



House of Commons  
Public Administration Select  
Committee

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**The Work of the  
Cabinet Office 2007-08**

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**Oral and written evidence**

***Thursday 11 December 2008***

*Sir Gus O'Donnell KCB, Secretary of the  
Cabinet and Head of the Home Civil Service*

*Ordered by The House of Commons  
to be printed 11 December 2008*

## **The Public Administration Select Committee**

The Public Administration Select Committee is appointed by the House of Commons to examine the reports of the Parliamentary Commissioner for Administration and the Health Service Commissioner for England, which are laid before this House, and matters in connection therewith, and to consider matters relating to the quality and standards of administration provided by civil service departments, and other matters relating to the civil service.

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Mr David Burrowes MP (*Conservative, Enfield Southgate*)  
Paul Flynn MP (*Labour, Newport West*)  
David Heyes MP (*Labour, Ashton under Lyne*)  
Kelvin Hopkins MP (*Labour, Luton North*)  
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The current staff of the Committee are Steven Mark (Clerk), Laura Dance (Second Clerk), Pauline Ngan (Committee Specialist), Louise Glen (Senior Committee Assistant), Lori Verwaerde (Committee Assistant) and Shane Pathamanathan (Committee Support Assistant).

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# Oral evidence

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**Sir Gus O'Donnell KCB**, Secretary of the Cabinet Office and Head of the Home  
Civil Service

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# Written evidence

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Civil Service

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# Oral evidence

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## Taken before the Public Administration Committee

on Thursday 11 December 2008

Members present

Dr Tony Wright, in the Chair

Mr David Burrowes  
Paul Flynn  
David Heyes  
Kelvin Hopkins

Mr Ian Liddell-Grainger  
Julie Morgan  
Mr Gordon Prentice  
Mr Charles Walker

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*Witness:* **Sir Gus O'Donnell KCB**, Secretary of the Cabinet and Head of the Home Civil Service, gave evidence.

**Chairman:** David Heyes will begin the questions.

**Q1 David Heyes:** Is it not the case that all of the events we have been discussing so far strengthen the argument for placing the civil service values and code on a statutory footing?

**Sir Gus O'Donnell:** There is no greater champion of civil service values than me. I spend my life giving speeches up and down the land on this point. You will be aware of the Constitutional Renewal Bill and I think the Justice Secretary has made the position clear that it was a matter of "earnest endeavours", if that is the phrase. I remain very committed to that.

**Q2 David Heyes:** Do you think that is a sufficiently clear commitment to a Civil Service Bill?

**Sir Gus O'Donnell:** That is the Government's commitment to it. I am very strongly in favour of anything that promotes the values of the Civil Service.

**Q3 David Heyes:** You must be disappointed that it is not made clearer in the Queen's Speech that we shall see something that amounts to a Civil Service Act that enshrines all of these concerns—the value and the code—in law?

**Sir Gus O'Donnell:** Ultimately, this is a matter for government, but I have said to the Committee many times that I would very much welcome this being part of legislation.

**Q4 David Heyes:** Therefore, you must be considerably disappointed, given recent events to which a Civil Service Act would be a strong response, that it does not feature in the Queen's Speech?

**Sir Gus O'Donnell:** But I have seen what the Justice Secretary said and I hope that that means we shall get a constitutional renewal Bill.

**Q5 David Heyes:** The capability reviews that you introduced are a real feather in your cap. Sadly, there is a downside to it in that it is a bit like washing your dirty linen in public. We see some fairly critical comments about the Cabinet Office. What has caught my attention is that one outcome of the last

round of capability reviews was the Compact on how to work together which is signed by you and the Permanent Secretary to the Treasury. You have said that the Civil Service attracts people who are interested in politics. It also appears to attract people who are interested in rudeness, a blame culture, creating unnecessary work, forgetting the role and focus and other very negative attributes of civil servants that you say must be avoided at all costs. This Compact seeks to do that. To me it reads like a cross between the boy scout promise and a Nazi-Soviet pact. Does it have any more weight to it than that?

**Sir Gus O'Donnell:** I think it is an explicit signal to the world that we want the centre of government to act in a more joined-up way. When one is in a department sometimes the Treasury asks for certain things and the Cabinet Office for other things and the compact is about ensuring that we at the centre are joined up and giving clear messages to departments. Obviously, quite often there is a leadership role that comes from the centre and that will create tensions for departments. When it works perfectly we all operate together, but I am afraid that if you work in the Cabinet Office most of the time you are considering those issues that go across a number of departments. All the ones that the departments can happily sort out amongst themselves they do and so we get left with those cases where there are significant disputes between departments. By its nature our business is to sort out those disputes and arrive at a single government position when departments come with different positions.

**Q6 David Heyes:** It is a desperate comment on the low ebb of relationships if you need to put in writing that rudeness and blame culture must be avoided?

**Sir Gus O'Donnell:** I do not think it is. This is saying that there are certain things we should avoid and certain things we should pursue as we become more explicit in these things. Do I think this is new? I joined the Treasury in 1979. If you had then asked departments what they thought of the Treasury the words "rude" and "arrogant" would have come up. I hope that we have moved a long way from that, but

it is important to remind you constantly that the Treasury and Cabinet Office, two very powerful institutions with control over the money, need to operate in a collaborative way with colleagues in departments. To be honest, the mood in the sense of "Please check this with other permanent secretaries" is hugely improved.

**Q7 David Heyes:** At what level in the Civil Service is this circulated?

**Sir Gus O'Donnell:** It would have gone to all departments and I would have discussed it with all of our permanent secretaries.

**Q8 David Heyes:** It has some advice on what to do if you spot rudeness or someone who forgets his role. How do you envisage someone using this to bring about a change in the way he or she works?

**Sir Gus O'Donnell:** It is to hold us to account. That clearly says what we are going to do. If the Compact says this is how one should behave and it is thought the individual is not behaving in that way it is a very clear piece of paper with which to beat us.

