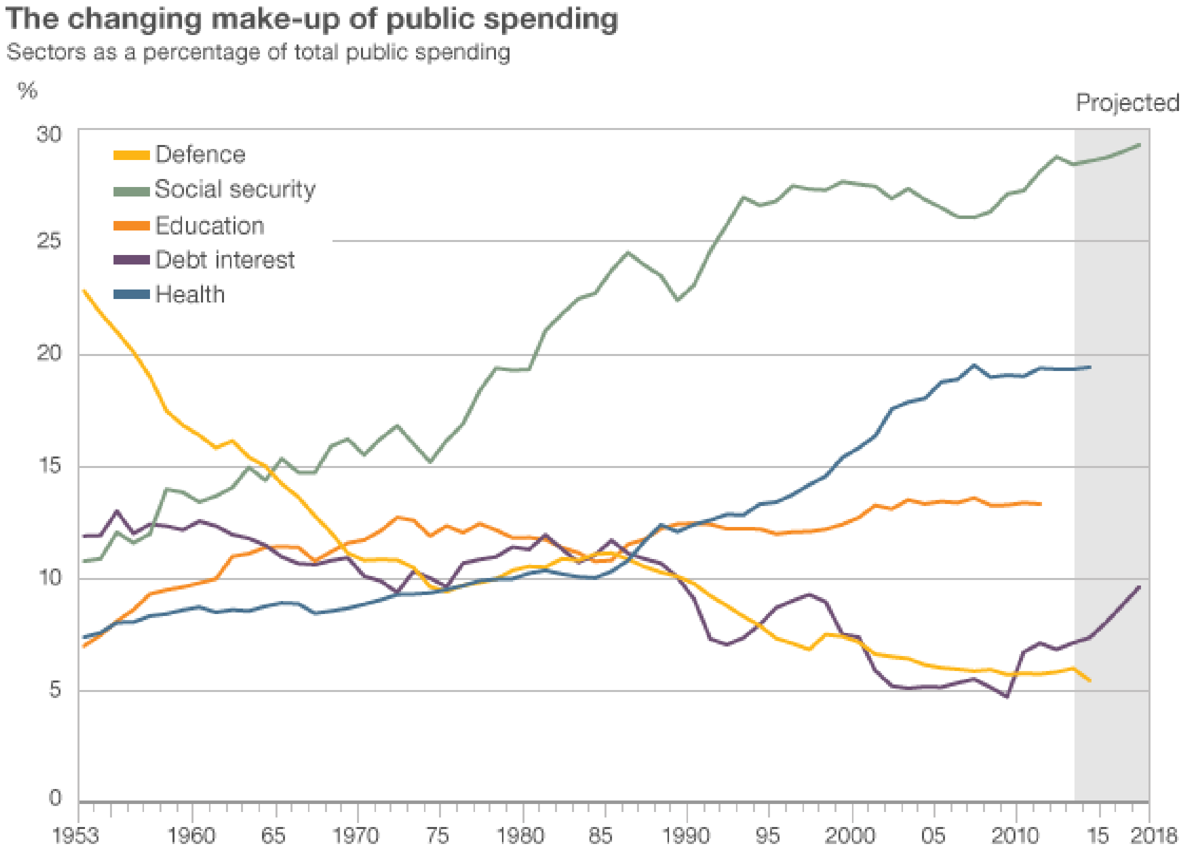
However, while spending as a proportion of national income is forecast to be the same in 2017-18 as it was in 2004-05, the composition of that spending will be different.
Non-fiscal issues: the introduction of digital technology demands huge capital investment, and the Government is committed to this as it seeks to keep up with advances in technology and remain competitive. On the other hand, introduction of digital technology demands new skills (more expensive) and changed demand for resource capacities (potentially huge savings in human resources), requires understanding of the impact this will have on public sector processes and management.

The Government's fiscal targets
The Government is aiming to implement a repair job that will meet two fiscal targets:

- a balanced structural current budget at the end of the forecasting horizon (which is typically five years in the future), and;
- debt falling as share of national income between 2014-15 and 2015-16.

The fiscal consolidation plan
The Government is intending to cut borrowing through a combination of tax increases and spending cuts. The Coalition Government's plan to restore the public finances to health involves the largest cut to public service spending since the Second World War.
Last year the Government collected revenues totaling about £550 billion. The largest single revenue raiser is income tax. The current Government faces contradictory demands for cuts in income tax for the lowest paid, in the face of (now) rising inflation and recent pay caps and in some areas of the public sector, and cuts in the higher rates of tax to encourage high earners and business to stay in the UK and invest for jobs.

Trends



Source: Institute for Fiscal Studies

Tough Choices to Be Made
The Government has made a commitment to protect spending on the National Health Service (NHS), schools and overseas aid. This means that these budgets will not be cut during this Government.

The general public however is concerned about increased spending on health, long term care and social security into the future. The Institute of Fiscal Studies believes that society perhaps underestimates the extent to which the shape of the state has already changed to accommodate much greater spending on these areas. Between them these areas accounted for a third of all spending in 1978-79. They now account for half of spending. Add in education and the "core" welfare state - education along with health, social security and social care accounts for nearly two thirds of spending, up from a half at the end of the 1970s.

