



House of Commons
Public Administration Select
Committee

Strategic thinking in Government: without National Strategy, can viable Government strategy emerge?

Twenty Fourth Report of Session
2010–12

*Volume I: Report, together with formal
minutes, oral and written evidence*

*Additional written evidence is contained in
Volume II, available on the Committee website*

*Ordered by the House of Commons
to be printed 17 April 2012*

HC 1625
Published on 24 April 2012
by authority of the House of Commons
London: The Stationery Office Limited
£17.50

The Public Administration Select Committee (PASC)

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.

Current membership

Mr Bernard Jenkin MP (*Conservative, Harwich and North Essex*) (*Chair*)
Alun Cairns MP (*Conservative, Vale of Glamorgan*)
Michael Dugher MP (*Labour, Barnsley East*)
Charlie Elphicke MP (*Conservative, Dover*)
Paul Flynn MP (*Labour, Newport West*)
Robert Halfon MP (*Conservative, Harlow*)
David Heyes MP (*Labour, Ashton under Lyne*)
Kelvin Hopkins MP (*Labour, Luton North*)
Greg Mulholland MP (*Liberal Democrat, Leeds North West*)
Priti Patel MP (*Conservative, Witham*)
Lindsay Roy MP (*Labour, Glenrothes*)

Powers

The powers of the Committee are set out in House of Commons Standing Orders, principally in SO No 146. These are available on the Internet via www.parliament.uk

Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at <http://www.parliament.uk/pasc>

Committee staff

The current staff of the Committee are Emily Commander (Clerk), Charlotte Pochin (Second Clerk), Alexandra Meakin (Committee Specialist), Paul Simpkin (Senior Committee Assistant) and Su Panchanathan (Committee Assistant).

Contacts

All correspondence should be addressed to the Clerk of the Public Administration Select Committee, Committee Office, First Floor, 7 Millbank, House of Commons, London SW1P 3JA. The telephone number for general enquiries is 020 7219 5730; the Committee's email address is pasc@parliament.uk.

Contents

Report	<i>Page</i>
Summary	3
1 Introduction	5
2 What do we mean by ‘strategic thinking’ and why is it important?	7
Emergent strategy	10
3 Emergent strategy: how does the Government define the UK’s national interests	12
Public opinion in defining national interests	14
4 Emergent strategy: advancing national interests	17
5 Assessment of current strategic thinking in Government	19
6 The challenge for cross-departmental strategic thinking	21
Promoting the capability of the Civil Service	21
Strengthening the centre of Government	23
Address longer-term context as well as short-term problems	24
Improve the proper use of Scenario Planning in managing uncertainty	26
Ensuring the proper use of science	28
Breaking down departmental silos	30
Aligning financial resources with strategic thinking:	31
Promote Ministerial Leadership on National Strategy	34
Broadening the role of the National Security Council (NSC)	35
7 Conclusion	37
Conclusions and recommendations	38
Annex: Committee’s visit to Ottawa and Washington	44
Formal Minutes	47
Witnesses	48
List of printed written evidence	48
List of additional written evidence	48
List of Reports from the Committee during the current Parliament	50

Summary

The UK faces complex, diverse and unpredictable domestic and global challenges. The process by which National Strategy is developed to tackle these challenges, and by which policy and the consequent tax and spending decisions are aligned with the nation's long-term interests, public values and identity is the process of 'emergent strategy'. Emergent strategy occurs inevitably and is to be discerned from the policy choices and decisions that the Government makes.

The challenges facing the UK cannot be tackled simply by the publication of a deterministic plan for Government but require strategic leadership. Such leadership is central to the process of National Strategy, or the emergent strategy will be incoherent and chaotic. When there is strategic leadership it can establish a virtuous circle, as strategic leadership develops effective policies and positive outcomes, which reinforce the public's values and aspirations and which in turn can inspire that leadership. Alternatively, the absence of strategic leadership or weak leadership will result in a vicious circle in which bad policy and failure in outcomes undermine the values and aspirations of the public and faith in their leaders.

We do not consider that the process of strategic thinking in Government currently reflects a virtuous circle of emergent strategy. We have little confidence that Government policies are informed by a clear, coherent strategic approach, itself informed by a coherent assessment of the public's aspirations and their perceptions of the national interest. The Cabinet and its committees are made accountable for decisions, but there remains a critical unfulfilled role at the centre of Government in coordinating and reconciling priorities, to ensure that long-term and short-term goals are coherent across departments. Policy decisions are made for short-term reasons, little reflecting the longer-term interests of the nation. This has led to mistakes which are becoming evident in such areas as the Strategic Defence and Security Review (carrier policy), energy (electricity generation and renewables) and climate change, and child poverty targets (which may not be achieved), and economic policy (lower economic growth than forecast).

We invite the government to publish an annual 'Statement of National Strategy' in Parliament which reflects the interests of all parts of the UK and the devolved policy agendas. This would be a snapshot of how National Strategy has developed providing an opportunity for reassessment and debate about how tax and spending decisions support the Government's national strategic aims. If published in late spring or early summer, this would mark the start of the new spending round.

The clearer expression of the nation's strategic aims would help to ensure that short-term decisions are made in the context of the long term national strategic framework. This would also improve the ability of the Government to communicate a coherent narrative. Poor strategic thinking militates against clear presentation, which was evident

in the aftermath of the Budget and in response to the possibility of industrial action by tanker drivers. This report sets out our recommendations to overcome the barriers to working strategically in Government. The strategic aims of the Government, informed by public opinion, should drive individual policy decisions and align with financial decisions. The Budget process should provide clearer links between long-term objectives and specific budgetary measures. A focus on working strategically across departmental silos, driven by a strong centre of Government, will provide the Government with the capacity to deal with current issues, and the resilience and adaptability to react to the unknown and unpredictable problems of the future.

The challenges facing the UK mean that strategic thinking is both increasingly difficult to achieve, and more vital. Failing to do so in the long term undermines national self-confidence and in the short term could have catastrophic consequences.

1 Introduction

1. In our first inquiry of this session, we sought to answer the question, ‘*Who does UK National Strategy?*’ The answer we received was ‘no-one’. We concluded that “as things stand there is little idea of what the UK’s national interest is, and therefore what our strategic purpose should be”.¹

2. This conclusion met a disappointing response from the Government, which demonstrated a misunderstanding of what we meant by National Strategy. We found that “despite our urging to the contrary, the [Government] response has failed to engage more fully with our findings or to address adequately our proposals for improvement.”² In particular, the government resisted our recommendation to set out ‘National Strategy’.

3. However our report has been widely read across Whitehall, and has set the agenda for a broader discussion on the need for strategic thinking. Our conclusions also struck a chord with the military: we have been told that the Report is regularly discussed and analysed at Shrivenham Defence Academy Staff Courses, Royal College of Defence Studies, RUSI and the recommendations are frequently referred to by Defence Chiefs. Recently Parliament’s Joint Committee on National Strategy endorsed the substance of our call for ‘National’ or ‘Grand Strategy’ by identifying the need for an “overarching strategy” which should include the policies and programmes of domestic departments.

4. When we published our report, we made clear our intention to “continue to scrutinise the development of strategy making in Whitehall” and undertake a second inquiry on this topic once a progress report from the Government on strengthening the collective working of Whitehall strategy units was received in summer 2011.³

5. This is the report of that second inquiry. We have sought to build on our previous inquiry, through the study of the concept of ‘emergent strategy’ (*i.e.* the way that National Strategy emerges from the process of government).⁴ Our objective is to identify how short-term decisions are aligned with long-term national interests. We continue to advocate that coherent National or ‘Grand’ Strategy is indispensable and therefore it is essential for the Government to be able to draw upon a strong capability for strategic thinking from across Whitehall and beyond.

6. The examination of capability builds on earlier PASC reports of this session on the state of the Civil Service: *Good Governance and Civil Service reform: End of Term report: on Whitehall plans for structural reform* and *Change in Government: Agenda for Leadership*.⁵

1 Public Administration Select Committee, First Report of Session 2010-2012, *Who Does UK National Strategy?*, HC 435, para 30.

2 Public Administration Select Committee, Sixth Report of Session 2010-2012, *Who does UK National Strategy? Further Report with the Government Response to the Committee’s First Report of Session 2010-2012*, HC 713, para 4

3 Ev 70

4 A full definition is at paragraph 21

5 Public Administration Select Committee, Eleventh Report of Session 2010-12, *Good Governance and Civil Service reform: End of Term report: on Whitehall plans for structural reform*, HC 901, Public Administration Select Committee, Thirteenth Report of Session 2010-12, *Change in Government: the agenda for leadership*, HC 714,

This inquiry also builds on the PASC report in the previous Parliament, *Governing the Future*.⁶

7. Over the course of this inquiry we have received 21 written submissions. We held four evidence sessions, hearing from the Minister for Government Policy, Rt Hon Oliver Letwin MP, and a range of academics, former senior officials, scientists, and representatives from businesses and think-tanks. We also held two seminars with strategic thinkers inside and outside of Government and set up an e-forum to feed opinion from the wider international strategic community into our inquiry. To help build on this international perspective and understand how strategic thinking influences policy and implementation in other countries, we met government and think-tank officials in Ottawa and Washington DC.

8. We are also commissioning an opinion survey to determine the extent to which UK strategic thinking reflects the public's understanding of our national identity, their values and aspirations for the nation. We believe that this is the first time that a Select Committee has conducted research of this nature. We intend to publish the results of this survey and the conclusions we draw from it separately later this year.

9. We would like to thank all those who contributed to the inquiry, and particularly our specialist adviser, Catarina Tully.⁷

6 Public Administration Select Committee, Second Report of Session 2006-07, *Governing the Future*, HC 123-II

7 Catarina Tully was appointed as a specialist adviser for this inquiry on 12 July 2011. The following interests were declared: National Intelligence Council Associate, National School of Government visiting lecturer, Royal College of Defence Studies facilitator, Unitas Communications associate, Vanguard. Director of NHJ Strategic, 2011 Young European Leader for the Atlantik-Brücke Forum, member of Anglo-Omani Society and trustee of a Tower Hamlet health community organisation, WHFS.

2 What do we mean by 'strategic thinking' and why is it important?

10. What do we mean when we use the terms 'strategy', 'National (or Grand) Strategy' and 'strategic thinking'? National Strategy cannot be expressed in a deterministic plan as 'a Strategy' or 'the Strategy': an approach which would be futile in a complex and uncertain world. Instead, National Strategy must be a set of strategic aims which are subject to constant development in a context which is also changing all the time. It must acknowledge that there is no one set view of the UK's national interests or values, or of how they should be advanced. National Strategy must also address more than just foreign policy, military and security concerns. It must encompass economic and domestic factors, given the growing recent awareness about the critical importance of a solid economic base and performance and discussions about the UK's strength, prosperity, wellbeing and place in the world.

11. Why is National Strategy so important? In our 2010 report we highlighted two prominent failures of strategic thinking:

Our interventions in Iraq and Afghanistan are prominent examples of where our lack of consistent strategy goes a long way towards explaining why the conflicts have not gone well for the UK. This underlines the need for a coherent National Strategy.⁸

These lessons apply equally to the whole of government. It is sometimes argued that modern society and today's policy challenges are too complex and diverse to be included into a single body of strategic thought, least of all in a democratic society where so many aspects of the life of the nation are beyond the control of a government.⁹ It is often also said that we are either too big or too small to have a National Strategy.¹⁰ These approaches seek to excuse the tendency of governments to 'muddle through', but also to settle for less than voters and taxpayers are entitled to expect from their political leaders and public servants. The difficulty facing strategic thinkers in government underlines the necessity of doing so. The more complex and unpredictable the challenges, the greater the need for efficient and effective ways to analyse and assess opportunities and for clear thinking about what policies to pursue. This time of economic austerity and international uncertainty demands National Strategy to inform government action.

12. The problems facing the Government are increasingly unpredictable and complex; in that our understanding of them is limited, but that their nature and impacts are often unlimited. For this reason, we cannot simply transfer the orthodoxy of strategic thinking as it is commonly used in business into our consideration of how Governments should undertake strategy.

8 Public Administration Select Committee, First Report of Session 2010-2012, *Who Does UK National Strategy?*, HC 435, para 95

9 David Steven and Alex Evans *Towards a theory of influence for twenty-first century foreign policy: public diplomacy in a globalised world* Foreign & Commonwealth Office: Engagement - Public Diplomacy in a Globalised World (London, 2008)

10 Q 61

13. John Kay, Visiting Professor at the London School of Economics explained his perception of the difference between strategy-making in business and in statecraft:

You started by saying that strategy is about making the best use of your strengths. In large part, in business, that is true, but there is a difference between business and the state in this sense, because business is operating in a competitive environment technically, whereas states are, at least nationally, monopolies. Our foreign policy is not in the modern world being operated in competition with other people's foreign policy. That is a big difference between the way one should think about strategy and business and the way one should think about politics.¹¹

14. Lord Carter of Coles, who has carried out a number of reviews of Government strategy and policy, emphasised that Government faced an added complication, not present in business, of political considerations:

... you always have the political imperative coming along and changing those priorities. One of the hardest things in Government is the balance between having a strategic plan and sticking to it. Whether it is Ministers or senior civil servants, there is an issue of consistency—of actually sticking with a thing as it goes along as opposed to constantly changing it. In business you get a much more stable environment, in my experience, to do those things.¹²

When pressed further on this point, and asked “is it sensible to look to business to learn lessons that you can apply in Government?” Lord Carter responded:

No ... It is hardly an apt comparison because it is much more sophisticated and much bigger.¹³

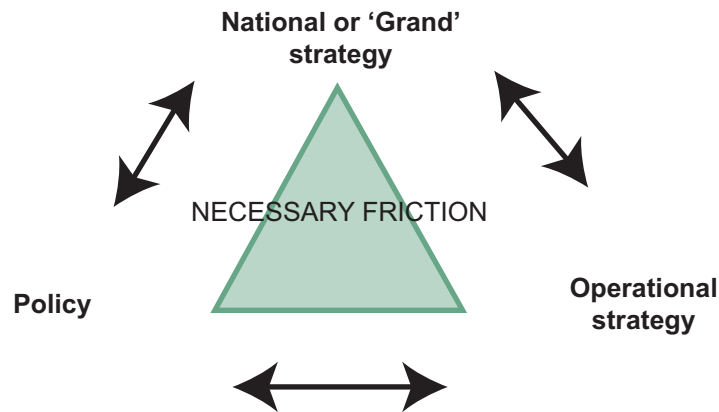
15. Following this advice, we have therefore sought to avoid the mistake of confusing National Strategy with questions of management and organisation, or either of these with policy-making. Policy-making, National or ‘Grand’ Strategy and implementation or ‘operational’ strategy, are the three points of a triangle of forces¹⁴ that in a democracy are in natural, and, in fact, essential tension. Policy is ‘to choose’: which politicians do. Policy-making will be better if it is well and systematically informed by strategic thinking at the national or ‘Grand’ strategic level. That is the foundation principle of this report. Policy programmes require an implementation plan but this ‘operational strategy’ is quite different from National Strategy, which must be on a higher level. In a different, more technical, less geopolitical way, National or ‘Grand’ Strategy informs and advises operational strategy too.

11 Q 153

12 Q 212

13 Q 213

14 Adapted from Ev w36



16. National Strategy must remain on a higher level, maintaining clear 'line of sight' with policy and operational strategy (or implementation) below it. National or 'Grand' Strategy must be broader than a single government department, and thus not subject to departmental silos. By its very nature, the national or 'Grand' strategic level must also be long-term. It is pre-eminently concerned with matters beyond the power of any government to control. These include geo-political realities such as social and economic trends and events, risks and threats to the national interest and also with how best the national interest is projected by all the means of national statecraft. To confuse the lower operational level with the higher level of strategy and to fail to grasp the special subject matter of National Strategy are errors which our witnesses and evidence repeatedly suggested are commonly committed by the Government.

17. The evidence we received acknowledged the systemic, uncertain, complex and highly volatile nature of the world in which the Government is operating. Such complexity does not mean that it is impossible to think strategically. Strategy consultant David Steven told us that "it is even more important to have a strategic vision at a time of uncertainty and change; it is just that you need a different kind of strategy".¹⁵

18. This kind of strategy emphasises the importance of flexibility. Changing circumstances require a feedback mechanism for strategic thinking to be challenged and refreshed.¹⁶ Strategy cannot simply be published in an official document and remain valid: it must be a dynamic and adaptable analysis of what kind of world we are living in.¹⁷ Professor Kay defined this position as 'obliquity': a critique of the belief that strategy is simply about determining objectives and setting out the steps by which they can be achieved.¹⁸

19. The Joint Committee on the National Security Strategy emphasised this need for flexibility in their March 2012 report on the National Security Strategy, which stated :

Thinking about what the future may hold, and the UK's role in it, is essential if the Government is to be prepared and to target resources effectively. This does not mean making rigid predictions, which constrain our ability to respond to the unexpected,

15 Q 130

16 Seminar with Whitehall strategists, February 2012

17 Meetings with strategists in Ottawa, February 2012

18 Q 166

but creating a long-term framework, within which the UK has the flexibility to respond to short-term demands.¹⁹

20. The UK faces a number of complex and unpredictable challenges in a globalised world. Such challenges make the need for the capacity for flexible and resilient processes of strategic thinking more urgent, but in turn they also make this goal harder to achieve. We urge the Government to acknowledge in their response the importance of National Strategy and why it is so vital. We can see no purpose in defining national strategic aims unless they are part of a coherent National Strategy which is regarded by the whole of the Government in the same way.

Emergent strategy

21. Following the cool reception which the Government gave our recommendations for the adoption of National Strategy, we decided to study the concept of ‘emergent strategy’; that is how National Strategy emerges from the process of government.²⁰ National Strategy is a framework that helps Government at the highest level efficiently make strategic choices and decisions about policies with a view not just to addressing immediate problems but also understanding the UK’s position in a changing context. In this way, National Strategy requires shorter-term decisions to be made within a more informed understanding of the wider context, including longer-term trends, informed by analysis and evidence, and acknowledging uncertainty and complexity where appropriate, with a clear-sighted understanding of government and UK non-state capabilities and assets including aligned financial resources. This is ‘emergent strategy’: it acknowledges the challenges and reflects the countervailing pressures on government, in being strategic.

22. There are a number of factors which frame the subject area of National or ‘Grand’ Strategy:

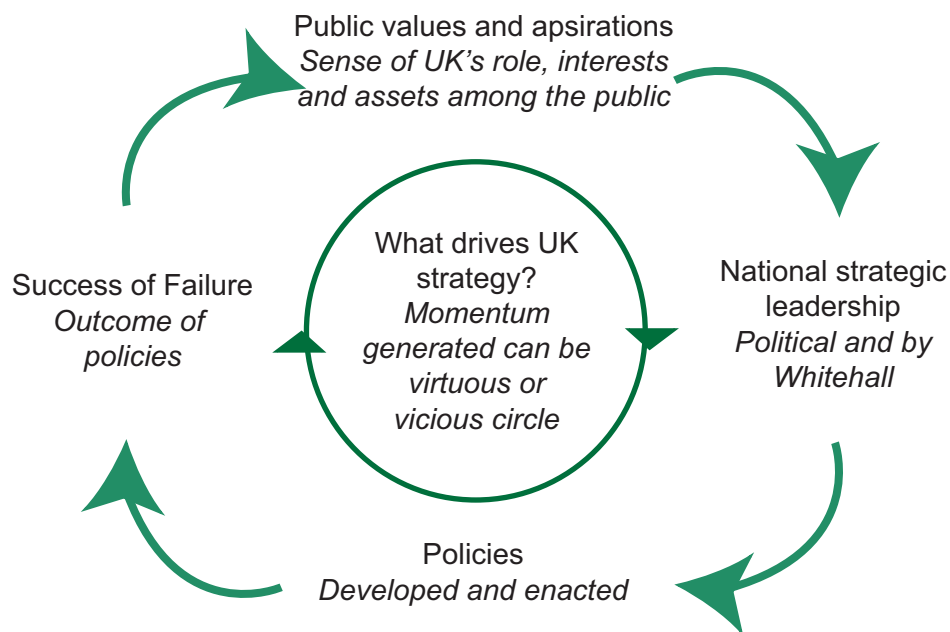
- a) How the geopolitical factors shaping the UK strategic environment are identified;
- b) how policy is based on perceptions of UK national interests;
- c) how such national interests are perceived by different audiences;
- d) how public attitudes and aspirations are engaged in the formation of such perceptions;
and
- e) how perceived national interests are advanced.

23. This process is self-reinforcing. Strategy which is based on a true sense of national identity then leads into successful policies which can then reinforce national identity and values. This is set out further in the diagram below²¹:

19 Joint Committee on National Security Strategy, First Report of Session 2010-2012, *First review of the National Security Strategy 2010*, HL Paper 265 - HC 1384, para 6

20 Mintzberg, Emergent Strategy for Public Policy, *Canadian Public Administration* 30(2):214-229 Summer 1987

21 Catarina Tully (2011)



24. As the name implies, 'emergent strategy' emerges from the combined effect of individual actions and decisions. If it is working well, those actions and decisions will be demonstrably coherent with each other and consistent with shared longer-term objectives. It is crucial that all decision-makers are mindful of the broader implications of the options available to them, and also that a challenge mechanism exists within the decision-making structure, with responsibility for reconciling day-to-day decisions with longer-term strategic aims.

25. **That strategy emerges is an inevitable fact of life, but it can be coherent: creating a virtuous circle, as positive leadership (*i.e* National Strategy) leads to effective policies and positive outcomes, which reinforce the public's values and aspirations which inspired that leadership. Alternatively chaotic strategy ('muddling through') and wrong or weak leadership will result in bad policy and failure in outcomes, which undermine the values and aspirations of the public and faith in their leaders. Emergent strategy therefore requires a coherent directing mind, individual or collective, to drive the process. The driving force of emergent strategy is what will determine whether the momentum generated results in a virtuous or vicious circle.**

3 Emergent strategy: how does the Government define the UK's national interests?

26. It is assumed that the process of emergent strategy should set out how strategic aims are based upon an understanding of the national interest. We have reported our concern that this does not seem to happen in practice: we argued that the Coalition Agreement, in which the Government says it has set out the overall strategy for the Government could not be “a statement of Britain’s enduring national strategic interests: nor could be expected to be such”.²² We therefore welcome the Cabinet Office’s clarification in written evidence for this inquiry of how the Coalition Agreement sets out the Government’s strategy:

The basis of the Coalition that was formed after the last general election was a shared assessment by the two parties forming the Government on where the national interest lay, particularly on the urgent need to form a strong, stable Government able to tackle the country’s fiscal and economic challenges. The Programme for Government that resulted from the Coalition formation discussions therefore represents the Government’s strategic assessment of the actions needed to secure the UK’s national interest and our strategy for doing so.²³

27. The Government stated that this national interest would be promoted by the advancement of six strategic aims:

- a) a free and democratic society, properly protected from its enemies;
- b) a strong, sustainable and growing economy;
- c) a healthy, active, secure, socially cohesive, socially mobile, socially responsible and well educated population;
- d) a fair deal for those who are poor or vulnerable;
- e) a vibrant culture; and
- f) a beautiful and sustainable built and natural environment.²⁴

28. David Steven argued that the Government needed to go to the next level down from these strategic aims to consider the specific risks to prosperity and security that the UK faces.²⁵ Professor Kay agreed, stating that while the Government was right to set out such high level aims, “it is only useful to start from there” if you consider, as Mr Steven

22 Public Administration Select Committee, *Who does UK National Strategy? Further Report with the Government’s Response to the Committee’s First Report of Session 2010-12*, Appendix 3, para 2, para 6

23 Ev 72

24 *Ibid.*

25 Q 172 [David Steven]

suggested, how these goals will be achieved and the risks which threaten the achievement of these goals.²⁶

29. The Cabinet Office argued that the existence of support for these aims across the UK political spectrum meant that they would be “likely to remain our national ambitions over a long period of time to come”.²⁷ We put it to the Minister that the aims to which there was common assent might be seen as bland and anodyne. The Minister disagreed, emphasising his belief that this cross-party support did not indicate that six strategic aims were just universal ‘values’, but instead was “a very lucky feature about Britain” and “a great thing about our democracy that broadly we agree about what we are trying to achieve”.²⁸

30. Instead, the Minister believed that the differences between the political parties came when deciding which policies to implement to achieve these aims. The establishment of the strategic aims then become useful, he told us, “because if you do not know what your aims are, you certainly could not have a coherent set of policies coherently for achieving them”.²⁹ Indeed, the Minister stressed that there was a relationship between aim and policy, as

no setting of an aim determines how you will achieve it, but the setting of an aim does preclude doing some things that would not achieve that aim, and opens up the field to prioritise those things that will achieve that aim.³⁰

31. The six aims outlined by the Government in the Coalition Agreement may be well-meaning but are too meaningless to serve any useful purpose, because they provide no indication of what policies the Government might pursue as a consequence. They do not define how UK national character, assets, capabilities, interests and values are distinctive in any way whatsoever, or define the particular risks and challenges we face. Nor do they define what sort of country we aspire to be beyond the most general terms. To support National Strategy, strategic aims should be defined which identify and reinforce national identity and national capability, which includes the identities and capabilities of the UK’s component parts, and give a clear indication of the overall direction of policy.

32. In evidence, it became clear that the Government’s six chosen strategic aims had not previously been published. Indeed, as the Minister made clear, they had been prepared solely for the purpose of providing evidence to our inquiry.³¹ While it is gratifying that PASC’s inquiry has flushed out the lack of consideration that has been given to the public expression of the Government’s strategic aims, this is a matter to which we urge the Government to give more consideration.