**Q9 David Heyes:** Is it really credible that somebody in the Cabinet Office will go to the permanent secretary and say, "That character in the Treasury has just been rude to me, boss. What are you going to do about it?" It is really unbelievable that this level of activity and diversion from the task that you are all there to do is catered for in this way?

**Sir Gus O'Donnell:** It is a sign that we now get involved very explicitly and openly in trying to improve behaviour. There are lots of things you can do in terms of organisation and the rest of it, but quite a lot of these things are cultural and are about behaviour and it is really important that we start to address those issues. They have been there for a long time and it takes some time to change culture and behaviour. I am determined that we will do that and that is what lies behind capability reviews.

**Q10 David Heyes:** I have one further question arising from the first stage capability review. One of the actions to which you are committed is the "creation of coherent systems so that the Cabinet Office can deliver." Is the inference to be drawn from it that systems are now incoherent?

**Sir Gus O'Donnell:** When one is trying to deliver from the Cabinet Office point of view quite often some of the things are very complex. For example, the PSA16 agreement is to do with getting more socially excluded adults into homes and jobs. One sub-group of that would be ex-offenders. The Cabinet Office does not have any money for this, so what it must do to deliver it is work together with other departments, local authorities and third sector organisations to try to find out the policy measures and what changes it can make to deliver that. To get alignment between a whole number of different bodies pursuing slightly different objectives, for example to get ex-offenders into homes and jobs, is very hard.

**Q11 David Heyes:** If I understand your answer correctly, your response to the lack of coherence is that in part it is to do with resourcing the things that you need to do?

**Sir Gus O'Donnell:** No; it is about our ability to operate through others. People have resources but there just is not a pot in the Cabinet Office. Other departments and local authorities have resources in this area and we need to get strategic alignment behind the achievement of that objective, one example of which is getting more ex-offenders into homes and jobs.

**Q12 David Heyes:** But there is a significant underspend on the Cabinet Office budget as I understand it?

**Sir Gus O'Donnell:** The Cabinet Office has very little programme money. The area where we do have resources is mostly in the Office of the Third Sector. There is an underspend on that because when we wanted to put this money out through the third sector we wanted to be very careful that we achieved value for money and did it in the right way to achieve the objectives. We wanted to consult first. That took some time. Frankly, we did not think that some of the bids we had would deliver good value for money, so in the end the question was not whether we could get the money out the door but whether we could achieve the policy objectives we wanted to achieve which meant that we underspent in that year. I regret that but as accounting officer for the Cabinet Office I have to make sure the taxpayer gets good value for money.

**Q13 Mr Liddell-Grainger:** To go back to our previous discussion briefly, I read that in 1930, the Secret Service leaked to Churchill that German rearmament was under way. Presumably, that was not a bad thing. Do not answer that. I want to ask about key performance indicators. You have recently conducted a stakeholder survey with all the permanent secretaries coming back to say how good you are or otherwise. When our clerk asked for this he was told that he could not have it because it personalised people. What is the problem?

**Sir Gus O'Donnell:** The whole point of these things is that the information is provided to us on a confidential basis. People who give us their views say they are happy to give it in confidence and ask us not to reveal it. I suggest that if you were doing a 360-degree appraisal of your own performance you would get better answers if people were guaranteed confidentiality in what they said.

**Q14 Mr Liddell-Grainger:** Maybe that is the case but we are the Public Administration Select Committee and we want to know what you are up to, which is why you are here. We want to know how you are viewed by other departments and their permanent secretaries. Can you not black out the names and send us the answers?

**Sir Gus O'Donnell:** We can see if there is information we can provide about the stakeholder survey conditional on preserving that secrecy. It presents a very positive picture as far as I am concerned. We

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have given you the staff attitude survey and the rest of it, and we are also publishing the capability review. We publish an enormous amount more than we ever did in this sort of area which sometimes creates rods for our own back, but I think it is worth it because it helps us to improve our performance. If a few years ago you had asked about stakeholder surveys the answer would have been that we would not do them, so the fact we conduct them now is a really positive thing.

**Q15 Mr Liddell-Grainger:** I think that one of the reasons we know what you are up to is that we hear all the complaints from other departments about what is going on. As the Chairman said earlier, you might be relegated if you were a football team.

**Sir Gus O'Donnell:** There is a robust relationship between the centre and departments and that is as it should be at times.

**Q16 Mr Liddell-Grainger:** Really? We will have to ask them to come and have a chat about that.

**Sir Gus O'Donnell:** That is fine.

**Q17 Mr Liddell-Grainger:** You guarantee that that will be released if you possibly can?

**Sir Gus O'Donnell:** I will look at what we can release that is consistent with confidentiality.

**Q18 Mr Prentice:** How is the Civil Service preparing for a possible change in government? We have a leaked letter from Francis Maude. A piece that appeared in Tuesday's *Financial Times* told us that 17 meetings were planned between shadow cabinet ministers and permanent secretaries between January and April of next year. We also know from these leaks what Conservative colleagues as eminent as Michael Howard have said. Let me quote what Michael Howard told the *FT*: "The Civil Service has become too politicised under Labour. There is quite a lot of work to be done in strengthening its independence." I suppose my question is: do you agree with Michael Howard's view that the Civil Service has in some way been compromised after a decade of Labour?

**Sir Gus O'Donnell:** Absolutely not; I do not think we have become too politicised. Quite often when one government has been in power for a long time accusations are made that the Civil Service has become politicised. I remember the same thing happening in 1996 and 1997 after one party had been in power for a long time. These sorts of things are bandied around, but it is not true. The way in which the Civil Service responded to a change of administration in 1997 shows that we have the great benefit of a political impartial civil service that can respond to a change in administration. As to your first point about meetings being set up, there are no meetings with members of the opposition in permanent secretaries' diaries.

