

**IT'S YOUR MONEY.
A NEW PLAN FOR
DISCIPLINED SPENDING
IN GOVERNMENT**

It's Your Money. A New Plan for Disciplined Spending in Government

Summary

Government finances are at a crisis point. After 15 years of global economic growth we have entered a recession with the biggest budget deficit in the developed world. We face the worst recession in the G7, tax receipts are collapsing and next year the government will raise only £4 in tax for every £5 it spends. The result is unprecedented levels of public borrowing, future tax rises and a debt bill of £17,000 for every child born today.

For most governments, this challenging outlook would be a siren call for prudence and careful husbandry of tax receipts. But Labour has created a public sector in which there is almost no culture of financial accountability. As a result, people working in the public sector waste taxpayers' money in ways that would be unthinkable if it were their own.

The next Conservative government will get control of public spending. We have already promised that we will review every spending programme to see if it is necessary and justifiable in the new economic circumstances. Today we are launching a consultation on our proposals to create a new culture of financial discipline across government. We propose to:

- Create strong **incentives** for better financial discipline by: including a fiduciary obligation to taxpayers in civil service employment contracts;

strengthening the role of financial managers within government; implementing clear financial performance targets for senior civil servants (and linking pay and recognition to their achievement) and refocusing the Treasury on its primary role of delivering responsible spending across government on behalf of the taxpayer.

- Dramatically improve the transparency of **information** on public sector spending and introduce new measures that show the effectiveness of financial management across government.
- Introduce new ways to **investigate** wasteful spending and highlight efficient ways to do business across government, and reward public sector employees for suggesting ideas that generate cost savings.

These policies will be set against the backdrop of our radical plans to reform public services that will deliver better results for less money. And, over the long term, our public sector reforms will reduce the demands on the state and so on the public finances. The combination of a public sector built on a foundation of financial discipline, reformed public services and reduced demands on the state will ensure that the next Conservative government, and indeed all future governments, will be able to live within their means.

Labour's Policy: Spend, Spend, Spend

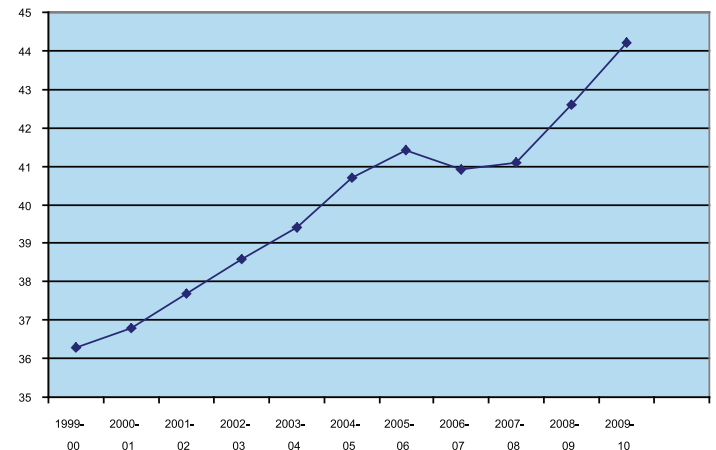
Government finances are reaching a crisis point. After 15 years of global economic growth, we have entered the recession with the biggest budget deficit in the developed world. We face the worst recession in the G7¹, tax receipts are collapsing and next year the government will raise only £4 in tax for every £5 it spends.

Unless we change course, we also face remorseless upward pressure on public spending from an ageing population, new developments in healthcare, the international security threat, and the costs of family breakdown. The Government's own cost estimates show that these pressures alone will increase government spending by at least 3% of GDP over the next 30 years, equivalent to more than £40 billion in today's terms².

For most governments this would be a siren call for prudence and careful husbandry of tax receipts. Indeed, most governments around the world have put aside money over the last 10 years for just these conditions. But in the UK, the Labour government has failed to prepare for the challenges ahead and wasteful spending has continued to increase.

Government spending has risen from a low of 36% of GDP at the end of the Conservative spending plans in 1999 to an estimated 44% this year. This estimate may, like the Treasury's economic forecasts, prove too optimistic.

Total Managed Expenditure as a % of GDP



Source: *Public Finances Databank, December 2008*

The sharp expansion in spending has not resulted in the improvements in frontline public services that were promised by Labour. Instead, the Government has delivered waste and profligacy on an unprecedented scale.

A Roll-Call of Waste

The NHS Super Computer. In 1998 Labour announced an IT scheme, costing £2 billion to log every person's medical records on a central computer. The cost has now increased almost seven fold to £13 billion and the scheme is five years behind schedule.³ According to the NAO, neither the Treasury nor the Dept. of Health attempted to quantify the benefits of the scheme and whether the expenditure was justified.⁴

Constant re-organisation of the NHS.

