

The Quiet Revolution: Redefining the 'How' of Government Spending

Introduction

Thank you for that introduction – and your welcome.

And it's a particular pleasure to be here with all of you at the IEA... somewhere I've enjoyed many bracing events over the years... with Mark [Littlewood] and his team... a place where there's always an atmosphere of genuine intellectual 'questing'... and where the very laudable goal is the real-life application of political theory. And it's no surprise to me that so many IEA alumni have gone on to do such great things at the Treasury.

Margaret Thatcher, of course, was a great fan of the IEA. In fact, her archive is peppered with references to lunches and dinners here.

Oh, to be a time-travelling fly-on-the-wall...

I understand that she said of IEA founder Antony Fisher and his first two directors, Ralph Harris and Arthur Seldon, that "they were the few... but they were right... and they saved Britain"...

Although, in the same breath, she's said to have observed that "while the cocks may crow, it's the hen that lays the egg".

Ladies and Gentlemen, friends,

We can all agree that the last two years will come to represent a unique period in the history of this country... certainly, economically.

The good news is that we now have a strategy in place for living with Covid, and have begun to leave behind some of the extraordinary challenges of that time.

There is, of course, a continuing cost of living challenge... with global supply chain disruption and higher energy prices adding to inflation around the world.

The Government recognises the pressure people are facing on household finances – including on energy bills – which is why the Chancellor took the action he did back in February.

We're all also painfully aware of the horrific scenes in Ukraine... which are affecting our daily lives in many ways.

It's absolutely right that the UK should be providing the support it is to Ukraine, as well as to those seeking refuge from the war. But there is – and will be – a further impact on living costs for households here.

As the Chancellor has said “The steps we have taken to sanction Russia are not going to be cost-free”’.

But, as he also said, “I am never going to shirk away from my responsibility to make what are difficult but, ultimately, the right decisions to ensure that this country has economic security both today and into the future.”

And that’s a theme he developed in detail in last week’s Spring Statement.

You probably saw the details of his tax plan, which takes further, immediate steps to ease pressures on cost of living, by cutting taxes on a typical employee by over £330 in the year from July and fuel duty by 5p per litre.

It also sets out a vision for a lower tax economy, including cutting taxes on business investment, and for the first time in a long time will cut income tax from 2024.

However, funding this plan, and being prepared for any future shocks, will require us to continue to take a disciplined approach to the public finances.

We have to at least be prepared for the economy and public finances to worsen... and for the cost of borrowing to rise.

In the next financial year, we’re forecast to spend £83 billion on debt interest – the highest on record... and nearly four times what we spent last year.

I’ll come on to the detail of the numbers in due course, but if you remember just one fact from my remarks today, make it that one.

My job as Chief Secretary

Given the challenging overarching context, it is doubly incumbent on the British Government to show that we are making the best use of the British people’s hard-earned money.

That’s my job as Chief Secretary... in fact, it’s the reason the post was created sixty years ago... just a few years after the IEA itself... and it’ll be the focus of my remarks today.

The case I want to make in the next half hour or so is that, following an extraordinary period for government finances... a brief era of exceptionalism... there’s now a ‘quiet revolution’ underway at the Treasury and beyond... to improve how we spend every penny of taxpayers’ money... on their behalf, and to the best extent a Government can, in their best interests.

Right across Government, we’re taking concrete steps to cut waste, improve efficiency, accelerate delivery, and boost productivity... all under the traditional Treasury rubric of responsibility and ‘sound money’... values I am determined to see lived even more fully right across Whitehall.

I’m calling it a ‘quiet revolution’... but, in truth, we could just as easily call it ‘reform’, ‘renewal’ or ‘renaissance’.

The point is that we can – and we must – do things better. Focusing on the ‘how’ rather than the ‘how much’... and, crucially, doing more for less.

The policy context

Before I come on to the detail of that, I want to say something about the policy context, the lessons of the pandemic, and my experience of last year’s Spending Review.

I know that the mechanics of government spending and financial management can seem esoteric and abstract.

But how well we manage that spending makes a real difference to people’s everyday lives.

I am in no doubt just how difficult a time this is for many households, and how strongly people feel that the government must manage their money properly.