**Q19 Mr Prentice:** I do not disbelieve you, but the *Financial Times* tells the world that a series of 17 meetings between shadow cabinet ministers and

permanent secretaries has been planned stretching into early April according to internal Conservative papers?

**Sir Gus O'Donnell:** It could well have been planned by the Conservative Party but there have been no meetings agreed with permanent secretaries.

**Q20 Mr Prentice:** But those criticisms, veiled and otherwise, by leading Conservatives are water off a duck's back as far as you are concerned. Once you and your permanent secretaries start to speak to the alternative government face to face over the next few months everything will work out fine. They will realise that the senior people at the top of the Civil Service are as impartial now as they ever were and Michael Howard is plainly wrong?

**Sir Gus O'Donnell:** I would hope that an impartial civil service is something that any future government would value. Recently Lord Digby Jones said he thought we had the best civil service on earth. One of the reasons for that is that we are able to work with different administrations. When we have those conversations with the opposition ahead of the next general election I shall want to prove that we operate in the best interests of impartiality. As I say, I have worked for different administrations.

**Q21 Mr Prentice:** I know you have. Nevertheless, you must find it worrying that the Conservatives have commissioned Kris Murrin, a social psychologist and presenter of the television show *Honey, We're Killing the Kids*. She is advising them on which permanent secretaries may or may not be trusted.

**Sir Gus O'Donnell:** I think you should ask her about that.

**Q22 Paul Flynn:** Does Mr Howard think that the Civil Service has been politicised because it is infested with moles from the Conservative Party?

**Sir Gus O'Donnell:** No comment.

**Q23 Chairman:** There have been reports to the effects that senior civil servants—people like you—have been concerned about some of the things said by some politicians in recent days to suggest a casualness about the Civil Service leaking to politicians. Is there concern inside the Civil Service about what has been said?

**Sir Gus O'Donnell:** All of us as permanent secretaries are absolutely clear that we strongly value impartiality. We would be very worried by anything that implied civil servants somehow did not live by the code.

**Q24 Chairman:** Therefore, there has been concern?

**Sir Gus O'Donnell:** We are concerned if anyone suggests that civil servants should not live by the code.

**Q25 Chairman:** At what point in the electoral cycle does the Civil Service properly start talking to the opposition?

**Sir Gus O'Donnell:** When the Prime Minister agrees that with the Leader of the Opposition.

**Q26 Chairman:** It has not yet been agreed?

**Sir Gus O'Donnell:** Not yet.

**Q27 Chairman:** Do you know when that normally takes place?

**Sir Gus O'Donnell:** I am aware that the Leader of the Opposition has written to the Prime Minister and the Prime Minister will respond.

**Q28 Chairman:** Another report attributed to Francis Maude based on what the Conservatives have been saying of their ambitions for government which emerged through the *FT*, was that the Conservative Party wanted to bring a chief executive from the private sector into each government department to sort it out and run the show. Is that a prospect you would regard with relish or alarm?

**Sir Gus O'Donnell:** That proposition has not been put to me. When it comes to it you have to be absolutely clear about accountabilities. If we are talking about bringing in talent from outside to help with delivery, this is something that we are already doing. We have opened up the Civil Service to people with all sorts of backgrounds. It would just depend on what they mean, but I think it would have to be absolutely clear that if people are brought into the Civil Service it should be done in the standard way on merit through proper competition and that they are adding skills. If they obtained those jobs on merit that would be good, but there are ways to do these things.

**Q29 Chairman:** You do not sound wildly enthusiastic about the proposition?

**Sir Gus O'Donnell:** I am not closed. I have made a point of bringing in more talent from outside. In one of your own reports you said that ventilation was very important in terms of skills, so getting in new skills is really important. I have been responsible for getting people from a wide range of backgrounds, the private sector and wider public sector, into the Civil Service and I think that is really good for us. We should not sit back and say that we should have only talent that we grow internally. Looking at the figures, I think we are more open than the private sector.

**Q30 Chairman:** The Committee is to do some work on this. On that precise point, I note that in 2006/07 of all the open competition appointments, of which there were 229, only 39% were won by existing civil servants and the rest came from outside. The question that arises from it is: what does it say about the ability of the Civil Service to grow its own talent?

**Sir Gus O'Donnell:** I think what it says is that there were certain areas where we were not good at growing our own talent, in particular in corporate services. If you look at the people who have come in from outside you will find that they are heavily weighted towards finance directors and HR professionals. In general there was a culture in the Civil Service that if you were very good you went down what might be called the Sir Humphrey route; you stayed close to policy development and ministers. The culture change that I have been trying

to get across which dates back to my predecessor, not just me, is that professional skills in government enhance the value that we place on operational delivery skills. It comes back to capability reviews. We are bringing in more people from outside who have done delivery particularly local authority chief executives, for example Lyn Homer who runs the Border Agency. That is an area where we are starting to do it. I put in place ways to grow more talent in finance, procurement and HR from within, but we had a skills gap that would have taken too long to grow. Therefore, we have brought more people from outside to fill those senior gaps. I hope those numbers will start to decline somewhat as the growing talent becomes a bigger factor.

**Q31 Mr Walker:** What is a 360-degree review?

**Sir Gus O'Donnell:** You have never heard of a 360-degree review?

**Q32 Mr Walker:** No.

**Sir Gus O'Donnell:** If you are, say, a middle manager in the Civil Service a 360-degree review means that all of the people who work for you, your peers at the same level and those who work above you will fill in forms about what it is like working with you and your strengths and weaknesses. That information would be passed confidentially to a third party who would put it together and say that is what the people who work with you think and identify the things that you need to improve. I can strongly recommend it.

**Q33 Mr Walker:** I can assure you that it will never happen in my case. It appears that the Civil Service has been infected with consultancy and managementspeak. Do you take out the Prime Minister's favourite puppy and shoot it and so on? Do you use language like, "Let's pick low-hanging fruit?" A view is growing in the public that the Civil Service is just a consultant's paradise that does not talk in real language but in metaphors and abstracts.

