

(Check against delivery)

90 YEARS ON – INFLUENCE AND CAPABILITY AT THE HEART OF GOVERNMENT

Introduction

It's our ninetieth birthday over at the Cabinet Office.

This week in December 1916, Prime Minister Lloyd George created a powerful new Cabinet Secretariat to support the Imperial War Cabinet.

He asked Sir Maurice Hankey to lead it, and Hankey became the first Cabinet Secretary. The Cabinet Office as we know it was born.

Lloyd George's logic was simple. The system of Government he'd inherited was designed for the very limited role of the Victorian state. It wasn't cut out to handle a war of national survival. It couldn't drive and coordinate the work of the various Ministries in support of the war effort.

Reform was needed to strengthen the centre of Government. It worked, and the new structures became permanent.

The events of December 1916 are a landmark in the rich and proud history of the civil service. Over the course of the rest of the twentieth century the civil service, with strong central leadership, has helped successive Governments to help the nation meet the challenges of a depression, another World War, the Beveridge reforms, and the economic transformation of the last quarter of the last century.

My message today is that ninety years and nine Cabinet Secretaries on from the momentous events of 1916, we are once again at a critical period in our history.

The role of the state – or, more bluntly, what Ministers and the public expect from us – is changing just as profoundly, and arguably even more rapidly, than it did at any time in the twentieth century. Global trends and the pace of change internationally and domestically are asking tough questions of societies and Governments. How nations respond to these questions will determine their success in the twenty first century. And because the challenges are complex and globally driven, the response will have to be about **influencing others**, not command and control.

Today I want to focus on four questions:

- what are the main challenges we will face over the next decade?
- what should the state do to meet those challenges?
- how well placed already is the civil service to meet its side of the bargain and what should we be doing better?

- as we publish the Cabinet Office's capability review, what is the centre of Government going to do?

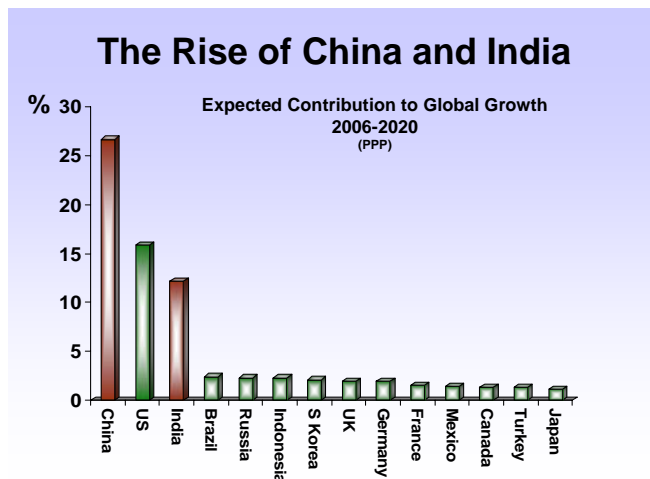
The challenges

First, the challenges. What will be the defining issues for Governments in the next decade?

The most fundamental challenges are globally driven. Just because it is becoming a bit clichéd to talk about globalisation as the defining theme of our age doesn't mean it isn't true, or that it's not worth saying again and again.

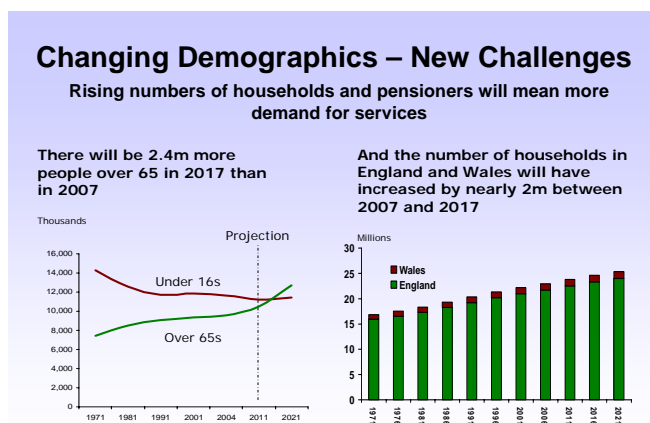
Some relevant facts, just to give an indication of the breathtaking pace and scope of current changes:

- last year, China overtook the UK in terms of the size of its economy. (In reality this probably happened years earlier, but the UK's more professional statistics office tends not to understate the size of the economy by one fifth, as China's did). Last year India and China produced half a million qualified engineers and computer scientists and the UK produced 75,000;



- according to Sir Rod Eddington, the UK transport system supports 61 billion journeys per year, but if congestion is unchecked, this will cost the economy £22 billion over the next two decades;

- the number of people over 65 is likely to exceed those under 16 and the number of households will increase by 2 million within the next decade.