‘Better spending’ means squeezing every ounce of value out of the pounds we deploy... on the one hand, delivering better outcomes... on the other hand, preserving the headroom to act if circumstances demand... with, incidentally, the benign side effect of a more dynamic, higher-growth economy.

The government has a number of critical missions on which to deliver.

There’s the imperative of economic recovery and renewal, and reform of public services, two of the driving ambitions behind last year’s Spending Review.

The Chancellor’s vision – explored in detail in his recent MAIS lecture – is of a future economy built on a new culture of enterprise... in which we put our energies into three priorities: capital, people and ideas... as a means of ‘rejuvenating our national productivity’, and restoring ‘hope and opportunity’. And those priorities sit at the heart of his Tax Plan.

While it’s right that the private sector should take the lead in this endeavour – we believe government should create the conditions, not determine the outcome – public spending will be key to engendering this new culture of enterprise... boosting investment in public services and infrastructure, improving education and skills, and supercharging Research and Development.

You’ve also all heard the phrase ‘levelling up’ many times... which, in the simplest terms, means giving everyone wherever they live the opportunity to flourish.

The recent white paper on Levelling up was very clear about the economic dividends... which could be worth tens of billions of pounds each year.

Crucially, as the White paper says, ‘levelling up is about growing the economic pie, everywhere and for everyone, not re-slicing it’.

We’re also determined to seize the opportunities presented by our departure from the European Union.

In an ever more competitive – and in some respects, darkening world – I genuinely believe that, if we get things right, we can make our economy more dynamic, and the country more prosperous... supporting new industries and reinvigorating older ones.

Another key ambition is Net Zero... in which the UK can play a world-leading role. This is not only keeping consumer bills down... helping with the cost of living... but can represent one of the greatest commercial opportunities in the period since the Industrial Revolution.

I'm personally very proud that the government has committed £30 billion for a new 'green industrial revolution'... seeding green growth, and spreading sustainable investment in technology and jobs all across the Union... with the private sector playing a vital role in delivering it.

In fact, under our COP26 Presidency, 75 UK financial services firms – with assets of almost £19 trillion – have joined the Glasgow Financial Alliance for Net Zero.

Going forward, we will absolutely make sure that financial management supports all those long-term objectives... including economic recovery, levelling up, and Net Zero.

The pandemic

That's the high-level policy context but, of course, we've also been navigating an unprecedented challenge in the form of the pandemic.

We all understand that this was a once-in-a-generation challenge, demanding a response that was unique both in terms of scale and speed.

At the Treasury that meant, for instance, delegating more control to Accounting Officers in relevant departments, providing departments with more generous spending envelopes, and turning around approvals quicker... but all balanced with appropriate precautions, such as always being satisfied that decisions met the standards set out in the document 'Managing Public Money', the document which guides public spending.

There's been criticism of the perceived scale of fraud and waste during the pandemic – including from former colleague Lord Agnew, who made an invaluable contribution as a minister.

Let me be clear: no fraud has been written off. And we are determined to recover as much of any fraudulently obtained funds as possible... with a dedicated taskforce at HMRC, backed by £100 million.

Any fraud against the public purse is too much.

But the measures to minimise the risk of fraud and error were robust... and for the most part did the job.

In the case of Bounce Back Loans, the extraordinary circumstances businesses faced at the time demanded that the money was paid out far quicker than

typical bank lending or government programmes. The checks put in place meant that £2.2 billion of what were deemed potentially fraudulent applications were blocked by lenders

Importantly, businesses are repaying those loans. In 2020, a National Audit Office report contained an estimate that as much as 60 per cent of the sums lent might never be recovered. In fact, nearly 80 per cent of the loans are being repaid, have already been repaid, or involve using the support we've provided borrowers to pause or delay repayments while they get back on their feet.

It'll take time and effort, but where fraud is suspected we will continue doing everything we can to claw back those funds.

There have also been accusations of waste relating to the provision of personal protective equipment and the vaccines programme.

In the case of PPE our focus was rightly on saving lives and protecting our healthcare workers.

Which is why we acted very quickly to secure and deliver over 18 billion items of PPE to the frontline.

97% of that equipment was deemed suitable for use, either in the NHS or in other non-medical settings.

There was... and I'd argue that there had to be... a change in risk appetite. We carefully considered, and then accepted the necessary risks.