**Sir Gus O'Donnell:** I have never worked for a consultant. You have spent many hours interrogating me here. Have you heard a cliché pass my lips?

**Q34 Mr Walker:** I think we could check the evidence. I shall leave it to the press lobby.

**Sir Gus O'Donnell:** It is not my style. Occasionally, I lapse into economics jargon because I am a professional economist.

**Q35 Mr Walker:** But there is genuine concern about the growth of the consultancy culture in the Civil Service. There are consultants to enact programmes that traditionally would have been done by civil servants and you seem to have consultants that come in to measure the performance of consultants. This puts a strain on the public purse at a time when we are all looking for savings. What are you going to do to ensure that the spend on external consultants is reduced over the next two years?

**Sir Gus O'Donnell:** You have a point there in the sense that when we went through a period of head count reductions obviously there was a temptation

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to meet the target by getting people from outside the Civil Service to do things that previously civil servants did. I am really pleased that we are not in a world of head count targets but financial constraints. To take the Department for Work and Pensions, the Cabinet Office or Treasury, one thing they have in common is that they have to reduce their budgets by 5% in real terms every single year. That financial constraint means that you do not want to employ expensive consultants but do it inhouse if at all possible. I have a reputation within the Cabinet Office for questioning everything we spend on consultants. In general I am not a fan of them. I think we should grow the skills ourselves. There may be some areas where you need someone to come in with a certain skill set for a short time. It may be that the use of consultants is appropriate then, but it is really important that we learn how to get them to do the skills transfer which means that we can do it in future and do not need them. In principle we are in the same place here. I am strongly in favour of anything that can reduce the dependence on consultants.

**Q36 Mr Burrowes:** Perhaps your comment that the Civil Service is in rude health could be considered a cliché. On Tuesday, when the Economic Secretary was asked about the value he placed on the Parliamentary Ombudsman and her determinations of maladministration, he referred to the Cabinet Office for the primary view on that. What view is taken of the value to be placed on the role of the Parliamentary Ombudsman particularly in relation to findings of maladministration?

**Sir Gus O'Donnell:** The role of the Parliamentary Ombudsman as a creature of Parliament is obviously independent, as it should be. They come up with independent reports and it is then for departments to respond to them. It is hugely important that we have a strongly independent ombudsman.

**Q37 Mr Burrowes:** The Economic Secretary implied that it was the responsibility of the Cabinet Office to form a view in terms of the way the Government responded to reports. Do you accept that view?

**Sir Gus O'Donnell:** The individual report comes out on a specific subject. For example, in the case of the DWP most recently—there is another one in prospect at the moment—the department will be in charge of responding to that report.

**Q38 Mr Burrowes:** How do you see the role at the Cabinet Office in terms of the significant issues raised when the Government does not go along with the Parliamentary Ombudsman's recommendations of maladministration which raises significant issues?

**Sir Gus O'Donnell:** In general, the areas where we get involved with the Parliamentary Ombudsman tend to be learning lessons from past exercises and talking to her about good principles of administration. As a recipient of the issues that potentially have gone wrong, what does it imply for the way we should operate in future? It is a very positive relationship where we try to work with her to see if there are

lessons we can learn from her report to ensure we improve the quality of administration going forward.

**Q39 Mr Burrowes:** Have you learnt the lesson that the Government should follow the Ombudsman's recommendations about maladministration?

**Sir Gus O'Donnell:** That is an issue to be looked at case by case.

**Mr Walker:** I think “learning lessons” is a cliché.

**Q40 Paul Flynn:** When you appeared before us in July we had a session about the loss of data. Since then there have been further losses, two involving contractors and one involving the Secretary of State. The losses now involve almost the entire population of the country in various ways and 25 million in one case. Do you have a single case of anyone being harmed by these losses of data?

**Sir Gus O'Donnell:** It is very difficult to come to a completely definitive answer on that. We have no concrete examples where information has got into the wrong hands and has been used. I suggest that the harm is the uncertainty created as to whether that may happen, so people have had to take action. I suppose that for me the bigger issue is that to deliver world-class public services we have to get the public's trust in the way we handle data in order for us to share certain information. That is the area where there is potential damage and why I am quite passionate about improving the quality of our data handling.

**Q41 Paul Flynn:** Is it not true that the only people who have never lost such data are those who do not have these modern miraculous devices? There is so much on these sticks that inevitably some will be lost but it is extremely unlikely they will get into the hands of people who can put them to any nefarious use?

**Sir Gus O'Donnell:** You can look at some of the reports in the press and then see what happened. One data stick found in a car park was supposed to contain information about millions of people. We discovered that it was much more minor than that. That was an example of a contractor. One of the issues we are now focusing on much more to improve what happens in government is to ensure that those little sticks are encrypted. Sometimes we withdraw the ability of people to use those sticks and the capacity of computers to download. It is important we ensure that large data sets are available only when it is essential for someone to have them and that if it is essential it is encrypted. Those issues are not just for government departments but for their contractors and subcontractors. We are working on it by putting into our departments' contracts the right clauses. Most recently I brought together a very large meeting of contractors from the private sector and basically laid down the law about what we expected from them in terms of data security.

**Q42 Paul Flynn:** I notice that the media coverage rarely refers to the fact that the information was encrypted and not accessible. Can you look forward to reports of future losses being reported with less hysteria by the press?

**Sir Gus O'Donnell:** I would like to think so, but my job is to try to minimise the number of data losses and the harm associated with them.

**Q43 Paul Flynn:** There has not been any harm so far?

**Sir Gus O'Donnell:** No. The figures provided by the Information Commission suggest that there were more private sector losses than public sector losses.