Labour has carried out nine major re-organisations of the NHS in nine years at a cost to the taxpayer of £3 billion⁵. One result of this massive upheaval is NHS productivity falling by 1% a year on average.⁶

Ministry of Defence office refurbishment.

The Ministry of Defence has committed an estimated £2.3 billion to refurbishing and running its Whitehall HQ (including plasma screens, a gym and quiet rooms for staff)⁷ while soldiers are being sent into battle with insufficient body armour.⁸

Systemic loss and fraud in the administration of tax credits.

In the last reported year alone, the government has lost nearly £2 billion in tax credit fraud and error,⁹ while in the first three years of the tax credits system, overpayments totalling £5.8 billion were made. According to the Public Accounts Committee, 'tax credits suffer from the highest rates of error and fraud in government'.¹⁰

A massive over-use of external

consultants. Central government spent £1.8 billion on consultants in 2005-06 or five times as much per head as the private sector¹¹. HMRC spent £106 million on consultants in 2005-06 while looking for staff spending cuts of £105 million¹², while another project included staff at National Insurance offices being given black tape and told to mark where their pens belonged on their desks in order to help them keep their workstations uncluttered.

A boom in government advertising and

spin. In 1997, the Central Office of Information's budget was £142 million (in today's money). This has now ballooned to almost £400 million and as a result the Labour government was the largest advertising account in the UK last year.¹³

The Government deflects criticism of its uncontrolled spending by talking of "Efficiency Savings". The results of their efficiency projects are disappointing.

- The NAO said that only 26% of the claimed savings from the Gershon review could be considered "fairly represented"¹⁴.
- The Treasury Select Committee reviewed the efficiency plans set out in the 2007 Comprehensive Spending Review, and found that departments were cutting front-line services to claim savings and that the project suffered from "acute" measurement problems.¹⁵
- The latest project, the Operational Efficiency Programme, was launched almost a year ago with a savings target of only £5 billion, or less than 1% of total government spending. This has yet to identify any areas for savings, leading Sir Peter Gershon to question whether this programme has "got the priority, the pace and the urgency needed".¹⁶

The problems go deeper than failed projects. While civil service departments have developed sophisticated systems to prevent taxpayers' money being stolen or embezzled, there has been a failure to create a culture of financial discipline and accountability at the heart of government. As a result, public bodies are remarkably casual about how taxpayers' money is spent and whether the spending is delivering value for money. The Government's own financial training programmes for civil servants make no mention of the taxpayer or how to deliver value for money (see box).

We have identified three critical issues that contribute to this failure.

There is a shortage of financial expertise at senior management levels, a separation of financial and operational data and a complete absence of incentives promoting sound financial management.

A report by the National Audit Office found that, last year:¹⁷

- The financial performance of a department formed no part of the standard performance assessment criteria for a Permanent Secretary.
- Financial performance measures were also not automatically included in the performance assessment criteria for senior civil servants or budget holders.
- In the last (2006) Senior Civil Service Survey which asked respondents to rate the effectiveness of their organisation, there were no questions relating to managing financial resources or achieving value for money.
- Only 40 per cent of departments provided policy decision makers with a full financial analysis to support policy proposals.

How to Manage Public Money: Labour's Lessons

The National School of Government teaches a course for civil servants involved in finance and accounting called **Managing Public Money**.

The stated organisational benefits of the programme are:

- To avoid a Department being disadvantaged in the public expenditure process
- To protect the Accounting Officer's position

There is *no* reference to the taxpayer or how to deliver value for money in the course objectives.

The NSG says "this well-established programme enjoys a prestigious reputation and provides the essential knowledge all finance staff need".¹⁸

- More than half of departments reported operational and financial data to their boards separately – making a value for money assessment impossible. According to departmental non-executive directors "it is not routine for key decisions to be based on a comprehensive assessment of both financial management information and data on service performance".
- In the private sector, 25 per cent of Chief Executive Officers are accountants; in government no Permanent Secretary has a formal financial qualification.

The critically important Finance function in government is understaffed, under-valued and uninvolved.

- At the time of the last NAO report, six departments, with a combined public spending budget of £45

billion, had no board level Finance Director.¹⁹

- Only 4,000 individuals, or less than 1% of the civil service, have a financial qualification.²⁰
- Financial management is not seen as a critical function in departments and departments have difficulty recruiting and retaining qualified finance staff.²¹
- The Head of the Government's Finance Profession Team ²² is not even a full time role – the current incumbent also doubles as the Finance Director of the Ministry of Defence.

The historic role of the Treasury as the controller of public expenditure on behalf of the taxpayer has been lost under this government.

- The Treasury became, under Gordon Brown, the principal source of government policy rather than an evaluator of its effectiveness. It has accumulated a growing list of spending responsibilities, from Child Benefit to Tax Credits and the department now spends over £20 billion a year – more than the Home Office.
- The Treasury has gone from checking that public money is being well spent across government to micromanaging how it is spent and it uses hundreds of targets to direct the delivery of government.