33. It is not advisable for a government have more than around six strategic aims. The more strategic aims which are adopted, the less strategic they will tend to be. It is not necessary to mention things which may be very important (such as anti-terrorist policy, or

26 Q 172 [John Kay]

27 Ev 72

28 Q 281

29 Q 290

30 Q 293

31 Q 339

the control of inflation) because they are either an obvious consequence of your strategic aims or self-evidently obvious so they are unlikely to be at all contested. The criteria for selecting strategic aims should be not just that they identify high level outcomes, and that they are of overriding strategic importance, but that they provide an indication of the kind of objectives which policy must seek to achieve.

34. We do not advocate any particular strategic aims but we do invite the Government to consider how to express its strategic aims in terms which provide an indication of the objectives which policies must achieve. The Government's inability to express coherent and relevant strategic aims is one of the factors leading to mistakes which are becoming evident in such areas as the Strategic Defence and Security Review (carrier policy), airport policy, energy (electricity generation, nuclear new-build programme and renewables) and climate change, and child poverty targets (which may not be achieved), welfare spending and economic policy (lower economic growth than forecast). This factor also militates against clear thinking about presentation, which was evident in the aftermath of the Budget and in response to the possibility of industrial action by tanker drivers.

Public opinion in defining national interests

35. As part of this inquiry we have examined how public opinion is reflected in the process of setting strategic aims. We have considered at which level public opinion should influence strategic thinking: first at the higher level of defining national interests and then at the level of day-to-day policy making.

36. A number of our witnesses argued that there was indeed an absence of public opinion at this higher level. Andrew Griffiths, a business strategy manager, described the views of the electorate as the “primary missing influence” on UK strategic thinking.³² The Chirton Group (a non political forum aimed at exploring the challenges of strategy making) drew the attention to the recent use of crowd-sourcing by the government of Iceland in developing a new constitution.³³

37. Lord Burns, former Permanent Secretary at the Treasury, said that he did not see why Government should be different from the businesses that spend considerable time taking the views of the public. He argued that:

If the Government are going to make choices between different areas, they need to know something about the extent to which the people of a country have greater happiness or unhappiness with some aspects of the services that they receive than others.³⁴

38. We also heard of the importance of opening up a lower level of strategic thinking: the influencing of policy choices. On our visit to Canada we met with the Department of Foreign Affairs and International Trade who told us it was important to differentiate

32 Ev w26 [Note: references to 'Ev wXX' are references to written evidence published in the volume of additional written evidence published on the Committee's website.]

33 Ev w19

34 Q 221 [Lord Burns]

between the use of mass public opinion, in the form of polling or focus groups to form policy, and bringing in expert opinion to the policy formulation process. We were told that broad but trusted groups of experts from outside the usual departmental silos can be formed to provide valuable input into the strategic direction of policy.³⁵

39. Geoff Mulgan, Chief Executive, National Endowment for Science, Technology and the Arts and former Director of the Government's Strategy Unit said that governments all over the world make the error of "believing they have a monopoly of wisdom, and if only they could persuade the stupid public [then] everything would be fine".³⁶ Peter Riddell, Director of the Institute for Government shared this view, telling us:

the politicians feel that they know all too well what the public think, so they narrow the debate or seek to influence the debate by having reviews that produce the results they want.

In his view, governments feared the implications of utilising public opinion:

I think the real inhibition here is being afraid of posing potentially what they regard as politically difficult options. If you look particularly at, say, tax issues, there has been a reluctance to have an open debate on strategic choices, because of some of the implications for taxation.³⁷

40. The need to limit public involvement was highlighted by Lord Carter, who stressed that "Governments do have to lead sometimes" adding that "there is always a balance in taking decisions that are sometimes difficult and do not necessarily have the most popular support at that moment but possibly in the longer term may be the right answers."³⁸ A further danger highlighted in a seminar with Whitehall strategists is the possibility of public opinion reflecting two contradictory opinions at the same time: such as calling for higher welfare spending, while also seeking lower taxes.³⁹

41. Some of our witnesses argued that a focus on public opinion, as part of the process of emergent strategy, diminished the importance of political leadership. Strategy consultant Simon Anholt told us that emergent strategy is "tantamount to admitting the absence of leadership in the system".⁴⁰

42. The process of emergent strategy demonstrates how public opinion, policies and strategic aims can work together in a 'virtuous' or 'vicious circle'. This is not to abdicate the role of leadership to public opinion, which is what tends to occur without effective National Strategy. Indeed, strong leadership is all the more vital to make rational choices when reconciling public opinion and long-term goals.

35 Meetings with strategists in Ottawa, February 2012

36 Q 16

37 Q 119 [Peter Riddell]

38 Q 221 [Lord Carter]

39 Seminar with Whitehall strategists, February 2012

40 Ev w63

43. The Minister told us that the Government's strategic aims had been tested by public opinion in the 2010 general election:

two parties went into an election having chosen the things that they would emphasise, and as the election produced a certain set of results, I think one can fairly say that they have been subject to a very considerable—in fact, the toughest—democratic test.⁴¹

44. The challenge of National Strategy is to ensure the public is involved in its involvement. A general election provides voters with an opportunity to determine who governs, and this can define the strategic direction of the nation, but elections are only a small part of the conversation on the fundamental questions which determine the future of the country. Government, and Parliament as a whole, need a deeper understanding both of how the public perceives our national interests and of what sort of country the public aspires for the UK to be. This must take place on a much longer and continuous timescale than the once-every-five years allotted to a Parliamentary term.

45. We have commissioned opinion polling which will help us to assess whether national aims are aligned with long term public aspirations and its sense of national identity. We will report on our findings later this year.

4 Emergent strategy: advancing national interests

46. As already discussed earlier in this report, choices about National Strategy and the direction for the country concern both objectives for economic conditions and interests, and the limitations imposed by them.⁴²

47. The fostering of a strong economic and technological base is both a sound objective and enlarges strategic options. Many of our witnesses argued that sectors of our economy should be viewed as strategic assets and that the Government should take an active role in promoting these sectors.

48. Such actions are often described as ‘picking winners’. This term was viewed by many witnesses as a misleading representation of a worthwhile policy. Professor Kay viewed the term as “a rather absurdly bad name”⁴³ while Sir David King, the former Chief Scientific Adviser argued that the use of the phrase was “the biggest blockage from the Treasury” which was reticent about financially supporting individual companies.⁴⁴

49. Professor Kay suggested that this opposition to ‘picking winners’ was a response to the failure of past policies when the Government “picked industries and sectors that were not winners, but we hoped that they might be—or they were losers we were trying to keep around”. Instead we should be “asking what our competitive advantages are nationally in the economic sense and framing our industrial economic policies towards those is a very sensible policy. If we want to call it picking winners, so be it”.⁴⁵

50. Lord Rees, the Astronomer Royal agreed, citing the life science strategy as an example of the Government position on picking winners where “we do not pick particular companies, but we surely pick broad areas where we see that we have a competitive advantage.”⁴⁶ Sir David King cited an international example of successful government support for a strategic asset: “there would have been no Silicon Valley in the United States without DARPA [Defense Advanced Research Projects Agency] funding. Public funding from the Defense Agency is what pulled through all of that technology in Silicon Valley”.⁴⁷

51. The Minister addressed this point in his evidence, stressing that the Government did take an active role in supporting strategic assets, appearing to signal a departure from the concerns described by Sir David King. The Minister stated that the Government is “certainly not in the business of trying to identify which company to back” but instead is “trying to play to our strengths as a nation and to push other countries to buy our best, from our best sectors, and try to strengthen those sectors further, rather than simply spreading our limited money round all sectors as if they are all as globally competitive as

42 See paragraph 10

43 Q 158

44 Q 233 [Sir David King]

45 Q 158

46 Q 233 [Lord Rees]

47 Q 233 [Sir David King]

each other”.⁴⁸ He emphasised that members of the Government, including the Prime Minister, Deputy Prime Minister, Chancellor, Foreign Secretary and Business Secretary “spend a much larger proportion of their time” doing this than past Governments.⁴⁹

52. The choice of strategic direction for the country is both determined and limited by economic conditions and interests. Government has a proven role ‘incubating’ new core technologies, notably through the defence, engineering and pharmaceutical industries. We view the role of Government in supporting strategic assets, without ‘picking winners’ in the form of individual companies or technologies, as a vital part of our strategic framework. We therefore welcomed the Minister’s evidence on this point, commend the Government’s commitment to sustain the science budget and endorse the support for the sectors of industry in which Britain is competitive.

53. The first part of this report has considered the process of emergent strategy, how it is informed by public identity and national values, and the role of leadership in advancing strategy. We shall look next at the strategic capability of the Civil Service and recommend changes to the way Whitehall works to improve strategic working.

48 Q 326

49 *Ibid.*

5 Assessment of current strategic thinking in Government

54. We took the views of our witnesses on the current state of strategic thinking in Whitehall, and suggestions for how this may be improved. Many of our witnesses doubted whether public identity, national values and expert opinion informed policy development at present. Lord Rees of Ludlow, the Astronomer Royal, cited policy on offshore wind as an example “where it is clear that decisions were made on the basis of inadequate thought”.⁵⁰

55. Sir David King set out his view that there was a wider failure of strategic working across Whitehall, stating that:

there is a serious lack of strategic thinking within and across government departments. There is very little strategic thinking of the long-term nature that I believe is necessary within the Cabinet Office and Number 10 as well.⁵¹

Lord Carter of Coles argued that the Government did not have “an overall strategic plan for the domestic situation”.⁵² He added that “a succession of Governments have never felt the need” for a strategic plan, a view shared by Lord Burns.⁵³ It was, according to Nick Butler, Professor of Public Policy at King’s College London, “regrettable” that the failure to consider such a strategy as necessary, had left us without “a National Strategy for the economy or for the future of the country”.⁵⁴

56. The Joint Committee on the National Security Strategy has also separately raised the question of a failure to think strategically, considering the UK’s national interests, concluding that the National Security Strategy:

does not yet present a clear overarching strategy: a common understanding about the UK’s interests and objectives that guides choices on investment across government departments, including domestic departments, as well as guiding operational priorities and crisis response.⁵⁵

57. The Minister argued that the strategy for government means being clear about its aims, developing policies which you will think will meet those aims, and then ensuring that policies are implemented.⁵⁶

58. We urge the government to take note of the conclusions of the report by the Joint Committee on National Security which advocated an ‘overarching strategy’. We share the concerns raised by our witnesses about the poor quality of National Strategy in

50 Q 71

51 Q 258 [Sir David King]

52 Q 216

53 Q219

54 Q 3 [Nick Butler]

55 Joint Committee on National Security Strategy, *First review of the National Security Strategy 2010*, para 25

56 Q 285

Government. The evidence from the Minister and the Cabinet Office did not allay or address our concerns. We have little confidence that policies are informed by a clear, coherent strategic approach, informed by an assessment of the public's aspirations and their perceptions of the national interest.

6 The challenge for cross-departmental strategic thinking

59. Our evidence set out a number of barriers to strategic thinking within Whitehall. Below, we have identified nine areas for action to ensure that short-term policy-decisions are aligned with the UK's long-term strategic interests.

Promoting the capability of the Civil Service

60. PASC's 2010 report contained the following key conclusion –

It is essential to recruit, train and promote a community of strategists from across Whitehall with different experiences and expertise who can work collectively.⁵⁷

We were encouraged to read in the Government's evidence to our inquiry that there is now "an informal network of strategists across Whitehall, which meets regularly to promote information sharing and [to] identify opportunities for joint work."⁵⁸ This is a welcome step forward, but we still await the capability review of National Strategy that we recommended. The Government inhibits the development of such capability by insisting that strategic plans must be "developed by Ministers through collective, inter-Ministerial Cabinet discussion" and, moreover, that they are based on a misplaced belief that "the UK's national strategy is set out in the Coalition's Programme for Government, which", they say, "captures the six strategic aims (see para 25 above) to promote the welfare of our citizens", even though these six aims were drafted long after they were "captured" in the Coalition Programme for Government.

61. To invite suggestions about how to change the culture of Whitehall to strengthen strategic thinking capability, we held a seminar with strategy officials in the Civil Service and held meetings with strategic thinkers and officials in Ottawa and Washington DC. Attendees at our Civil Service seminar told us that it was necessary to change the culture in Whitehall to empower civil servants to take more risks. This approach recognises the distinction between risk-taking and recklessness: we heard that Google, for example, supports staff who take risks, even if they go wrong, but it does not support reckless and ill-informed decisions.⁵⁹

62. We heard contrasting views on the use of outside strategists. While the benefits of bringing into Whitehall greater numbers of people from academia, the voluntary sector and the private sector, who may be more open to new ideas were highlighted;⁶⁰ a note of caution was offered that external input into strategy making in the Civil Service has value

57 Public Administration Select Committee, *Who Does UK National Strategy?*, para 72

58 Ev 72

59 Seminar with Whitehall strategists, February 2012

60 *Ibid.*

because it provides an external challenge function, and as such, should not be absorbed into the Service.⁶¹

63. The Cabinet Office evidence to this inquiry stated that strategic thinking was “a core part of the learning and development programme for Civil Servants” in central government.⁶² Julian McCrae from the Institute for Government questioned whether this was achieved in practice. Mr McCrae accepted that strategic thinking was a “reasonably valued skill” but believed that the records of those who have been promoted suggest that it was not valued as highly as other skills.⁶³

64. Professor Nick Butler, a former Senior Civil Servant, believed that strategy skills were present in the Civil Service, but not valued. He argued that:

the gap is actually among the politicians and the leadership in setting the strategic questions, in defining the direction and then asking the right questions to these very able people. I am sure many Civil Servants would love to do more strategic work than they do, but they are not asked to, particularly across Government, and I think that is where capability lies: how to ask the right question.⁶⁴

65. Geoff Mulgan agreed that the role of Ministers must be addressed, warning that improving strategic skills in the Civil Service was futile if Ministers did not utilise and foster these skills.⁶⁵

66. We believe that there is considerable unused capacity for strategic thinking in Whitehall departments which should be allowed to grow and flourish. This cannot be achieved if Ministers continue to insist that strategic thinking should be largely the preserve of Ministers. We reiterate our recommendation for a capability review of strategic thinking capacity in Whitehall, the objective being not that Ministers should give up their strategic role (which seems to be their fear), but that their deliberations and decisions should be better informed.

67. We are also concerned that the abolition of the National School for Government (NSG) will remove the last remaining elements of training in strategic thinking for the Civil Service. To ensure that this capacity is better valued and promoted in future, we invite the Government to set out how Civil Service Learning (which takes over from the NSG) will promote the training and embedding of effective strategic thinking skills.

68. We heard that turnover in the Civil Service was another factor against strategic working in Whitehall and across departments. Matt Cavanagh argued that:

you have people cycling through posts in two years, and they themselves have no incentive to think, “Well, actually, am I prepared to do something that is about me investing for a result that is going to pay off in three or four years’ time?” They do

61 Meetings with strategists in Washington DC, February 2012

62 Ev 72

63 Q 98 [Julian McCrae]

64 Q 49 [Nick Butler]

65 Q 49 [Geoff Mulgan]

not stay in post long enough and their career structure again does not incentivise them to work across Whitehall.⁶⁶

69. It is axiomatic that politics is increasingly driven by the news media agenda, and that it is harder than ever for Ministers to spend time considering the longer term. On our visit to Ottawa we heard that the Canadian Public Service has a recognised responsibility to look beyond short-term factors and work towards the long-term national interest. **The Government's response to this Report must address the question of whether there should be a stronger, perhaps constitutional, role for the Civil Service in promoting the long-term national interest, to help counteract the negative, short-term pressures on Ministers.**

Strengthening the centre of Government

70. A recurrent theme of PASC reports in this Parliament has been to call for a stronger centre of Government to promote coherent cross-departmental working and better implementation of the Government's reform programmes.⁶⁷ The Government routinely rejects such recommendations. However, several witnesses shared PASC's view that a stronger centre of Government would improve the capacity for strategic thinking and ensure a coherent approach across departments. Lord Burns argued for a stronger centre, noting that the Cabinet Office served the Cabinet as a whole, and not the Prime Minister.⁶⁸ He highlighted the contrast between the Government and his business experience, adding that "the centres of companies have much more strategic power than I feel is the case with Government".⁶⁹

71. Julian McCrae from the Institute for Government reported research by the IfG that found that, in comparison to international examples, the UK had:

a very light function at the centre that was capable of questioning departmental policy and the work that was emerging from Departments, and asking, "Does this fit with a cross-government view?"⁷⁰

He added:

Compared with a lot of other countries, it is light in the ability to question the content of what is coming to it as opposed to creating the processes that ensure that paper flows through the machine.⁷¹

72. Sir David King stressed that strategic thinking would not improve "until we see leadership from the top saying, 'we need strategies and this is how we do it'".⁷² There were

66 Q 11 [Matt Cavanagh]

67 Public Administration Select Committee, Nineteenth Report of Session 2010-12, *Leadership of change: new arrangements for the roles of the Head of the Civil Service and the Cabinet Secretary*, HC 1582

68 Q 197

69 Q 198 [Lord Burns]

70 Q 81

71 Q 83

72 Q 258 [Sir David King]

differing views on how this could be achieved. Jill Rutter from the Institute for Government advocated a stronger role for the Cabinet Office,⁷³ while Lord Carter spoke of the possibility of introducing a “chief operating officer of the Government”.⁷⁴

73. The Minister was once again a lone voice amongst our witnesses in his rejecting the suggestion that that the centre of Government needed strengthening, arguing that the power held by the Prime Minister and Deputy Prime Minister demonstrated that “there is quite a strong centre of Government”.⁷⁵ He argued that this strong centre should, however, be balanced against the danger of “disempowering” individual departments who should retain “their considerable degree of autonomy”.⁷⁶ The right role for the centre of Government was therefore not to tell departments what to do, but to have a coordinating role.⁷⁷

74. We have set out in previous reports our call for a stronger centre of Government to lead Civil Service reform. Ministers and the Senior Civil Service are alone in their complacency that that cross-departmental working is adequate. We therefore reiterate our recommendation for the Cabinet Office to be given the means and influence to act as an effective headquarters of Government, on behalf of the Prime Minister and Cabinet as a whole, or to explain how else the Government will address the endemic problem of failed cross departmental working. We believe that this stronger centre of Government is the only way to promote coherent National Strategy which is supported across all departments. We will return to this topic in future reports.

Address longer-term context as well as short-term problems

75. Geoff Mulgan argued that strategic thinking was about:

promoting a way of thinking or a culture in senior Ministers and officials that is always looking at not just next two or three months, or the next couple of years of policy implementation, but also at the further horizon.⁷⁸

He argued that, when Prime Minister, Tony Blair “regularly spent significant chunks of time with his colleagues, officials and outsiders looking at the UK’s interest 10, 20 or 30 years ahead.”⁷⁹ Sir David King, in his time as Chief Scientific Adviser also reported that the Strategy Unit in Number 10 carried out ‘futures work’ looking 10-100 years in the future, bringing in an expert community of “scientists, economists social scientists and technologists [to] advise on future trends, opportunities and risks”.⁸⁰

73 Q 108

74 Q 198 [Lord Carter]

75 Q 317

76 *Ibid.*

77 Qq 317, 320

78 Q 13

79 Q 13

80 Q 251 [Sir David King]

76. The evidence we received was that such long-term thinking did not occur across Whitehall.⁸¹ Sir David cautioned that long-term issues were pushed to the side while governments focused on urgent short-term problems. Lord Carter of Coles noted that “the urgent tends to trump the important”.⁸²

77. The Minister told us that for the Government

looking far ahead is exactly what does take place; that is to say that we are sitting there and asking ourselves the question, “If we adopt this policy, will it achieve our long-term goals? What long-term effect will it have? That is the discussion that does happen in Cabinet Committees and happens well in Cabinet Committees.”⁸³

He also stated that

this Government have been peculiarly good at not allowing the day’s headlines to deflect them from long-term activity, whether you happen to agree with the activity or not.⁸⁴

78. We welcome the Minister’s assurance that the Government does consider the long-term impact of policies. However, we remain concerned that, in practice, decisions are made for short-term reasons, little reflecting the evidence or the longer-term interests of the nation. The clearer expression of the nation’s strategic aims would help to ensure that short-term decisions are made in the context of the long term national strategic framework. This would also improve the ability of the Government to communicate a coherent narrative.

79. Where some departments did work to longer-term timescales, this was not replicated across Government, causing conflict. Former Special Adviser Matt Cavanagh told the Committee that individual departments planned their own strategy, and operated on differing timescales. He cited the example of Afghanistan, where he described DfID as working to a ten year timescale, Ministry of Defence as operating on a six-month timescale (the same as tours of operation), and the Foreign Office, in contrast, working on what felt like “a one-week time scale”.⁸⁵ Mr Cavanagh argued that having differing timescales for each department did not pose a problem of itself, but that the departments involved “all needed to get together and agree on a strategic time-scale, in which they would have a conversation about what was going to happen in the next two or two and a half years”, which at present did not happen.⁸⁶

80. The Minister accepted that such different timescales existed, describing it as one of the “great complexities of government”. It was not, he believed possible to “obliterate these differences” but the work of Cabinet Committees and the National Security Council was to:

81 Q 5

82 Qq 258 [Sir David King], 247

83 Q 316

84 Q 298

85 Q 11 [Matt Cavanagh]

86 *Ibid.*

be conscious of them, and to try to make what we are doing for the very short term coherent with what we are doing for a slightly longer term, and, in turn, coherent with things for longer than that. That is a very difficult juggling act all the time.⁸⁷

81. The Cabinet and its committees are capable of carrying out little more than a patch-and-mend to the policies which reflect differing departmental strategies and timescales. The system makes ministers accountable for decisions, but makes it hard for individual Ministers or the ministerial team to determine how decisions are considered from the outset. There remains a critical unfulfilled role at the centre of Government in coordinating and reconciling priorities, to ensure that long-term and short-term goals are coherent across departments. Only a clear national strategic framework can place day-to-day decisions in the long-term context, or emergent strategy is more likely to throw up unanticipated problems, such as the need to revisit carrier aviation policy, to revise feed-in tariff rates for micro-renewables or the over-optimism of the government's initial economic forecasts.

Improve the proper use of Scenario Planning in managing uncertainty

82. When considering strategy over a long timescale, many witnesses recommended that to work strategically, governments should undertake scenario planning. In meetings in Washington DC we were told that it was critical that scenario planning is tied into a wider strategic framework through the willingness of senior officials and politicians to act on the findings.⁸⁸

83. Dr Mulgan highlighted the example of Singapore, where, he said, “officials and Ministers are regularly taken through scenario exercises to game play or role play bad things happening”. He argued that if such exercises had been carried out by the Treasury in recent years, the Government would have been better prepared for the economic downturn in 2008.⁸⁹ However, the Treasury was unwilling “to think through negative scenarios” such as to consider “a slowdown of the world economy, the credit crunch and ... rises in unemployment”. The reason for this unwillingness was how it would be interpreted in the media if it were to leak.⁹⁰ Professor Kay agreed, arguing that in addition to the fears of leaking, the Treasury was also unwilling to undertake scenario planning because “the people at the top do not welcome challenge”.⁹¹ This evidence echoes the findings of our 2010 inquiry .

84. Lord Burns expressed his doubts about the use of scenario planning involving “people trying to paint big pictures of all kinds of different things that might happen in the world and to devise a series of policies to suit each of them”.⁹² Instead he highlighted his belief in ‘stress-testing’ policies, a process which was used during his time in the Treasury “to

87 Q 296

88 Meetings with strategists in Washington DC, February 2012

89 Q 13

90 *Ibid.*

91 Q 143

92 Q 210

identify some ways in which the external world may come to impact upon what the policy was doing or where things may turn out differently from expectations, and then trying to see how robust the policy was.”⁹³

85. Geoff Mulgan argued that carrying out such scenario planning “would require a very different mode of thinking from what is normal in Government ... [who] are repeatedly victims of essentially wishful thinking and believing that growth will continue”.⁹⁴ Lord Burns agreed:

Government have never been very good, in my experience, at what you might describe as looking at plan B, because Government do not like to think that plan A is not going to work. They fear that, by looking at plan B, there will be a loss of confidence in plan A. Of course, when plan Bs have been looked at, they never turn out to be a plan B, because by the time there is a problem with plan A, there are usually a lot of other factors that by then have changed as well.⁹⁵

86. Professor Gwyn Prins from the London School of Economics highlighted the danger of ‘wicked’ problems: “open system issues, incompletely understood with no bounded data set, no stopping rule for research, no possibility for iterative experimentation and notorious for producing perverse, unintended consequences when governments try to act on them.”⁹⁶ By their very nature such problems cannot be detected by horizon scanning processes. He directed our attention to two countries, Australia and Sweden, who have already embraced this challenge and have developed and fielded techniques of strategic analysis which make a virtue of acknowledgment of doubt. These techniques permit open recognition of what is and is not known and knowable. He recommended that benefit might be drawn from study of such methods which do not commit the errors of horizon-scanning to which several witnesses, as well as Professor Prins, drew attention.

87. The Minister recognised the limitations of planning for the future citing the very recent example of the failure to predict the Arab Spring:

In the National Security Council we have gathered with us the heads of the intelligence agencies [...] We get a lot of information from them, from the Foreign Office, which is also represented, and from the military, which is one of the points of the committee—that it is not just politicians discussing it. There is also a vibrant intelligence community that is connected with ours around the world, and all the newspapers and other media of the world, and the commentators, and the many consultants, and so on. Using the whole of that collective wisdom, not a single suggestion was made to us, or indeed I believe to any of the other equivalent bodies around the world, that there was going to be an Arab Spring. Nobody guessed it. It happened quite contrary to anyone’s predictions.