But the principles set out in 'Managing Public Money' – the key government primer – continued to apply at all times, and the Department for Health and Social Care took decisions on the basis of sound commercial advice.

As for the vaccine programme, the government took calculated risks to build a portfolio of vaccines. In fact, the UK was the first country in the world to approve and deploy the Pfizer and AstraZeneca vaccines – a success which has saved tens of thousands of lives, and has allowed the UK to be the freest major economy and society in the world two years after this crisis began.

So, of course there are things we could have done better... but given the circumstances and the unique need, I stand by our response.

Lessons learned from the pandemic

Going through something like the pandemic teaches you a lot.

And if we're honest about it, we saw Whitehall at its best... and worst.

On the plus side, it revealed the ability of Government to move at speed, and to act decisively when necessary.

It also reminded us of the value of harnessing the best of the private sector and allying it to the things only the public sector can do.

Here I'm thinking of the vaccines taskforce and the furlough scheme, both of which relied on the public and private sectors working hand-in-glove... resulting in countless lives and livelihoods saved.

The flip side of doing things at speed was that we had to prioritise.

As I say, that was a strategic decision. We're now strengthening safeguards, and taking action against those who tried to game the system.

No country on the planet got this 100% right. We should always strive to do better... of course, we should... but that shouldn't mean we fail to acknowledge what we did achieve.

The pandemic probably also showed us that some parts of Whitehall remain resistant to change... and that it's sometimes easier to expand the State than it is to remodel or streamline it.

But we're alert to that. The civil service headcount is up 23% from 2015/16, and by almost 7% in 2021 alone ... something that's impossible to justify long-term, and something we're determined to reverse.

As a starting point, government will ensure that resource is focused on delivering frontline services and cutting bureaucracy by reducing non-frontline civil service headcount to 2019-20 levels by 2024-25.

Through a scrupulous focus on efficiencies, more streamlined processes, and a better matching of our people to our priorities, we will bring civil service headcount down to sustainable levels for the longer term, and this will be a focus of the years leading up to the next SR.

The reality is that some growth in the Civil Service was required to deliver Brexit and our Covid response... but over the next Spending Review I want to see headcount levels fall back towards where they were before what were very much out-of-the-ordinary events.

Spending Review 2021

The fallout from the pandemic was naturally the defining context for last October's Spending Review – my first, and a challenge I had to complete, following the reshuffle, in just a few weeks.

On a personal level, sitting at the helm of that process was an extraordinary experience.

No-one's ever going to call it a glamorous job – I don't generally get invited to film premieres – but it is fundamental to the smooth workings of government.

The fact that I took over from Steve Barclay... who has himself made such an important contribution to improving government efficiency and delivery as my predecessor... was a real boon.

I also want to thank – and pay tribute to – the many Treasury staff who made

the Spending Review happen.

I'd been a Treasury minister previously... but participating so closely in the Spending Review gave me a newfound appreciation of the scale and complexity of government.

It also reminded me that government spending isn't something that takes place in the form of neat punctuation points.

Every decision must be taken in the context of previous government decisions, which together have a cumulative impact. And which, by the way, is exactly why maintaining financial discipline is so important.

We certainly delivered a much greater focus on outcomes, efficiency and savings... and record investment in reformed public services, involving among many other things the modernisation of the courts system, the transformation of the welfare system and a clear plan to ensure our National Health Service delivers on the enormous investment it is receiving.

On that last point, our health care system is obviously a big priority for us. That is why we allocated over £188 billion to DHSC in 2024-25 at the Spending Review... and why we've introduced the Health and Social Care Levy, which makes available an additional £13 billion a year to support the NHS and reform adult social care. There should be absolutely no doubt: this government is giving the NHS the resources it needs.

As with so much else, we're also focused on doing things better... with ambitious targets and metrics associated with our elective recovery plan, and a Health and Care Bill which will make the NHS less bureaucratic, more integrated and more accountable, freeing up time and resource for frontline care.

Overall, the SR allocations were ambitious... with total spending across all departments set to grow in real terms at 3.7% a year on average over this Parliament – a cash increase of £150 billion a year.

But – and this is vital – last Autumn's Spending Review marks the limit of fiscal expansion... the high-water mark in our commitment to honour what we set out in the manifesto... and not a point from which anyone should expect us to go further.