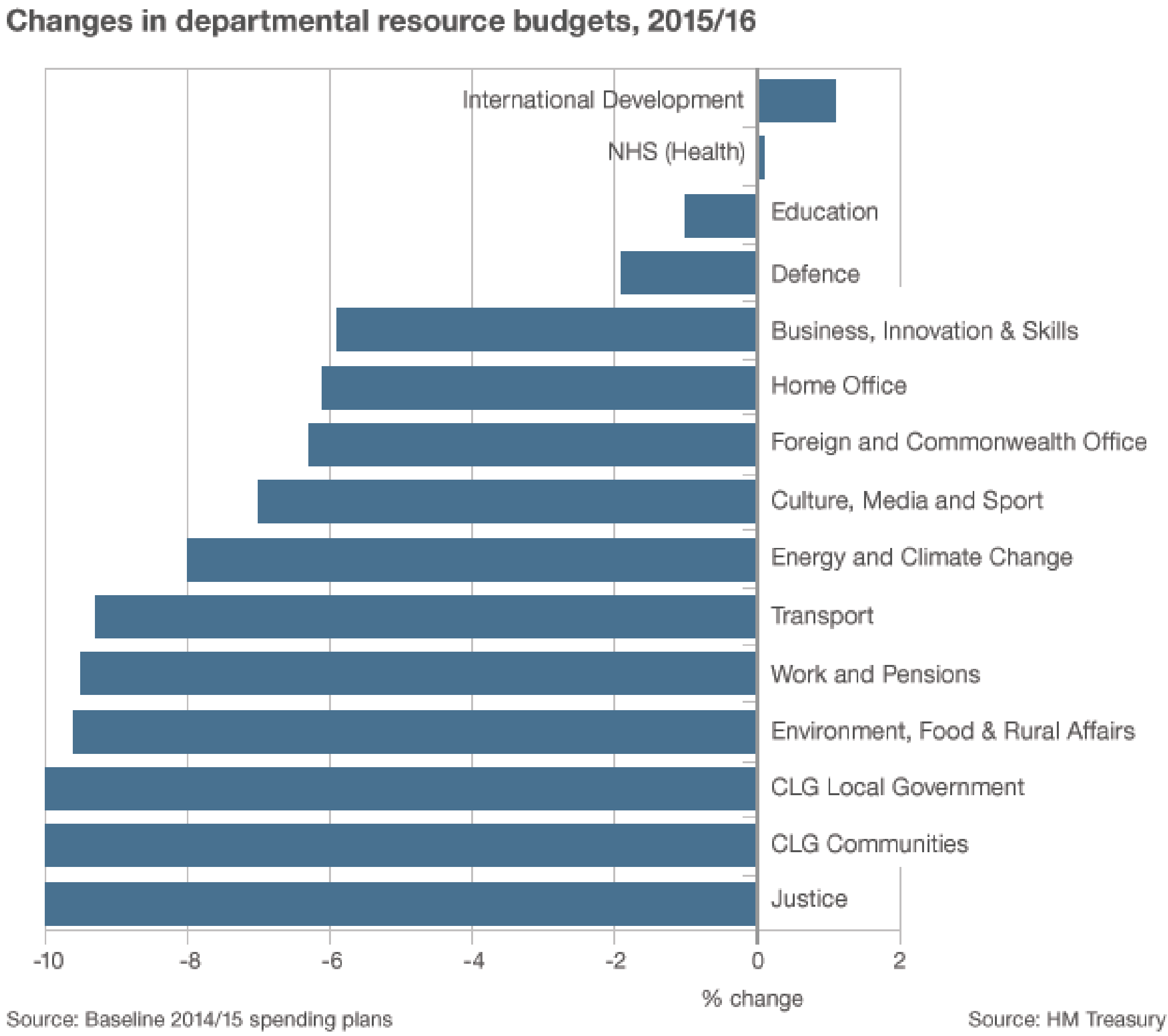
This dramatic increase in the share of health and social welfare spending has been made possible by substantial reductions in the proportion of spending going to defence, housing, and support for business and industry.

Going forward, against projections of increasing population over the age of 75, spending on health, pensions and long term care is set to rise fast. Just these elements of spending, excluding all the welfare benefits paid to non-pensioners, will reach half of all public spending over the next 50 years unless there is significant reform or unless total spending is significantly increased.

The shape of the public sector now is very different from 30 years ago.

- Health spending accounted for 7% of the total in 1953-54, but will likely account for around 20% by 2017-18.
- Spending on benefits paid specifically to pensioners accounted for just 5% of total spending in 1953-54, but is on course to account for 14% by 2017-18, as the number over the state pension age has increased and those reaching retirement have done so with greater entitlements to state pensions.
- Significantly reduced proportion of spending that goes on defence, from the 10% averaged over 1970s and 1980s during the cold war to around 6% today.
- Spending on debt interest payments has also been taking up a generally declining proportion of total spending over time. In part this is due to the debts accrued in World War II being paid off. But since the 1980s this has been largely due to a decline in the interest rate the Government has to pay on its debt.