93 Q 24

94 Q 13

95 Q 203

96 Ev w35

88. The Minister stressed that failures to predict events in this way did not occur because the officials or strategists “were stupid or ill-informed. It is because they were human beings. We just do not know very much about the future.”⁹⁷

89. For this reason, the Minister believed that the “only rational approach” is the Government’s current position of “trying to be clear-minded about our aims and trying to adopt policies that we think will go there but trying to maintain flexibility in the face of changing circumstances”.⁹⁸ In this way, the Minister argued:

it does make sense to spend time and effort looking at the future, as long as you remember that you will probably get it wrong. The reason why it makes sense to continue looking at the future is that at least you can try to identify as many of the very large risks as you can. Having a policy structure that is as resilient as you can make it in the light of an analysis of the very large risks and the uncertainties is a good thing to have. It is worth trying to chart what the very large risks are.⁹⁹

90. We are concerned that the increase of horizon scanning gives politicians and officials a false sense of security that they are prepared for all eventualities. We advocate a greater recognition of the unpredictable nature of the issues which face us as a nation. We recommend a review of the use of horizon scanning and its purpose. This should be undertaken on the grounds that speculative study of alternative futures is necessary but on the understanding that strategic assessment must also consider unknown future challenges and be prepared to respond to uncertainty.

91. We very much welcome the Minister’s advocacy of analysis and policy which takes account of risks and uncertainties. However this must be reflected in the Government’s emergent National Strategy and in the policy-making process, and to do so requires the Government to have the skills and capacity for such assessment and analysis across Whitehall. This underlines the need for a capability review of strategic thinking capacity.

Ensuring the proper use of science

92. There are differing views on how useful evidence from science can be in determining strategy in an uncertain world. Professor Gwyn Prins of the London School of Economics emphasised the need for National or ‘Grand’ Strategy to take into account the need to distinguish between, and to employ consciously, four different types of knowledge (as defined by Aristotle in the *Nicomachean Ethics*).¹⁰⁰ These are firstly ‘masterful know how’ knowledge which changes things; secondly reproducible, theoretical knowledge which is rule setting. These two are the fundamentals of what is popularly called ‘scientific’ knowledge appropriate for fields of knowledge with clear boundaries. But the third type of knowledge is essential for human affairs (says Aristotle), as well as for all ‘wicked’ problems. This is ‘practical wisdom’ which must guide us when we face the unknown for

97 Q 306

98 Q 206

99 Q 311

100 Ev w35

which we have no rules. To it is joined ‘conjectural knowledge’: the learned capacity for handling complexity that combines flair, wisdom, forethought, subtlety of mind, deception, resourcefulness, vigilance, and opportunism. It can provide the ability to anticipate, modify and influence the shape of events. It makes one comfortable with the absence of precision in a ‘wicked’ world and skill to deploy human ingenuity. The third and fourth forms are not rule-giving and are not ‘scientific’ in the popular sense. Professor Prins suggested that it is essential to choose the correct form of knowledge for the type of problem. In this way we can “make choices in the face of uncertainty”.¹⁰¹ Such choosing underlies the Swedish and Australian strategic assessment methodologies to which he had earlier referred. He suggested that mismatch, and particularly the view that the first two types of knowledge are best applied to bounded, understood fields, can be universally applied, is a common error.¹⁰²

93. Professor Prins argued that the belief that there is a scientific solution to all significant problems has made “it appear shameful for civil servants to admit to ignorance or to say that nothing can be done (or should be done) by Government”.¹⁰³

94. Simon Anholt shared this view, arguing that:

Britain’s failure in strategy is precisely our refusal to acknowledge the importance of imagination and creativity in the game – our determination to believe that national strategy can be a purely ratiocinative process, informed by pseudo-scientific approaches such as ‘horizon scanning’. This criticism has often been repeated throughout this enquiry, but it is a criticism we should test against ourselves too, for strategy is more art than science, so to exclude the artistic from the game is surely an error.¹⁰⁴

95. The Minister argued that the Civil Service did have “a great deal of practical wisdom”, but that when he “was teaching Aristotle in Cambridge [I] used to warn my students against trying to use these categories exactly, because I do not think that they work terribly well.”¹⁰⁵

96. The evidence we received from leading scientists stressed that Professor Prins’ concerns about uncertainty in science were recognised and managed. Lord Rees stressed the importance of using scientific knowledge, saying that “we got on better with it than without it” once its limitations were accepted.¹⁰⁶ He emphasised that as “a larger proportion of the long-term issues confronting us as a nation have a scientific dimension”, decisions on these issues require scientific input, alongside public opinion.¹⁰⁷ This input however, did not mean setting policy but giving politicians “a best estimate of what the scientific consensus is and the balance of probabilities”. Lord Rees added that:

101 Ev w35

102 *Ibid.*

103 *Ibid.*

104 Ev w63

105 Q 313

106 Q 47

107 Qq 74 [Lord Rees], Q 221

What is even more important is that scientists should realise that, even if the science is certain and fully worked out, there can be a range of policy responses.¹⁰⁸

97. We also heard that the scientific advice offered to governments went far beyond strict physical or chemical science. Sir David King, the former Government Chief Scientific Adviser told us:

when I was advising Government, I would bring in the appropriate physicists or engineers but also appropriate economists and social scientists to tackle the problem with me before giving advice. I think the way in which I can answer that question best is in the old Latin meaning of the word “science”, from *scientia*—in other words, use the knowledge base as a means of advising Government. That formed the basis of my position in Government.¹⁰⁹

98. Sir David King struck a note of caution about the political ramifications of accepting uncertainty:

It is part of the job of training a scientist to make sure that they understand the uncertainties in what they are dealing with. The difficulty is, as Lord Rees says, that when scientists discuss uncertainties, it can be picked up by the *Daily Mail* and others as indicating that the scientists do not know what they are talking about.

99. Any emergent strategy must address uncertainty: the ‘wicked’ problems we cannot define or predict. There are limits on the use of scientific knowledge in strategic thinking and the management of uncertainty must be embedded into the strategy process. The Government should not be afraid to acknowledge that this uncertainty exists and to promote an open discussion about risk and uncertainty in policy-making and development of National Strategy.

Breaking down departmental silos

100. The barriers between government departments can prevent Civil Servants from working strategically, and across departments, creating incentives to defend their departmental territory at the expense of the good of the whole.¹¹⁰ This produces particular problems for working strategically on issues which cover a range of government departments, often without clear agreement on the lead department. Our witness Nick Butler spoke of a policy initiative for which five different departments felt they had the lead role.¹¹¹ For many of these cross-government issues we heard that there was no system currently for bringing together different departmental strategies, which in turn encouraged turf wars.¹¹²

101. In a seminar with a number of Whitehall strategists, held under the Chatham House rule, we heard that the presence of silos in Government meant that where strategic

108 Q 74 [Lord Rees]

109 Q 221 [Sir David King]

110 Qq 70, 12 [Nick Butler]

111 Q 11 [Nick Butler]

112 Seminar with Whitehall strategists, February 2012

thinking does occur, it is dispersed throughout government, with strategists placed in a range of uncoordinated positions in individual departments including as part of private offices and ‘insight teams’.¹¹³ Central strategy units were therefore useful in ensuring coherence between individual departmental strategies, but the trade-off was a lack of ownership by departments and ministers of the resulting strategic thinking.¹¹⁴

102. This was, Geoff Mulgan told us, because of the constitutional position of the Secretary of State in terms of accountability to Parliament which, he said, “really locks in the department as the key unit”. Lord Carter of Coles agreed that breaking down government silos to enable strategic thinking would require a change to the current mechanisms of accountability:

It seems to me that nobody has found a better way than silos. We talk about it, but if you want accountability and roles and responsibilities that are actually well defined, then, sadly, silos seem to have been the best way to achieve that so far.¹¹⁵

103. We heard suggestions that an ‘ecosystem’ was needed which would build the connections between the departments and all the stakeholders that are required to work strategically. We understand that there are procedures in place in Canada to enable strategic work across government, and to collectively work to a longer timeframe than individual departments. This is achieved through a semi-formal system which brings together Permanent Secretaries in a series of topic-based committees, such as economic, social, climate change and global trends). Committees are required to look at least five years ahead, but can choose the issues to address within this timeframe, and periodically these committees are brought together to share and realign thinking and disseminate this thinking across departments.¹¹⁶

104. Unless National Strategy involves the whole of government and is embedded in the thinking and operations of all departments it not strategic. The Whitehall silos act as a roadblock to National Strategy. To break down these silos we recommend the introduction of thematic committees of Permanent Secretaries for the purpose as in the Canadian public service, to underpin the combined work of their Ministers.

Aligning financial resources with strategic thinking:

105. Several witnesses have argued that strategic thinking in Government is driven by the spending round. Peter Riddell, Director of the Institute for Government, said:

what is inherent in the whole discussion we have had this morning is the role of the Treasury. If you look at what happened with defence, instead of things being sequential between having a national security strategy and then the review, they were coincidental. But, it was quite clear what was driving the process. If you look at the evolution of the business plans, the connection with the CSR of that year was clear.

113 Seminar with Whitehall strategists, February 2012

114 *Ibid.*

115 Q 195 [Lord Carter]

116 Meetings with strategists in Ottawa, February 2012

The very interesting question is how much of the spending round comes prior to any strategic consideration of what the priorities are for any department.¹¹⁷

106. Former Permanent Secretary to the Treasury, Lord Burns, agreed, saying:

I find it very difficult to imagine that one can really think about making strategy without taking into account financial considerations.¹¹⁸

He added:

Strategy has to drive finance, and finance has to be, it seems to me, a very important aspect in any strategic thinking.¹¹⁹

It was, Lord Burns said, the role of the Treasury to make sure that the strategies of individual departments “are being brought together in a way that is affordable and fits in with the economic strategy”.¹²⁰

107. It is not apparent that spending is linked to strategic aims at present. As the Joint Committee on the National Security Strategy has pointed out, the National Security Strategy [NSS] was published on 18 October 2010, the Strategic Defence and Security Review [SDSR] on 19 October 2010 and the Spending Review on 20 October 2010. The Committee concluded that “it is significant that the NSS and SDSR were produced in parallel with the Spending Review—rather than guiding or following it”.¹²¹

108. Nick Butler argued that the Treasury was not a strategic department, suggesting that in his experience:

the Treasury concentrates on that side of the economy [controlling the budget] at the expense of the other side, which is growth and development for the future, and the role of both public and private policy in achieving that growth. I think that is now an imperative and I still do not see it happening in the Treasury, which is regrettable.¹²²

109. The Minister denied that policy was driven by the Treasury, stating that the Treasury is “a participant—an enormously important participant, of course, but just a participant, nevertheless—in the discussions of policy.” He argued there was instead a “constant dialogue between what we seek to achieve and what it is possible to achieve in the light of the financial constraints”.¹²³

110. Attempts to work strategically without considering tax and spending considerations cannot be properly termed ‘strategic thinking’. The strategic goals and ambitions of the country, informed by the public’s perceptions of the national interest and by their values and aspirations, should be the basis of the Spending Review and

117 Q 104 [Peter Riddell]

118 Q 180 [Lord Burns]

119 *Ibid.*

120 Q 182

121 Joint Committee on National Security Strategy, *First review of the National Security Strategy 2010*, para 6

122 Q 7

123 Q 321

Budget processes. It should be possible to see how the key strategic aims are reflected in the business plans and spending estimates for each department, and also in individual policy decisions.

111. Geoff Mulgan suggested that the Australian Treasury was a good example of strategic thinking as it “has seen itself as a guardian of linking budget allocations to a sense of where the economy is going and where society is going”, carrying out detailed studies for example on issues like ageing.¹²⁴ On our visit to Washington DC we discussed the similar work of Singapore, which aligns resources with the strategic plan over a lengthy timescale.¹²⁵

112. In Canada, as in the UK, the Cabinet is responsible for setting overall strategic policy direction, based on input from stakeholders. There, the annual budget process begins with a structured review by Ministers of financial commitments, emerging pressures, political priorities, and economic and fiscal developments since the last Budget. This review provides departments with a broad strategic direction to help shape their bids for discretionary spending. This is followed by a Fall Statement, which sets out economic and fiscal forecasts for the five years ahead as well as policy priorities and issues to be addressed in the Budget. A broad public consultation is then launched on how the available money should be allocated within these parameters. Members of the public are able to contribute to separate consultations run by the Canadian House of Commons Standing Committee on Finance, and the Finance Department itself, and Ministers are held accountable for their responses to points raised in these consultations. Departmental Ministers then present their discretionary spending proposals for consideration by their colleagues in three cross-cutting policy Committees which focus on Economic Prosperity and Sustainable Growth; Foreign Affairs and Defence; and Social Affairs. The Finance Department then reconciles the spending agreed by these Committees with updated economic forecasts and prepares the Budget.¹²⁶

113. On our visit to Washington DC we heard about the importance of a more open discussion of how public spending is divided between entitlement and investment. Increasing entitlement claims and burdens often do not form part of a discussion about spending despite the danger of compromising investment in current and future capabilities that secure our prosperity, wellbeing and security.¹²⁷

114. In Canada, the Fall Statement sets out a framework for departments to make spending decisions. The decisions are in line with political priorities and long-term considerations, as defined by the Cabinet and informed by independent fiscal forecasting. Specific departmental proposals are then subject to a public consultation on how spending should be allocated. We recommend that the Government, in its response to this report, considers the benefits of opening up the Budget process in this way and drawing clearer links between long-term objectives and specific budgetary measures.

124 Q 6 [Geoff Mulgan]

125 Meetings with strategists in Washington DC, February 2012

126 Meetings with strategists in Ottawa, February 2012

127 Meetings with strategists in Washington DC, February 2012

Promote Ministerial Leadership on National Strategy

115. Several witnesses argued that it is critical for Ministers to set the right conditions for strategic working. Geoff Mulgan stressed that “it is key for Ministers to be involved” in strategy work.¹²⁸ Jill Rutter from the Institute for Government and formerly of the Prime Minister’s Strategy Unit warned that “there is only any point in working in a strategy unit if there is demand for strategy”.¹²⁹

116. The reality, however, is that short-term and media pressure means that Ministers have little time to work strategically. On our study visit to Washington DC we found that short-termism was a common problem in other legislatures, with foresight extending only as far as the next election.¹³⁰

117. A further factor against strategic thinking for Ministers was that, similar to Civil Servants, they face incentives and career structures that are linked to departmental objectives. Geoff Mulgan told us that, “unless you align the politics, the career incentives of your Ministers and the political kudos”, strategic thinking would not occur.¹³¹

118. While our 2010 report has provoked some positive thinking in Whitehall about National Strategy and strategic thinking, we find that Ministers remain largely complacent about the way things are, and that there has been little overall improvement in the value which ministers place on National Strategy and on those who could contribute to strategic thinking. We also hear consistent reports, as we reported in 2010, of Ministers’ frustration with the machinery of government that is failing to deliver their ambitions. Strategic thinking in the Civil Service and in Government depends upon leadership from Ministers and is an act of leadership. Greater demand for the essential task of National Strategy should be promoted through, for example, the use of quarterly Cabinet meetings to focus solely on long-term strategic issues. Clearer National Strategy will help give direction to the whole administration.

119. Jill Rutter suggested that being held to account by Parliament for thinking strategically would elevate strategic working to a higher level of importance:

perhaps one of the reasons why politicians do not see the need to be so strategic is that their peers do not hold them to account in quite the same way by asking whether they are being strategically consistent. If they felt it was necessary to have an underpinning clear narrative that they were judged by over the longer term, there might be more demand to think in that way in Government.¹³²

120. International examples indicate that Parliament, through the Select Committee process, could take a greater role in leading a politically neutral conversation with the public about longer-term issues such as membership of international institutions, energy assets/infrastructure, and the referenda on the state of the Union. This role cannot be

128 Q 39

129 Q 84

130 Meetings with strategists in Washington DC, February 2012

131 Q 10

132 Q 91

carried out simply through general elections, which are both too infrequent, and too partisan in nature for an informed discussion about major strategic issues. Elections are both insufficient and the wrong environment (as a partisan fight) to discuss issues that are of national strategic concern.

121. Parliament has a role in helping to promote, and challenge, National Strategy. PASC will continue to scrutinise National Strategy. We invite the Government to publish an annual ‘Statement of National Strategy’ in Parliament which reflects the interests of all parts of the UK and the devolved policy agendas. This would be a snapshot of how National Strategy has developed, providing an opportunity for reassessment and debate about how tax and spending decisions support the Government’s national strategic aims. This would reflect the Canadian practice of a structured review of financial commitments, emerging pressures, political priorities, and economic and fiscal developments since the last Budget. If published in late spring or early summer, this would mark the start of the new spending round and be a precursor to the Autumn Statement. This would be consistent with making the annual spending and budget round more transparent. It would also give Select Committees and Parliament as a whole the opportunity to scrutinise National Strategy and to contribute to the formation of future policy.

Broadening the role of the National Security Council (NSC)

122. In our first report we pressed for the remit of the National Security Council (NSC) to be extended beyond narrow definition of security to cover key strategic issues such as the economy. We followed up this recommendation in this inquiry and received considerable evidence that the narrow view of the NSC remained an area of concern. Nick Butler described the NSC as “a most disappointing body” arguing that:

I do not think it takes into account whether we have the capabilities to sustain the commitments that we are making. We make a lot of commitments and we seem to keep making them, but I do not think it pays attention, not just to skills, but to the economic strength that is required to spend sufficiently on defence and security to achieve what you say you want to achieve. I do not think it has paid any attention to the industrial base, which is being weakened by decisions being taken, rightly or wrongly, and which once weakened is very hard to replace.¹³³

Geoff Mulgan pressed for the NSC to consider wider strategic issues such as skills, migration, drugs policy and energy, as “the biggest source of security for any nation is having its overall strategic stance right”.¹³⁴

123. The Joint Committee on the National Security Strategy concluded along similar lines, that:

We are not convinced that the Government gave sufficient attention in the NSS to the potential risks that future international economic instability might pose for UK security. These go beyond the UK being unable to afford to defend itself.

133 Q 23

134 Q 20

International economic problems could lead to our allies having to make considerable cuts to their defence spending, and to an increase in economic migrants between EU member states, and to domestic social or political unrest. The NSC needs to take all of this into account.¹³⁵

124. Witnesses also pressed for greater analytical support for the National Security Council. Matt Cavanagh recommended that “the Secretariat needs to be beefed up if the NSC is really to play a role in terms of co-ordinating the different Departments”.¹³⁶

125. The work of the National Security Council (NSC) demonstrates unfulfilled potential for driving strategic thinking across Government. It needs to avail itself of greater capacity of the analysis and assessment of departmental papers in the light of its own independent research, so NSC members are better able to challenge orthodoxy and think outside their departmental brief. We also recommend again that the NSC and its secretariat should take a wider view than just the security issues facing this country and should oversee National Strategy: the UK’s long term security is dependent on far more than simply military and terror issues.

135 Joint Committee on National Security Strategy, *First review of the National Security Strategy 2010*, para67

136 Q 19 [Matt Cavanagh]

7 Conclusion

126. We remain concerned at the absence of National Strategy at the heart of Government. We are not calling for the Government to set out a five or ten year plan, detailing policy commitments, but for a recognition that the Government requires a strategic approach that emphasises the development of capability, both to set achievable and meaningful long term aims, and to respond rapidly and effectively to unforeseen challenges and opportunities. Without it, policy failures will undermine not only public confidence in the ability of Governments to deliver a positive outcome, but will also undermine confidence in our national beliefs and our will to survive as a nation.

127. There are considerable barriers to more effective strategic thinking in Government. We found that scientific advice is essential in strategic thought, but must be balanced against an acceptance of uncertainty and a flexible capability to respond to this. The machinery of government and budgetary allocations by department promote silos in government. There is a lack of demand from Ministers for strategic thinking from the Civil Service, and as a result this vital capacity is undervalued and neglected.

128. The strategic aims of the Government, informed by public opinion, should drive every policy decision and align them with tax and spending decisions. A focus on working strategically, driven by a strong centre of Government across departmental silos, will provide the Government with the capacity to deal with current issues, and the resilience and adaptability to react to the unknown, unpredictable problems of the future. Successful National Strategy will reinforce public confidence in national values and aspirations, and strengthen our sense of national identity and purpose.

Conclusions and recommendations

What do we mean by 'strategic thinking' and why is it important?

1. The UK faces a number of complex and unpredictable challenges in a globalised world. Such challenges make the need for the capacity for flexible and resilient processes of strategic thinking more urgent, but in turn they also make this goal harder to achieve. We urge the Government to acknowledge in their response the importance of National Strategy and why it is so vital. We can see no purpose in defining national strategic aims unless they are part of a coherent National Strategy which is regarded by the whole of the Government in the same way. (Paragraph 20)

Emergent Strategy

2. That strategy emerges is an inevitable fact of life, but it can be coherent: creating a virtuous circle, as positive leadership (i.e National Strategy) leads to effective policies and positive outcomes, which reinforce the public's values and aspirations which inspired that leadership. Alternatively chaotic strategy ('muddling through') and wrong or weak leadership will result in bad policy and failure in outcomes, which undermine the values and aspirations of the public and faith in their leaders. Emergent strategy therefore requires a coherent directing mind, individual or collective, to drive the process. The driving force of emergent strategy is what will determine whether the momentum generated results in a virtuous or vicious circle. (Paragraph 25)

Emergent strategy: how does the Government define the UK's national interests

3. The six aims outlined by the Government in the Coalition Agreement may be well-meaning but are too meaningless to serve any useful purpose, because they provide no indication of what policies the Government might pursue as a consequence. They do not define how UK national character, assets, capabilities, interests and values are distinctive in any way whatsoever, or define the particular risks and challenges we face. Nor do they define what sort of country we aspire to be beyond the most general terms. To support National Strategy, strategic aims should be defined which identify and reinforce national identity and national capability, which includes the identities and capabilities of the UK's component parts, and give a clear indication of the overall direction of policy. (Paragraph 31)
4. We do not advocate any particular strategic aims but we do invite the Government to consider how to express its strategic aims in terms which provide an indication of the objectives which policies must achieve. The Government's inability to express coherent and relevant strategic aims is one of the factors leading to mistakes which are becoming evident in such areas as the Strategic Defence and Security Review (carrier policy), airport policy, energy (electricity generation, nuclear new-build programme and renewables) and climate change, and child poverty targets (which may not be achieved), welfare spending and economic policy (lower economic

growth than forecast). This factor also militates against clear thinking about presentation, which was evident in the aftermath of the Budget and in response to the possibility of industrial action by tanker drivers. (Paragraph 34)

Public opinion in defining national interests

5. The process of emergent strategy demonstrates how public opinion, policies and strategic aims can work together in a ‘virtuous’ or ‘vicious circle’. This is not to abdicate the role of leadership to public opinion, which is what tends to occur without effective National Strategy. Indeed, strong leadership is all the more vital to make rational choices when reconciling public opinion and long-term goals. (Paragraph 42)
6. The challenge of National Strategy is to ensure the public is involved in its involvement. A general election provides voters with an opportunity to determine who governs, and this can define the strategic direction of the nation, but elections are only a small part of the conversation on the fundamental questions which determine the future of the country. Government, and Parliament as a whole, need a deeper understanding both of how the public perceives our national interests and of what sort of country the public aspires for the UK to be. This must take place on a much longer and continuous timescale than the once-every-five years allotted to a Parliamentary term. (Paragraph 44)

Emergent strategy: advancing national interests

7. The choice of strategic direction for the country is both determined and limited by economic conditions and interests. Government has a proven role ‘incubating’ new core technologies, notably through the defence, engineering and pharmaceutical industries. We view the role of Government in supporting strategic assets, without ‘picking winners’ in the form of individual companies or technologies, as a vital part of our strategic framework. We therefore welcomed the Minister’s evidence on this point, commend the Government’s commitment to sustain the science budget and endorse the support for the sectors of industry in which Britain is competitive. (Paragraph 52)

Assessment of current strategic thinking in Government

8. We urge the government to take note of the conclusions of the report by the Joint Committee on National Security which advocated an ‘overarching strategy’. We share the concerns raised by our witnesses about the poor quality of National Strategy in Government. The evidence from the Minister and the Cabinet Office did not allay or address our concerns. We have little confidence that policies are informed by a clear, coherent strategic approach, informed by an assessment of the public’s aspirations and their perceptions of the national interest. (Paragraph 58)

Promoting the capability of the Civil Service

9. We believe that there is considerable unused capacity for strategic thinking in Whitehall departments which should be allowed to grow and flourish. This cannot be achieved if Ministers continue to insist that strategic thinking should be largely the preserve of Ministers. We reiterate our recommendation for a capability review of strategic thinking capacity in Whitehall, the objective being not that Ministers should give up their strategic role (which seems to be their fear), but that their deliberations and decisions should be better informed. (Paragraph 66)
10. We are also concerned that the abolition of the National School for Government (NSG) will remove the last remaining elements of training in strategic thinking for the Civil Service. To ensure that this capacity is better valued and promoted in future, we invite the Government to set out how Civil Service Learning (which takes over from the NSG) will promote the training and embedding of effective strategic thinking skills. (Paragraph 67)
11. The Government's response to this Report must address the question of whether there should be a stronger, perhaps constitutional, role for the Civil Service in promoting the long-term national interest, to help counteract the negative, short-term pressures on Ministers. (Paragraph 69)