We face other major challenges like climate change, increases in inward and outward migration, a security threat we did not expect even a decade ago, and community cohesion.

What does it all mean for the UK and its Government? In my view:

- the changes are irreversible, and resorting to protectionism would be disastrous. Rightly in my view there seems little appetite for this in British public opinion;
- in these circumstances, each country will look to make the most of its competitive advantage, and this is surely where the UK must focus;
- the pace of change will create losers as well as winners, at least temporarily, and citizens will expect the state to help those affected get back on their feet;
- the demand for public services will change dramatically, to reflect the demand for more skilled workers, more sophisticated infrastructure, and the needs of an ageing and more diverse population;
- citizens' experience of the private sector, and their own mastery of new technology, mean they will expect the state to provide the support services their taxes pay for in a way that suits them as the consumer, not the state as producer.

Meeting these challenges: the role of Government

This is a difficult and challenging agenda for all Governments. So what should the state do to respond?

For Governments, there are three responses.

First, they must realise that many of the answers lie in influencing global action. Climate change, maintaining open markets all require multinational responses. Second, at the domestic level, governments need to improve their ability to meet rising public expectations about the services the state delivers. This is about more than just satisfying the public's desires as consumers. As Mark Moore, and more recently Will Hutton, has pointed out, there is a need to think about the value created by government through laws, regulation, and other activities – public value in other words. This means not just measuring customer satisfaction. We also need to consider how to involve users in determining how services are delivered. Third, governments must create the right environment to allow business to prosper in a highly competitive world. I recall a conversation I had a while back with Sir Rod Eddington, who had come over from Australia to run British Airways very successfully. He said he had found the UK a great place to do business. Its key asset was what he called its 'soft' infrastructure – the rule of law, robust and credible institutions, a supportive atmosphere to wealth creation, and collaboration and engagement between the various sectors of society in an open and constructive way.

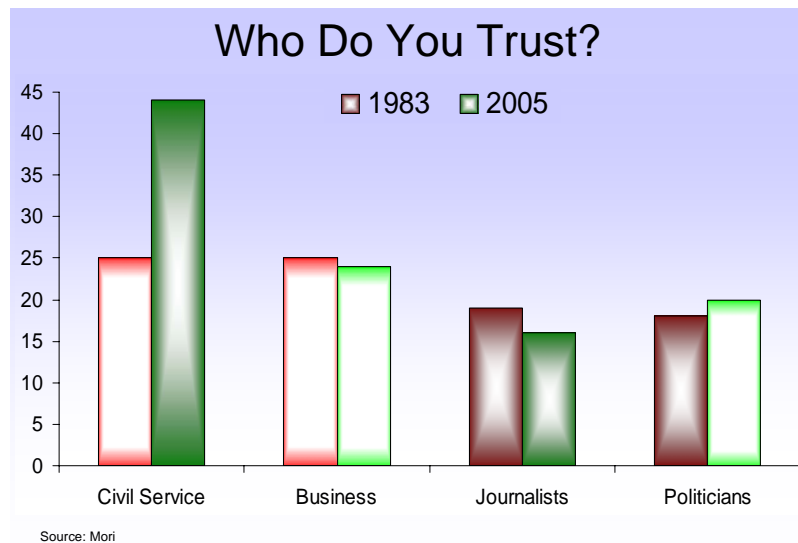
It is this historic strength on which UK plc must build. The Prime Minister, introducing the first batch of capability reviews in July, said that in order to meet the challenges of the 21st century, the role of the state was not to control, but to enable. This is what those of us who support the elected Government are charged with delivering.

The civil service: meeting our side of the bargain.