The spending cuts planned up to 2014–15 are largely consistent with this longer run pattern. Health spending has been "protected" and so will rise further as a proportion of the total. Spending on housing has been hit very hard. And spending on "public order and safety" – police, prisons, and other aspects of the justice system – is set to fall dramatically. One consequence is that by 2014–15 spending on the NHS alone will account for nearly 30% of all public service spending



Lessons Learned

1. That budgetary discipline is strengthened through better understanding of financial management amongst non-financial managers.
2. The Government has had to apply a strict fiscal regime including significant, painful spending cuts, and that these constraints will be applied for up to 5 years as progress in application of the measures was too slow in the early years.
3. Strong control of budgets requires alignment of information, principally the funds (and other resources) applied for specific activities and the targets set, to understand the cause of trends observed.
4. Strong control also requires a good understanding of the relationship between service levels and costs required to provide defined service levels so that, when required, the Ministry can run scenario analysis at varying levels of funding.
5. Incremental budgeting does not provide the sensitivity required for budgeting in chaotic fiscal environments; some attempt to zero base budgets is required to produce a robust budgeting framework.

Given the continuing fiscal climate, the approach adopted by the current Government is likely to be largely followed by whichever political party wins the next election, with the current "austerity" continuing for some time to come.

This overview has drawn heavily from a number of publications and other sources including:

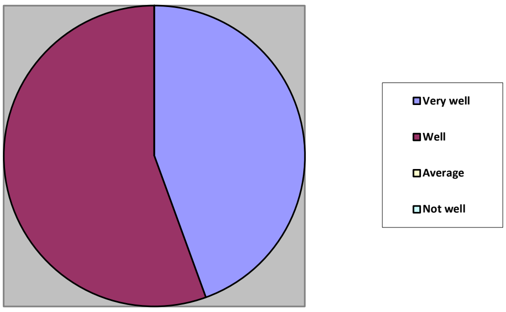
1. HM Treasury ' Managing Public Money'
2. HM Treasury Consolidating Budgetary Guidance
3. Guide to Central Government Finance and Financial Management – CIPFA
4. HM Treasury : Supply Estimates, a Guidance Manual
5. Institute of Fiscal Studies website
6. The BBC website, notably the "blogs" written by the BBC economic commentators Stephanie Flanders and Robinson.

V. Work Evaluation by the Participants of the Study Tour in the United Kingdom

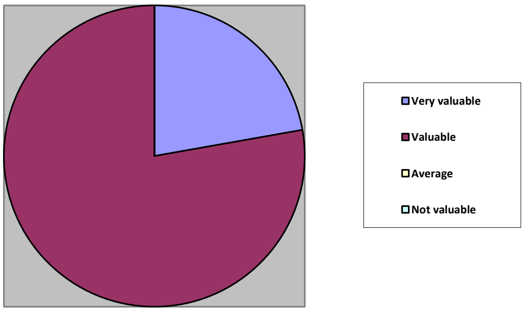
V.1 Overall evaluation

Public Administration International (PAI), the study programme organisers, provided the participants with evaluation forms and also invited the group to give their comments in an open forum at the end of the programme. Of the ten in the group, nine submitted evaluation questionnaires. The overall feedback was positive. Please see the chart below for a breakdown of evaluation scores:

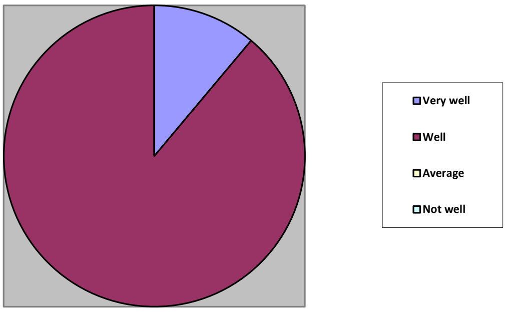
EVALUATION ANALYSIS
Overall assessment of the programme



How well did the programme as a whole meet its aims and objectives as stated in the programme?



How valuable was the programme to you in terms of developing your knowledge, broadening your experience, etc.?



How far did the programme meet your expectations?

The participants were very impressed with the quality of the visiting speakers and appreciated that they were experienced practitioners with high-level UK civil service experience in the Cabinet Office, the Prime Minister's Office, the Ministry of Justice, the Department of Work and Pensions, the National Audit Office, etc.

They also found the visits to the Cabinet Office, the Office of Budget Responsibility, HM Treasury and the National Audit Office useful and relevant and they welcomed the opportunity to exchange views with and ask questions of the range of senior officials they met. Some participants said that they would have liked more visits, particularly to their counterpart Ministries in the UK, but equally they were aware of the difficulty of arranging access to key central Government Ministries in the UK, particularly in view of the public sector budget cuts that have been impacting heavily on civil servants' workloads and time available for meeting senior delegations from overseas. It was agreed that PAI would provide a list of the website addresses for a range of Ministries in the UK relevant to the participants' Ministries in Turkey. This is attached at Annex E.