Strengthening the centre of Government

12. We have set out in previous reports our call for a stronger centre of Government to lead Civil Service reform. Ministers and the Senior Civil Service are alone in their complacency that that cross-departmental working is adequate. We therefore reiterate our recommendation for the Cabinet Office to be given the means and influence to act as an effective headquarters of Government, on behalf of the Prime Minister and Cabinet as a whole, or to explain how else the Government will address the endemic problem of failed cross departmental working. We believe that this stronger centre of Government is the only way to promote coherent National Strategy which is supported across all departments. We will return to this topic in future reports. (Paragraph 74)

Address longer-term context as well as short-term problems

13. We welcome the Minister's assurance that the Government does consider the long-term impact of policies. However, we remain concerned that, in practice, decisions are made for short-term reasons, little reflecting the evidence or the longer-term interests of the nation. The clearer expression of the nation's strategic aims would help to ensure that short-term decisions are made in the context of the long term national strategic framework. This would also improve the ability of the Government to communicate a coherent narrative. (Paragraph 78)
14. The Cabinet and its committees are capable of carrying out little more than a patch-and-mend to the policies which reflect differing departmental strategies and timescales. The system makes ministers accountable for decisions, but makes it hard for individual Ministers or the ministerial team to determine how decisions are

considered from the outset. There remains a critical unfulfilled role at the centre of Government in coordinating and reconciling priorities, to ensure that long-term and short-term goals are coherent across departments. Only a clear national strategic framework can place day-to-day decisions in the long-term context, or emergent strategy is more likely to throw up unanticipated problems, such as the need to revisit carrier aviation policy, to revise feed-in tariff rates for micro-renewables or the over-optimism of the government's initial economic forecasts. (Paragraph 81)

Improve the proper use of Scenario Planning in managing uncertainty

15. We are concerned that the increase of horizon scanning gives politicians and officials a false sense of security that they are prepared for all eventualities. We advocate a greater recognition of the unpredictable nature of the issues which face us as a nation. We recommend a review of the use of horizon scanning and its purpose. This should be undertaken on the grounds that speculative study of alternative futures is necessary but on the understanding that strategic assessment must also consider unknown future challenges and be prepared to respond to uncertainty. (Paragraph 90)
16. We very much welcome the Minister's advocacy of analysis and policy which takes account of risks and uncertainties. However this must be reflected in the Government's emergent National Strategy and in the policy-making process, and to do so requires the Government to have the skills and capacity for such assessment and analysis across Whitehall. This underlines the need for a capability review of strategic thinking capacity. (Paragraph 91)

Ensuring the proper use of Science

17. Any emergent strategy must address uncertainty: the 'wicked' problems we cannot define or predict. There are limits on the use of scientific knowledge in strategic thinking and the management of uncertainty must be embedded into the strategy process. The Government should not be afraid to acknowledge that this uncertainty exists and to promote an open discussion about risk and uncertainty in policy-making and development of National Strategy. (Paragraph 99)
18. We understand that there are procedures in place in Canada to enable strategic work across government, and to collectively work to a longer timeframe than individual departments. This is achieved through a s (Paragraph 103)

Breaking down departmental silos

19. Unless National Strategy involves the whole of government and is embedded in the thinking and operations of all departments it not strategic. The Whitehall silos act as a roadblock to National Strategy. To break down these silos we recommend the introduction of thematic committees of Permanent Secretaries for the purpose as in the Canadian public service, to underpin the combined work of their Ministers. (Paragraph 104)

Aligning financial resources with strategic thinking:

20. Attempts to work strategically without considering tax and spending considerations cannot be properly termed 'strategic thinking'. The strategic goals and ambitions of the country, informed by the public's perceptions of the national interest and by their values and aspirations, should be the basis of the Spending Review and Budget processes. It should be possible to see how the key strategic aims are reflected in the business plans and spending estimates for each department, and also in individual policy decisions. (Paragraph 110)
21. In Canada, the Fall Statement sets out a framework for departments to make spending decisions. The decisions are in line with political priorities and long-term considerations, as defined by the Cabinet and informed by independent fiscal forecasting. Specific departmental proposals are then subject to a public consultation on how spending should be allocated. We recommend that the Government, in its response to this report, considers the benefits of opening up the Budget process in this way and drawing clearer links between long-term objectives and specific budgetary measures. (Paragraph 114)

Promote Ministerial Leadership on National Strategy

22. While our 2010 report has provoked some positive thinking in Whitehall about National Strategy and strategic thinking, we find that Ministers remain largely complacent about the way things are, and that there has been little overall improvement in the value which ministers place on National Strategy and on those who could contribute to strategic thinking. We also hear consistent reports, as we reported in 2010, of Ministers' frustration with the machinery of government that is failing to deliver their ambitions. Strategic thinking in the Civil Service and in Government depends upon leadership from Ministers and is an act of leadership. Greater demand for the essential task of National Strategy should be promoted through, for example, the use of quarterly Cabinet meetings to focus solely on long-term strategic issues. Clearer National Strategy will help give direction to the whole administration. (Paragraph 118)
23. Parliament has a role in helping to promote, and challenge, National Strategy. PASC will continue to scrutinise National Strategy. We invite the Government to publish an annual 'Statement of National Strategy' in Parliament which reflects the interests of all parts of the UK and the devolved policy agendas. This would be a snapshot of how National Strategy has developed, providing an opportunity for reassessment and debate about how tax and spending decisions support the Government's national strategic aims. This would reflect the Canadian practice of a structured review of financial commitments, emerging pressures, political priorities, and economic and fiscal developments since the last Budget. If published in late spring or early summer, this would mark the start of the new spending round and be a precursor to the Autumn Statement. This would be consistent with making the annual spending and budget round more transparent. It would also give Select Committees and Parliament as a whole the opportunity to scrutinise National Strategy and to contribute to the formation of future policy. (Paragraph 121)

Broadening the role of the National Security Council (NSC)

24. The work of the National Security Council (NSC) demonstrates unfulfilled potential for driving strategic thinking across Government. It needs to avail itself of greater capacity of the analysis and assessment of departmental papers in the light of its own independent research, so NSC members are better able to challenge orthodoxy and think outside their departmental brief. We also recommend again that the NSC and its secretariat should take a wider view than just the security issues facing this country and should oversee National Strategy: the UK's long term security is dependent on far more than simply military and terror issues. (Paragraph 125)

Annex: Committee's visit to Ottawa and Washington

Programme for visit to Ottawa

Monday 27 February

Lord Elgin Hotel	Breakfast briefing with the British High Commissioner to Canada, Dr Andrew Pocock, and staff
Langevin Block, 80 Wellington Street	Andrew Marsland, Assistant Secretary to the Cabinet, Priorities and Planning, Privy Council Office
125 Sussex Drive	Arif Lalani, Director General, Policy Planning Bureau, Department of Foreign Affairs and International Trade
Earnscliffe, 140 Sussex Drive (High Commissioner's Residence)	Working lunch hosted by Dr Andrew Pocock: academics & think tanks
British High Commission, 80 Elgin Street	Doug Nevison, Director General, and Glenn Purves, Special Adviser, Economic and Fiscal Policy Branch, Finance Canada
22 nd Floor, 66 Slater Street	Mary Dawson, Conflict of Interest and Ethics Commissioner

Tuesday 28 February

RH Coates Building, 100 Tunney's Pasture	Peter Morrison, Assistant Chief Statistician for Social, Health and Labour Statistics, Statistics Canada
British High Commission, 80 Elgin Street	Karen E. Shepherd, Commissioner of Lobbying
Canadian Parliament, Parliament Hill, Centre Block	Working lunch: Members of the House of Commons Committee on Government Operations and Estimates

Programme for visit to Washington

Wednesday 29 February

Deputy Head of Mission's Residence, 2934 Edgevale Terrace NW

Breakfast briefing hosted by Philip Barton, Deputy Head of Mission

Ronald Reagan Building, 1300 Pennsylvania Avenue NW

Robert Litwak, Vice President for Programs and Director, International Security Studies

The Pentagon

Dr Kath Hicks, Deputy Under Secretary of Defense, US Department of Defense

Rome Building, 1619 Massachusetts Avenue NW

Working lunch hosted by the School of Advanced International Studies, John Hopkins University

2201 C Street NW

Alec Ross, Senior Advisor for Innovation, Office of the Secretary of State, US Department of State

11th Floor, 1101 15th Street NW

Roundtable discussion hosted by Barry Pavel, Director, International Security Program, Atlantic Council of the United States

Thursday 1 March

US Department of Labor, Frances Perkins Building, 200 Constitution Avenue NW

Dr William Spriggs, Assistant Secretary for Policy, US Department of Labor; Tom Nardone, Ken Robertson, Julie Hatch-Maxfield, Bureau of Labor Statistics

2100 M Street NW

Working lunch hosted by the Urban Institute

Eisenhower Executive Office Building, 17th Street and State Place NW

Heather Higginbottom, Deputy Director, Office of Management and Budget, Executive Office of the President

Ronald Reagan Building, 1300 Pennsylvania Avenue NW

Susan Ritchle, Assistant to the Administrator, Bureau of Policy, and Maura O'Neill, Chief Innovation Officer, US Agency for International Development

Friday 2 March

1776
Massachusetts
Avenue NW

**William Galston, Senior Fellow, Governance Studies
Brookings Institution**

British Embassy

Wash-up session and lunch hosted by Embassy staff

Eisenhower
Executive Office
Building, 17th
Street and State
Place NW

**Derek Chollet, Senior Director for Strategic Planning,
National Security Council**

(The Committee's programme included meetings relating to its inquiry in to Business Appointment Rules and its oversight of the UK Statistics Authority.)

Formal Minutes

Tuesday 17 April 2012

Members present:

Mr Bernard Jenkin, in the Chair

Alun Cairns
Charlie Elphicke
Robert Halfon

David Heyes
Kelvin Hopkins
Lindsay Roy

Draft Report (*Strategic thinking in Government: without National Strategy, can viable Government strategy emerge?*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 128 read and agreed to.

Annex and Summary agreed to.

Resolved, That the Report be the Twenty Fourth Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Written evidence was ordered to be reported to the House for printing with the Report.

[Adjourned till Tuesday 24 April at 10.00 am

Witnesses

Tuesday 13 December 2011 Page

Geoff Mulgan, Chief Executive of National Endowment for Science Technology and the Arts, **Nick Butler**, Visiting Professor and Chair of the King's Policy Institute at King's College London and **Matt Cavanagh**, Associate Director at the Institute for Public Policy Research Ev 1

Tuesday 24 January 2012

Rt Hon Peter Riddell, **Jill Rutter** and **Julian McCrae**, Institute for Government Ev 19

Professor John Kay, Visiting Professor, London School of Economics, and **David Steven**, Director, River Path Associates Ev 30

Wednesday 8 February 2012

Lord Burns, Chairman, Santander UK PLC, and **Lord Carter of Coles**, Chair, NHS Co-operation and Competition Panel Ev 39

Lord Rees of Ludlow OM FRS, Astronomer Royal, and **Sir David King FRS**, Director, Smith School of Enterprise and the Environment, University of Oxford Ev 46

Wednesday 22 February 2012

Rt Hon Oliver Letwin MP, Minister of State, Cabinet Office Ev 55

List of printed written evidence

1	Cabinet Office (ST 01)	Ev 70
2	Additional evidence submitted by Cabinet Office (ST 11)	Ev 72
3	Nick Butler (ST 13)	Ev 75

List of additional written evidence

(published in Volume II on the Committee's website www.parliament.uk/pasc)

1	William Dutton (ST 02)	Ev w1
2	Derek Deighton (ST 03)	Ev w3
3	Zaid Hassan (ST 04)	Ev w6
4	Commodore S C Jermy RN (ST 05)	Ev w11

5	Nusbacher Associates (ST 06)	Ev w14
6	Institute for Security and Resilience Studies, UCL (ST 07)	Ev w16
7	Chirton Group (ST 08)	Ev w19
8	A4e (ST 09)	Ev w22
9	Andrew Griffiths (ST 10)	Ev w26
10	NHJ Strategy Consulting (ST 12)	Ev w29
11	Dr Patrick Porter (ST 14)	Ev w32
12	Professor Gwyn Prins (ST 15)	Ev w35
13	FSDS (ST 16)	Ev w39
14	Rand Europe (ST 17)	Ev w43
15	Professor Andrew Kakabadse (ST 18)	Ev w47
16	DefenceSynergia (ST 19)	Ev w50
17	Argenti Systems Ltd (ST 20)	Ev w59
18	Simon Anholt (ST 21)	Ev w63

List of Reports from the Committee during the current Parliament

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2010–12

First Report	Who does UK National Strategy?	HC 435 (HC 713)
Second Report	Government Responses to the Committee's Eighth and Ninth reports of Session 2009-10	HC 150
Third Report	Equitable Life	HC 485 (Cm 7960)
Fourth Report	Pre-appointment hearing for the dual post of First Civil Service Commissioner and Commissioner for Public Appointments	HC 601
Fifth Report	Smaller Government: Shrinking the Quango State	HC 537 (Cm 8044)
Sixth Report	Who Does UK National Strategy? Further Report with the Government Response to the Committee's First Report of Session 2010-11	HC 713
Seventh Report	Smaller Government: What do Ministers do?	HC 530 (HC 1540)
Eighth Report	Cabinet Manual	HC 900 (HC 1127, Cm 8213)
First Special Report	Cabinet Manual: Government Interim Response to the Committee's Eighth Report of Session 2010-12	HC 1127
Ninth Report	Pre-appointment hearing for the post of Parliamentary and Health Service Ombudsman	HC 1220-I
Tenth Report	Remuneration of the Parliamentary and Health Service Ombudsman	HC 1350
Eleventh Report	Good Governance and Civil Service Reform: 'End of Term' report on Whitehall plans for structural reform	HC 901 (HC 1746)
Twelfth Report	Government and IT — "a recipe for rip-offs": time for a new approach	HC 715-I (HC 1724)
Thirteenth Report	Change in Government: the agenda for leadership	HC 714 (HC 1746)
Fourteenth Report	Public Appointments: regulation, recruitment and pay	HC 1389
Fifteenth Report	Smaller Government: What do Ministers do? Further Report	HC 1540 (HC 1746)
Sixteenth Report	Appointment of the Chair of the UK Statistics Authority	HC 910
Seventeenth Report	The Big Society	HC 902
Eighteenth Report	Change in Government: the agenda for leadership: Further Report, with the Government Responses to the Committee's Eleventh, Thirteenth and Fifteenth Reports of Session 2010-12	HC 1746
Nineteenth Report	Leadership of change: new arrangements for the roles of the Head of the Civil Service and the Cabinet Secretary	HC 1582

Twentieth Report	Government and IT—"a recipe for rip-offs": time for a new approach: Further Report, with the Government response to the Committee's Twelfth Report of Session 2010-12	HC 1724
Second Special Report	Government and IT—"a recipe for rip-offs": time for a new approach: Further Report: Government Response to the Committee's Twentieth Report of Session 2010-12	HC 1930
Twenty First Report	Future oversight of administrative justice: the proposed abolition of the Administrative Justice and Tribunals Council	HC 1621
Twenty Second Report	The Prime Minister's adviser on Ministers' interests: independent or not?	HC 1761
Twenty Third Report	Leadership of change: new arrangements for the roles of the Head of the Civil Service and the Cabinet Secretary	HC 1914

Oral evidence

Taken before the Public Administration Committee

on Tuesday 13 December 2011

Members present:

Mr Bernard Jenkin (Chair)

Robert Halfon
David Heyes
Kelvin Hopkins

Greg Mulholland
Priti Patel
Lindsay Roy

Examination of Witnesses

Witnesses: **Geoff Mulgan**, Chief Executive, National Endowment for Science, Technology and the Arts, **Nick Butler**, Visiting Professor and Chair, King's Policy Institute, King's College London and **Matt Cavanagh**, Associate Director, Institute for Public Policy Research, gave evidence.

Q1 Chair: Welcome to this first session of our new inquiry about strategic thinking in Whitehall. May I ask each of you to identify yourselves for the record, please?

Matt Cavanagh: I am Matt Cavanagh; I am an Associate Director at the Institute for Public Policy Research.

Geoff Mulgan: I am Geoff Mulgan, Chief Executive of NESTA.

Nick Butler: Nick Butler, Professor of Public Policy at King's College London.

Chair: In our previous report we noted a lack of capacity for strategic thinking across Whitehall. We concluded that the National Security Council needed more infrastructure underneath it in order to make it effective. That inquiry was very much concentrated on defence, security and foreign policy—the external piece. This inquiry is changing the emphasis; we are looking at domestic Departments as well as overseas Departments; we are looking in particular at the role of the Treasury. We are asking the question more about how strategy emerges rather than how it is decided and, therefore, we are very interested in your own experiences.

Mr Halfon will start off.

Q2 Robert Halfon: Given the recent reports, particularly in today's newspapers, that the Treasury played a major role in the veto in Europe, do you think that was as a result of a strategy by Government, or was it something that was reactive?

Chair: Who would like to kick off?

Geoff Mulgan: To step back, the question is whether there been a long-term economic strategy—a sense of Britain's economic interest, how that intersects with diplomacy and so on. I assume one of the premises of this inquiry is that the UK, which is not unusual in this respect, has tended to be much better at tactics—short-term firefighting, media and political management. It has been not so bad, but often not so good either, at medium-term management of things, implementation of policy and so on. And it generally has not devoted much resource or political attention to thinking five, 10, 15 or 20 years ahead.

As I say, that is not that unusual; many other countries share the same weakness, the US in some respects

particularly markedly, but some other European countries have devoted significant resources to that long-term thinking, applying it to everything from technology and healthcare to their relationships with Europe, or where their future economic base will lie. There are things we can learn from those other countries that may help us to make decisions that are necessarily made under pressure in ways that, in 10, 20 or 30 years' time, will look more sensible.

I cannot comment on what was going through the Treasury's mind because I simply do not know.

Q3 Robert Halfon: Just to use another example, what about the Iraq war? Was that the result of a Government strategy or, again, a reaction to events?

Geoff Mulgan: The thing about strategy is that you have to start off by working out what you care about, what you want and what your values are. In that sense, strategy is deeply political—small and big “p”. There was, for better or worse, a valuing at the time of the Iraq war of humanitarian intervention and a national commitment to being part of maintaining peace, and promoting democracy and human rights worldwide. The second thing you need in strategy though is to be very rigorously aware of the environment you are operating in: what others will do, what you can achieve and what you cannot achieve. Part of the critique of the UK intervention in Iraq was that it was not sufficiently informed by a rigorous understanding of the conditions in which those values were being put into effect. Again, that is a weakness we share with others.

Robert Halfon: Could I ask some of the other witnesses to comment on it as well, please?

Nick Butler: Thanks, Chairman. I agree with Geoff that the UK as a whole, looking at policy in the round, has not developed a national strategy at any time in the recent past that I know of. I think the reason for that is that it has not been felt to be necessary. There have always been tactics, but generally Government has never felt that these grand planning approaches, which are as Geoff says deployed by some other countries, were needed here. That is, I feel, why we now do not have a national strategy for the economy or for the future of the country; that is regrettable and events may change that.

On your specific questions, I think the intervention in Iraq was led by some degree of strategic thinking, to a much greater degree than the current dialogue with Europe. The strategic thinking that shaped Government policy in 2000 to 2003 was very simply to stay close to the Americans, as our key foreign policy relationship, even if we did not always like what they were doing. I think there is quite a lot of evidence to support that: that is why we got in.

On Europe, like Geoff I have no knowledge of what went on on Thursday night—why papers were tabled so late; why people are now so hostile to the UK. I do think that we do not, in any way that I can find, have a strategy now—nor did we have it under the last Government, so this is not in any way a partisan point—for what our ideal relationship with the European Union should be. At a time when events are moving very quickly and you have to be reactive, I think it is quite important that you have a strategy within which your tactics should fit.

Q4 Robert Halfon: Sir Peter Ricketts is reported as saying that Foreign Office strategy needs to change from realpolitik with certain regimes and actually move on to support opposition democratic movements in those countries. Do you think that is a signal that there is now actually a new Foreign Office policy strategy?

Nick Butler: Do you mean in France or Germany? I do not know what the Foreign Office strategy is. As far as I know it is not published; I think you would have to ask Peter what he meant by that.

Q5 Robert Halfon: You have all served in the strategic centre of Government at different times; do you think there is a problem in lack of strategic thinking?

Matt Cavanagh: Like Geoff and Nick I am not privy to the internal thinking of the Treasury or the FCO in the events of this week, but I do think one of the interesting things is that there are strengths and weaknesses in how all the different Departments of Government do strategy. Having worked in the Treasury, among other Departments, I would say actually the Treasury is relatively long term. Short-termism is one of the problems with strategic thinking in Whitehall but, of the Departments I have worked in, the Treasury is actually relatively long term—much longer term than the FCO. The Ministry of Defence is also quite long term. Both those Departments have other problems, but in terms of who is more likely to be thinking long term, actually the Treasury have a better record in that regard.

Q6 Robert Halfon: The Treasury has a better record in terms of strategic thinking?

Matt Cavanagh: I did not say in terms of strategic thinking as a whole; I am saying there are a number of aspects of behaviour that are likely to make you better at strategic thinking. One of them is being long-termist rather than short-termist; there are others. Just in that respect the Treasury tends to be better.

You mentioned Sir Peter Ricketts, who is now leading the National Security Strategy. One of the tasks of that new body, which I believe is a step in the right

direction although it needs more work, is to knit together those different Departments with their different strengths and weaknesses to try and produce a collective strategy for Government that is better than the sum of its parts. From what I have seen so far, although I think it is an incremental improvement, it is not the radical transformation we need in terms of strategy in Whitehall.

Geoff Mulgan: Just to go back to your question, when you see strategic Governments—there are some who look pretty impressive and the measure is how they improve the living standards and well-being of their citizens over long periods of time—they do usually combine quite a long view about where they want to be, where their economy is going to be, where their society is going to be, where their geopolitical interests are going to be, with great agility to respond to change. Those are, in a way, the two almost opposite aspects of strategy, exactly as they are in the military.

In practice, that means within each part of Government not being afraid of talking about values. In relation to backing oppositions in another country, in part that is about your values and how you weigh that up against perhaps realpolitik and your understanding of the realities of the world you are in. Many countries are quite good at the analytical side of strategy, but then do not connect it to decision making; they do not connect it to politics, budget-setting, etc. That is one of the common vices in this field: great strategic thinking, but not very strategic action.

You asked about treasuries. I would say one rather good example of a strategic treasury is the Australian Treasury, which over many years has looked long term. It has seen itself as a guardian of linking budget allocations to a sense of where the economy is going and where society is going. To take one example, it has repeatedly done detailed studies on issues like ageing and the likely impacts of an ageing population on pensions, the economy and policy choices. It has acted as a champion of public debate, as well as thinking within Government about those big strategic choices. That is not quite a role that the UK Treasury has ever played, but I think it is quite a healthy one because otherwise finance ministries tend to be rather anti-strategic. They can see spending only year to year, or maybe two or three years ahead, and cannot in a rigorous way understand how choices made now will affect prosperity in 20 years' time, yet that is what a modern treasury should be doing.

Q7 Robert Halfon: Can I just ask how you conceived your respective roles in the administration? What value were you trying to add when you were there? What levers did you have at your disposal?

Nick Butler: Shall I start, and perhaps go back to the previous question for a second? I hate to disagree with Matt, but I do not think the Treasury is a strategic Department. I wish it was. I think that it is a very good finance ministry and a budget controller, but my experience—and I think it is still true now—is that the Treasury concentrates on that side of the economy at the expense of the other side, which is growth and development for the future, and the role of both public

13 December 2011 Geoff Mulgan, Nick Butler and Matt Cavanagh

and private policy in achieving that growth. I think that is now an imperative and I still do not see it happening in the Treasury, which is regrettable.

Q8 Robert Halfon: What would you do to change that?

Nick Butler: Probably in terms of Whitehall structure, I think you have to end the division between a very strong Treasury controlling finances and a rather weak Business Department trying to support business and industry. That is perhaps getting too political.

Chair: That is exactly what we need to ask about. The Whitehall silos are the recurrent theme that comes up under this Committee almost whatever we are discussing, because we are a cross-departmental Committee.

Nick Butler: To answer your direct question, my role was to work for the Prime Minister on business and industrial policy—i.e. the future of the economy—and the economic recovery out of the recession. That meant working with and for the Business Department and Peter Mandelson, in many cases, against the Treasury who were not exactly constructive at all times in that debate.

Geoff Mulgan: My role in the UK was setting up and running the Strategy Unit, which in a way was meant to be an answer to these questions. That meant building up a capacity to do three sets of things. One was that long-term thinking and analysis of the big trends, whether on drugs, climate change or the nature of economy and technology. Secondly, it was to design quite detailed policies that would then be taken through Cabinet, get approval and get legislation and budgets attached to them to avoid the risk of just doing the analysis. Critically too, it was to help Whitehall work in a more joined-up way. Most of the projects we did were cross-departmental; they often had governance structures bringing together various Ministers, permanent secretaries and so on; and often they led to structures that cut across departmental silos.

We had quite a lot of capacity, at one point 130 or 140 people, drawn from within the Civil Service, but critically too we always tried to have half the people brought in from outside, whether from the voluntary sector, business or academia, and indeed from other parts of the world to ensure a different way of thinking that was not so hide-bound. I have also worked in other countries that have copied that model. There are about eight countries around the world who have essentially copied the UK model in different variants. There are pros and cons of every aspect of it, but in a sense I would sum it up as one thing: helping politicians make better decisions.

Ultimately, everything we did was to enable Cabinet Ministers, the Prime Minister, the Chancellor and so on to have a better sense both of the opportunities that they might not have thought about, but also sometimes about the downside risks of decisions. The ultimate test is whether they ended up making better decisions than they would have otherwise.