So the third question to ask is: how well placed is the Civil Service to help government respond to these challenges? We have a number of strengths.

One is **trust**.

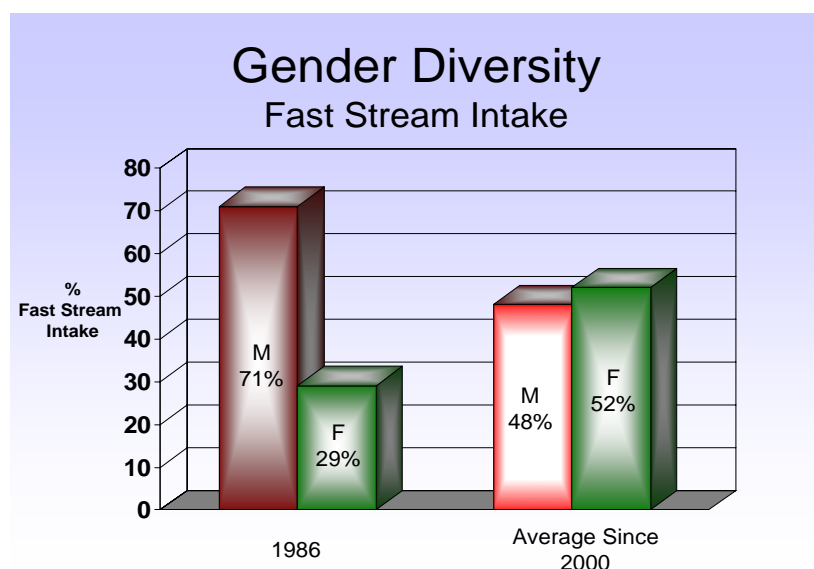
Our enduring values of honesty, objectivity integrity and impartiality have earned the public's trust. Trust is essential to being able to influence others. If we lose that trust, our ability to deliver and influence will not survive.



Work by Mori shows that over the last two decades, trust in most professions hasn't changed, with the only noticeable shift being an increase in trust in civil servants.

Another is **people**. We attract the best talent: over 20,000 applications for around 350 jobs in our fast stream.

And we are harnessing the talents of all parts of the population. For example, the majority of our fast streamers in this decade are female, for the first time in the history of the Civil Service. We are bringing in more people from



minority populations. We need to do better to increase the diversity of particularly our senior staff, but we are doing much better than the private sector, particularly with regard to gender.

Sometimes our **performance** doesn't match up to what it should be. We deserve to be criticised when this happens, and to be held to account. The public deserve better. They expect us to take action, and we do. Just this week we have heard about the progress being made by the Home Office in getting to grips with the very significant problems they are facing, as well as the steps being taken by the Department for Work and Pensions to tackle the long-standing problems in the Child Support Agency. Both of these responses were informed by the capability reviews of the departments.

But unlike our failures, our successes – understandably – don't make the headlines. Last month the National Audit Office published a very useful report about learning the lessons from two dozen successful Government IT projects. It attracted zero press coverage. So in acknowledging our shortcomings, I don't want to lose sight of the enormous progress we have made in becoming more professional and better at delivery. Another example is finance. Just two years ago, Sir Peter Gershon rightly criticised a Government that spent over 40 per cent of GDP had very few professionally qualified finance directors. I am delighted to report today that three quarters of departments already have professional qualified directors and the rest will get there early next year. This is a huge achievement in a short time. Now we are making similar progress with our HR structures, with open competitions for experts across nine departments.

Our challenge is to raise the whole civil service to the level of the very best: building a culture of excellence everywhere in the service.

Our programme of **professionalisation** is irreversible. The Professional Skills for Government programme, launched by my predecessor, Andrew Turnbull, and the capability review programme, will, I hope, in time be seen as major landmarks in the history of civil service reform. We are also making rapid progress on the leadership agenda. Alice Perkins started this off with the highly successful high-potential development scheme, and Gill Rider is building on this with initiatives like the top 200 event. As we succeed, my dream is that we banish once and for all the stereotype of the civil servant as an obstructive amateur. Sir Humphrey has a lot to answer for.

Here's a more accurate stereotype of the modern civil servant.