The PowerPoint presentations and background reading material provided was also considered appropriate and comprehensive. Some participants asked for further information, eg. business plans, key performance indicators and monitoring reports, from various sectors such as transport, education and energy and PAI researched and provided this additional material for them.

The group was very complimentary about PAI staff and commented on how efficient, friendly and helpful they had been throughout their visit.

V.2 Key Issues and Lessons Learnt by Participants

The following is a summary of key points and lessons learnt, split into (a) the presentations and discussions with expert speakers and (b) presentations and discussions with the various visit hosts.

(a) Performance management in the UK – Giorgina Soane

The group agreed with the definition (taken from Armstrong and Murlis) of performance management suggested by Giorgina:

"A means of getting better results from the organization, teams and individuals within an agreed framework of planned goals, objectives and standards".

Key learning points include:

- Performance management needs firm, committed and sustained effort from the top.
- It takes time. The UK has been involved in performance management for over fifty years and is only partly successful so far.
- Performance management can be very valuable in reviewing policies, processes, regulation and costs
- Individual performance targets and appraisal are highly recommended as part of a good performance management regime
- Individual performance reviews and organizational capability reviews (see section below) are the most effective things to consider for Turkey
- To begin with, start to introduce team appraisals before moving to individual appraisals
- Good data is necessary for good performance management but it is no good just collecting data, you must act on it too
- Take one or two good examples of effective performance management and see where they can be replicated in areas where results need improving
- Mistakes to avoid – constant change without giving people time to adapt; an over-complex, over-bureaucratic approach; over-emphasis on reporting and controls as opposed to outcomes and end-user value
- Critical success factors include – single-minded attention from the leader; focus on outcomes; accountability from the top and down the line; embedding performance management in all systems and processes; incentives, penalties and rewards; recognition of the psychological impact of change

(b) Strategic planning and strategic management – Martin Pryor

Key learning points from this session were:

- There is too much emphasis in the UK on strategy design and formulation and not enough on implementation and delivery
- There is a great need for inter-Ministerial co-ordination and co-operation to deliver good outputs
- In the UK, there are too many strategies at all levels, which can produce a confusing picture

- The UK has been successful in placing strategic priority on the main concerns affecting the public, e.g. health, education, reducing crime
- The focus on creating a consensus at the heart of Government about strategic priorities has been a powerful tool
- It is important to create capability at the centre of Government to monitor progress on strategic plans, to help line Ministries to deliver these plans and to report to the public on progress

(c) Value for money audits/performance audits – Francis Grogan

Francis Grogan's key recommendations were:

- Value for money/performance audits can be used as a flexible tool capable of dealing with a wide range of subjects
- Use it in a structured, analytical way, bearing in mind professional standards
- Focus on performance and getting better, more efficient, economic and effective use of resources
- It increases public accountability
- Reporting to a Parliamentary committee (such as the UK's Public Accounts Committee) adds weight and credibility to the audit process
- Planning audits like planning any project will produce much better results
- Be aware of ethical issues (e.g. confidentiality, impropriety) when carrying out audits

(d) Capability reviews – Andrew Templeman

The main points from Andrew Templeman's presentation were:

- Capability reviews are an effective technique for systemic reform, looking at leadership, strategy and delivery
- Capability reviews improve transparency and challenge the status quo
- It is important to be simple and clear about what good standards of delivery look like
- Commitment from the top is crucial so it is important to secure buy-in and leadership
- Put a lot of effort into communicating what Government reforms are aiming to do and what progress they are making
- Articulate clearly what the delivery priorities are
- Build good relationships between the "centre" (e.g. Prime Minister's Office) and line Ministries and work with them to develop the process
- Add value to line Ministries' work by offering professional expertise and support
- It is important to maintain energy levels and a focus on action

(e) Civil Service reform and human resource management – Janet Waters

Janet Waters' session focused more on civil service reform as opposed to human resource management, as the group was more interested in the former.

Key issues were:

- The UK Government has to prioritise as it doesn't have the resources to do everything
- This phase of Civil Service reform in the UK feels more serious and the increasing emphasis on accountability is putting pressure on Ministries to reform

- Some of the problems highlighted by the UK Public Administration Select Committee are: lack of clear objectives; short-termism; lack of coherence across Government; lack of time and space to think strategically; a tendency to focus on what is easiest to change, rather than what is most important to change; focus naturally follows where the money and the people are
- The participants agreed that all of the Select Committee's observations apply to Turkey
- The importance of working in partnership. Recommended that the Turkish Government considers arranging workshops with civil servants, local government officials and representatives from the third sector so as to get partnerships working and change behaviour

(f) Visit to the Office of Budget Responsibility (OBR)

The main points covered in this meeting were:

- The OBR provides an independent economic forecast so that the more "political" forecasts of HM Treasury are counter-balanced with more objective forecasts
- The speakers explained how OBR co-ordinates with HM Treasury and other Ministries
- The importance of transparency in the forecasting process was emphasized
- OBR is improving the management of risk by pointing out where the Government's policies are risky because aspects are difficult to predict
- The OBR's recommendations have been accepted by HM Treasury so far. If in future there were to be a disagreement, the OBR would be transparent about what had happened, explaining publicly the nature of the disagreement and its consequences for the forecast. However, it is important to note that the OBR does not make policy recommendations, so the most likely area of disagreement would be over the process of certifying the Government's policy costings as reasonable and central estimates. Further details about this issue of potential disagreement is described in a lecture given by Robert Chote, the head of the OBR, in 2013: http://budgetresponsibility.org.uk/wordpress/docs/Lecture_May-2013.pdf. This document is included in the Annexes to this report.

