RM

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ACCOUNTABILITY AND INCENTIVES

1 I thought I would offer some first thoughts on this PIU project so as to provoke discussion. The project is potentially crucial to joining up government. It is also crucial to changing the culture of the Civil Service.

2 The formal structures of Ministerial accountability include the House Resolution on Parliamentary Accountability and Government Accounting. These create strong, and precisely defined, vertical lines of responsibility; detailed rules to protect the regularity, propriety and value for money of spending; and structures, such as the PAC, for enforcing these rules. A heavy emphasis is placed on the personal accountability of the Accounting Officer, advised by a Principal Finance Officer, and the role of the Treasury as the authority for all spending. Although the Treasury seeks to delegate this authority, its permission is still required for anything "novel and contentious" and it is seen as the final arbiter on expenditure planning.

3 We all know the effects of these arrangements. They create a culture in which

- priority is given to the objectives of the Departmental Minister, rather than the Government.

- there is no shared analysis of policy and its success across Government because Departments see themselves engaged in a struggle with the Treasury, and other Departments, for the resources they need both in the expenditure planning process and in-year. This struggle is often replicated within Departments between business units and the finance function.

- there is inadequate evaluation of the success of policy, partly because Ministers seek to defend their policies to Parliament, partly because Civil Servants seek to suppress failure, and partly because evaluation could undermine claims for funding. As a result, there is little information on the success of policies and their success then gets measured by inputs, such as the level of funding (£X billion extra for health). This reinforces the struggle for resources.

10-786

- there is equally inadequate contingency planning against the failure of policies, for the same reasons and because of pressure on resources

- Risk taking and innovation is avoided because the PAC have no appreciation of risk management and penalise any error, however trivial, whereas successful innovation is given no corresponding reward.

- Expenditure requirements are always exaggerated and always under-spent, with a surge in spending at the year end. This is because the attitude of the PAC to risk means that any overspend on a Vote is considered a crime, however difficult estimating may be, and annuality rules place a premium on spending within the year.

- financial management suffers because it is too rule driven and because these rules are then seen as a lot of silly red tape imposed by the Treasury or finance branches. This is because the response to every criticism by the PAC, however stupid, is to issue another piece of guidance with another rule in it.

- in an effort to improve financial management, delegation is taken too far, with the result that corporate objectives get forgotten and the efficiencies of centralisation are lost: the wheel gets reinvented many times and large suppliers (eg of IT equipment) can end up determining corporate policy.

- other perverse incentives are introduced by particular Treasury rules. The controls on running costs positively encouraged the unnecessary transfer of work into quangos, whether statutory or otherwise, simply because these scored as programme expenditure. The scoring of capital up-front creates a bias against capital spend in planning expenditure and a loss of interest once the spend has been committed.

- these perverse incentives are then carried over into job descriptions and form the basis for the performance related pay system. Departments find difficulties in rewarding team behaviour, especially across departmental boundaries. And the performance pay system positively discourages movement of officials between departments: moving to a new and less familiar job will reduce your box marking and so your pay award. Sometimes even the offer of promotion does not overcome this barrier.

4 I have exaggerated somewhat. And people may argue that some of these perverse incentives may be addressed by Resource Accounting and Budgeting, though I am not one of them.

5 I suspect that the solutions include

- a clear - and collectively agreed - statement of corporate (central) priorities at the outset of expenditure planning in sufficient detail to reduce the inter departmental haggling and create a shared objective.

- a statement by the Prime Minister that all Ministers are to work towards the government's collective objectives, not just their own, which might then be carried over into the way Select Committees hold Ministers accountable.

- improved arrangements to make departments consult each other in planning expenditure, facilitated by the centre, building on CSR experience of work on criminal justice.

- a withdrawal of delegation in areas which are truly corporate

- agreement with the NAO/PAC, and Select Committees generally, on accountability arrangements for cross cutting objectives

- the creation of more cross departmental budgets, perhaps with the Team Leaders as Additional Accounting Officers

- negotiation with the PAC/NAO, or perhaps a unilateral statement if this is not possible, of a more sensible approach to risk and reward so that incentives to innovate rather than avoid risk can then be put in place

- writing into Government Accounting, and into job descriptions, a responsibility for all officials, including accounting officers, to consider the Government's wider objectives in judging the value for money of programmes (an extension of what is there)

- incentives to encourage policy evaluation (since requirements have not worked)

- incentives, and arrangements, for officials to move departments

- a less rule-based, and more standards based, approach to financial management.

- possibly some implications for the structure of Cabinet Committees, just so we don't forget our own backyard.

- and relevant findings from the study on the role of the Government Offices.

6 But I am a creature of a risk averse culture. So I don't have all the answers. If I did, we would not need a study.

7 The first stage of the study might be an exercise to identify and map the perverse incentives within the system, including the obstacles to joined up working, and their causes. There is probably quite a bit of literature on this in the Treasury, the Better Government side of the Cabinet Office and the Central Secretariat. But fieldwork with Departments/Ministers and outsiders, including the NAO and Audit Commission, would be useful. The second stage would be to produce a strategy for changing these incentives and, as Andrew Turnbull has suggested, ground-rules that can be applied in future PIU (and SEU) projects. But even getting agreement to the map of perverse incentives and obstacles would be "value added".

8 Since the recommendations are bound to touch on the structures of Parliamentary Accountability, a clear understanding of the limits to what is achievable here would be useful before the project scope is finally decided. They could be quite a constraint.

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