Conservative Proposals for a New Culture of Financial Discipline

The current approach to spending taxpayers' money must change. The next Conservative government will get control of public spending. We have already promised to review every spending programme to see what is necessary and justifiable in the new economic circumstances and we will continue work to find wasted spending that can be re-directed. But launching more efficiency projects will not be enough and will not create lasting change. Today we are launching a consultation on eight proposals that will help to create a culture of financial discipline in government and deliver responsible spending going forward.

Our proposals are based on strong **incentives** that promote financial discipline, transparent **information** on government spending and more **investigation** of waste and cost saving ideas.

Strong Incentives Promoting Financial Discipline

Incentives are the key to our reforms. The civil service is a talented organisation of intelligent people who are trying to manage public resources to meet PSA targets that often have little relevance to their day to day work and who are not measured on how well they control costs.

We therefore propose to:

- **Include a fiduciary responsibility to taxpayers** in the employment agreements of all senior civil servants including Permanent Secretaries and Departmental Board members. A fiduciary responsibility means that someone is trusted with the assets, wealth or well-being of a third party and has the responsibility to manage them in the best interests of the third party. For example, Executive Directors of private companies have a fiduciary responsibility to their shareholders.²³

- **Implement financial performance measures** for all Permanent Secretaries, Board Members and senior civil servants and ensure that pay and recognition are explicitly linked to performance against these measures.²⁴
- **Create a new career path for Finance Directors.** We will re-define the Finance Director role as the second most important in a department and create, as in most of the private sector, a dual reporting line to both the head of department and also to a central financial management organization. The central organisation will be a strengthened Government Finance Profession, renamed the Office of Financial Management, led by a full-time Head of Government Finance and reporting to the Chief Secretary to the Treasury. The career path and pay scales for Finance Directors and their finance stream staff will be jointly determined by the departments and the Head of the Office of Financial Management with progress in this role based on delivering strong management of financial resources.
- **Ensure that the Treasury fulfils its most important role** as the driver of financial discipline across government. The Treasury will allocate spending budgets to departments for policy objectives and work with departments in delivering value for money - both in the short term through transparency of spending and financial accountability, and in the longer term supporting departments in reforming our public services.

We will also investigate the other structures and incentives needed to overcome one of the other failures of this government: the failure to manage risk and encourage innovation that leads to more productivity. There is an institutional tolerance of massive risks taken with taxpayer's money – for example in forcing through major organisational upheavals at the same time as fundamental

policy changes without clear assessments of the huge implementation issues. At a working level, by contrast, there is a strong aversion to change and innovation. We need to move away from a culture where every failure is assumed to be culpable towards a culture where people are encouraged to try new things, to acknowledge if they haven't worked and to learn the lessons from the attempt.

Transparent Government Spending

Making government spending more transparent will increase accountability and also the pressure to improve the efficiency and effectiveness of government spending. It will also make it easier to identify wasteful spending, and empower taxpayers to find out exactly how the government is spending their money.

Similarly, publishing simple comparative cost data across departments will make it easier for taxpayers, but also, crucially, for managers and staff to see what is driving costs.

To make government spending transparent we propose to:

- **Publish government spending online** so that taxpayers can see exactly how the government is spending their money. As a first step, we will publish the Treasury's COINS database that reports several thousand programme spending items in a consistent format across departments.²⁵ In America, similar legislation – the Federal Spending Transparency Act – has been passed into law. This enables US taxpayers to scrutinise every item of Federal Government spending over \$50,000, via a new government website (www.usaspending.gov). In London, the new Conservative Mayor has introduced spending transparency for every item over £1,000.²⁶
- **Introduce and publish a standard set of cost measures** that capture the key drivers of department overhead including: the consolidated cost of “non-departmental” public bodies; total

headcount including agency and part-time workers; the cost per head of office space and the cost of consultants. We will publish this information on a regular basis.

More Investigation of Wasteful Spending and Innovation

The National Audit Office rigorously investigates different aspects of government spending on behalf of Parliament but its brief is not to be a “rapid response team” or to proactively look for examples of what works to save money.

Also, government, unlike the private sector, rarely solicits feedback from its employees or users of services on how to save money. More than 90 per cent of public sector employees want to improve the efficiency of the way their organisation operates²⁷ but they are almost never asked for their ideas. In reviewing the Gershon efficiency programme the NAO found that few employees had “ever been asked to make a contribution to how their organisations work”²⁸. Many private sector organisations now operate internal electronic “waste busting” channels which can quickly highlight ideas for change and offer rewards and incentives to employees for finding more efficient ways of working but these are rare in government. The Ministry of Defence GEMS scheme, introduced in 1996, was singled out by the NAO as one of the few examples of a successful scheme that encourages staff to contribute ideas to improve efficiency, and rewards ideas that are put into practise.