(g) Visit to the National Audit Office (NAO)

The NAO visit hosts included a speaker who has worked extensively with the Turkish Courts of Accounts, and who is a Turkish speaker, which was very useful. The NAO explained:

- Their role in improving financial management skills across Government
- How all Government Ministries are professionalizing financial management skills, for example by using the financial management model from the Chartered Institute of Public Finance and Accountancy
- The NAO's work on Whole of Government Accounts, a consolidated set of annual accounts, which increases accountability and transparency
- The plans to appoint a Chief Finance Officer for Government – a new role
- Relations with HM Treasury, other line Ministries and with Parliament's Public Accounts Committee

(h) HM Treasury (HMT)

The speakers for this visit highlighted:

- The processes for budgeting, spending reviews and preparing supply estimates
- The difference between the Annual Budget and Autumn Statement and multi-year spending reviews
- Accountability within line Ministries, through the Permanent Secretaries, was very important in managing budgets and containing spending
- The importance of having close links with Parliament, particularly with the Treasury Select Committee, for effective management of the economy and of public expenditure

(i) The Cabinet Office – Government Performance Policy Implementation Unit

The Government Performance Policy Implementation Unit is responsible for monitoring and improving policy implementation across the whole of Government. It reports through a Cabinet Office Minister, Oliver Letwin, and the Chief Secretary to the Treasury, Danny Alexander, to the Prime Minister and the Deputy Prime Minister. The Prime Minister and the Deputy Prime Minister approve the Unit's work programme and priority areas. The Unit brings together expertise from a wide range of sectors, including local government, the private sector, the Civil Service and international experts. It undertakes "deep dive" reviews together with line Ministries on key implementation issues and monitors progress on implementation of policy decisions. For more details please see Annex N, the Implementation Unit's presentation.

The key learning points from this visit were:

- The Government is moving away from top-down central control as there were disadvantages to this in terms of managing public services, e.g. distortion of targets
- The current Coalition Government wants the Civil Service to be more like the private sector, e.g. using business plans, appointing Boards with independent members with private sector and third sector experience
- Planning and implementing policy is being improved through business planning
- The Implementation Unit has a key role in monitoring business plans and their implementation
- Ministries were being encouraged to use impact indicators, based on outputs
- The newly-established Major Projects Authority is working well and is instilling better project management and risk management skills in Government
- The key elements of public service reform are currently choice, decentralization and effective contract management

On the subject of business plans, each Government Ministry prepares and publishes business plans to reflect an updated assessment of when the Government will implement its commitments set out in the Programme for Government (www.gov.uk/government/publications/the-coalition-documentation)

The Prime Minister, the Deputy Prime Minister and the Head of the Civil Service launched the first Ministerial business plans in November 2010 and these set out the work of the Government for the next four years. The business plans set out in detail the work of each Government Ministry. They include actions on growth and social mobility, key milestones and quarterly indicators. They aim to help Government Ministries to improve their efficiency and performance and save money for the taxpayer. The Government Performance Policy Implementation Unit monitors these business plans to check progress on implementation.

Local government authorities also prepare and publish business plans, usually for a three or four-year period. The National Health Service for England has a three-year business plan called "Putting Patients First" and this explains how its commitments to transparency and increasing patients' voice are fundamental to improving patient care. The NHS England plan has an 11-point scorecard for measuring performance of key priorities (www.england.nhs.uk/pp-1314-1516/)

VI. Conclusion

There was a good deal of common ground between the UK system and experience and that of Turkey, but participants agreed that further work is needed in the Turkish public sector in areas such as:

- Ministries needing to work together on developing plans and budgets
- Improving connections between the Strategic Planning Departments and the other departments within Ministries
- Better customer focus and incorporating a customer-orientation into strategic planning
- Developing effective human resource management models and practices
- Communication between Ministries and with other stakeholders and the public

The study programme left participants with an appreciation that the UK has a long history of Civil Service reform and improvement and an awareness that initiatives tend to go in cycles. The processes are often quite difficult, particularly if the changes are radical, but it is worth doing in order to improve performance and get better service and better value for money for citizens.