Sorwar Ahmed works in the Pensions Agency in Long Benton. So, like 82 per cent of his civil service colleagues, he works outside London. His job is about serving the public. Last year, he overhauled the way his office worked and greatly improved the service to the pensioners of the north-east. Last week I had the privilege of presenting him with the award for outstanding achievement at the first ever Civil Servant of the Year Award, a long overdue initiative to acknowledge the brilliant and inspiring work thousands of civil servants do all the time for little recognition (and I would like to thank

Whitehall and Westminster World for their role as the key partners in that event).



Sorwar Ahmed

Winner of The Cabinet Secretary's Award for Outstanding Performance

We are a good employer. That's why we can attract – and retain – the likes of Sorwar Ahmed. Being a civil servant – providing support to other citizens in vital areas of their lives – is an incredibly fulfilling and rewarding career. Our part of the bargain as management is to make sure that our staff have the right skills to do their jobs better. We're committed to doing this.

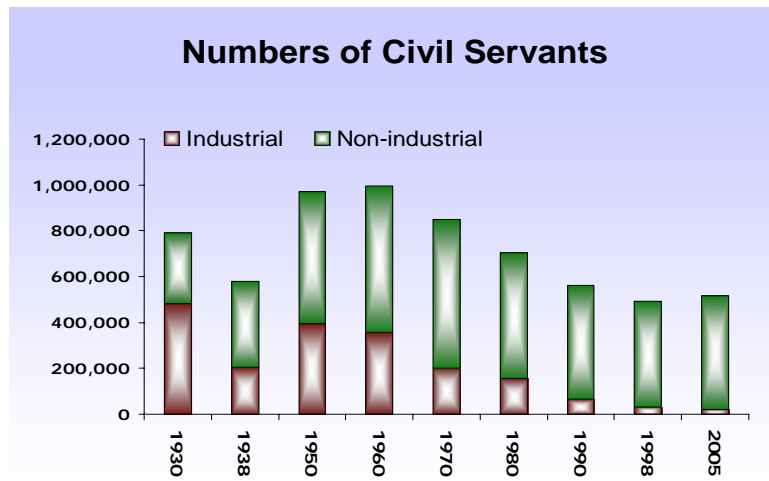
We also have a duty to be honest with our staff. So we must be absolutely clear that in looking ahead to meet the challenges of the next decade, the rate of public spending growth will slow. The priority is to get the resources we have focussed on delivering services on the ground. So we have to do more with less.

As the statistics released this morning show, this is already happening. In the past twelve months, civil service staff numbers have fallen by 14,000, or more than 2 per cent, in the past year. This trend will continue, as we move to implement the further efficiencies announced in 2004 following the Gershon review, and implement the 5 per cent annual real terms reductions in administration budgets announced last week by the Chancellor, which take us up to 2011.

I can't be precise about civil service numbers well into the future. But what is clear is that the challenge of doing more with less is here to stay.