**Q44 Kelvin Hopkins:** We have had lots of interesting documentation including the NAO report on the Cabinet Office performance briefing. It contains some charts showing all of the various functions of the Cabinet Office, but nowhere does it say directly who services the Cabinet and where they fit in the various charts. The Cabinet Office grew up essentially as the government department that services the Cabinet but now it seems to do lots of other things but not service the Cabinet.

**Sir Gus O'Donnell:** It most certainly does. Whenever there is an issue across Cabinet about a policy issue quite often a number of departments will get together and sort it out. If there is a big policy issue it goes to a cabinet committee. The structure of that committee is serviced by the Cabinet Office. I send round letters on behalf of the Prime Minister in terms of the membership of that committee. We provide secretariats for those committees. If they are in the domestic policy area in most cases they will be within the economic and domestic secretariat according to the charts you have. That is a very large chunk of what they do. When we talk about supporting the Cabinet there is support through all of the cabinet committees and obviously the Cabinet itself.

**Q45 Kelvin Hopkins:** My hope is that there has been a change since the days of Prime Minister Blair when it was alleged that the Cabinet met very briefly, saw almost no papers and on one occasion new cabinet members questioned the Prime Minister and were told firmly by a colleague after the meeting that to question the Prime Minister was not done. In those days it was alleged to be a cipher. Has there been a change? Is there now more genuine debate about policy at cabinet and is that more your role?

**Sir Gus O'Donnell:** I have to be very careful here because I am the person who has recently been arguing very vehemently that the proceedings of cabinet should remain confidential and cabinet members take a privy council oath to that effect. I shall not comment on the level of debate within cabinet, but I can give you figures for the number of cabinets there have been. There has been an increase in the number. Obviously, there has been a big change in that the Cabinet does not always meet in Number 10. Most recently we have met in Birmingham and Leeds, so cabinet is getting out around the country and that will continue.

**Q46 Kelvin Hopkins:** But the fear is that it could become part of the decorative part of the constitution rather than an effective part and somewhere there must be debate about policy by elected Members, not just by the Prime Minister's private office?

**Sir Gus O'Donnell:** Absolutely, and that is why the cabinet committee structure is absolutely vital. It is important that cabinet meets regularly and discusses really important issues.

**Q47 Kelvin Hopkins:** To pursue another tack, you talked about recruiting talent. A lot of talent will be flushed out of the City with banks collapsing and so on. Presumably, you can pick up some talent. Has there been a problem in that although the Civil Service has not been politicised in a party-political sense it has signed up to the world of neo-liberal free markets with privatisation and globalisation that is now collapsing in flames? Is there anyone else with an alternative view who can come forward and say to the Prime Minister or permanent secretary that he has one that he gave earlier? Are there people thinking intelligently about alternatives?

**Sir Gus O'Donnell:** Absolutely. In one sense that was why I said I was really pleased about the big increase in the number of economists coming through. If you have had economics training you learn about John Maynard Keynes, liquidity traps, circumstances where there are market failures, deficiencies of domestic demand and global demand. If you do economic history you study the depression. Those sorts of things are hugely valuable and that is why I think that people who understand those things are really important to us. The quote by John Maynard Keynes that everybody knows is that in the long run we are all dead. He went on to say that economists set themselves too easy and useless a task if all they can tell us is that when the storm is long over the ocean will be flat again. Basically, this is an example. We are going through tempestuous seasons with the ocean out there and we have to manage that process and think proactively about some of our key assumptions, for example that financial markets are deep and liquid. That is just not true and does not hold true any more. That is where you need people who can think from first principles. I believe that an economics and history education is hugely powerful.

**Q48 Kelvin Hopkins:** I have some very modest claims to be an economist. I was late for this hearing because I was on the radio discussing the euro with somebody who took a different view. I go back to the time of Mrs Thatcher. She did not like people who disagreed with that model. The Cambridge Economic Policy Group led by Wynne Godley put forward views. Their forecasts were invariably more accurate than all the others, particularly those of the London Business School which was pathetic at forecasting. Mrs Thatcher preferred the London Business School and took away funding for the Cambridge group because she did not like it. Will we see all the talent with various views brought into government and the Civil Service to make sure we do not make that mistake again?

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**Sir Gus O'Donnell:** The Prime Minister did make a number of appointments from outside the Government. There were two appointments of people from different backgrounds to ministerial positions. The Civil Service is always looking for the best talent. I am very pleased with the fact that applications have gone up a lot. I do not believe it is just because of the financial turmoil but because people are becoming more interested in the kinds of jobs that government do; they are interested in the whole area of active government, if you like.

**Q49 Mr Prentice:** It was reported in the press, perhaps incorrectly, that you were a bit exercised about the Alastair Campbell diaries being published. Is that the case?

**Sir Gus O'Donnell:** Yes.

**Q50 Mr Prentice:** If he were to bring out the unexpurgated version with all the stuff about Gordon Brown that was airbrushed out what would happen to Alastair Campbell—anything?

**Sir Gus O'Donnell:** That is the issue we face. We have very limited powers to prevent people. Obviously, it will be a question of what kinds of things are involved. If there is something on the national security side that I believe is really important I would hope and expect that Alastair Campbell would not publish anything that we decided was damaging to national security.

**Q51 Mr Prentice:** I do not want necessarily to single out Alastair Campbell, but there has been a spate of memoirs by John Prescott and so on. Do you think that in the round these recently published memoirs have damaged trust within the Government between civil servants and ministers, or is it the case that now anything goes?

**Sir Gus O'Donnell:** I am a huge fan of the Radcliffe rules, which I would strongly commend to anyone. Ministers are in a different situation from civil servants. We have accepted for a long time that ministers will write their memoirs. I recognise that as elected officials they want to explain their decisions, but if they abide by the Radcliffe rules that is good for government and governance.