VII. Annexes

ANNEX A; THE CABINET OF THE UNITED KINGDOM

Prime Minister	David Cameron
Deputy Prime Minister	Nick Clegg
First Secretary of State and Secretary of State for Foreign and Commonwealth Affairs	William Hague
Chief Secretary to the Treasury	Danny Alexander
Secretary of State for Business, Innovation and Skills and President of the Board of Trade	Dr Vince Cable
Secretary of State for Energy and Climate Change	Edward Davey
Secretary of State for Work and Pensions	Iain Duncan Smith
Secretary of State for Education	Michael Gove
Secretary of State for Justice	Chris Grayling
Secretary of State for International Development	Justine Greening
Secretary of State for Defence	Philip Hammond
Leader of the House of Lords and Chancellor of the Duchy of Lancaster	Lord Hill of Oareford CBE
Secretary of State for Health	Jeremy Hunt
Secretary of State for Wales	David Jones
Secretary of State for the Home Office	Theresa May
Secretary of State for Transport	Patrick McLoughlin
Secretary of State for Culture, Media and Sport, Minister for Women and Equalities	Maria Miller
Secretary of State for Scotland	Michael Moore
Chancellor of the Exchequer	George Osborne

Secretary of State for Environment, Food and Rural Affairs	Owen Paterson
Secretary of State for Communities and Local Government	Eric Pickles
Secretary of State for Northern Ireland	Theresa Villiers

ANNEX B; EXAMPLES OF CONSULTATIVE ACTIONS IN POLICY AND STRATEGY DEVELOPMENT

1. Department of Environment, Food and Rural Affairs (Defra)

Rural proofing

The Rural Communities Policy Unit (RCPU) is based in the Department for Environment, Food and Rural Affairs (Defra). It works across Government to make sure policy makers take into account rural areas when they're developing policies. This is called 'rural proofing'. Between April and July 2011, Defra asked groups and organisations in the farming, food and rural affairs sector to form local groups and express an interest in joining the Rural Farming Network.

Rural and Farming Network

Defra set up the Rural and Farming Network (RFN) in 2011. The RFN is a network of 17 groups across rural England that keep Government informed of rural communities' concerns.

Rural Community Action Network

Defra funds the Rural Community Action Network (RCAN). This is a network of 38 rural community councils across England. RCAN keeps Defra up to date with local information on the impact of policies in rural areas.

2. The Department for Business, Innovation & Skills (BIS) is the Ministry for economic growth. The Ministry invests in skills and education to promote trade, boost innovation and help people to start and grow a business. BIS also protects consumers and reduces the impact of regulation. BIS is supported by 49 agencies and public bodies.

BIS works on these topics

a. Business and enterprise

The Government is working to create the right conditions for companies to thrive and make it easier for people to start successful new businesses. Read more

b. Consumer rights and issues

The Government is working to make sure that people have the information and protection they need when they buy goods and services. Read more

c. UK economy

All parts of the economy are growing - but the Government still has a huge amount to do through continuing to create jobs and supporting businesses to grow. The Government is also making sure that the recovery is a recovery for all and this means creating a more educated workforce and taking measures to help with the cost of living. Find progress updates on this page. Read more

d. Employment

To boost the number of jobs and create a flexible labour market, the Government is modernising employment law while protecting employee rights. To increase the number of people in employment, we need to support them into work through the benefits system and job search support. Read more

e. Europe

The Government works to develop British interests in the EU, and works constructively with the EU and its member states on issues like trade, the single market, and economic growth. Read more

f. Financial services

Financial services support the economy and provide essential credit to households, consumers and business. We are creating a framework that promotes a responsible and sustainable financial services industry, tackling the issues of competition and risk in the banking sector. Read more

g. Further education and skills

The government aims to make sure that further education provides the skilled workforce employers need and helps individuals reach their full potential. Read more

h. Higher education

The government is working with universities and colleges so they can continue to provide high quality teaching and research and produce highly skilled graduates and post graduates. Read more

i. Regulation reform

Excessive bureaucracy stifles businesses, voluntary organisations and individuals. We will remove unnecessary red tape to encourage economic growth and increase personal freedom and fairness. Read more

j. Science and innovation

The government funds and supports innovation in science, technology and engineering to help the UK's high-tech industries to thrive. Read more

k. Trade and investment

Overseas trade and inward investment are vital for the UK's prosperity. Through its trade and investment policies, the government aims to help UK businesses succeed internationally and encourage overseas companies to work with the UK. Read more

3. The Prime Minister's Office

Some recent Policy Reviews and responsible departments /areas affected

a. Improving the health and safety system

- 2 January 2014
- DWP
- Policy
- Business and enterprise, Regulation reform

b. Reforming the Common Agricultural Policy to ensure a fair deal for farmers, consumers and taxpayers

- 19 December 2013
- Defra
- Policy
- Food and farming

c. Increasing the UK’s exports and attracting inward investment

- IS, FCO, UKTI and UKEF
- Policy
- Business and enterprise, Trade and investment, UK economy