The economic and fiscal context

With so much frenetic activity in recent times – a good deal of it unprecedented – where are we economically and fiscally?

For one thing, debt is very high. This year, it is set to pass £2.3 trillion, reaching 95.6% of GDP, the highest level as a percent of GDP since the 1960s.

Debt is forecast to fall over the medium term but will remain significantly above pre-pandemic levels.

As you all understand very well, high debt leaves us vulnerable to shocks.

A sustained one percentage point increase in both inflation and interest rates would increase spending on debt interest by £21.1 billion in 2026-27. Our sensitivity to debt interest spending is almost twice as much as in 2014.

In 2021/22 we spent £54 billion on debt interest, more than double the year before... and more than the budget for schools.

We are already seeing higher costs – in January last year, the UK spent £1.6 billion on servicing our debt; this January, it spent £6.1 billion.

So far this financial year, we've spent £33.2 billion, or 80%, more on debt interest than last year. And as I said earlier, in the next financial year, we're forecast to spend £83 billion on debt interest – the highest on record.

That's why we need to get debt down in the years to come, not least to rebuild space to safeguard the economy against future challenges... which is exactly the rationale behind our fiscal rules.

And if we stick to that task – and we will – we can expect to be borrowing just 1.3% GDP four years from now, down from 5.4% this year.

The truth – plain and simple – is that we don't get to choose when history turns up.

The fact we've experienced two big shocks in such quick succession – wholly exogenous shocks – only goes to show that we could face another shock at any time... meaning, in turn, that we must be diligent in the way we manage the public finances.

The British public gets rid of those governments who lose their grip – or are perceived to lose their grip – on the public purse. And they're right to do so.

There is, of course, important good news... which should give us quiet confidence.

The UK saw the fastest growth in the G7 last year at 7.5%, and the economy returned to growth in January following the disruption caused by Omicron.

The labour market has also been performing extremely well, with pay-rolled employee numbers above pre-pandemic levels in all regions of the UK and at a total of 29.7 million in February, a record high. Redundancies have also been an all-time low of 68,000 in the three months to January 2022.

The progress we've made is the consequence of a deliberate economic policy. And that fact deserves to be acknowledged and recognised.

At the same time as all that, of course, there do continue to be bumps in the road.

Global supply chain disruption and higher energy prices are adding to inflation around the world, including in this country, and help explain the rise in inflation we've seen above the 2% target in the UK in recent months.

Inflation is now forecast to peak at 8.7% in Q4 2022 before falling below target in late 2023.

The independent Monetary Policy Committee at the Bank of England have begun to tighten monetary policy to return inflation sustainably to the 2% target. And people should be reassured that the Committee have a strong track record in achieving low and stable inflation.

Importantly, we'll be guided by the updated Charter for Budget Responsibility, which is born of the belief that stable public finances are the foundation for building a stronger economy for the whole country... and the purpose of which is to set out the Government's approach to managing the nation's finances openly so that the British people know that their money is being handled carefully.

And, looking ahead, the key message, as I'm happy to repeat again and again, is that if we want to protect the public, and reform key public services, we need to restore fiscal discipline.

The Quiet Revolution

As Chief Secretary to the Treasury my in-tray remains very full... but, frankly, I see that as an opportunity to support what I've called the 'Quiet Revolution'.

I'll continue shifting the focus back from the 'how much' to the 'how'... with relentless attention to the outcomes we deliver and the value we get for each pound.

There'll be new proactive initiatives to counter fraud... with an additional £24.7 million over three years to turn the existing Government Counter-Fraud Function into a new Public Sector Fraud Authority... which will hold government departments to account for their counter-fraud performance, and help them identify fraud and seize fraudsters' money.

And we'll be improving our financial management processes, however and wherever we can.

The Treasury will also continue to work collaboratively with departments... to ensure public money is used efficiently, with every pound spent providing value for money for the taxpayer.

We've already reviewed the Green Book to improve the appraisal process and we're now updating the Treasury Approvals Process in order to streamline our approach and deliver faster, better projects and programmes.

I also want us to get even better at forecasting.

Given that the public sector manages almost £1 trillion of public spending a year, it's essential that the government has the very best information about what it plans to spend.