Q9 Robert Halfon: Just a final question: what do you think changed in the way the Government did strategy between 2004, when you left, and 2009?

Geoff Mulgan: As I say, my eyes were mainly in other parts of the world.

Chair: You mean you averted your eyes.

Geoff Mulgan: I averted my eyes as well. The strategy capacity continued. I think some of the ways it worked were probably not quite as effective; it became much more inward looking rather than outward looking. One of the principles we tried to apply was doing a high proportion of the work fairly openly and publicly, and setting out ideas and projects on the web for people to comment on. That did diminish rather in the years that you are describing. Perhaps inevitably since the last election, in some ways the pressures of events and of public finances have made it quite hard to be strategic. In a way, the UK is not unlike many other countries in that respect: the long term has to some extent been put on hold.

Matt Cavanagh: I can attempt an answer to that on the basis that I had a different time scale to Geoff. I started in Government in 2003 and finished in 2010, and I worked as a Special Advisor for Ministers in the Home Office, then the Treasury, then the Ministry of Defence and then Downing Street. I worked on strategy in a number of areas and worked quite a lot with the Strategy Unit. Although I would agree with Geoff that in some ways, it was probably not as strong by 2009 as it was earlier, it still had an important role in helping Ministers to think a bit more strategically about things than they might otherwise.

One thing I noticed was the absence of that in relation to foreign policy and defence. For example, in 2006–07 there was an exercise looking across Government as a whole trying to think about strategy towards the end of Tony Blair's time as Prime Minister. The exercise had pros and cons, but I thought the foreign policy side of it was notably weaker than the different domestic strands, and part of that was because there was not a Strategy Unit to help and also to scrutinise what the Departments were doing.

Can I just pick up on what Nick said? I am not sure we actually disagree. I probably was not clear. I do not think the Treasury is a wonderful strategic organisation; I just think there are a number of things that you need to be if you are going to think strategically: one is long-termist; one is to have clear objectives; one is to have broad thinking rather than narrow, which is one of the things we have talked about; and another is to be coherent across what you are trying to do. I think the Treasury is not broad—as the other witnesses have said, it is often quite narrow in its focus—and it also does not always have clear objectives. The point I was trying to make is at least it is long-termist, whereas the Foreign Office, for example—and this is why I was struck by some of the stuff in the newspapers at the moment about the Foreign Office and the Treasury being rude about each other—needs in particular to think about the long-term aspect because that is something that they are not very good at.

Chair: All these comments about the Treasury are going to cause us great grief with the Treasury Committee, but do carry on.

Q10 Lindsay Roy: We have heard frequently that the silo mentality is an inhibitor in effective cross-departmental working and, indeed, in sharing their priorities. Geoff, you mentioned cross-departmental strategic initiatives: how effective were they and can you give some examples?

Geoff Mulgan: There were a lot of them in the UK, and there still are quite a few under way. Some of them were made manifest in units, teams, cross-cutting budgets or shared targets; there is a whole array of different things. At one level, one of the first ones I was involved in was about reducing the numbers of rough sleepers on the streets of British cities; that achieved an 80% reduction; that is an extraordinary, almost unmatched success anywhere in the world, though almost never talked about. It created both a cross-cutting structure in Whitehall and at the local level. There were others on post-conflict reconstruction, around drugs policy and programmes around early years, like Sure Start.

My overall sense though is that Britain did not go far enough in re-shaping the political underpinnings you need for cross-cutting work. Some other countries have not simply kept existing Cabinet allocations and then lopped on a bit of cross-cutting structure under them, but have actually changed ministerial roles better to fit that. My experience here and in other countries is unless you align the politics, the career incentives of your Ministers and the political kudos, all of these other things will tend to get pushed to one side when push comes to shove, when there are tough budget negotiations and so on.

Q11 Lindsay Roy: Were these successes not highlighted strongly enough? Because I feel others may then have followed on and taken up these successful types of initiative.

Geoff Mulgan: They did continue. It is a general problem of politics if your average tenure as a junior Minister is 18 months, and as Secretary of State maybe two or three years; you do not have strong incentives to make a lot about your predecessor's brilliant ideas and successes. We have short-termism built into the way careers are organised.

Matt Cavanagh: I would say that is exactly the same with the Civil Service. I completely agree with that in terms of Ministers: they have too short a tenure. It is an admirable thing about the current Administration that the Prime Minister has said he wants people to serve longer in posts. It is the same in the Civil Service, in that you have people cycling through posts in two years, and they themselves have no incentive to think, "Well, actually, am I prepared to do something that is about me investing for a result that is going to pay off in three or four years' time?" They do not stay in post long enough and their career structure again does not incentivise them to work across Whitehall.

Can I offer one example on cross-Government working? It is going to sound as though I am obsessed with time scales, and I am slightly. For example, on Afghanistan there were a number of factors that prevented the MOD, DFID and the Foreign Office working better together, but one of them is that they were operating on completely different time scales.

DFID was operating on a 10-year time scale, which is a perfectly respectable time scale and there is no reason why they should not have been operating on that. The MOD, notoriously now, was operating on a six-month time scale because they had operational tours going through every six months. Often, it felt that the Foreign Office was working on a one-week time scale—that's slightly unfair, but "What's the next big international conference? What are our lines to take for that?"

All these are respectable time scales, and no one is suggesting they have to stop thinking on that basis, or that DFID have to stop being long term, but they all needed to get together and agree on a strategic time scale, in which they would have a conversation about what was going to happen in the next two or two and a half years. We failed to do that, I am afraid, and I am not convinced that in some of the things I have seen—obviously now looking at it from the outside—that has changed. If they were in the same position again—for example, if Libya had not gone as relatively well as it seems to have gone—I worry that we would have had the same problem there.

Nick Butler: I think there were many attempts at cross-departmental working, and some of them no doubt succeeded. I will just quote one I was involved in that did not succeed—and this is not quite strategy as I understand it; this is policy. We tried to get an initiative going to make sure that the UK was a leader in the building of electric vehicles. That is not a huge issue, but it is something that matches the change in other policies where we felt we were not doing enough and we wanted to do more. I was asked by the Secretary of State and the Prime Minister to convene a meeting to agree what the policy should be and what needed to be done that was not being done.

I convened the meeting, and it turned out that there would have to be 16 people there from five different Government Departments, all of whom felt that they had the lead in determining what the policy should be. There was a great dispute on where it should be held, so in the end they all had to come into No. 10 rather than meeting in a much more convenient room in any Department. We had the meeting, we agreed what should be done and then the Treasury said there was no money.

Matt Cavanagh: Just to endorse what Nick is saying, I have had similar experiences. Geoff has already mentioned the drug policy, which is a good example that goes across Government; I would say alcohol policy is the same; I would say the response to youth knife crime in the summer of 2008 was the same; I would say immigration policy throughout my time in Government was the same too. In all these issues there are a large number of Departments, all of whom have a legitimate interest. It is as bad on the official side as it is on the Ministerial side. The process of getting the relevant people in the room feeling empowered to make decisions rather than simply representing their departmental interest often seems unbelievably frustrating.

Q12 Lindsay Roy: So people are too precious of their inbuilt frustrations, and these all contributed to our relative failure.

13 December 2011 Geoff Mulgan, Nick Butler and Matt Cavanagh

Nick Butler: I would say that civil servants work for their Department, not for the Civil Service or the Government.

Geoff Mulgan: There is a constitutional aspect of this in terms of Secretaries of State's accountability to Parliament, which really locks in the Department as the key unit. If you take an issue like the Prime Minister's speech on life sciences a few days ago, that is a classic issue that cuts across quite a few Departments, exactly like electric cars. It is of enormous strategic importance to the UK, to job creation, wealth creation and so on. It is exactly the sort of issue that, if you treat Departments as the only building blocks of Government, is bound to be underperformed. If you instead disaggregate Departments and reshape teams, budgets and laws around the task rather than about departmental interest, then you come up with very different answers.

The additional thing I would just throw in is that one of the most strategic countries in the world at the moment is China. It devotes enormous efforts to long-term thinking, planning and strategy, but also devotes very substantial time to the training of Ministers and senior officials every year in being on top of the leading edge of green technologies, life sciences or geopolitics in ways that have absolutely no parallel here. Unless you embed some of these things not just in structures, but also in the training and formation of the key people and their career incentives, then we should not be very surprised if we do not do very well on things like life sciences, electric cars and so on.

Chair: We are going to come back to the capacity issue later on, but the conclusion from that bit of the conversation seems to be that cross-departmentality militates against strategic thinking and in favour of what Tim Montgomerie has described as "Government by essay crisis".

Q13 Kelvin Hopkins: I just have a couple of comments first of all. Geoff Mulgan said that we entered the Iraq war as a liberal intervention and in fact we actually went in, I understand, because there were weapons of mass destruction; if that had been put forward as the argument we might have got a different policy. Anyway, setting that to one side, when it comes to the Treasury, it has made classic mistakes over decades—and I can go into detail if you need—from the ERM to failing to spot the credit crunch and the disaster that followed. The Treasury has been at the heart of that and they have just made mistake after mistake after mistake.

My question—and I think Professor Butler touched on this—is this. We keep confusing policy with strategy. There are areas of policy—electric cars, life sciences and so on—but my own view is that there is a strategy in Government, or there certainly was during the Blair era. Can I ask particularly to Geoff Mulgan: what were the most successful pieces of strategy work done from No. 10 during that time?

Geoff Mulgan: There were a lot of them, and one of the interesting things about strategy work is you can sometimes judge it by direct policy recommendations, implementation and effect. I would say, on a series of fronts from childcare and education to energy, there

are good examples of successes. However, I would also say that a large part of the role of a strategy team is not just to devise policies that are then implemented; it is about a frame of mind. It is promoting a way of thinking or a culture in senior Ministers and officials that is always looking at not just next two or three months, or the next couple of years of policy implementation, but also at the further horizon. That was done quite well; Tony Blair as Prime Minister regularly spent significant chunks of time with his colleagues, officials and outsiders looking at the UK's interest 10, 20 or 30 years ahead. That is relatively unusual, but is probably helped by having a strategic capacity inside.

Just to go back to your point about the Treasury, one of the things you do need in Government is the ability to think ahead in terms of bad things that might happen. One of my frustrations in the past with the Treasury was their unwillingness to think through negative scenarios. Indeed, several times I have tried to get them to do scenario exercises about a slowdown of the world economy, the credit crunch and about rises in unemployment. There was always a great sensitivity about doing those because they might leak and they might be interpreted as meaning the Treasury thought the economy was about to turn down or there would be a credit crunch.

I have been impressed in other countries, and Singapore is perhaps the clearest example, where officials and Ministers are regularly taken through scenario exercises to game play or role play bad things happening. Singapore did it again and again on military issues and on financial crises. If our Treasury and, indeed, our Cabinets had spent more time doing those sorts of exercises on economic downturns, we would have been much better prepared in 2008/2009 than we were. That requires a very different mode of thinking from what is normal in Government or, indeed, normal in a central bank, the FSA and so on, which are repeatedly victims of essentially wishful thinking and believing that growth will continue. That is why one always needs within the structures a contrary way of thinking that is a little bit scaremongering, warning and looking at the unpleasant possibilities. One of the things you might perhaps look at is how a Government more systematically will look at the negatives as well as the positives. The great risk now is perhaps almost the opposite: that we have become so doom-laden about the world we will miss some of the great opportunities there are for us in the next few years.

Q14 Kelvin Hopkins: It is my view, and I do not know if you share it, that there was a world view being promoted from Downing Street very forcibly by yourself, Tony Blair and that little knot of people who ran things during his era, but it did not always go your way. When things did not go well, what got in your way? Was it officials, structures, processes, politicians or Parliament? What were the things that frustrated you in your drive in this particular direction? The direction was obvious to me, but may not be so obvious to other people.

Geoff Mulgan: All of the above.

Q15 Chair: We work in that environment. That environment is taken as given and you make strategy in that environment. What was the most frustrating thing that militated against dealing with that environment?

Geoff Mulgan: The biggest frustrations come in those fields, of which there are quite a lot in domestic policy, where almost any group of sensible, rational people looking 10 to 20 years ahead can come to a broad agreement on what needs to be done. Healthcare is actually quite a good example where there is a broad consensus on what actions will lead to better health and less spending in 20 years' time. The barriers to that are almost exactly the list you have said. They are about departmental interests, sub-departmental interests, professional interests, vested interests and, to a degree too, the lack of demand pull from the public for those things to be done; so the media and the public are part of this picture as well. This is why, to my mind, any serious strategic exercise cannot be an internal one within Government; it cannot be purely technocratic. It is also about a national conversation about what we need, about our choices and what we might need to sacrifice now in order to have a better outcome in 20 years' time.

Q16 Kelvin Hopkins: So you have a world view and you are constantly frustrated by officials, by politicians and even by the public who are suffering from what you might call false consciousness; they have to be educated to follow your strategic world view—one I may say I did not share myself. I will not go into it now, but I think there was a fundamental difference of view about the direction we wanted to go in. You talk about reducing spending on the health service, not about providing a health service fit for a modern, civilised society.

Geoff Mulgan: I was talking about better health outcomes and I very much said it is a conversation that is needed, not a monologue. To my mind—and indeed I think this was done by many of the strategy teams I was involved in—we often started off with conversations with the public about what they needed. When we were working on homelessness we involved people who were living on the streets to tell us what might be most useful to them. If you are trying to come up with a way of cutting crime it is often quite sensible to talk to victims, but also to the people who might be criminals. You do then need a conversation, which is a two-way conversation—absolutely not “the man in Whitehall knows best”. If you read anything I have written about strategy and the methods we use, they were precisely to avoid that kind of technocratic error, which has been very common in Governments around the world, of believing they have a monopoly of wisdom, and if only they could persuade the stupid public everything would be fine. That is not the approach we took at all.

Q17 Kelvin Hopkins: My impression is that you were the people who thought you had the monopoly of wisdom and had to drive everybody before you, including the public.

Geoff Mulgan: If that had been the case we would not have done all the exercises of—

Q18 Kelvin Hopkins: Let's say you were pursuing a neoliberal model in economics and a neoconservative strategy in foreign affairs and you did not like the checks and balances that are all part of our democratic tradition.

Geoff Mulgan: I have never been a neoliberal or a neoconservative to my knowledge, but maybe you know better.

Chair: Matt, do you want to chip in?

Matt Cavanagh: A lot of the remarks that I think all of us have said have been quite negative, but one of the questions asked was whether there were any good examples. Geoff has already mentioned the example of rough sleepers, which was before my time but I would endorse. Another one that I can think of—because I was racking my brain thinking, “Surely there was something successful”—was a new youth crime plan in 2007/2008, which spanned enforcement, sentencing and also prevention. It was properly resourced, it was implemented pretty well—again, Geoff's point that it is not just the ideas but how you implement them—and the results were broadly good, in that crime went down and the number of young people in custody also went down.

What you see from those examples is that they are slightly second tier issues. We did the youth crime plan before the public debate about knife crime became very high profile. I struggle to think of an example of good strategy where something has been really front and centre in the public eye, and so for me this gets to the heart of it. It is how you manage the interaction between Government, Parliament and the media on the really big issues so that it is possible to do strategy.

I absolutely endorse what Geoff said about scenario planning. There was not enough of it and we needed to do it. The excuse that he remembered is people worrying about leaks; we have to accept that is real. Often Departments would refuse to do it, but I remember cases where they did do scenario planning and the leaks became a serious problem. For example, you do a bit of scenario planning on Afghanistan and what leaks is the Government admits it thinks it is going to lose, even though that is one of several scenarios where surely we need to plan for the possibility that it does not go well. Another was summer of 2008 where the centre of Government, No. 10, asked all Departments to do some work on what they thought would happen if we had an economic downturn and what the big challenges were that each Department would face. The one I was involved with was the Home Office saying, “In previous recessions crime has gone up, and so what are we going to do if that happens?” Again, that was a front-page story: “Home Office admits that crime is going to soar”.

I am not saying that as a result of that you do not do scenario planning. You do the scenario planning, but you need somehow to handle this better so we do not get into this dynamic where we do a bit of it, a bit of it leaks and everyone shrinks back. Geoff might want to say more about this, but I think the answer is you need to get what you are doing out into public more

13 December 2011 Geoff Mulgan, Nick Butler and Matt Cavanagh

proactively at the start, so that people actually engage with the whole of the scenario planning rather than just the bits that leak.

Chair: Mr Butler, very briefly?

Nick Butler: I thought that the greatest strategic achievement of the first 10 years when Labour was in power, which I am surprised Geoff did not mention, was actually the combination of sustained economic growth and modest but still tangible redistribution of wealth through particular programmes. I think that is the real level of strategic thinking that underpinned the domestic side of those years. The strategic aim of the last three or four years was to manage the country through an international economic crisis, using the G20 and other devices including public spending. Rightly or wrongly, that was the driving strategic goal. That was partially achieved, but I would say it was imperfect because we did not lay sufficient foundations for economic growth.

Q19 David Heyes: Can I ask you about your views on the role of the NSC in all this nowadays? The Government have described it as a “powerful centre of strategic assessment and decision-making at the heart of Government.” Is the NSC the right place to address these sorts of challenges around prioritisation and co-ordination that you have all been touching on?

Matt Cavanagh: I have said, and I would reiterate, that I think the NSC is a step in the right direction; it is better than what was there before. In my view, it has been rather oversold, in that if you actually look at the composition of the NSC, it is not that different from some of the Cabinet Committees that were there beforehand; they also included military chiefs, the heads of the security services, the border chief and so on. It does meet more regularly and the process of work is better organised, as I think is broadly agreed. I worry about the strength of support that it has in terms of its Secretariat because it is not just about what the body does when it meets, but the officials it has working in support of them. My sense, which I think is shared by some other observers of these issues, is that the Secretariat needs to be beefed up if the NSC is really to play a role in terms of co-ordinating the different Departments.

The other thing I would say is you distinguish the two kinds of things the NSC will do. One is to deal with the big issues of the day that fall within its remit—that would have been Afghanistan a few years ago; it has been Libya this year; it might be Iran or whatever—in a way that is largely driven by events. The other is the long-term strategic thinking, the kind of thing that Geoff has been talking about, the things that we are going to be worrying about in 10 years’ time. It would be unfair to say the NSC is not doing those things at all; I think it does do those things, but there is less evidence that it is really transforming the way Whitehall works on those longer-term things. Whether that is because, as always happens, the daily and weekly events crowd out the time for the other things or whether, again, it is because the support of the Secretariat is not here, is unclear to me.

Geoff Mulgan: I am glad it is there. In the US, which in part is the prompt for it, in some ways it is an extraordinary mix of great capacity on geopolitics,

security and so on—a whole set of institutions—but there is almost nothing comparable on domestic policy or domestic strategy, which is a great tragedy for the US but not a topic for this Committee to worry about. In a way we had almost a mirror of that. I would hope the NSC takes a broad view of security. One of the things that has changed in the last 10 or 20 years, in a way, is that the classic concerns of people who call themselves security experts have to be joined by as much focus on issues like energy, drugs or migration. This is what security means in the modern world and it is still the case that our decision-making structures—FCO, MOD and so on—are locked into a different set of answers for Britain’s strategic—

Q20 Chair: Just to interject, even that list is a bit modest. What about the skills base or the science base?

Geoff Mulgan: I was just going to come on to that. It again relates to what Nick said. In a way, the biggest source of security for any nation is having its overall strategic stance right. For better or worse—well, I think for better—the 10 years from 1997 to 2007, in simple objective impact on economy, redistribution and so on, were as successful as any period in British history. In strategic terms, it was based on a set of hunches about the balance of open markets, investment in education and skills, rising investment in public services and infrastructure, encouragement of entrepreneurship, etc. You can argue about the details, but there was an overall strategic stance that worked in terms of the numbers for quite a long period. It then fell apart fairly dramatically when hit by the financial crisis.

The fundamental question for Britain looking ahead is to get a similarly coherent strategic stance to help us through a very different period, and that then has to inform the more specific policies on skills, migration, drugs, energy, etc. I know one of the anxieties of the Government and the public at the moment is it is not quite clear what our overall strategic position is for the next 10 or 20 years.

Q21 Chair: Sorry, I must just press you here: there was a bit of strategic blindness about the imminence of financial collapse.

Geoff Mulgan: There were a number of blind spots. That was one. The need for a different stance on financial regulation was obviously another, and one could carry on with the list. However, the overall package in terms of GDP and the standards of living of the British people did very, very well by historic standards. I do not think anyone could contest that.

Q22 Chair: Was there a bit of blindness about how much was being borrowed in the economy?

Geoff Mulgan: Part of the mistake was certainly about household debt and, to a lesser extent, Government debt, undoubtedly. All I am saying is that you would be very hard pressed to find a 10-year period in the last century or, I suspect, in the next century, where the UK has done so well at the fundamentals of strategy and in terms of the outcomes achieved for British people. If there are better examples, I would love to see them.

Q23 Chair: If you do not care about how much you are borrowing, it is quite easy for a while.

Geoff Mulgan: I suspect that even household borrowing would have been sustainable without the financial crisis.

Chair: Mr Butler.

Nick Butler: You have taken the points a little beyond the NSC. Can I come back to that? I think it is a most disappointing body because I do not think it takes into account whether we have the capabilities to sustain the commitments that we are making. We make a lot of commitments and we seem to keep making them, but I do not think it pays attention, not just to skills, but to the economic strength that is required to spend sufficiently on defence and security to achieve what you say you want to achieve. I do not think it has paid any attention to the industrial base, which is being weakened by decisions being taken, rightly or wrongly, and which once weakened is very hard to replace.

Matt Cavanagh: I would completely agree with Nick in terms of the substance of the criticism of the Government's approach. The question for me is whether those issues should be dealt with by the NSC. I agree with Geoff that it should take a broad rather than a narrow view of national security, but at some point, as you broaden out indefinitely, you need to realise that the right place for the overall questions about the country's strategy to be discussed is in the Cabinet, and the NSC is never going to replace the Cabinet. So in terms of whether our economic strategy or expectations for economic performance match up with what our ambitions are on defence or in other areas, my sense is that that is actually a question for the Cabinet, and the NSC should focus on things like realistic debates about what kind of capabilities we should have and how they should be deployed.

Q24 David Heyes: For example, I guess it is not looking at the security implications of the economic crisis in terms of breakdown of social cohesion and those sorts of things.

Matt Cavanagh: To be fair, I think the NSC has looked at questions of the implications of the financial crisis for national security. Indeed, I think its predecessor committee under the last Government also had specific papers and discussions that were focused on that.

Q25 Chair: Moving on then, we have talked a bit about the Treasury already. When you were in No. 10, what involvement did the Strategy Unit have with the setting of Public Service Agreements for example?

Geoff Mulgan: A lot. The man who invented them went on to run the predecessor of the Strategy Unit, the Performance and Innovation Unit. In some ways, all of the work of the Strategy Unit tried to integrate and align with budget allocations and spending reviews, the setting of targets such as PSAs, decisions on the legislative programme and the other key levers of power in the Government. We tended to work very closely with the Treasury; we had many secondees from the Treasury; the Treasury sat on the overall governing structure of the Strategy Unit and quite often commissioned projects as well.

Q26 Chair: PSAs fell into disrepute, presumably partly because a lot of PSAs looked very unstrategic in the detail into which they went. Were they a strategic tool or actually rather typically a tool of the Treasury, wanting to get a grip of something from their perspective?

Geoff Mulgan: I think the PSAs improved over time. Certainly, the first set of them were a bit of a rag-bag of genuine strategic outcome goals, activity measures and output measures. Over time they became more serious and joined up; I think a third of them were shared across Departments by the last set of PSAs. The UK is going through an experience mirrored in many parts of the world of how you get the right level of granularity of your overall targets, so that at least the system all the way down knows what you are trying to achieve, whether it is exam results in schools, fewer cancer deaths or reducing household burglary, but not to the level of detail that they then dramatically distort behaviour so that teachers teach the test, or police only focus on vehicle burglary and do not take any notice of antisocial behaviour, just to give a few examples. That is a task of calibration.

I think the best examples around the world are getting that better and are making both the setting of targets and the assessment of them a much more open process that involves the public, and involves looking at evidence and critical scrutiny. I think it is fair to say none of those things were in place when the PSA regime was created here, and I have sometimes been quite critical of target regimes and the excess of targets here. I do think it is quite hard to run a modern Government without some targets, some objective measures of success and some objective ways of holding to account not just schools, hospitals and so on, but also Departments.

Q27 Chair: Mr Butler, in business, do you feel that the PSAs made the Treasury more engaged in strategic concerns in a businesslike way, or did it just reinforce the Treasury's prejudice for telling other Departments what to do?

Nick Butler: I would say I do not have enough experience of how they worked when I was there. By that time, the Strategy Unit had been abolished; we worked in the Policy Unit, which was a much more short-term venture. The Delivery Unit, which was within the Treasury, produced these results on all the targets. I would say they had a constructive use, but possibly set too many targets for those who were trying to deliver things to be able to interpret what was really important.

Matt Cavanagh: Just a point of information: the Strategy Unit had not actually been abolished at that point, it was abolished after the election, but it is true that in the last year or so there was less focus on the PSAs, partly I think because of the overriding aim of managing our way through the financial crisis. I would agree with what Geoff said: that we got some things wrong in the PSA target regime, which I saw from both a departmental and a Treasury point of view—there were too many, some of them had perverse effects and so on. However, the idea that you could try and run a Government without some sort of targets, I agree, is hopeless. I thought the last general election

13 December 2011 Geoff Mulgan, Nick Butler and Matt Cavanagh

campaign where you had political slogans like “We believe in patients, not targets” was political knockabout, but in terms of reality of Government it is hopeless and actually quite damaging.