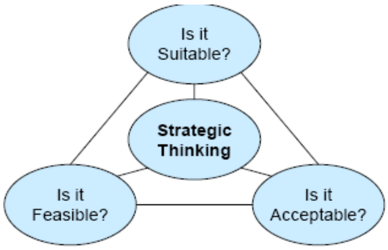
d. Creating stronger and safer banks

- 18 December 2013
- BIS and HMT
- Policy
- Financial services

e. Making sustainable development a part of all government policy and operations

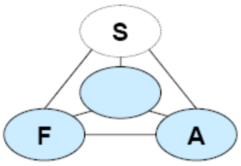
- 18 December 2013
- Defra
- Policy
- Environment, Government efficiency, transparency and accountability

ANNEX C; MAINTAINING A STRATEGIC PERSPECTIVE



In a dynamic world, public managers and policy makers need a strategic perspective to keep these three key questions in mind, and act to redress any gaps:

Suitability Gap

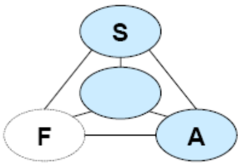


A suitability gap is created when public service actions and approaches are no longer a suitable response to public needs. This may occur for reasons including:

- the original problem or need has changed or resolved
- tensions arise with other strategic objectives or priorities
- new evidence informs a change in overall desired outcomes
- escalating or unacceptably high adverse impacts become apparent.

When public policy is no longer adding value, a strategic perspective is needed to challenge the suitability of actions and reallocate resources to address prevalent needs.

Feasibility Gap

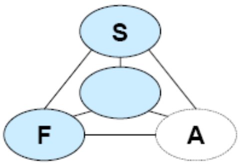


A feasibility gap is created by an inability to deliver desired outcomes. This situation may arise for many reasons, including:

- underestimation or unavailability of the resources and capabilities needed to address the key issues
- inconclusive evidence for how to address the key issues
- insufficient incentives for innovation, transfer of best practice and continuous improvement in the system
- diminishing returns requiring disproportional effort to extract benefit beyond the initial quick wins.

In this instance, a strategic perspective is needed to align spending with strategic priorities, and develop a more capable delivery organisation or system. Alternatively, if the feasibility gap is too large, there may be a case for challenging the strategic objectives in favour of more realistic goals.

Acceptability Gap



An acceptability gap is created by the absence of sufficient political or public support to legitimise action. This can occur for reasons including:

- a lack of public engagement in strategy development, including a lack of understanding of the need for change
- changes in the environment leading to shifting views about the strategy
- innovative front-line organisations responding to public needs and evolving beyond their original remit.

A strategic perspective encourages effective stakeholder engagement and a strong evidence base that demonstrates the problem and the suitability of the proposed action for addressing it. Strategies also need to be adaptable enough to encourage innovation and entrepreneurialism in meeting public needs.

ANNEX D; STRAGEGY SKILLS: BUILDING AN EVIDENCE BASE AND COLLECTING DATA

This annex provides an overview of data sources to inform strategic and policy decisions. Strategy work needs to be informed by the highest quality and most up-to-date data and knowledge possible. Those involved in strategy work need to be aware of the breadth of data types and sources available, and be 'intelligent consumers' to know how to bring it to bear in a timely fashion to inform their thinking.

Data Types

The broadest and perhaps most common distinction is between quantitative and qualitative data types:

- **Quantitative**: numerical data that can be measured in units – time, money, volume, percentage etc.
- **Qualitative**: descriptive data that uses words to record observations, thoughts or opinions.

Quantitative data can be generated by measurement or by asking closed questions, while qualitative data are typically generated by observation or by asking open-ended questions. While insights can be gained from isolated pieces of either quantitative or qualitative data, strategic decisions need to be based on reliably representative or statistically significant data.

Another broad distinction can be drawn between data that are:

- **Cross-sectional**: observations collected at a single point in time
- **Longitudinal**: observations collected over a period of time

Cross-sectional data provide a snap shot, while longitudinal data allow trends to be observed over time. Longitudinal data, by its nature, take longer to produce and is hence more costly. However it overcomes the bias inherent in cross-sectional data when, for example, examining the variation in a variable with age. Typical uses of data in strategy work include measuring or describing:

- Trends – the changing state of the world over time
- Preferences – what the public and stakeholders value, and what they think about certain issues
- Finance – how much is spent, lost, earned, saved, invested etc.
- Performance – the outputs or outcomes of an intervention or service
- Evaluation – how well an intervention addresses the underlying issues
- Impacts – the level and nature of unintended consequences of an intervention
- Benchmarks – how the current situation compares to other similar situations
- Forecasts – what the future may hold.

Government Specialists

To ensure that strategy work is based on the best data and knowledge available it often needs to draw on experts or specialists – either for their superior content knowledge or their skill in collecting and handling particular forms of data. Specialists within Government include:

Economists

A chief economist in each department heads the economics specialism. See the **Government Economic Service** website for details of the kind of roles that economists play in each Ministry.

Operational Researchers
See the **Government Operational Research Service**.

Scientists
The **Office of Science and Technology** leads for government in supporting excellent science, engineering and technology and their uses to benefit society and the economy. The OST also hosts **ForeSight** which aims to increase UK exploitation of science.

Social Researchers
See **Government Social Research**.