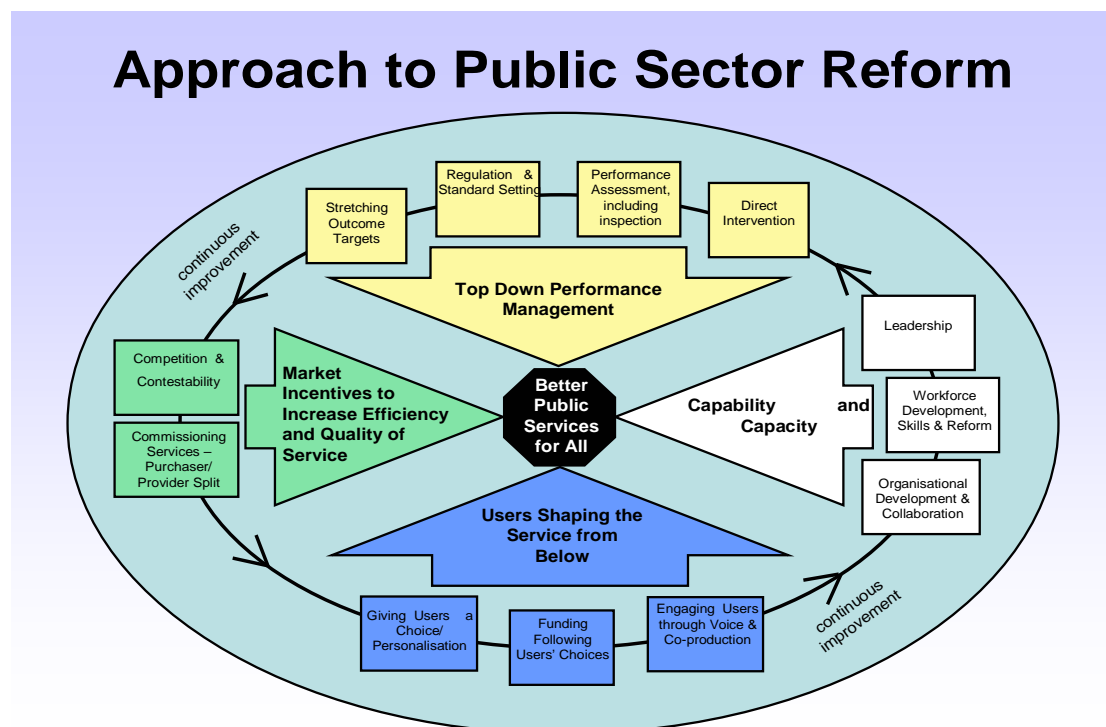
Civil service numbers crossed the half a million mark in the Second World War, and peaked at over one million, or around 4 per cent of all jobs, in the 1960s. Even in the mid 1970s civil service numbers stood at nearly three quarters of a million. At that time, civil service jobs accounted for 2.8 per cent of total jobs in the economy. They have generally been on a downward trend since. Ten years ago, just 1.9 per cent of British jobs were in the civil service. Now it is 1.8 per cent. On current projections of both civil service numbers and

general labour market trends, it will probably fall further, and I expect that civil service numbers will fall below the half a million mark in the next few years. Fiscal constraints also mean tighter pay settlements, and looking to the long term, we need to implement essential reforms to civil service pensions.



The job of civil service leaders is to manage this process of change effectively. We will provide the support we can to all those affected by reductions. We will lead the transformation of professional skills in the civil service to equip our staff with what we all need to succeed. In short, we will lead the process of reform.

Our approach to public service reform is grounded in four principles.



We have to improve management at the top, through rigorous performance management and intervention where necessary. We must listen to what those who use public services are saying to us. We have to improve our own capability and skills. And we need to use incentives to drive improvements in quality.

Capability reviews are grounded in this approach. I see them as a watershed in the history of public administration in the UK. They are a public and published assessment of how well a department is placed to face the future. They are tough and challenging. I think people both inside and outside Government were genuinely surprised in July when the first batch were published – one journal commented they'd expected a whitewash, and were surprised to find they were the real thing. The only people who weren't surprised were the permanent secretaries of the departments concerned who realised just how far-reaching the questions being asked of them were.

Most importantly for me, they focus on what action needs to be taken. We will formally report next year on what has been achieved as a result of the first set published in July. But it's already clear that real progress is being made.

I've already mentioned what the Home Office are doing, and I should point out that they are now within £20 million of meeting their Gershon efficiency target of £2 billion savings, required by March 2008. The DWP, following their capability review, looked hard at the way their delivery processes work, and as a result have already identified savings from suppliers worth over £100 million over the next three years. The DfES have already begun the process of gaining better feedback from all involved in education through Ministerially led programmes of regional engagement. And the Department for Constitutional Affairs are already far down the path of major improvements in building capability in their largest agencies.

So we are already seeing not just that capability reviews require tough measures, but that the appetite is there to deliver them.

Today's reports are about the Cabinet Office, the Department for Communities and Local Government, and the Department of Trade and Industry.

The findings of the second set reinforce the themes of July's reports and our approach to public service reform. I am confident that when the next set are published in 2007, we will have an even better reform story to tell from all the departments reviewed in 2006.

The formal assessments – what you could call the scores – show where each department needs to focus its efforts. One of the main points emerging from the scores for each department is the risk in total the Department is less than the sum of its parts.