We propose to:

- **Create an independent “rapid response” team that will quickly identify specific improvements in efficiency where waste is suspected or seen.** The team will be able to launch investigations on behalf of the Office of Financial Management and the Chief Secretary to the Treasury and will publish the results of its investigations.²⁹

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- **Provide new communications channels and incentives to eliminate waste** by setting up a “Waste Watch” website where individuals can identify the waste that they see or suggest improvements in the way that government spends money. We will also extend the GEMS scheme and reward public sector employees for ideas that generate cost savings.

Conservative Policies for Transforming the Public Sector

Creating a culture of financial discipline in the public sector is a crucial element in our agenda to control public spending and deliver value for money for taxpayers. However, we recognise that wide reaching structural reform is also necessary to bring public spending under control and restore the public finances to health.

Public service reform

The British people deserve more for their money and better public services. We will achieve this by carrying out the work that was the great missed opportunity of this Labour government – proper public service reform.

We believe that public service reform should be about choice and voice, bringing greater accountability to the provision of public services – a new relationship between the professionals who deliver public services and the public, who pay for and use them.

- In education we will end the state monopoly and allow new schools to be set up by a wide range of expert organisations, giving parents real school choice for the first time.
- In welfare we will use payment by results contracts to engage the effectiveness of third party welfare to work providers, and end artificial Treasury accounting rules that reduce budgets available for these critical programmes.

- In the NHS we will get rid of the top-down political micro management and put the power in the hands of patients, who can choose the GP that will get the most out of the NHS on their behalf.
- In prisons and probation we will empower the local managers to commission a rehabilitation revolution and pay them by results.

Reducing demands on the state

We recognise that it is imperative that we tackle the causes of the social problems that give rise to public spending in areas like welfare and crime.

That means taking forward the work that began with Iain Duncan Smith's Policy Group report, Breakthrough Britain, and delivering the radical reform that is needed to strengthen our society, improve our skills base and support people to find long-term employment.

Our policies in each of these areas will enable us to tackle the deep social problems that have held too many people back, and cost taxpayers billions of pounds. This is the right long-term path to reduce the demands on the state in a sustainable way.

1 EU Commission's Interim Growth Forecast

2 HM Treasury Long Term Public Finance Report, March 2008

3 The National Programme for IT in the NHS: Progress since 2006, National Audit Office:2008

4 See: http://www.nao.org.uk/whats_new/0708/0708484.aspx

5 The Daily Telegraph, 25 February 2007

6 Office of National Statistics, 29 January 2008.

7 The Sunday Times, MoD spends £2.3 bn on Whitehall offices, 7 January, 2007

8 <http://www.independent.co.uk/news/uk/politics/better-body-armour-might-have-saved-soldiers-inquests-are-told-428116.html>

9 HMRC 2007-08 Report and Accounts

10 PAC, *Tax Credits*, 9 May 2007, p.3

11 Central government's use of consultants National Audit Office 2006

12 Memorandum submitted by the (PCS) to Treasury Select Committee 24 January 2007

13 <http://www.telegraph.co.uk/finance/economics/4074852/Government-was-UKs-biggest-advertiser-in-2008.html>

14 The National Audit Office The Efficiency Programme, a Second Review of Progress 2007 Page 4

15 Ninth Report, Select Committee on Treasury, 1 April 2008

16 http://us.ft.com/ftgateway/superpage.ft?news_id=fto112020081733243404&page=2

17 Managing Financial Resources to deliver better Public Services, National Audit Office, February 2008

18 <http://www.nationalschool.gov.uk/programmes/programme.asp?id=19802>

19 Managing Financial Resources to deliver better Public Services, National Audit Office, 2008

20 Ibid, and Conservative Party research

21 Conservative Research and Managing Financial Resources to deliver better Public Services, NAO, 2008

22 Formerly the Government Accountancy Service

23 The fiduciary responsibility will be worded to ensure that while someone could be dismissed for failing to deliver on their fiduciary obligations, it will not be possible to recover wasted public money from an individual (unless there is evidence of fraud as is currently the case)

24 We will consult on the appropriate staff levels for which to apply these measures and also the extent to which these will be applied across the broader public sector.

25 We will exclude spending on items of National Security and matters of personal privacy protected by the Data Protection Act.

26 See: <http://www.london.gov.uk/gla/expenditure/index.jsp>

27 YouGov poll commissioned by the Office of Government Commerce, May 2006

28 The National Audit Office The Efficiency Programme, a Second Review of Progress 2007 Page 29.

29 This role could potentially be filled by the Audit Commission

Going Forward

We welcome responses to our proposals to create a culture of financial discipline in government, and will publish detailed policies for each proposal later this year.

Please send any responses to:

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