**Q52 Mr Prentice:** After the Sir Christopher Meyer business, Jack Straw tightened the rules that applied to diplomats and Foreign Office people. We have had some letters from retired diplomats saying that the new rules are just too onerous. People who

perhaps have served as high commissioners or ambassadors in important posts throughout the world with a wealth of experience now feel constrained and cannot speak out and give people the benefit of their experience. Will you revisit those rules?

**Sir Gus O'Donnell:** Yes. There are certain technical aspects. This is a matter for Peter Ricketts in the Foreign Office, but we are working with him to come up with guidelines that meet their concerns but also allow us to be very clear about what we need to do.

**Q53 Mr Prentice:** Would those apply also to the Home Civil Service?

**Sir Gus O'Donnell:** We will do both together.

**Q54 Chairman:** In the past we have reported on memoirs. The expectation was that the Government would come forward with a new settlement on the issue of memoirs.

**Sir Gus O'Donnell:** Indeed.

**Q55 Chairman:** That seems to have stalled.

**Sir Gus O'Donnell:** I hope we will have that with you before Christmas. These things are technically quite difficult. We also wanted to roll in the whole issue of diplomats.

**Q56 Chairman:** You are getting there?

**Sir Gus O'Donnell:** Yes.

**Q57 Chairman:** To go back to where we started, I think we can agree that ministers leak, do they not? Is that one of your concerns? What effect does ministerial leaking have on the ability to hold the line in relation to civil servants?

**Sir Gus O'Donnell:** I suppose I am a real traditionalist. I like it when ministers announce policy to Parliament and I try to encourage all of them to do that.

**Q58 Chairman:** But we do not have inquiries into ministerial leaks and call in the police?

**Sir Gus O'Donnell:** No.

**Q59 Chairman:** Would you like to do so?

**Sir Gus O'Donnell:** I can think of a cliché in response to that. I am being very careful here. I do not think it would be appropriate for civil servants to do that.

**Chairman:** As usual, we have had a very fresh, cliché-ridden but reasonably open series of exchanges. We are extremely grateful to you. Thank you very much for coming along.

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# Written evidence

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## Memorandum from Sir Gus O'Donnell KCB, Cabinet Secretary and Head of the Home Civil Service

### WORK OF THE CABINET OFFICE 2007–08

Thank you for your letter of 11 November 2008<sup>1</sup> setting out further questions concerning the work of the Cabinet Office 2007–08 as detailed in the Cabinet Office Annual Report and Accounts 2007–08. I was particularly pleased to read that the Committee found the new presentation style of our first combined Annual Report and Resource Accounts useful and the opportunity for cross-referencing that this has provided.

My response deals with the questions in the same order as the letter. A number of the questions raised will be answered in the Cabinet Office Autumn Performance Report (APR) 2008 publication of which I have, for the convenience of the Public Administration Select Committee, accelerated by a week. As a result it is planned for our APR to be laid in Parliament next week which is a week ahead of HM Treasury deadline. I have noted below which questions will be answered or further supported by the APR.

### EXPENDITURE IN 2007–08

1. *In 2007–08, the Annual Report notes that the Capital budget under-spend included a £16 million under-spend “due to the rescheduling of a number of new projects, reflecting new government priorities, to future financial years” (p108, bottom-right). What are the projects involved, and by how much have they slipped?*

The Capital budget under-spend relates to programmes initiated by the Office of the Third Sector (OTS) as part of the third sector review (final report published in July 2007). This includes capital expenditure on the Community Assets Fund and the risk capital fund for social enterprise, which have both been through a rigorous process of consultation and development before start-up. The Community Assets Fund is now well underway with 38 projects given in-principle funding commitments by the delivery partner. The risk capital fund for social enterprise is in the process of assessing proposals for a national fund management partner and co-investor.

2. *How much funding will you have to provide, in 2008-09 onwards, for phase two of the Futurebuilders programmes? Did your CSR settlement negotiations with the Treasury explicitly recognise a possible need to provide funds for phase two of the Futurebuilders programme?*

As set out in the final report of the third sector review, the Government is committed to providing a further £65 million to the Futurebuilders fund over the 2007 CSR period. The CSR settlement provided to the Cabinet Office includes funding to implement the commitments in the third sector review.

3. *In winding up the Futurebuilders Fund, the Resource Accounts show that £77m in the account was transferred back to the Cabinet Office, for onward surrender to the Consolidated Fund. To what extent did this treatment of this income, rather than treating it as Appropriations-in-Aid, diminish the Cabinet Office budget available for phase two?*

In March 2008, the cash balance of £77.235 million held on the Futurebuilders Trust Account (a commercial bank account) was transferred to the Cabinet Office's Office of HM Paymaster General Bank account, and the Trust Account closed, prior to the expiry of the tri-partite agreement. Futurebuilders Funds totalling £77.235 million were reported as “other amounts collectable on behalf of the Consolidated Fund” in the 2007–08 Annual Report and Accounts—See Notes 5 and 19 to the Accounts.

HM Treasury were consulted as to the correct treatment of the funds. Their advice was to treat the funds as a Consolidated Fund Extra Receipt (CFER). In 2008–09 Cabinet Office will make settlement of the CFER and will draw down an equally large amount of supply to afford this payment.

The treatment of the £77.235 million Futurebuilders Funding as a CFER has no impact on the future budget.

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<sup>1</sup> Not printed.

4. *You provided £33 million in grants to Capacitybuilders in 2007–08, whose accounts were qualified because £434,000 of grants paid by the NDPB were made to incorrect recipients (Cabinet Office Annual report pp119 and 161). To what extent has this disrupted your distribution of grants to Capacitybuilders, or changed the sum disbursed?*

The process of distribution of grants from the Cabinet Office to Capacitybuilders and sums disbursed has not changed. Cabinet Office has worked with them to ensure that this now incorporates more direct oversight from us in Cabinet Office and Capacitybuilders has implemented a more robust grants payment system (see response to Question 5 for more details).