The first set of reviews were of four big delivery departments. The second, published today, are about smaller departments where the key is not just delivery but influence. They're about influencing Government - the Cabinet Office, communities - the DCLG, and business – the DTI. So perhaps it's not a surprise that the scores on delivery are slightly lower than in the first set, though the scores on leadership are strong.

As I said at the beginning, influencing skills are at a premium as we face globally driven challenges. Most public services are not delivered by civil servants. That's why I'm pleased there are good examples of influencing and partnership in all three reports. There are good examples across Government as well. Our network of overseas posts are now acting as delivery agents for the Government as a whole, rather than seeing themselves as acting for the Foreign and Commonwealth Office.

What the Cabinet Office will do

The report I want to focus on is the one for the Cabinet Office and how we influence the rest of Government. Sharpening the focus of the centre of each department has been a key theme of all the capability reviews. So the report for the Cabinet Office is asking this question about the centre of Government itself. I pay tribute to the review team for their penetrating and searching analysis of the issues we face. Having the expertise of people like James Crosby, who led HBOS bank very successfully, and Bob Kerlake, one of the leading lights of local government, has been an invaluable experience.

As for the other two departments, the report shows each Department has had much success to celebrate in all its core areas. I pay tribute to the dedication and professionalism of the Cabinet Office's staff and the civil servants in the DTI and DCLG for their achievements.

Now that the report is out, I want to answer the last of the four questions I posed earlier: what is the centre of Government going to do to drive the whole Government's response to the challenges of tomorrow? Ninety years on, what today is the equivalent we need to do to make Government work better to match and exceed the achievements of Maurice Hankey and his colleagues all those years ago?

Like the rest of the civil service, the Cabinet Office has already embarked on a major programme of reform. When I took office in the middle of last year, the Prime Minister stressed that he saw the need for a stronger, more strategically focussed central department as a top priority. With the help of colleagues, I have already set in train measures to ensure we focus on our core functions, and strengthened the implementation of our own efficiency programme. This means that a department which had over 2,100 staff last year now has just 1,500, despite taking on new and critical functions around social exclusion and the third sector in the May reshuffle. By 2008, largely as a result of efficiencies, we expect to have reduced to around 1,350 staff, a reduction of well over one third in just three years.

Today we are announcing our strategy of achieving these ambitions, to make Government work better by:

- supporting the Prime Minister;
- supporting the Cabinet; and
- strengthening the civil service.

Our plan has two core elements: action to strengthen the way we lead from the centre; and action to improve how we manage ourselves as a department.

The Cabinet Office has *the* critical role in strengthening the capability of the civil service across the whole Government machine to face up to the momentous challenges of Government in the twenty first century. I can today announce three major initiatives:

- first, we will govern the civil service better. A new Civil Service Steering Board of senior permanent secretaries and non-executives will be created to oversee the implementation of, among other things, the pioneering work of Sir David Varney on service transformation, the need to drive sustainability in all the Government does, and employee relations;
- second, we will transform our own capability to lead the civil service. The unit of the Cabinet Office responsible for civil service skills and capacity is being radically overhauled;
- third, we will get smarter about how we help departments perform better. Sir Suma Chakrabarti, one of our most experienced permanent secretaries, will review how the Cabinet Office is best deployed in the management of the civil service, working out what is best done centrally and what is best done by Departments.

The report also announces a set of measures designed to improve the Cabinet Office's management of its own performance. I am delighted to announce the appointment of Roger Marsh, a partner at Pricewaterhouse Coopers, as our new Finance and Operations Director, who will oversee a major improvement in our corporate services. To strengthen the level of external challenge to the department's leadership, two outstanding non-executive directors, Baroness Prashar, the former First Civil Service Commissioner, and Ruth Carnall, head of the NHS in London, have today been appointed to the Board.

Conclusion

Let me finish by explaining why I believe I have one of the best jobs in the world.

I have the privilege to be the Head of a Civil Service which is rightly regarded as a national asset.

It is trusted to act with integrity, and to offer objective, impartial and honest advice.

Our challenge is to raise our game – to add more pace and professionalism. What we've announced today will help get us there.

By doing this, we'll make sure the public gets the Civil Service it deserves into the future. A Service passionately committed to making Government work better for all its citizens. A Civil Service we can all continue to be proud of.

Thank you.