Statisticians
National Statistics provides up-to-date, comprehensive and meaningful data on the UK's economy, population and society that can be used to create evidence-based policies and monitor performance against them.

Learning - Data Sources
The data and knowledge that inform strategy development and strategic thinking can and should come from a wide range of sources. For example:

Learning from experience
There are many of ways of ensuring that up-to-date data and learning from the front-line is fed back into strategic thinking, including:
- Publishing early drafts of proposals to elicit challenge and feedback
- Using pilots and controlled experiments to test out options
- Engaging stakeholder communities in ongoing dialogue
- Identifying best practice and looking for lessons that can be learned
- Encouraging horizontal networks of professionals, operating units and front-line staff to enable experience to be quickly shared
- Responding to informal information and gossip
- Granting flexibility to innovate and break the rules with "venture capital" equivalents to finance promising new ideas
- Establishing contestability in public services to encourage new entrants and innovation
- Commissioning real time evaluations as well as formal ex-post evaluations

Learning from systematised data
Strategy work should make full use of the enormous volume of data that is routinely captured and systemised for publication by a wide range of institutions. Techniques such as systematic reviews and meta-analysis (explained further in **The Magenta Book**) are rigorous methods of consolidating what is already known about a topic. Useful data sources include:

Bank of England Monetary and Financial Statistics: The Bank of England publishes a large range of banking, monetary and financial statistics.

CIA World Factbook: CIA site providing a host of economic and other data, on a country basis.

EconData: (University of Maryland): US and international economic time series data.

EcoWin: A Swedish website, much of which requires registration, but it does have a free graphing facility from its databases, which cover all the major countries.

Eurostat: Provides selected European Community statistics.

IMF: Country reports for all countries of the world can be found on the IMF website. Three particularly useful publications are the World Economic Outlook, Annual Report and International Capital Markets.

Financial Times: Provides archive articles and statistics on a wide range of economic and business related issues.

Guide to Official Statistics: A directory of all statistical censuses, surveys, administrative system, publications and other services produced by Government and a range of other organizations in the UK.

HM Treasury: A useful source of UK data. The *Economic Data and Tools*, and the *Budget* sections are particularly useful. The *Economic Data and Tools* section contains *Latest Economic Indicators* which in addition to providing recent data releases.

Institute of Fiscal Studies: An independent research body, looking particularly at the UK tax system, considering the likely effects of fiscal policy on different sections of the population.

National Statistics: National Statistics data sets are freely available. The *Time Series Data* section of the website contains PDF versions of many documents. Documents include: the *Blue Book*, the *Pink Book*, *Labour Market Trends*, *Scottish Economic Statistics*, *New Earnings Survey*, *Family Spending*, *Social Trends*, *Regional Trends*, *Agriculture in the UK*, the *Annual Abstract* and the *Monthly Digest of Statistics*.

OECD: Provides a host of statistics on OECD countries. There is also the OECD Economic Outlook, a six monthly publication which contains macroeconomic data for each of the 30 OECD countries, the EU15, the Euro area and the OECD as a whole.

Policy Library: A social, economic and foreign policy resource that covers a wide range of topics and
sectors.

The Economist: The website provides archives of previous articles and special reports and surveys. The *Economic Intelligence Unit Country Briefings* also provide a good source of country information.

World Bank Data Sets: Contains a vast database of economic, social and other development statistics for all countries of the world. Data can be accessed by country, by topic or by using a data query (from 54 indicators, 5 years and over 200 countries.) The World Bank also publishes its annual World Development Report.

Other sources include UK Government Ministry websites and libraries, which can provide departmental specific data and links to other useful sites.

References

Research Design, Catherine Hakim.
Approaches to Social Science Research, Royce Singleton, Bruce C Straits & Margaret Miller Straits.

ANNEX E; WEBSITE ADDRESSES FOR SELECTED UK GOVERNMENT MINISTRIES

1) Overall UK Government
Web address: https://www.gov.uk/

2) Department of Work and Pensions
Web Address: http://www.dwp.gov.uk/

3) Department of Energy and Climate Change
Web address: https://www.gov.uk/government/organisations/department-of-energy-climate-change

4) Cabinet Office
Web Address: http://cabinet-office.co.uk/

5) Department for Culture Media and Sport
Web Address: https://www.gov.uk/government/organisations/department-for-culture media-sport

6) H M Treasury
Web Address: https://www.gov.uk/government/organisations/hm- treasury

7) Department for Education
Web Address: http://www.education.gov.uk/

The following annexes F to Q can be found on the accompanied CD.

Annex F; Civil Service Commissioners "Top 200" Protocol

Annex G; Giorgina Soane Presentation

Annex H; Martin Pryor Presentation

Annex I; Office of Budget Responsibility Speech May2013

Annex J; Francis Grogan Presentation

Annex K; National Audit Office Introduction

Annex L; National Audit Office Whole of Government Accounts

Annex M; National Audit Office Financial Management

Annex N; Andrew Templeman Presentation

Annex O; Cabinet Office Presentation

Annex P; HM Treasury Presentation

Annex Q; Janet Waters Presentation