5. *What assurance do you now have that grants to Capacitybuilders support wholly appropriate grant-making by that NDPB?*

Since the end of the 2007–08 financial year, Capacitybuilders has implemented a new grants payment process which is considerably more robust and systematic than before and which integrates the grant making process with the existing accounting systems. Four of the additional controls now present are:

1. All key documentation is reviewed and any anomalies are resolved and signed off by the Capacitybuilders Director of Finance before an account is set up. Annual accounts are also reviewed prior to setup.
2. Each new recipient receives a £1 test payment into their nominated bank account—this must be confirmed before any further grant money is released.
3. The Capacitybuilders Chief Executive Officer, as Accounting Officer personally reviews and signs off each payment run.
4. The Cabinet Office Finance Director discusses and finally signs off each payment run with the CEO of Capacitybuilders.

This process has been reviewed on several occasions by the Internal Audit Service of Communities and Local Government (IAS), which provides Internal Audit Services to Capacitybuilders. It has been endorsed by them. In addition, at the last Internal Audit visit, IAS reviewed all grant payments made in the current financial year and found that all had been correctly authorised, all documentation was in place, and there were no payment anomalies.

Capacitybuilders has also introduced a risk based continuous monitoring framework. This requires each grant recipient to be risk assessed using a Red—Amber—Green (RAG) rating, with responses to this rating varying from continued payments (green) to suspended payments and a verification visit within 30 days (red). These RAG ratings are continuously updated throughout the life of the programme, in response to monitoring returns and intelligence gathered. Additionally, a random sample of grant recipients each year are selected for a verification visit. This framework ensures that Capacitybuilders is continuously managing, and rapidly responding, to the risk associated with inappropriate payments.

6. *In 2007–08 there was a large (24%) annual increase in the cost of Supporting the Cabinet, while there was a 9% decrease in the cost of Supporting the Prime Minister (as indicated on p133 of the Resource Accounts). What is the explanation for these divergent trends?*

The explanation for divergent trends in Supporting the Prime Minister and Supporting the Cabinet net costs between 2007–08 and 2006–07 is primarily attributable to programme near cash and non-cash costs. See page 105 and 106 of the accounts.

The 9% decrease in net costs in 2007–08 for Supporting the Prime Minister is attributable to the decrease in programme other near cash costs for Directgov, reflecting the sliding scale annual contribution from the Department and e-Delivery relecting transition costs incurred in 2006–07; decrease in programme other non-cash costs due to significant number of Transformational Government assets in 2006–07. Many business units support the Prime Minister and it is the costs relating to Directgov and e-Delivery which have significantly decreased contributing to the decrease in the Supporting the Prime Minister net costs. See Note 11 to the Accounts.

The 24% increase in net costs for Supporting the Cabinet is due to the increase in programme grant expenditure for Office of the Third Sector; the increase in the main tranche of development work on Phase 2 of SCOPE Programme; offset by a decrease in the grants paid out in respect of the Government Security Zone due to programme delivery rescheduling and; a decrease in income which was payable to the Consolidated Fund due to unexpected return of unspent grants by recipients and the reduction in the interest outcome from Futurebuilders Trust Account. Many business units support the Cabinet and it is the significant changes in the costs/income relating to the Office of the Third Sector, SCOPE programme and the Government Security Zone which have contributed to the increase in the Supporting the Cabinet net costs. See Note 2, 11 and 13 and pages 105 and 106 to the Accounts.

## CSR TARGETS—NEW PSA'S AND DSO'S

7. *The table on pp71–74 in the Annual Report describes the Department's DSOs, including the performance measures that will be used to monitor progress. The table includes details of performance targets for the Service Transformation Agreements (DSO 4), which aim to reduce people's "avoidable contact" with departments and rationalise government websites. From what baselines will improvements over the CSR period be measured?*

Further information on the Service Transformation Agreement and related baselines will be reported in the Cabinet Office Autumn Performance Report 2008.

8. *For DSO's 2, 3b & 5: what are the baselines against which improvements will be measured, and what are the specific targets to be achieved?*

### DSO BASELINES

#### *DSO 2 Baseline*

The baseline position was formed through the Cabinet Office Capability Review in 2006. The Autumn Performance Report will detail progress against this objective.

#### *DSO 3b Baseline*

DSO 3b baseline includes four measures indicating the health of the third sector overall:

- Participation in formal volunteering, measured by the Citizenship Survey. The baseline is 27% of people formally volunteering at least once a month. The improvement that we are looking for over the 2007 CSR period is a statistically significant increase.
- Number of full-time equivalent staff employed in the Third Sector, measured by the Labour Force Survey. The baseline is currently being agreed. The improvement that we are looking for over the 2007 CSR period is a statistically significant increase.
- Percentage of Government funding to third sector organisations which is secured for three years or more, measured by the Departmental returns to the Office of the Third Sector. We have just completed the first formal data collection from the central Government Departments on grants to the third sector. The baseline is 65.7% which reflects the average percentage of grants that are for three years or more across central Government Departments. The improvement that we are looking for over the 2007 CSR period is an increase in the percentage of Government funding to the Third Sector which is for three years or more.
- The quality of the local environment for the Third Sector, measured by a new National Survey of Third Sector Organisations. The fieldwork to establish the baseline and the improvement required is underway and we expect to have results in the spring of 2009.

#### *DSO 5 Baseline*

Further information on the measures identified for this objective will be reported in the Cabinet Office Autumn Performance Report 2008.

9. *Delivery of the KPIs under DSO 2 is via a "Stakeholder survey of Ministers and Departments on the coherence, quality and timeliness of advice and support provided to the Prime Minister, Cabinet and Cabinet Committees" (p71). Could you share the results of this survey with the Committee, along with any analysis available?*

To retain the confidence of those involved, stakeholder surveys of Ministers and departments cannot be disclosed.