Apart from anything, better forecasting means more efficient allocation of

money across government, making sure public services are funded appropriately.

The Treasury has a key role to play here ... and we're working, for instance, on an improved forecasting framework... including detailed guidance to help improve the quality of forecasting across government and to ensure that the high standards the taxpayer expects are being met.

But we can't make this happen on our own. It really has to be a pan-Whitehall effort.

Policy actions

The Quiet Revolution isn't, of course, simply about how we think about financial management – busy though we are in renewing that.

It's also about a complex matrix of policy actions... which individually don't signify much... but which together add up to something really quite substantial.

For one thing, it's time we got serious about reforming so-called Arms-Length Bodies – or ALBs.

In my view, there's a constant risk of mission creep... often disguised by ALBs not being attached to any specific government department. That needs to end, and I think there should be a high bar to establishing any more such bodies.

We will shortly be launching a new programme of Arm's Length Body Reviews which will see savings come from better use of property, reduced reliance on consultants, increased digitisation and greater use of shared services, as well as the use of benchmarking to drive efficiencies.

Linked to that is what I'll call the 'curse of the contractor'.

If a department is going to commission outside contractors – and there is sometimes legitimate cause to do so – then there ought to be a commensurate reduction in headcount in that department. You can't reasonably have both. Otherwise what we end up with is a department that's not shrinking, but which has a semi-permanent cadre of highly paid contractors.

On government property, there is fat to be trimmed.

As we pivot, rightly, to making Government more reflective of the country we serve, we are bringing the Government into the regions by relocating 22,000 Civil Service roles from London by 2030.

As we reduce the London headcount, we must also shrink our London property portfolio, using what we have better, thereby making further estate savings. And I want to praise Lord Agnew for his work as a minister to make progress on this.

But we can and we should go further.

Another area which has long been in need of reform is exit payments for staff leaving the public sector.

Exit payments can play an important role in supporting employees and allowing public sector organisations to reform, but it is important payments are used in a fair and proportionate way, and that value for money is delivered for the taxpayer.

I'm leading a programme of work to ensure that this is the case, working with colleagues across government to renegotiate some of the contractual terms that give rise to excessive exit payments. We are also looking to grip this issue more firmly at the centre of government, by introducing additional controls over how staff exits are agreed. And we want to have consulted on and introduced the new controls process this year.

The final area I'd flag for reform here is how we manage infrastructure projects.

Under plans set out by the Chancellor, the UK Government's Public Sector Net Investment as a share of GDP is increasing to its highest sustained levels since the late 1970s. I want to ensure we have the systems in place to get the most out of that investment in infrastructure.

Project Speed, for instance, was set up by the Prime Minister to deliver infrastructure 'better, faster and greener'. The HMT-led taskforce has focused on accelerating specific priority infrastructure projects and identifying and resolving systemic barriers to infrastructure delivery.

'Project Speed' has already seen considerable progress made across major infrastructure projects, and we have regular ministerial stock-takes on this.

The A66 was originally scheduled to take over fifteen years, including ten years of construction. 'Project Speed' intervention identified ways to save up to 50% of time in the planned construction process, cutting this down from 10 to 5 years through innovative solutions such as standardised, modular and offsite design and construction.

The Prisons Places Programme, for its part, has benefitted from an increased focus on standardised prison design and inclusion in the new Permitted Development Rights reforms, enabling a shorter planning and design phase. Effective use of Modern Methods of Construction is expected to save up to 20% on construction time.

In the case of HS2, meanwhile, the Prime Minister has been clear that it has to be delivered more efficiently and cost-effectively... and there is now increased ministerial oversight, transparency, and accountability of the whole project.

The government has also volunteered to undertake a Public Investment Management Assessment with the IMF. This is the IMF's key tool for assessing infrastructure governance over the full investment cycle. HMT will engage with the IMF to assess the UK's public investment processes... and understand what more we can do to deliver large complex capital projects and programmes

better.

A hidden good news story

The final thing I want to do before I conclude my remarks is briefly share the hidden good news story... about efficiency, delivery and greater productivity across Whitehall.

According to the Cabinet Office, more than £3.4 billion was saved in 2020/21 through successful efforts to improve efficiency across Whitehall... maximising value for taxpayers and putting more money back into vital public services... with significant savings made through cutting losses from fraud and debt (roughly £1.9 billion)... improved procurement decisions (around £1.4 billion)... and more effective use of digital services (just over £140 million).