I have not worked in the business world as long as Nick has at all, but I did spend three years on strategy in business before I came to Government. If you talked to anybody in that world and said, “Do you think you need to have targets, measures of performance of how your business units are working or do you think you can get rid of those?”, they would think you were mad if you were trying to get rid of them. The only serious debate to have is whether they are the right kind of targets. Are there too many? Are they the right kind? Have we thought through how people might game them, try and get round them and distort behaviour? That is the only conversation to have, not yes or no to targets.

Q28 Chair: So actually they are not strategic targets?

Matt Cavanagh: You need to have a strategy and then you need to devise your targets in a way that will help deliver and monitor that and not create perverse effects. They are not the driver of the strategy—they need to be consistent with it—but they are a vital part of managing an organisation. If you care about outcomes I do not think you can do without targets.

Q29 Chair: Is this an entirely separate process from the Comprehensive Spending Review, the Green Book and the other things that are the core business of the Treasury?

Geoff Mulgan: No, I think there should be a single process for any part of Government to think about what we are trying to achieve and how we are going to achieve it. It’s not rocket science. What we are going to achieve will in some cases involve quantitative targets, in others qualitative goals; in some cases they will be things you have a lot of control over because they are perhaps provided within public services; in other cases they will be things like economic growth, where you do not have so much direct control and you probably should not set targets in the same way you would for your own operations. But these should all be in an integrated process and budget allocation should follow strategy, as happens in any sensible organisation or any business; you do not separate out your financial allocations from what you are trying to achieve and how you are going to achieve it. Again, this is not exactly rocket science.

Q30 Chair: Looking into Whitehall, whether you agree with the Government’s strategic priorities or not, where you can discern them, do you feel the Treasury is following a set of strategic priorities that does reflect the Government’s aspirations or do you think there is a disconnect?

Nick Butler: No. The disconnect is that it is following one goal, which is to reduce the deficit—quite legitimately—but is not following the other, in my view necessary, goal of how you achieve economic growth over time to sustain living standards in a very competitive world.

Geoff Mulgan: I will just make one comment on technique. I think modern treasuries have been trying

to adjust how they think about money in pretty much the same way businesses have changed how they think about buildings. In the old days you would buy a building and look at its price; nowadays you look at the lifecycle cost of the building and what it will cost in terms of energy and maintenance over 30 years. That gives you a much more sensible way of making business decisions. We need treasuries to do that so they can compare the long-term effect of building a new road, childcare centre or hospital and look at their effects over 10, 20 or 30 years.

Our Treasury has made a few faltering steps in that direction; the OBR is potentially one additional bit of machinery that could be looking in that direction; but this is again where I think Parliament should be holding Government and Treasury to account much more rigorously on the long-term lifecycle effects of spending decisions, not just year-on-year decisions, because as we all know in our own lives or in any business, if you only focus on year-on-year decisions you are almost certain to get things wrong over five, 10 or 15 years.

Q31 Chair: How do you evaluate the long-term value of an aid programme against the long-term value of being able to be a leading country to build electric cars? Is that what we are asking the Treasury to evaluate at the moment, or are they even trying to do that?

Geoff Mulgan: They should not be trying to do that, but they should be looking at the core items of public expenditure that relate to health, education or crime where there is evidence on the medium to long-term impacts of different spending decisions. When it comes to things like electric cars or, to a degree, life sciences you have to take hunches, make strategic guesses or use your intuition to judge where things will be.

Q32 Chair: Can I ask Mr Butler to expand on that?

Nick Butler: I think this is not the proper role of the Treasury or any Whitehall Department. It is the proper role of Cabinet.

Q33 Chair: But Cabinet does not have the infrastructure to do that.

Nick Butler: No, but only the Cabinet and only the politicians whom we elect can make the decision between overseas aid and industrial support or unemployment benefit. The Civil Service should provide them with the choices, the best information on what could be done, on the track record and so on, and where necessary with limited targets that could be achieved. In the end, though, it has to be politicians who decide in a democracy.

Chair: And the question is: how do they decide?

Matt Cavanagh: Can I just say I completely agree with that. Asking the Treasury, or the Strategy Unit if it still existed, to evaluate electric cars versus overseas aid is asking the wrong people; you should be asking the Cabinet. However, there are other areas where policies actually sit in different Departments and are part of the same objective. In the case of drugs, which has been mentioned already, how do you evaluate the effectiveness of drug treatment versus drug

enforcement, versus sentencing, versus whatever you do with troubled families who have drug problems? You can actually see those things as all part of the same objective, and in that case it is appropriate to ask an expert to assess how these different ways of spending money are going to deliver on this shared objective.

Nick Butler: To take an immediate example, Chairman, you cannot ask the Treasury or Civil Servants to say whether we should go further into Europe or come out. They can give you a view of what the consequences of either step or anything in between would be, but it must be for politicians to say where we go now. I think that is a big strategic decision that Government has to take.

Chair: We touched on the question of public engagement earlier. Part of the pushback we had against our previous report was the idea that having a national strategy that was thought up and then laid out and run by the Government was much too authoritarian and did not fit with a consensual, liberal, democratic society. That has led us in a different direction, in this inquiry, to consider how we engage the public.

Q34 Greg Mulholland: When coming up with new strategies, how important is public opinion as part of that and how does public opinion relate to what is the national interest? Is there a conflict there? I would be interested particularly if you could give us experience of your time in No. 10 to give a sense of how public opinion did shape Government strategy.

Geoff Mulgan: You could use two examples, one relating to your previous question on aid. Whether the UK helps the long-run development of the Congo through aid, through military action or police support, through encouraging remittances or technology transfer: these are in part technical choices, but underlying them would be essentially a public and political judgment about whether Britain should be doing anything and, certainly, be making any sacrifices of its own resources to help the development of the Congo. Governments in those cases will respond to opinion but I think in relation to aid also shape opinion over long periods of time.

I think things become more interesting and more difficult where public opinion takes one form if you simply do an opinion poll, and a different form if you engage in a detailed conversation. Certainly, Government by opinion poll is a pretty stupid way to run Government and has never really worked that well for anyone, but how you get the conversation right is not easy. Let me give a very live example, which is hospitals and healthcare. All over the world, if any Government tries to change the pattern of health provision the public not surprisingly want to defend their hospital. Almost anywhere, if you engage the public in a detailed conversation about what the choices are for the next 10, 20 or 30 years you will come up with a very different conclusion, where the public wants the hospitals scaled down, wants more resources in primary care, in maternity provision, care for the elderly and so on. That only comes out of an in-depth, genuinely reciprocal conversation about choices and priorities. The task for Government on

quite a number of fields is to learn different skills of engagement and conversation with the public.

At the end of those conversations you still might say, as an elected majority in the House of Commons, "We've heard the public and we don't agree; we're going to do something different and we hope that, come the next election, you will come around to our point of view". However, either to rely on opinion poll data, quantitative feedback or simply to ignore the public and have an internal technocratic conversation is very unlikely to deliver you the legitimacy of the difficult decisions you have to make.

Q35 Greg Mulholland: What should Governments do when you have a conflict, as it seems, between public opinion and what the Government believes to be the national interest? You give one example, but the current austerity measures in Greece or perhaps in this country could be another where, clearly, public opinion will say, "We don't like them. We don't want these cuts; we don't want these reductions to pensions". If that is in the national interest, how is that balanced in an era of increasing connectivity, democracy and e-petitions? Is that making it more difficult to have coherent strategy in Government?

Geoff Mulgan: I think it is certainly making the craft of politics harder. It is fascinating to see how, in different countries, different groups of politicians are handling exactly the issue described: how to handle austerity and make it be understood as necessary, fair and so on. At one extreme, you have a country like Estonia, which I think is quite an interestingly strategic but small country; in 2008, even before the crisis hit, the Prime Minister implemented a 15% cut in public sector pay, a larger cut in Ministers' and others' pay, and essentially said, "We've had a good few years; we're now entering a really difficult time. We need to share the sacrifices. If we all pull together we will bounce out of it quicker", as indeed they have. That is compared to Greece, where there is not even a sense of public acceptance of the premise of the need for the austerity measures in the first place. There are no strategy methods that on their own can solve the problem you are describing; this is about the craft of politics and leadership at its most fundamental.

Nick Butler: Chairman, I think we should understand that Government is a matter of balancing interests in a complex society. On all these interests, issues and everything you have mentioned, there is not just one strand of public opinion; there are many strands. On Europe you will find some people who are viscerally opposed to our current membership, some people who make their living by virtue of us being engaged. It is impossible to satisfy everybody all the time. The role of Government is not just to follow public opinion; it is to lead. When I was there that was what we were trying to do out of the banking crisis. That meant doing things that were unpopular such as supporting the banks and beginning the process of increasing taxation, which has now been continued. That was not popular and in the end the Government paid the price, but I do not think Government should respond just to opinion polls or just to immediate popularity. It is elected; it is responsible for guiding the country

13 December 2011 Geoff Mulgan, Nick Butler and Matt Cavanagh

through many difficult issues. I think it was Shimon Peres who said Government is not a pleasure.

Greg Mulholland: I think there are many who would share that view at the moment.

Q36 Robert Halfon: If there is proper strategic thinking done in Government, how do you stop it becoming an establishment view of primarily people like yourselves, and multinationals and big corporates; how do you genuinely involve ordinary members of the public?

Geoff Mulgan: On the make-up of strategy teams, for all the ones I have been involved in we tried to have a formula that at least half of the members were from outside the Civil Service. We tried to ensure that on every topic there were people with frontline practical experience as parts of teams. One of the vices of Whitehall is how often decisions are made without anyone with direct frontline experience of the topic being involved in the decision. There is also the use of a whole array of tools for getting out and talking to the public on their terms where they are, rather than waiting for them to come to London for consultations. I think all of those are only partial counters to the tendency to internal “group-think” or “elite-think” that you will get in any capital city in any Government. If you are not trying quite hard then I would agree with the premise of the question that you are likely to become a victim of establishment group-think, which as we saw in the late 2000s will often disastrously misread what is going on in the outside world.

Q37 Robert Halfon: In other words, can we have open source/Wikipedia-type strategic thinking and will it work?

Geoff Mulgan: We did experiment with lots of things that would now be called open source or crowd-sourcing of policy debate. There is a whole set of technologies for involving thousands if not tens of thousands of people in public debate, from things like NATO’s policy jam to Australia 2020—there are all sorts of ways of doing this. The decisions still ultimately have to be made by elected politicians, often in quite a lonely way. On some specific elements of what Governments do, there is a lot to learn from things like Challenge.gov in the US, which opens up the public to coming up with proposals and then helping develop them. In NESTA we are doing that in several public services areas, opening up the design process beyond the insiders to the public as well. I think it will become increasingly mainstream for Governments to tap into collective intelligence wherever it is—and it is not all within the walls of Whitehall and Westminster.

Matt Cavanagh: Just briefly, I would agree with Geoff that although the Strategy Unit was not perfect, it was slightly better at that than Departments are, for whatever reason—because they do not have the time or they do not have the imagination. The question now the Strategy Unit has been abolished and a lot of Departments are forming their own internal strategy units is: will those strategy units, even though they are within Departments, still have a bit of freedom to think, and a bit of time? Are they doing that and

taking on that challenge to be more outward-facing and involving people from outside more?

Q38 Chair: Before we pass on from that, how much of that deeper, iterative, conversational polling did the Strategy Unit do and how important was it?

Geoff Mulgan: A reasonable amount, but probably at a fairly superficial level, if we’re honest.

Q39 Chair: Do you think there is a scope for doing that more intensively and comprehensively?

Geoff Mulgan: I think there is a lot of scope for doing it more intensively, more comprehensively, making more use of technologies that were not really as mature seven or eight years ago but are absolutely useable. It is key for Ministers to be part of the process.

Q40 Chair: I hope as a Committee we are going to be able to conduct some of that kind of polling in order to scrutinise the quality of the Government’s strategic thinking and strategic priorities. When you were running your Strategy Unit, is that the kind of scrutiny you would have welcomed?

Geoff Mulgan: Absolutely. I think Parliament needs to be more involved in these processes. Going back to part of the earlier conversations, some of the job of thinking ahead—in particular things like scenario exercises and looking medium to long term—is much easier to do from Parliament than from within the Executive.

Q41 Chair: Except we do not have the resource either.

Geoff Mulgan: You need to get the resources then. In a country like Finland a lot of this is led by Parliament. The technology assessment capacities in countries like the Netherlands or in Congress reside in legislatures, not in the Executive, because it is easier for them to look broadly and perhaps to explore uncomfortable options and facts than it is for the Executive.

Chair: Any thoughts on that? No, let’s move on.

Q42 Lindsay Roy: It has been argued that strategic thinking tends often to generate internal reports rather than having a huge impact directly on services to individuals. How do you avoid the time and resources needed for strategic thinking being portrayed as a waste of taxpayers’ money?

Geoff Mulgan: My view was that quite a lot of it in the past has been a waste of time and money. In setting up the Strategy Unit we did quite a lot of research on the history of such things in the UK and their equivalents around the world. The most common vice was what you have described: a lot of clever people sitting in a capital city producing very lengthy, very intelligent reports that have no effect on anything whatsoever.

Lindsay Roy: Divorced from reality.

Q43 Chair: You don’t include yourself in this.

Geoff Mulgan: What we tried to do was put in place some protections against being too bad an example of that vice. One was wherever possible to design

solutions and to take our reports through Cabinet, link them in, as I said earlier, to decisions on allocation of money, programme design and so on, so there had to be buy-in to the action; strategic thought was not separated from action. The second thing was I actually said to my team right at the beginning that our ideal project is one where we have no report at all, where we involve all the players in the system, some of whom will be inside Government and some outside, in a shared journey of understanding the problem, the possible solutions and putting them into practice. Ideally, you would never have a paper report for that because you are taking people through the process. To be honest, in practice we did not really achieve that. We did on a couple of things, but Whitehall still likes paper documents and is rather addicted to them.

Q44 Chair: Whitehall also hates people setting off on journeys without knowing where they are going to end up.

Geoff Mulgan: That's true.

Chair: And Ministers hate strategy for that reason because it ties them down, doesn't it?

Geoff Mulgan: It ties them down; it also opens things up.

Matt Cavanagh: There is no perfect answer to this. There is a trade-off or a balance between how close a Strategy Unit is to the end users of their products and how far away they are. I think it is absolutely vital that people doing strategy have to be walled off a bit from the people who are managing everyday business because if they are not they always get sucked back into whatever the latest crisis is. They have to be a bit walled off, and that gives them the freedom and the independence to think afresh at least. If they are too walled off though, you get the problem that Geoff mentioned, which is it is much more likely that they come up with something that for whatever reason is just not going to be doable. You need to manage that balance between the Strategy Unit and Ministers—the people who will ultimately sign off—but also, I would say, permanent officials in their Departments. Whoever is doing the strategy needs to be close enough to them but not too close. There is no perfect blueprint for that; it is just something you have to manage.

Nick Butler: I think you could build a house the size of Downing Street with the brick-sized reports that were sometimes presented by strategy units and others, and which were never read because they are totally unattuned to the time scale of life of political leaders who, if you are lucky, read the first two pages. I think that absolutely crucial to getting this right is that the strategic thinking and the key questions have to come from the top—a view of, “This is what we need to do. How can we do it?”—so that you have an audience. This is how it would much more commonly work in business: “This is the choice we face. What are the options? Work through the options for me”. But I think too much strategic thinking over the last 20 years in Government has been rather self-indulgently large pieces of work that had very little impact indeed.

Q45 Lindsay Roy: The strategic thrust for the Big Society has come from the top and yet, even after the fourth launch, we hear that people are not really clear what the Big Society is about. What does Government need to do to clarify what the Big Society means and how will we know if it successful?

Nick Butler: I defer to the Chairman.

Chair: I don't defer to me at all.

Lindsay Roy: Seriously.

Nick Butler: I have no idea what it is.

Q46 Chair: Without wanting to ask you to evaluate whether you think it is the right political concept, given that it is a concept, from the Government's strategic point of view what is going wrong?

Nick Butler: What is going wrong is there is no clarity as to what it means. You need some clarity for people to then interpret it, to present options and to work within it. From outside, I simply do not understand what it means.

Q47 Lindsay Roy: It is a concept, a vision, a project, an agenda. We still do not have clarity as to how we will gauge the outcomes of this so-called Big Society strategy.

Geoff Mulgan: There are three or four fairly specific things it is mutating into. I am involved in at least two of them so I probably cannot wholly evade this question. This links to what Nick said: the starting point of strategy has to be compelling priorities for elected politicians. Unless the tasks are coming from them, then we should not be surprised that we end up with piles of reports. Clearly, that is a compelling task for the current elected Ministers to create a Big Society, by which they mean a number of things including increasing volunteering and community activity, etc.

Secondly, the work of design has to involve, as Matt said, both insiders and outsiders. It needs a capacity and I think there has been a bit of a problem for this Government in identifying the institutional machineries to translate that very broad aspiration into practice. Some of those are now coming into existence. I am on the board of Big Society Capital, which is essentially the Bank using dormant accounts that will be implementing part of that agenda. I hope it will be extremely effective and will be able to answer your question in terms of large numbers of social enterprises being helped to grow and deliver services better than they would have otherwise.

However, I think often with strategy—and again I agree with my colleagues on this—the answer is not to have big, fat documents. If there were 20 Big Society strategies for every Department this would probably not be a good thing. Often the key you are looking for is quite a simple insight into what really makes a difference. Up on our wall we had a quote from an American jurist in the 19th century—that what we should be looking for is not the simplicity this side of complexity, but the simplicity the other side of complexity. That is to say, you immerse yourself in a complex field, but out the other end you come to some insight of what really will perhaps encourage people to do more in their community, to volunteer more and to create new organisations to achieve the goals of the

13 December 2011 Geoff Mulgan, Nick Butler and Matt Cavanagh

Big Society. Perhaps what is still missing a little bit are some of those strategic insights rather than the big, fat documents.

Q48 Chair: Are we confusing strategic thinking with effective planning and implementation? Obviously strategy is otiose without implementation, but in the Big Society we are really lamenting the lack of effective planning and implementation, because there are plenty of ideas about. Would you agree with that?

Geoff Mulgan: It has been a challenge for Government machinery to turn the aspiration into planning and implementation. I think one could criticise the current Government for not having realised that that would happen and that there was going to be, essentially, a lack of delivery machinery, whether on health, schooling or in the Home Office. I did actually publicly say shortly after the election that that risked being the problem here; it was essentially one of the rather boring challenges of institutional design, funding, capacity, etc. However, I think every Government often learns the hard way that it is not enough to issue the press release; you have to work on the boring prose of governmental design if you want your ideas to succeed.

Chair: I think you nodded in answer to my question, Mr Butler.

Nick Butler: I think there are some very creative ideas like the Bank that are put under this banner, but if you have to launch a brand four times, it is broken and you should think again.

Lindsay Roy: Action without vision is chaos.

Chair: But it's not really a brand, is it?

Q49 Priti Patel: I am interested in covering the ground that we have already touched on only slightly, which is capacity and skills around strategic thinking in Whitehall. I am interested in two areas. On the first, Mr Mulgan, you touched on the fact that the No. 10 Strategy Unit had an external pool in excess of 130 to 140 people that you would tap into and presumably there was a lot of external expertise there. I am interested in the capacity of the Civil Service, and Mr Butler's written evidence to the Committee said that strategic thinking is a valued skill and is one of the six core priorities that they are judged on coming in. The question I have is: what is that skill set like in the Civil Service compared with that strategic thinking skill set amongst those in the external domain who were brought in? Is there a capacity gap from the Civil Service compared with the external individuals you worked with?

Nick Butler: I was thinking about this, having put the note in. I think the capacity gap is not in the Civil Service, where there are a lot of people who are very capable of thinking strategically and often do, usually at departmental level. There are also plenty of skills in the private sector, the voluntary sector and so on that can be brought in. The gap is actually among the politicians and the leadership in setting the strategic questions, in defining the direction and then asking the right questions to these very able people. I am sure many Civil Servants would love to do more strategic work than they do, but they are not asked to,

particularly across Government, and I think that is where capability lies: how to ask the right question.

Geoff Mulgan: If you disaggregate the skills we are talking about here, they are a number of very different sorts of things. There is the ability to analyse a situation, a problem and the dynamics of systems; then skills of creativity and being able to imagine very different solutions to the conventional wisdom. They are the skills of detailed policy and programme design, and understanding how that will actually work in a prison, school or business. There are then the skills of implementation and learning. There is nowhere outside Government that has all of those skills and our approach, and the only possible approach, was always to try and construct teams that did bring together those skills.

Sometimes you would find external bodies that were much stronger on one set of skills. Some of the analytic skills were actually stronger in the consultancies than within Government. Some of the financial design skills were stronger in business than they were within Government. No big institutions turned out to be very good on creativity or innovation skills, in our experience, and I think that is still a major gap across our systems. Very few were well-versed in what I think is a basic modern competence, which is how you learn from the rest of the world about who is doing what you want to do already, and who is doing that well.

None of these are in themselves all that difficult to learn so long as you teach teams. But I would agree with Nick that the problem then is you might end up with a very skilled, strategic Civil Service, but if Ministers come in on top of them who simply want a headline tomorrow, who in a sense trust only in their own hunches and intuitions to make decisions, then those skills will quickly atrophy. We do need to learn from the best-performing countries around the world that are taking political and Ministerial training much more seriously, and recognising that our political system often dumbs down the capacity of the system rather than smartening it up.

Q50 Priti Patel: Are there no opportunities for politicians at Cabinet level or senior Ministers to enhance their own strategic capability and to work alongside the Civil Service and others who will be brought in at departmental level from business or outside organisations?

Geoff Mulgan: I mentioned China before; there, even the President has 60 to 70 hours a year of training. That is obviously highly customised to his needs, but essentially he sits in seminar rooms, gets briefings and does exercises. Ministers in China have to write essays; you talked about "Government by essay crisis" before. They actually have to sit in residential training where they write an essay on, for instance, what a strategy for electric cars in China would be. This is a world away from how we think about Ministerial roles. It would require a significant shift of time and of Ministerial diaries from their current allocations, and it might mean fewer speeches or fewer openings, but I suspect it would deliver a pretty big return in the national interest.

Q51 Priti Patel: There are some politicians who do have strategic capabilities, having come in from industry, for example. Do you know, from your experience working in Government, of any examples where they have been able to bring in their insights, in particular their capabilities, to actually work, in a way slightly untypical of other Ministers, alongside the Civil Service?

Nick Butler: I think there have been some very good examples. In the last Government, Mervyn Davies, who came in from Standard Chartered, was excellent at commanding the resources in the Civil Service behind the agenda that he was trying to pursue. It is not just business; other people have skills from other sectors where they have led and run organisations. They know how to set direction. It is not common though, and I agree with Geoff that a bit of training, guidance and sharing of experience would be very constructive.

Matt Cavanagh: I strongly agree with that and I think we need to accept that Ministers are not necessarily selected for the ability to ask these questions and get the most out of the Civil Service, nor are the influences on them designed to bring that out. I would agree with all the suggestions made about training and so on, but I think they are letting the Civil Service off too lightly. I could give other examples of Ministers who have been strategic and who sometimes do ask the right questions, yet repeatedly get inadequate advice in terms of advice that would facilitate strategic thinking. I completely agree that there are a lot of incredibly bright people with the ability to do strategic thinking still joining the Civil Service all the time, and that is not a problem.

One point is something happens as they go up the career path in the Civil Service; when you look at the very senior mandarins you do not see the same flexibility and strategic thinking. The second point is some of the things we have talked about so far about the way the different Departments interact with each other, and also about the way the internal management structures within each Department interact, deadens that ability that you find in a lot of individuals in the Civil Service. It means that the actual product of the Department as a whole is not the kind of advice that will facilitate strategic thinking by Ministers.

Q52 Priti Patel: Is there effectively an element of system failure here, in the sense that the machinery, Whitehall itself, does not really facilitate or encourage the challenge and build culture that you might have outside Whitehall in other organisations between Ministers and the Civil Service? Presumably at a more junior level in the Civil Service they will have lots of ideas and think strategically but, as you have just said, the career structure at a higher level does not encourage that or support it the more senior you become.

Matt Cavanagh: I completely agree. One point I would like to make is that I actually think this is a function of bureaucracies. It is not necessarily the function of public versus private sector; I encountered a lot of the same problems in some big, old bureaucratic private sector organisations before—a lot of the things about management structure deadening

down creativity and strategic thinking. The million dollar question is how you avoid that; if you have turned into that kind of company, for example, how do you try and get back to a more flexible and adaptable way of thinking? If I were the people who were trying to train and develop the careers of civil servants I would be looking around for examples of companies that have managed to turn things around in that way.

There is no point looking at the culture of some start-up; they will be very vibrant and have lots of strategic thinking and so on, but you cannot transplant that into Whitehall. The people we should be looking for are big companies who have managed to turn themselves around, who have got a bit tired, bureaucratic and stultified, but have managed to turn things around. That kind of thing ought to be applicable to a big Department of State as well.

Q53 Priti Patel: We have touched on the issue of targets and the culture of targets previously. Using your business analogy, for example, any business would have, with any employee, key results areas and objectives that are all aligned to the business strategy. Is that a model or cultural approach that could be introduced in Government Departments?

Nick Butler: That is part of it. I would say that what you would find in most businesses is that the people at the top spend far more time working on the strategy of the company going forward than Ministers do. That sets an example right down through the organisation, because that is what is seen to matter and people would generally—they do not always get it right, of course—not be promoted unless they have those skills.