10. *DSO 6 includes an aim of ensuring that staff are aware of and abide by standards of propriety (Annual Report p74). How will this be measured?*

DSO 6 aim of ensuring that staff are aware of and abide by standards of propriety will be measured by, for example, responses to the Civil Service Commissioners' survey on promotion of the Civil Service Code. The Civil Service Commissioners surveyed departments in May 2008. Their Annual Report 2007–08 published on 15 July 2008 says that "the survey sample responses indicate a great deal of positive activity within departments and agencies to promote the Civil Service Code". Further detail will be reported in the Cabinet Office Autumn Performance Report 2008.

11. *The PSA 16 Delivery Agreement notes that “no national targets or minimum standards will be attached to these [PSA 16] indicators”. Instead individual Local Strategic Partnerships will be encouraged to set local targets (Delivery Agreement, paras 2.2, 3.63–3.66). Why has the Government not set a national target for PSA 16? Without one, how will you assess success or failure on this PSA?*

The Government is committed to a statistically significant improvement in the performance of each of the eight PSA 16 indicators. We will work with local authorities to help them set, and deliver on, appropriately ambitious targets for their local area; but as three of the indicators are new with only proxy baseline data, and the mental health/accommodation indicator is new without a suitable proxy baseline, it was not appropriate to set additional national-level targets for this PSA. Further detail will be reported in the Cabinet Office Autumn performance report 2008.

12. *The Annual report mentions “a set of PSA reviews aimed at identifying and tackling barriers to public service delivery” (p46). What does this entail, and when will the results of those reviews be ready? Will the results be published?*

Together, the Cabinet Office and the Prime Minister’s Delivery Unit (PMDU) reviewed the arrangements for nine PSAs against a common framework of key building blocks for successful delivery (such as performance and programme management). The aim of these reports was to provide a frank and confidential assessment to the Ministers of the challenges facing delivery in the first months of the spending period and produce recommendations on how to respond. Departments have responded positively to the recommendations and delivery planning for the PSAs has strengthened as a result.

#### PSA TARGETS FOR SR-2002 AND SR-2004

13. *You indicate that you will provide a final assessment for the PSA target 1 (2004 Spending Review) once 90% of all SR2004 PSA targets have been finally assessed. When do you anticipate making a final report on this target?*

It is the responsibility of the Departments to provide final assessments for their individual SR 2004 PSAs in their public reporting as soon as the necessary performance data for these assessments is available. Differences in the data time lags across the set of PSAs means that HMT/CO are not able to say when the 90% figure for final reports will be reached and, therefore, when we will be able to provide a final assessment on PSA target 1. However, in the meantime both CO and HMT continue to provide interim reporting on the performance of PSA target 1, and this will be reported in the Cabinet Office Autumn Performance Report 2008.

14. *For PSA target 2 set in the 2004 Spending Review, you report that in 2006–07, out of 607 competitions (presumably for SCS posts), 229 (38%) were open competitions, and that in the same year there were 552 new entrants into the SCS, of whom, 196 (38%) were new external entrants (p81). Please could you provide comparative data for 2004–05 and 2005–06 if available, as well as for 2007–08? For 2006–07, how many of the open competitions appointed existing civil servants, as opposed to new entrants?*

The SCS figures for the year 2004–05 were, out of 569 competitions, 245 (43%) were open competitions and there were 478 new entrants into the SCS, of whom 169 (35%) were new external entrants. For 2005–06 the figures were, out of 657 competitions, 259 (39%) were open competitions and there were 576 new entrants into the SCS, of whom 172 (30%) were new external entrants. For 2007–08 the figures are, out of 771 competitions, 305 (40%) were open competitions and there were 533 new entrants into the SCS, of whom 157 (29%) were new external entrants.

For 2006–07, 89 open competitions appointed existing civil servants.

15. *For PSA target 2 set in the 2004 Spending Review, you report on diversity across Government in the Annual Report, but the most recent data you provide is from October 2007 (p82). If it is available, could you provide more recent Government-wide diversity data for PSA target 2? When do you anticipate being able to make a final report on this target?*

Final reporting on the diversity element SR 2004 PSA 2 target will be included in the Cabinet Office Autumn Performance Report 2008.

EFFICIENCY PROGRAMMES

16. *You indicated to us last year that you would be unable to meet your Lyons staff relocation target. The latest Annual Report notes that only 41 posts have been relocated from the South-East, the same figure as at March 2007. A joint review with the Office of Government Commerce has decided that the existing target—225 posts relocated by 2010–11—should remain, even though there has been general agreement that the Cabinet Office will not be able to meet it and has made no recent progress towards meeting it (p86). Can you explain the rationale for retaining this target?*

OGC decided, as part of the joint review with Cabinet Office, that the target should be retained. This ensured that Cabinet Office was treated in the same way as any other department.

17. *The Cabinet Office CSR 'Value for Money Delivery Agreement' notes that Administration expenditure savings "will include reducing staff numbers where it is appropriate" (para 11). How does this envisaged staff reduction tally with the data presented in table 6A in the Annual Report (p102), which shows steady staff numbers over the CSR period, and an increase for business planning purposes on the actual figures for 2007–08?*

The staff numbers for 2008–09 to 2010–11 presented in table 6A (page 102) are current business planning assumptions. Whereas, the VfM Delivery Agreement refers to staff reductions, where they are appropriate and are identified, stemming from VfM administrative savings over the VfM reporting period.

18. *Finally, the Annual Report mentions a new approach to the annual staff survey based on measuring levels of employment engagement (p59). Could you share the results of this survey with the Committee, along with any analysis available?*

The results of the Annual Staff Survey can be found at [http://www.civilservice.gov.uk/iam/staff\\_surveys.asp](http://www.civilservice.gov.uk/iam/staff_surveys.asp)

I trust that the Committee finds this information useful and that this letter answers its questions. If the Committee has any further queries about the expenditure of the Cabinet Office in 2007/08 or indeed any other issues which may have been raised in this response, then please do not hesitate to contact me.

December 2008

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