I'm determined, as I hope I've demonstrated, that the Treasury should play its part... and do everything it can to enhance its financial management, and seek out opportunities to streamline government... guided as ever by the imperative to do more with less, and to focus on the 'how' not the 'how much'.

But there's a whole panoply of other things government departments – including the Treasury – can and should be exploring.

Or supporting collaboration across government so that we can more effectively deliver cross-cutting priorities like tackling crime and levelling up.

That's the thinking behind joint programmes such as the £4.8 billion Levelling Up Fund, removing siloes to meet local infrastructure needs, and the Beating Crime Plan, supporting cross-government action to reduce crime and reoffending.

It's also why we've launched initiatives such as the Shared Outcomes Fund, which supports projects that cut across multiple departments... and to which the Spending Review gave an additional £200 million of funding.

Among those projects are a pilot for a national surveillance network, that uses the latest DNA-sequencing technology and environmental sampling to improve the detection and tracking of foodborne pathogens and Antimicrobial Resistance.

There's also a new project to deliver Gigabit-capable services to the hardest to reach parts of the UK via water mains... improving digital connectivity and bridging the digital divide.

I'm certain the new Cabinet Committee on Efficiency and Value for Money, chaired by the Chancellor – of which I am deputy co-chair, and which meets for the first time next week – will also make a big difference... focusing Minister's attention on driving efficiency, effectiveness and economy in government spending so that every pound of taxpayers' money is directed towards delivering the highest quality services at the best value.

Our drive to tackle waste will save a total of £5.5 billion, with the money

being pumped directly back into public services.

Better efficiency and delivery are also about simple things like implementing Modern Methods of Construction, which I've already mentioned in relation to the construction of prisons.

Construction sector productivity has underperformed globally over the past 25 years, in part because of low levels of technology adoption which means the sector remains very labour intensive.

Modern Methods of Construction could help unlock that... according to McKinsey, speeding up construction by as much as 50% and cutting costs by 20%. Which is why the government announced it would set up a Taskforce looking specifically at how Modern Methods of Construction can improve house building, backed by £10 million seed funding at Spring Budget 2021.

Finally, I think we need to be relentless in our search for best practice and new ideas – be it from other departments, the private sector or, indeed, from other countries.

The likes of Estonia are often cited as shining examples of what 21st century good, efficient, digitally savvy government can look like... with 99% of all public services available online 24/7.

E-Estonia, the government central portal, relies on an infrastructure that enables an e-services ecosystem... one characterised by security, flexibility, and the ability to integrate its different parts.

There's no shame in looking to others for ideas... the shame is in not doing it. And that applies across government, and across all sectors.

It's a fact that the Department for Education is really good at building schools – so what can other departments learn from that?

The answers really are out there... we just have to make the effort to find them.

Conclusion

Let me end with one final thought.

In a major speech on the economy back in June 2020 the Prime Minister said, and I quote, that "this covid crisis is also the moment to address the problems in our country that we have failed to tackle for decades".

I believe that applies as much to my brief as Chief Secretary as it does to any more conventional department.

Because we really do have the opportunity to do things differently... with money saved and spent better... and countless lives improved as a consequence.

What will success look like 10 years from now?

It'll mean we've honoured our commitments around dealing with the consequences of the pandemic... more police, more doctors, more nurses.

We will have tackled the backlogs, and 'levelled up' in a way that people can really see in their own community... something which will be more and more conspicuous as the decade goes on.

We will have re-emphasised the traditional Treasury values of responsibility and sound money, celebrated those values, and be living them even more fully all across Whitehall.

We will have combined all that with a more nimble and imaginative state ... having adopted an 'enabling approach'... trusting people and communities to make the right decisions for themselves, and freeing up business to deliver.

Finally, having achieved all of that we'll be in a place where we're meeting our fiscal rules... and cutting taxes... which remains the single best incentive we have to drive growth.

I am personally deeply committed to supporting the 'quiet revolution' I've described... a revolution motivated by the desire to improve lives across this country... a revolution of a thousand small acts... a revolution, behind the scenes, that very few people notice ... but whose effects will be felt... every day... by millions.

Thank you very much.