Geoff Mulgan: I think we should be a little bit wary here. I am very much in favour of bringing in more business skills and business people. I am in favour of civil servants spending parts of their careers outside the Civil Service. But a fairly universal experience around the world is, when you simply bring business people in as Ministers or as senior officials, they tend to fail; they tend to fail if they are put into too senior a position too quickly, because they simply apply exactly what you have described—business methods—to the very different environment of Government and public services, which is necessarily different.

The ideal is when you bring them in maybe a layer or two down and they combine the rigour and the disciplines they have learnt in business with an awareness of political climates and public policy. Then they can be very effective. The simple thing of, “If only we could bring in a business leader and they could sort this thing out” has been tried so many times in the Western world and almost always failed; it would be sad if we reverted to that as being the answer. We are talking about a subtle set of competencies. The same would of course apply to putting a Civil Servant in charge of a bank or a retail business. It would almost be a category error to think that they were the answer.

Q54 Priti Patel: Do you think that there is therefore the infrastructure within Whitehall to, dare I say,

13 December 2011 Geoff Mulgan, Nick Butler and Matt Cavanagh

bridge that strategic capability issue—it sounds to me less so within the Civil Service—with the political class, those who are elected, who eventually assume office and become Ministers?

Geoff Mulgan: A decision has been made in this country, unlike in most other Western countries, pretty much to do away with the capacity-building machineries of Government: the abolition of the National School of Government and various other entities there were in the centre. For all the flaws of those bits of machinery in the past, I suspect something will have to be invented, not just to ensure there are the right capacities in place—and they are different capacities to run a large central Government than to run a business, a local authority or a health service—but actually also to enthuse a spirit and ethos. What is really interesting in the best-performing countries around the world is they see that to be as important as the specific technical skills. It is the spirit of how you actually serve the public in a modern environment.

Q55 Chair: This whole business of capacity came up in our previous inquiry. The pushback we got was twofold: one is the Foreign Secretary told us, “I do the strategy; I don’t need people doing strategy for me because I do the strategy”. There is a clear problem with that, isn’t there? The pressures on a Secretary of State do not give them the time. Indeed, the Prime Minister told us in the Liaison Committee, “I don’t have the time”. What is the answer? Where does this capacity have to be? It has to be close enough to Ministers that they feel in control of the strategy, but not so powerful that they feel the strategy has been taken away from them.

Nick Butler: Or they need to learn a little more in the way of time management. I think strategy is so important that, if you neglect it, then you just fill your diary with immediate things at the expense of perhaps the more important.

Chair: We filled our diary with this.

Matt Cavanagh: It is a serious and depressing point. I have worked in or seen a number of ministerial offices, and the tendency will be just to fill up their diary with meetings. I would agree with Nick that they have to push back against that and insist on having some time to think properly. The cynical *Yes Minister* interpretation is that civil servants do not actually want their Ministers to think, and there may be a part of that, but actually I think much more it is just institutional momentum. There is just a lot of business in the Department, almost an indefinite supply of business to be done. If you do not push back against that and insist that you actually need some large blocks of time to do some thinking about the big questions that you think are the issues facing your Department, you will just end up being overwhelmed by the daily business as usual.

Q56 Chair: The other thing that Ministers hate is the truth to power thing. In real strategic thinking, there needs to be somebody thinking off-piste, off-policy or outside the box who can go to the Prime Minister or the Secretary of State and say, “You haven’t considered this bit of it”. The classic example is the

attempt by the Advanced Research and Assessment Group to bring the threat of banking collapse into the first iteration of the National Security Strategy, which was vetoed by the Treasury so it did not appear. How do you tackle that problem? You must have been in that situation.

Geoff Mulgan: All the best leaders throughout history have tried to have some people close to them who will say uncomfortable things, usually in private. It is quite difficult if those uncomfortable things are being said in public, and that is why you need some of this process to be internal. In terms of time management, in the past I have advocated the crude formula of about 50% of time on day-to-day, short term issues, another 30% on the medium term, but ideally 15% to 20% devoted to issues more than three years out. I think that is reasonable to expect of a Secretary of State or a Prime Minister.

Chair: That’s very interesting.

Geoff Mulgan: Then what we are talking about in some ways is a series of very different levels. There are the levels of high political strategy, like Britain’s relationship with Europe, where it is fine to have your intuitions and your hunches. There is another level of more detailed policy design on, let’s say, energy security or migration, where however brilliant you are as a politician you need some help with understanding the choices and the options. The layer down is a much more granular strategic question, which we touched on earlier, and we grappled with in the Strategy Unit and failed. It is the simple question: in Britain’s relationships with, let’s say, Finland, Brazil or South Africa, at the moment we will have different policies and strategies from the FCO, DFID, the MOD and probably from other bits of Government. At the very least, let’s try and have a single strategic approach to major countries. You cannot expect your Foreign Secretary or any Cabinet Minister to have to design that in detail. You have to have some capacity—

Q57 Chair: But that’s a machinery point.

Matt Cavanagh: As an example, early on in my days in Downing Street I asked where was that strategy on Pakistan that brought in DFID, the Foreign Office and the Home Office—

Chair: And they looked at you and thought, “What a fool”.

Matt Cavanagh: Exactly. They also then explained why there were all sorts of reasons why we should not even have that and we should not do that; it would be somehow wrong. First of all, it would inevitably obscure the detail of all these things and do violence to the purity of the departmental advice on each issue to try and bring it all together. We went through a process, and I am pleased to say that the Government now does have a place where it attempts to bring these things together, but it was a deeply imperfect process that raises a lot of things we talked about earlier in terms of departmental ways of thinking rather than collective Government ways of thinking.

Q58 Chair: But there is Ministerial resistance to being tied down. Mr Butler, you have been accused of wanting to pick winners.

Nick Butler: Yes, but not by the Prime Minister. I never found this problem with Gordon Brown; he was very open to challenge, criticism and different ideas.

Q59 Chair: But the Treasury feels as soon as you start picking technologies or industries, you are going to empty large sums of public money into a black hole.

Nick Butler: Correct, and that is a long-standing and I think mistaken philosophical belief that cuts across British Government.

Q60 Chair: This whole business of picking winners and a national strategy has an echo of a pre-Thatcherite type of Government, doesn't it?

Nick Butler: Yes, but that may not be too bad. I think that if we carry on without that we will be in a weaker economic and political position in 10 or 20 years' time. You need to combine private incentives and market forces with the creative use of public power, which is not going back to public ownership in the old sense, but putting in place something rather different to ensure we sustain living standards.

Q61 Lindsay Roy: To take a slightly different tack, what influence has devolution had on the capacity of Government to make and shape national strategy? For example, Alex Salmond was highly critical of the fact that he had no influence on the decision taken by the Prime Minister in relation to Europe—the politics of grievance.

Geoff Mulgan: Let me turn that on its head. The way in which the Scottish Government has dealt with these issues in the last few years is becoming quite an interesting challenge to Whitehall and Westminster. The Scottish Government does have something that looks like a strategy and does have certain kinds of targets at different levels of detail, has instituted a set of processes to try and embed them, and has encouraged things like the Christie Commission to try and raise big, strategic questions about how Governments should act. It is sad that very few people in London ever go and look at what is happening in Edinburgh and see what they might learn.

Chair: Maybe we should.

Geoff Mulgan: Maybe you should. I feel that in some respects certainly the Administration in Edinburgh is moving ahead of London in terms of strategic behaviour. I think it is easier in some respects in a population of 5 million or 6 million than it is at the level of 60 million. There is perhaps another issue behind all this about scale and strategy, where many of the countries that are doing this sort of stuff best are under 10 million, but maybe that is an argument for devolution.

Q62 Lindsay Roy: You would recommend a visit not only to Washington and Ottawa, but also to Edinburgh.

Geoff Mulgan: Washington is not a particularly good example of good strategic Government. I don't think anyone there would claim it is, either.

Q63 Chair: But they have more infrastructure for it than anybody else.

Geoff Mulgan: They do on defence and national security issues but not on domestic policy.

Matt Cavanagh: Just briefly, my experience of how devolution affected strategic decision making in Whitehall was it definitely added a layer of complexity, but it is a perfectly manageable layer. The difficulties are where you are dealing with a set of issues some of which are devolved and some not. That can get quite complex. Unlike some of the other problems we have talked about, which I think really mess things up in terms departmentalism and so on, I think devolution is there and it needs to be handled; it makes it a bit more complicated, but it is not fundamentally a problem.

Lindsay Roy: It's transparent.

Matt Cavanagh: Yes.

Q64 David Heyes: If not Washington then where should we be looking overseas for better ways of doing strategic thinking? Did you yourselves in your No. 10 roles look at and learn from other countries?

Geoff Mulgan: Very unusually in British political culture, we looked at lots of overseas examples and tried keeping in touch with how they were doing things. There is now a loose network of strategic teams in Governments around the world. They are very different in nature depending on their political cultures. In some ways, the best examples probably are some of the Scandinavian countries, which have managed both to link up departments and link in Parliaments better than others. In Asia, certainly Singapore but also China and Malaysia do well. Australia has built up a capacity in recent years that I think is pretty good. The Gulf States are desperately trying to create new capacities because they see this as critical to their long-term success. None of them have a model that could be simply replicated and adopted, but it is hard to engage with any of those countries—which happen to be the ones growing fastest in the world economically—and not come away thinking about Whitehall in a different way.

Nick Butler: I would not only go and visit Governments; I would actually go and talk to one or two people in the private sector. I agree with Geoff that there is not a neat transfer of one set of skills from one to the other, but there is a great deal of experience at a company like Shell or some of the other big multinationals who are not too far away. Because I think strategy is about the effective use of power and understanding of power, I would go and talk to the Bundesbank. I went to the Bundesbank the other day, and they really understand what they are doing; they have a strategy for doing it and a very clear organisation behind it.

David Heyes: The timing is not good for us actually.

Nick Butler: They may not let you in.

Chair: Unfortunately, their strategy was right but they failed to stop the euro.

Q65 David Heyes: You have given us a very interesting list of Committee visits around the world. Are there any more to add?

Matt Cavanagh: In my time, I mainly collected a list of examples of countries that had made equally poor decisions in some of the areas that we were in.

13 December 2011 Geoff Mulgan, Nick Butler and Matt Cavanagh

Q66 Chair: So is this a fruitless exercise? We should try and do it better.

Matt Cavanagh: I think it is relatively easy to make a series of incremental improvements. You have suggested a number of things; we have suggested some. It is more difficult truly to transform it. With something like the departmentalism, which I think we all agree is a problem, you can see how you can make it slightly better with pooled budgets or structural fixes, but in my view they are second-best solutions that will be slightly better. What will change the culture to make the Departments actually see themselves as part of a collective whole that is trying to solve shared problems? That is the big prize; I think that will be very difficult, but it is what we should aim for.

Q67 Chair: So is one of your recommendations perhaps that the Government needs a stronger headquarters?

Matt Cavanagh: It would certainly be mine.

Geoff Mulgan: It does not need a stronger headquarters if there are big walls around that headquarters. What it needs is a stronger capacity for organising the intelligence of Government. That probably does mean some people sitting in No. 10 and the Cabinet Office, but much more important is how they work with the other bits of the system. If you do what Germany does, the Chancellery has 1,000 people but is actually not very good at orchestrating the intelligence of the whole system. A stronger centre on its own is not the answer.

Q68 Chair: Could a private business operate with 16 large subsidiaries, all of whom fight each other over turf?

Nick Butler: No, they would not be allowed to work like that because the purpose of the organisation would override that sort of bureaucratic conflict.

Q69 Chair: Why does the purpose of Government not override that bureaucratic conflict in Government?

Nick Butler: That is a very good question. Having been there and seen it, I was astonished to find the silo mentality and the lack of co-operation, and also the lack of grip on it from the centre to change it, under any Government. It seems to be a burden on Britain that ought to be addressed.

Matt Cavanagh: Strength alone is not enough. You could have a stronger central Government and still have these problems, but I believe it is a necessary condition that it should be stronger. I would also say as a qualification that with a stronger centre it would need more accountability and more transparency about what it was up to and who was there and doing things. However, it is a necessary condition of a more strategic approach.

Q70 Priti Patel: I would just like to go back to the business analogy here. The Chairman has raised the issue of a business and 16 Departments fighting each other, but the point about business is that they have a board that is accountable to shareholders, etc. and have all sorts of codes around corporate governance, standards, business ethics and transparency. Is this not

about the role of Cabinet becoming strengthened and, going back to the skills base of Ministers, enhanced but with more accountability around Cabinet decision making across the board?

Nick Butler: You may need that, but I think what makes the difference in good private sector areas and also the voluntary sector is that the behaviour that underlies silo mentality would just not be tolerated. People who did that would first not get promoted and then would probably move on. That is quite the reverse of where it seemed to me that there was an incentive for people to defend their departmental territory at the expense of the good of the whole.

Q71 Chair: That is because Ministers have an independent power base, don't they?

Nick Butler: Yes.

Matt Cavanagh: It is also the rest of the Department. You find other Departments who are the victims of that; they see someone just refuse to help and defend their departmental interest. Rather than resenting that, they respect it and would then, for example, be quite happy for that person to join their Department because they think they would do the same for them.

Geoff Mulgan: This is partly a matter of our constitution that Cabinet Ministers are accountable to Parliament individually, not collectively. One of the bits of machinery change that could be recommended is not just to have annual Budgets and autumn statements, but an annual statement of Government strategy in the round, and that should be presented to Parliament. In a way, what should then flow from that are the financial allocations to achieve that strategy and the people allocations across the board, just as you would do in a company. One final one that we have not mentioned, but I think is going to be key, is the management of knowledge within the system. At the moment that is even more siloed than everything else, which means that it is very hard in Government to find out what is known, what was tried and what worked before. I think we do need a partially centralised knowledge-management system across Whitehall to have any chance of doing the things you are talking about. Even though knowledge management is boring and sometimes quite difficult, and many large businesses have really struggled to have knowledge management across their silos, that has to be part of the picture for Government in the future.

Q72 Chair: So the Queen's Speech should not just be a list of Bills; the Queen's Speech should be the Government's annual review of national strategy.

Geoff Mulgan: Five paragraphs long.

Chair: Quite. The shorter the better.

Geoff Mulgan: Yes.

Q73 Chair: I would like to see a Queen's Speech only five paragraphs long. Mr Cavanagh, I have just a very brief question: you mentioned your experience with some companies. Could you tell us the names of those companies or would that be a breach of confidentiality?

13 December 2011 Geoff Mulgan, Nick Butler and Matt Cavanagh

Matt Cavanagh: Certainly, if it was at the time, it would be a breach of confidentiality. The honest answer is, I should check.

Chair: It would be interesting to know.

Matt Cavanagh: It was seven or eight years ago, but they were a range of big banks, retailers and so on. They were standard clients.

Chair: This has been slightly like Mozart's candlelight symphony, in which each of the players in

turn gets up, blows out their candle and goes home for the evening, leaving one solo violin playing at the end of the last movement. Select Committees are often like that, but we are very grateful for your time; it has been a very rich session for us and a great start to our inquiry on this strategic thinking question. Thank you very much indeed.

Tuesday 24 January 2012

Members present:

Mr Bernard Jenkin (Chair)

Charlie Elphicke
Kelvin Hopkins
Greg Mulholland

Priti Patel
Lindsay Roy

Examination of Witnesses

Witnesses: **Rt Hon Peter Riddell**, Director, Institute for Government, **Jill Rutter**, Programme Director, Institute for Government, and **Julian McCrae**, Director of Research, Institute for Government, gave evidence.

Q74 Chair: May I welcome our three witnesses to this second session on strategic thinking in Government? We are particularly looking at how strategy emerges within Government rather than how it is imposed. In our first inquiry, the response we got was that the Government very much did not want to be seen to be imposing a top-down strategy on the country. Could you first identify yourselves for the record?

Peter Riddell: My name is Peter Riddell, and I am the Director of the Institute for Government.

Jill Rutter: I am Jill Rutter, and I am the Programme Director of the institute's work on better policymaking. I should also admit that I am a former Director of Strategy and Sustainable Development at the Department for Environment, Food and Rural Affairs.

Julian McCrae: I am Julian McCrae and I am Director of Research at the Institute for Government. I should also admit that I have worked at the Prime Minister's Strategy Unit in the past.

Peter Riddell: May I add to the modest descriptions given by my colleagues? Julian also had some time at the Treasury and a long period at the Institute for Fiscal Studies. Jill worked at the Treasury and in No. 10, and has also had private sector experience at BP. There is a wealth of experience to my left and right.

Q75 Chair: Thank you. We were very much following up, in our inquiry 18 months ago, the work that the IFG had done on a report called *Shaping Up*, which identified a strategic gap in the Government's capability. What evidence do you see that the Government are closing this gap in response to our work?

Julian McCrae: I think Government have put in place a number of things, which follow, as you said at the start, very much the philosophy that they came in with, which was not attempting to do an overarching strategy, but trying to pull various strands of reform together, very much in terms of the sets of actions that they wished to pursue. The business plan process is something that has allowed them to articulate exactly what they think Departments are doing and how they proceed on that. If you are interested, we published a report quite recently on the business plans and how we think they can be developed, which I can elaborate on.

Chair: We will come to that.

Julian McCrae: There have also been reasonably well publicised changes in the structures of No. 10 and the Cabinet Office, which have moved Government in

particular directions towards a much clearer articulation of the need for a corporate centre and some controls there, while at the same time removing and possibly replacing, and in some people's minds reinventing, some of the structures that had allowed the No. 10 machine to operate and get a grip across Government. Again, if the Committee is interested, we can talk more about some of those changes around the Policy Unit and the evolution and change in the Strategy Unit functions that took place there.

Some of this can concentrate a lot on the centre of Government. Departments are making great moves to develop their own strategies for implementation of various things. There is evidence of a variety of how things have progressed there, but we should not just concentrate on the centre of Government.

Q76 Chair: Can we just be clear about one thing? There are strategy units in all sorts of Departments. There is a new chap at the Ministry of Defence, Jonathan Slater, who does strategy, but he is doing strategy for the Department, not strategy for policy.

Peter Riddell: His job is more the reorganisation of the Department. His job is essentially an organisational one, not in any sense what you were discussing in the first report.

Q77 Chair: Exactly, but is not that a confusion in Whitehall still? People confuse national strategy and strategic thinking about the direction of Government with the strategy of where the coffee machines should go in the Department or headquarters.

Jill Rutter: Julian is rather more expert than me on what is going on in the Ministry of Defence, but my understanding was that Jonathan was explicitly there to do the Department's own transformation strategy, and Tom McKane, who was the Director General of Strategy, was still there; but Whitehall turnover is at such a rate that that may not be the correct position.

Q78 Chair: But Tom McKane was not doing political, military or policy strategy. He was doing departmental management.

Jill Rutter: That is interesting.

Q79 Chair: Do you disagree?

Jill Rutter: I know Tom only from when he turned up at a series—

Chair: It is nothing personal against Tom.

Jill Rutter: No, it is quite interesting. I thought he had a wider remit to do exactly that sort of thinking and

24 January 2012 Rt Hon Peter Riddell, Jill Rutter and Julian McCrae

link the MOD machine into the national security apparatus. Certainly when we organised a series of seminars before the election at the Institute for Government—we submitted some evidence on that to your previous inquiry on national security—about organising for national security, which was a series of private, safe-space conversations, Tom was there representing the MOD's interest in the future organisation of national security arrangements, so I had assumed he had a wider brief and did plug the MOD's wider strategic thinking in things like the SDSR into that, but I am not an expert in the internal organisation of the MOD.

Q80 Chair: It is a very important distinction to make, which I think Peter touched on. We are not interested, in this inquiry, about the rather narrow meaning of strategy as in “business plan” that is ubiquitously used in the business world now. The word “strategy” is too loosely used. What we are talking about is how the Government identify national interests and act upon them. That is the strategy we are interested in.

Julian McCrae: Just to go back to your original question about Jonathan Slater's role, it is very much a role that comes out of a cascade that should start with a strategic defence review that cascades into the Levene review, which was about the operation of the Department in the context of that, and Jonathan's job is very much the director in charge of making sure that Levene is implemented. It is quite a different role.

Peter Riddell: We know exactly the point you are making. One of the problems, which was shown in the dilemmas you addressed in your first report and all the evidence to it, is that the word “strategy” is used terribly loosely to mean any thinking beyond—well, one is tempted to say next week. It is a wonderful portmanteau phrase and one of the problems is pinning it down. A particular political issue at present is that a number of members of the current Government do not like that word, but they are still doing strategy. That is one of the problems—a definitional one. The three of us have a quite clear idea of the questions that you are raising, but we are also very clear on business plans and the organisational and the structural, particularly because we are very involved in looking at capabilities and skills, as you know. There is a reluctance to use the term “strategy” because of exactly the question you are asking.

Q81 Priti Patel: I want to develop the thinking slightly wider. Obviously, we know that the Prime Minister's Strategy Unit was disbanded in 2010, but I think this comes back to some of the earlier evidence we took at this Committee, when we probed the sorts of resources around the wider strategy—not strategy with a small s, but rather the national interest, macro-policy and so on. I would welcome a response from all three of you on what kind of infrastructure you think is needed at the heart of Government to facilitate a more strategic approach—not just resources in terms of the facilities and infrastructure, but from the point of view of individual capability and capacity building with Ministers.

Julian McCrae: I do not think that there is a single structure that you have at the heart of Government. We did some work last year that looked across the support functions to Prime Ministers in six or seven different countries. What you find is that, although there is actually a very large variation in how those are structured, the functions that go on at the centre of Government are usually replicated somewhere in each of those structures. The interesting point for the UK was that we seem to have a very light function at the centre that was capable of questioning departmental policy and the work that was emerging from Departments, and asking, “Does this fit with a cross-government view?” Policy issues, as you know, are often cross-departmental, so two or three Departments have views.

Q82 Priti Patel: When you say “light function at the centre”, which centre do you mean?

Julian McCrae: In the Cabinet Office, the economic and domestic affairs secretariat would be the nearest to that at the moment.

Q83 Priti Patel: Is it light in terms of scrutiny and oversight across the board?

Julian McCrae: Compared with a lot of other countries, it is light in the ability to question the content of what is coming to it as opposed to creating the processes that ensure that paper flows through the machine. What you do not find in a lot of these places is ultimate sources of policy generation. That is very small. You do not find large units that are developing policy outside the main Ministries. There is an interesting question for us, which we have not been able to delve into further, but because in the UK you cannot rely on a machinery that can really enforce a cross-Government view without it having to think up its own views—it is a challenge function, not an initiation function—do you, by missing that function, create a hole for yourself that you attempt to fill by creating alternate strategies outside the departmental alignment? It is an interesting question. I do not think that we have an answer to it, but it seems to be a missing bit for the UK.

Q84 Priti Patel: On that point, do you think that is potentially why many strategic approaches ultimately fail or just lose momentum?

Julian McCrae: To go back to the Chair's point, “strategic” is a very dangerous word. If you—I have done this in my time—are involved in processes that have an awful lot of thinking around them but are not actually connected to what they are trying to change in a real sense, so you are working with the people who are involved in that, you end up very quickly with approaches that fail. If you end up with “strategic” thinking locked into Government at its centre, but unconnected to the Ministries that ultimately deliver that, likelihood of your failing will be very high.

Jill Rutter: I think the really interesting question, having worked in the strategy unit in DEFRA, is that there is only any point in working in a strategy unit if there is demand for strategy. If there is no demand from your political masters, you resort to being an

24 January 2012 Rt Hon Peter Riddell, Jill Rutter and Julian McCrae

extension of the private office—doing a bit of mopping up, co-ordination and various other things, such as rustling lists together and dealing with issues that no one can find an obvious owner for in the Department. You are the complete reverse of strategic. When you do get somebody who has a real appetite to ask some fundamental questions, “What are we trying to do here? What does the evidence analysis tell us the big issues are? Do we need to re-orient what we are doing? What will work? What will not? How do we connect that whole thing from where we want to go through to what interventions we can bring to bear? How do we re-resource the Department?” then there is a wealth of difference and some real point to doing strategy. The demand side matters as much as the supply side. There is no point having some people badged, “We are doing strategy” if nobody is asking for them to come to the table.

I think at the centre, as Julian said, there is a real risk if strategy is “over there” and the real conversations are happening somewhere else. There is something really interesting about the Government’s approach. We picked up on some of these themes in a document we produced last year called *One Year On*, when the Government were in the process of beginning to build back a bit of central capacity, having taken the decision on coming in to build down capacity—it seems to be a characteristic of most Prime Ministers coming in to build down capacity and then go through this cycle of building it back up. It was interesting that the logic that led them to create the National Security Council and to produce a revamped and more extensive national security strategy than the previous Government had done, bringing in the issues of energy security, climate security and resource security, did not extend in the same way to the domestic side. Yesterday, we were saying that one of the interesting things about the development of strategy under the previous Government and the formation of the Performance and Innovation Unit and then the Forward Strategy Unit was that there was a bit of a vacuum about the question, “What do we want to achieve domestically?” I think that the one thing that you could not accuse the current Government of having is a vacuum of policy or of ideas and approaches on what they want to do on the domestic side. There is a massive reform agenda going through, as well as the dominant narrative of the austerity and the four-year deficit reduction plan, so I do not think there is that same vacuum as there was. It was not until Blair II—the second term—that you got strategy coming in to its own on the domestic side.

Peter Riddell: May I take it over from Jill? If you look at it historically, it is very interesting. The key point is that it depends what the politicians and Ministers want—their taste and interests. It is possibly about personality, and it is also a matter of cycles—everything goes through a cycle. If you look at the history of the CPRS, set up Ted Heath with Victor Rothschild, and its demise, it was partly an interaction between Margaret Thatcher and her not liking the product and so on, but a lot of it is about whether that strategy unit is performing its function.

There are some wonderful accounts of meetings at Chequers between the Rothschild unit and the Heath

Government and, slightly later, the final Wilson Government, with some uncomfortable points being drawn out and the politicians not wanting to hear it. You then get into another issue, which you probably want to come to, which is how much of this is kept inside Whitehall and how much other people are engaged with it. That is an important point. I will remember the leaking of the CPRS report on long-term public spending trends, which was at the height of Thatcherism just after the Falklands. It went via Andrew Neil—some people are always on the stage—to *The Economist*, where, improbably, he was then working. It was an interesting report, because it drew out certain conclusions and one of the options—I emphasise the word “options”—was switching to a national insurance system for health. Margaret Thatcher, at the height of her time, virtually had to deny the report, which came from a member of her Cabinet to Andrew Neil. The famous phrase she used was, “The NHS is safe in our hands,” but that was at a time when she could have done anything that she wanted. Uncomfortable truths come out in that way.

I want to bring out another point which I think is important. Your question is about capacity at the centre. For politicians, it is a problem. How do you address a problem? Sometimes there is capacity at the centre and at other times you set up reviews; sometimes it is convenient for strategic thinking. Look at two examples from the past few years. One is the review of pensions that Adair Turner did, which was very successful. Jill ran a series of seminars and various policy reunions at the Institute on this, looking at why it succeeded, and we have just produced a report on policy success. Another recent example, whose future is still in the balance, is Andrew Dilnot’s report on long-term care. That is a difficult problem for Government to address, so in a sense the strategic thinking was subcontracted elsewhere.

Another current example, which affects some of you in your constituency role, is airport capacity around London. That is being done internally, because it is a fair hunch that if it was done externally, it would produce a result that was politically unacceptable to Government, which is a third runway at Heathrow. Virtually anyone looking at it externally would say that—that is the answer to the hub problem in London, leaving aside Boris Island, which is a rather long-term project. A lot depends on what the political question is.

Chair: Those are very full answers, but we must ask you to be brief. I will go to Lindsay, and then I will come to Kelvin.

Q85 Lindsay Roy: On the point about strategy, somebody once described that to me as trying to swim through cotton wool. For the purposes of clarity and in holistic but lay terms, are we talking here about strategy as corporate direction of travel?

Julian McCrae: People define this in all kinds of ways. I try never to use the word “strategy” in isolation if at all possible. If you have an issue you are dealing with, you have a strategic approach to it if you can answer three simple questions: where are you now, where do you want to get to and how are

24 January 2012 Rt Hon Peter Riddell, Jill Rutter and Julian McCrae

you going to get there? If you can answer those questions—

Q86 Lindsay Roy: How will you know you have arrived?

Julian McCrae: That is part of understanding how you are going to get there, because if you do not know what route you on, you cannot do it.

Q87 Lindsay Roy: Is there anyone overseeing—let us not call it strategy—Department business priorities to ensure compatibility?

Julian McCrae: Across Departments, you mean?

Lindsay Roy: Yes.

Julian McCrae: It is something that we touched on in our report on business plans that the Government brought in. At the moment, that is a very underdeveloped area, especially since the cross-cutting PSAs have been removed, for various reasons. This is still a big question at the moment as to exactly how you bring together the various pieces.

Q88 Lindsay Roy: If that is not happening, does that not reinforce a silo approach to Government?

Julian McCrae: I do not think we have moved away from a long-standing silo approach to Government in the UK. That is definitely still a critique of Whitehall that is very common and still running.

Q89 Chair: This strategy depends on political leadership—the appetite for strategic thinking from the very top. Is it divisible in any way from the personalities of our political leaders? Is David Cameron strategically minded, and if he is not strategically minded is there any point in trying to create machinery that will make him be more strategically minded?

Julian McCrae: The interesting question for a civil servant is not, “What is the personality of the Minister involved?” because that is something that is decided for you rather than that you would decide on; it is really, “What the civil service does in the situation where it has a decision maker who is not inclined to think in that particular way?” The civil service at the moment has a tendency to react almost exclusively to the decision maker it is working to, so as Jill said, you see strategy functions established when a Minister is interested in them, but then very quickly deteriorate.

Q90 Chair: Let me offer three very brief examples. I do not think that the Prime Minister or the Government intended to finish up exercising the veto on 9 December over the new fiscal union treaty, but that could be a tactical decision that has massive strategic consequences. Did the Prime Minister intend to stir up a maelstrom of hatred and resentment in Argentina last week when he commented on the Falkland Islands by describing them—the Argentines that is—as the real colonialists? Did he intend to produce a White Paper on a referendum in Scotland before he had done the Andrew Marr programme two days beforehand? Is this what militates against a strategic approach to the Government’s challenges?

Julian McCrae: I have to say that I am not sure that any of those should affect what a civil service should be doing in terms of—

Q91 Chair: That is a civil servant’s view, but from the point of view of our national interest, is this the best way of deciding strategic issues?

Jill Rutter: I think that you can flip the question round. On Europe, I have no idea what happened: I just could not work out why they finished the session so early that night; I thought they would be having a session another day. I was really surprised, because usually they have the dinner the night before and it is all very friendly. If there had been an overt strategic document about the Government’s approach to Europe, would that have militated against what might be heat-of-the-moment decisions about that? I do not know. That is one of the questions.

One of the things I think strategy is potentially useful for is that you have thought in advance of where you are trying to go, which then gives you a benchmark against which you can judge all those decisions. Prime Ministers and politicians have to make those immediate judgments all the time. That at least gives you a bit of a lodestar to weigh that against. Coming back to Parliament, perhaps one of the reasons why politicians do not see the need to be so strategic is that their peers do not hold them to account in quite the same way by asking whether they are being strategically consistent. If they felt it was necessary to have an underpinning clear narrative that they were judged by over the longer term, there might be more demand to think in that way in Government.

Q92 Chair: That is an interesting thought—that strategic thinking is not there to bind politicians to a particular course, but is there to ensure they are informed when they make their snap judgments.

Peter Riddell: In a sense, ’twas ever so. I do not think it is just a creation of the Andrew Marr programme, or 24-hour news. A lot of major political changes have occurred as a result of contingency. When the Hawarden kite was flown by Gladstone’s son on Irish home rule—the most massively important change, which changed the face of British politics for 20 years—was he thinking of a strategy in relation to Ireland? Knowing Gladstone, he probably had a strategy in his head without consulting others, but there is an element where political tactics mean that is always going to happen.

Take a more recent example that was very important in the previous Government. You mentioned the Andrew Marr programme. I do not know whether it was Andy Marr or David Frost then, but it was the interview that Tony Blair did on health spending. That had a significant effect on the level of spending on health, what happened subsequently to taxation, the size of the public sector and on general relations with his Chancellor at the time, as we know. Was that a strategic judgment? In a sense, what lay behind his commitment in the interview to the European percentage of spending on health had been a gradual discussion, a realignment of where the Government were strategically on health. On the Falklands example, what lay behind it were discussions about

24 January 2012 Rt Hon Peter Riddell, Jill Rutter and Julian McCrae

what we do about the Falklands and what was happening there with oil and all that. There is a danger of assuming that because something was said in a particular media context, there was not something behind it.

Chair: Understood. Mr Hopkins, you have been very patient.

Q93 Kelvin Hopkins: On that point, I remember very well when Tony Blair decided to spend more on health. That was driven by public opinion, people getting angry about Labour not spending enough on health.

Peter Riddell: There had been discussion before, as we now know, with Alan Milburn.

Q94 Kelvin Hopkins: Indeed. I met Alan Milburn and had a fierce debate with him, I may say. But there we are.

I find the idea of strategy without defining a clear objective very nebulous. Just talking about strategy implies we all know what direction we are going in and we just have to discuss how to get there. We have to decide on the objective. I am not talking about micro-objectives and particular policy things. Is the macro-political objective the promotion of human welfare, social equality, full employment, economic growth? I would suggest that the implied objective over the past several decades in Britain, followed by every Prime Minister from Thatcher to Cameron, is to dismantle the post-war democratic state and transfer as much power as possible to the private corporate world. The evil genius behind all that is von Hayek. That is what the direction has been, if you look at everything that has happened. As soon as one starts to challenge that—as a left social democrat I have a completely different objective; I want to recreate the social democratic post-war world, which I think worked very well. Until we discuss objectives, you don't get any real feel for what strategy is about.

Julian McCrae: Yes. Certainly never in my career have I had that articulated as a strategy that we are engaged in. In a sense it takes you straight into the political sphere which, as Peter said, is what is Parliament holding politicians to account for? What is the public holding politicians to account for, for the direction they wish to take the country? In my experience, sometimes in the political world it is easier not to lay out some of those very big visions and ideas, simply because change occurs in a far more practical way. It does not occur through grand strategy and speech; it occurs through making changes. That can make a distraction and possibly—I leave you to judge this—because you do not want to reveal your full hand. On the opposite side though, a set of clear objectives is essential—outside a strategic approach to anything; forget the word “strategy”—to changing anything. If people do not have very clear ideas about what this means for my job as I am doing it now, in a few very short ways that really make sense to them, you will not change anything. That is what I think this Government has been struggling with. It has a very clear strategy and approach to changing the structure of the state—

Q95 Chair: Does it?

Julian McCrae: It does.

Q96 Chair: It says some very clear things, but are they strategically thought out? Are they strategically connected to each other?

Julian McCrae: I think that it possesses a strategy, as in it has a set of things whereby it thinks it knows where it is and where it wants to go. Those are very silo-based—to go back to an earlier question—and they are much clearer in Departments than at a cross-government level. You could challenge whether it should have a much clearer strategic approach to the cross-government element, but it has a strategic approach, and that is very much based around wanting to get on and change things. The underlying theory of how you change things is generally that you change things on the ground and keep moving—do not spend too much time thinking about the direction, because we did that in Opposition and we are moving forward. That is a perfectly reasonable approach.

Chair: Sorry. We must have shorter answers.

Kelvin Hopkins: I disagree fundamentally. I think that there is a continuum between new Labour and the Cameron agenda, to which Cameron keeps referring—“This is what you said in Government.”

Q97 Chair: I think that something else is coming out in this conversation that is very important, which is that, being a civil servant, it is in your psychological DNA now that strategy is about how to implement things that other people give you to do, whereas we are thinking about how the Government identifies the national interest and is an incoming Government acting strategically or is it just a connection of impulses that it collected to put in a manifesto to get elected?

Peter Riddell: Some of it is to do with time. As any organisation finds, the most difficult thing is to have time to reflect. Governments under pressure are more likely to react instinctively to immediate pressures, because that is inevitably what happens. One of the great difficulties is not just whether you have capacity—people—but do Ministers give them time to discuss the challenges that have been put to them? Both Julian and Jill have said that a lot of it is a matter of challenge. Do they allow time—not just time in the agenda, but time to think—for that to happen?

Chair: We are talking too much as well. We do not have enough time. Mr Hopkins, do you want to press any further?

Kelvin Hopkins: I have another question. That one was a supplementary to the previous one.

Chair: Yes, as quickly as you can please.

Q98 Kelvin Hopkins: The Cabinet Office tells us that strategic thinking is a valued skill in the civil service. Do you see evidence to support that view? If yes, what have you seen?

Julian McCrae: I think that it is a reasonably valued skill, but other skills are potentially more valuable. If you went through the list, the key thing if you want to understand what an organisation values is to look at how it promotes and who it promotes to its top ranks. The ability to work in ministerial private office,

 24 January 2012 Rt Hon Peter Riddell, Jill Rutter and Julian McCrae

Treasury policy skills and so on tend to be associated with the people who get closer to the top. Jill might like to say something.

Jill Rutter: The people who came out of the Prime Minister's strategy unit, who had more experience of doing formal strategy, did quite well in Government, and a lot of them are in senior positions now. Quite a lot of people have the capability to do that, but in some ways the more interesting question, which goes to our reports on policy making, is that one of the key components of effective strategy is, as Julian said, to understand what is going on. One question is: do we really have the depth of analytic skills and knowledge to do that?

If you read, *Good Strategy/Bad Strategy*, the starting point of good strategy is diagnosis. One of the interesting questions is, do you actually have those real diagnostic skills to combine with the political skills—small “p” political—that civil servants need to give some unpalatable messages to Ministers? For example, perhaps the diagnosis revealed by that is not quite the same as their diagnosis.

Within two years of an election is an odd period for strategic thinking in Government, because you assume that the Government's immediately revealed strategy, at least on the domestic side, has come out of the process of manifesto making, and the immediate activity is about making that happen. That is the focus of the first two years. Interesting stuff: Peter is about to set up a project on government renewal, which I think is a really interesting project for a Government of any party.

Q99 Kelvin Hopkins: Is there a difference between the strategic thinking capabilities of officials in Departments at the centre and those working in large delivery departments?

Jill Rutter: They are answering different sorts of questions. Going back to this *Good Strategy/Bad Strategy* idea, the critical thing for strategy is that you have to have your diagnosis and guiding approach—what you would recognise as a strategic approach. That has to be turned into coherent actions. One of the eternal challenges is to make the translation from what you want to do—a strategic level—into, “Can it actually happen?” I may want to cut carbon emissions, but can I design a regime that allows me to do that cost-effectively while maintaining proper amounts of energy generation, or whatever? That is the real thing. One of the big issues—this is why there is a lot of interest in bringing in outsiders to the policy process—is to make sure that what you commit to and what might sound very good on paper can be delivered in practice.

Julian McCrae: It goes back to the question: what is a strategic approach to operating? People who are best at operational leadership in the civil service—indeed, those I have met in any other sphere—are the people who can answer clearly, “Where are they now? Where do they want to get to and how do they get there?” If you are operating as a civil servant, part of that is making sure that it links with the higher level political world.

Q100 Lindsay Roy: The acid test of investment in strategic thinking time is the “So what?” factor. What is the outcome? Do you agree?

Jill Rutter: In terms of, “Did you do anything differently?”

Lindsay Roy: The outcome, yes.

Jill Rutter: If you are going to invest in a lot of strategic thinking, the interesting question is: do you do anything differently at the end or have you at least thought through a frame for doing so? One of the values of strategic thinking is a chance to step back and play out some of the scenarios. It is interesting that if you have a clear view of where you want to get to—this all has to start from clarity on achievable objectives—having that frame allows you to play out different ways in which you might achieve it. It allows you to think about what you will do if events happen to you and how you might react. It is not going to happen exactly like that, but if you are in the negotiating room at 4 am, what exactly do you do? It is useful to have thought about that in advance. The Prime Minister may well have done that—I don't know.

Q101 Lindsay Roy: That is very helpful. In *System Stewardship: the future of policy making?*, you drew attention to the changes that the Government's localism agenda would require and how policy is made in a less certain world. What new strategic capacities and skills will officials and Ministers need to develop to make this work?

Jill Rutter: I will pick this one up, as it is our work on policy making. What we are trying to say is that policy making is moving. Jeremy Heywood gave an interesting interview to *Civil Service World* before he was made Cabinet Secretary. I think we quote it at the start of *System Stewardship*. He said that the whole system has to change. If you have got used to having direct levers and targets, you are not in that world any more. It requires a different approach, and the civil service is trying to work out what it is.

We are saying that the role of the policy maker—blended Minister and civil servant—is setting the rules of the system, such as some of the boundary rules. It is giving some idea—this is where clarity on objectives matters—of where you want that system to go, but not trying to micro-manage every move within it and target each input. That is where we come to your views on emergent strategy. John Kay is on next. I know that Mike was very influenced by his *Obliquity* book.

You want to be able to ride the innovation and adaptation within the system, but not go off course. For civil servants, if you want to benefit from that, it is impossible to have everything going back through Whitehall, with any vague deviation having to come back—you need much shorter feedback loops. That is where this fits closely with the decentralisation agenda. As a civil servant, rather than looking inward and upward, you must be out there understanding what is happening on the ground. You must have a different set of skills. You must operate much more through persuasion, using a variety of techniques, and you must be able to connect to people. We had a session yesterday at IFG about crowd-sourcing, and

24 January 2012 Rt Hon Peter Riddell, Jill Rutter and Julian McCrae

we will come on to that. You must be able to access multiple information and make sense of what is going on in a very messy external world, rather than say, “What I want to achieve is x.”

Q102 Lindsay Roy: Are you seeing a change in culture?

Jill Rutter: We think a very big change in culture. One of the things we say in *System Stewardship* is that the pretence that policy is flawlessly delivered from ministerial thought, looking at your chair, through to exactly the same result on the ground is always a fallacy. It is even more of a fallacy there, because the effective policy is made and remade every time it filters through a level at which people are making prioritisation decisions.

I was at a thing on drugs policy that was quite interesting. The Government clearly have not legalised a lot of drugs, for example, cannabis is still illegal. What that means on the ground depends on the policing priority decisions of every local chief constable. Are they going to arrest you for low grade possession or not? Many of them will not. You have to recognise that your policy is being remade. You as a policy maker need to think, “That is happening. Am I aware of what’s happening? Am I happy with what’s happening, because if I’m not, that’s an area on which I need to intervene? Or is there some really brilliant innovation going on there and my role is to catalyse the spread of that innovation somewhere else to make the system adapt faster?” We can contrast building the Olympic stadium with designing the Olympic ticketing system, where people’s satisfaction with the outcome depends not just on the system, but whether they got their tickets and how all those people interact.

Chair: I must ask you to give shorter answers I am afraid, but that was a very, very full answer. Thank you very much.

Q103 Charlie Elphicke: Turning to Departments and the departmental business plans that have been introduced, do they provide Departments with a clear strategic direction? Are they useful at all?

Julian McCrae: Departmental business plans contain quite a lot of things. People tend to think about structural reform plans, which are the set of actions that the Department has committed itself to. We think that, in principle, they are a very useful innovation in that they force Departments to write down what they are intending to do in taking forward the Government’s agenda. They produce a timeline to that and there is an accountability as to whether that is happening or not. That is a good move forward. The reality as it lies on the ground has been variable. Some Departments have them built into what they are doing and how they are running the whole Department, but, for some Departments, they are more reporting tools on the side of what they are doing. If they are the latter, it is clearly not necessarily driving change; it is merely an exercise in ticking boxes. That is not really where the Government want to take it.

Q104 Charlie Elphicke: Jill Rutter, Mr McCrae has a positive view of all these things, but you used to work in the Treasury. Is this not a classic Treasury

plot that is all about the money and nothing to do with any kind of direction?

Jill Rutter: On business plans, I used to do spending rounds in the days when we really just cared about inputs. That is all we measured. So there has been some progress from inputs to outputs to outcomes. It is quite useful for Departments to set down what they are trying to do and to be held to account for whether they have done what they are trying to do. In so far as business plans do that, they are quite useful.

Going back to my time in DEFRA, that was the sort of Department that, critically, depended on lots of other Departments contributing to its policy objectives. The bit that is lost through business plans is the joint action approach. That is a potential future improvement because Departments are really just conveniences used to badge people, like houses at Hogwarts. The question is: do they really matter more than that? The Government have to solve loads and loads of problems that do not fit neatly into Departments. Business plans are very important for holding Departments to account, but they need to be refined through a process of meshing together.

Peter Riddell: Could I add one point? The key thing is monitoring. We do some monitoring ourselves and we produce something called the Whitehall Monitor, which does look at them. That is something one of our colleagues looks at very closely. There is a role for Select Committees—obviously, more the departmental Committees than this one—to look and follow it up.

On your basic point, what is inherent in the whole discussion we have had this morning is the role of the Treasury. If you look at what happened with defence, instead of things being sequential between having a national security strategy and then the review, they were coincidental. But, it was quite clear what was driving the process. If you look at the evolution of the business plans, the connection with the CSR of that year was clear. The very interesting question is how much of the spending round comes prior to any strategic consideration of what the priorities are for any Department.

Q105 Charlie Elphicke: Jill Rutter, let us just take a Department at random—you mentioned DEFRA, so let us take DEFRA. Do you see it as a Department that is a beacon of quality and strategic thinking and direction?

Jill Rutter: I have made a decision not to think too much. That sounds very unfair. I do not want to judge what my colleagues are doing. I think that they have quite a big agenda. They have done one piece of work that I think is quite strategic and interesting, which is the natural environment White Paper. It built on and used a lot of stuff that was commissioned under the previous Government, so I think that was a really good example of continuity; but like every Department it is coping with significant cuts and reductions, massive streamlining of its arms’ length body landscape. It has a lot on its plate.

24 January 2012 Rt Hon Peter Riddell, Jill Rutter and Julian McCrae

Q106 Charlie Elphicke: Mr McCrae, what do you think? You were at No. 10, observing the Prime Minister's strategy unit. What did you think? Take a Department at random.

Julian McCrae: I think the capability reviews, which Gus O'Donnell brought in, were quite a good innovation in trying to say objectively and publicly what was happening in the capability of different Departments, along with, of course, the agendas. The fact that we do not have successors to that, which have direct robustness and an external challenge, is quite a big gap, because you cannot objectively answer your question, and for a civil service that is concerned with taking forward some of the biggest challenges any Government have faced, actually that is a big gap: to not know whether you are on track to increase your capacity or not. Was that what your question was?

Q107 Charlie Elphicke: No, my point is when you were in No 10, were you personally convinced that they could see the wood for the trees?

Julian McCrae: I think there is a tendency in all organisations for people in a different organisation to think the other people cannot think; which is usually to confuse the fact that they are thinking a lot and you just do not understand what they are trying to achieve. Civil servants in DEFRA are very intelligent and clever people. The questions they are being asked by the politicians in the circumstances they have found themselves in, and the way their capabilities are being used, can vary hugely.

Members of Parliament will be in much better positions to judge whether civil servants in the Departments you come across are capable of answering the types of questions you give than I am with my random observations, but I think there should be a way of looking at this objectively, and being able to say which Departments are strong in these capabilities, and which are not.

Q108 Charlie Elphicke: Jill Rutter, you mentioned that cross-departmental working is a really important area. The PSAs were intended to promote cross-departmental working. In their absence, what assessment do you make of the extent of so-called joined-up Government?

Jill Rutter: There are some areas where they put in place mechanisms to deliver things. For example the national carbon plan has every Department committing to what it is going to do to meet the Government's carbon reduction commitments, so that, clearly, is a piece of joining-up machinery. The PSAs were working to an extent. I think it is wrong to overstate how much the joint delivery plans were really developing.

Some of the feeling I get from talking to my colleagues is they feel that that is a bit harder nowadays, without that bit of infrastructure; so that degree of joint working is not necessarily there in the same way as it was; but that is also compounded by the fact that there is a lot of churn going on—a lot of change, a lot of internal distraction, with people taking

out very large numbers of staff, and a lot of people quite new to post. I think you would have to make a real judgment, maybe a year or two down the track, when you saw how the new arrangements were bedding out, and how those relationships were rebuilding.

When I was in No 10, which was a lot earlier than Julian, I always thought that the Cabinet Office should play a much stronger role in pushing Departments to understand what they were doing within a bigger picture; so I have a lot of sympathy with the Committee's approach that there needs to be a strategic drive—that Departments can then see how they fit in and where they fit in. It may be different at the start of a Government, but I was there mid-way through a Government, and you felt a bit of benchmarking that you could hold Departments to—

Q109 Chair: But isn't the Treasury rather jealous of that role? Doesn't the Treasury think that it does that?

Jill Rutter: One of the least productive outings under the last Government was the complete fissure between the Treasury and the Cabinet Office. One of the worst exercises I was involved with was a process called the five-year strategies, when we were asked to produce a five-year strategy for DEFRA, shortly after I joined. We were asked to do it very quickly and the Treasury made clear that this was absolutely unlinked to the comprehensive spending review and actually was not a document that it was going to pay any attention to. That was not, I think, classic government.

Peter Riddell: That was essentially a political thing, Jill.

Jill Rutter: I know, essentially, but it was not a classic of good government, I think.

Peter Riddell: No, it was a political thing with Tony Blair trying to produce a legacy to influence his successor.

Q110 Charlie Elphicke: Mr McCrae, Jill Rutter speaks of a fissure between the Treasury and other parts of Government, which leaves me shocked. All of us are stunned. For you in No. 10, did that make it harder to promote joined-up government, and would you say that between 2000 and 2010 joined-up government was a successful enterprise, or not really?

Julian McCrae: The lack of joining up across Departments is a long-standing feature of UK Government. It is also a long-standing feature of virtually every Government you look at.

Q111 Charlie Elphicke: Does that make it all right, then?

Julian McCrae: It doesn't make it all right. It means it is something we have to look at. We need to think about the fundamentals. I mentioned business plans. I have a positive view of business plans, but I do not think that by themselves they are any solution. They are a small part.

On the Treasury question, the Treasury is a Department that has a number of functions combined inside it. The primary one at the moment is its spending control function. That is where our Treasury's emphasis is focused. It is always difficult, even without the political overlay, to move people

24 January 2012 Rt Hon Peter Riddell, Jill Rutter and Julian McCrae

who have very clear and specific objectives to start saying, “Well, let’s think about this in the rounder sense of how the Government can move forward.” The Treasury’s usual answer would be, “It’s for Departments to figure out the strategy.”

Q112 Charlie Elphicke: So what you’re saying is that politicians love to talk about joined-up government, but really it is just some spin.

Julian McCrae: I think that politicians struggle very heavily with it because it’s deeply frustrating for everyone in the system. How you sort that out, I think we referred to shaping up. We suggested some things such as setting budgets on a cross-cutting basis, because budgets equal power and influence, to get to the heart of this matter, because while you keep the budgets all in their silos you will have problems such as the Treasury reinforcing those silos.

Peter Riddell: There are defences to some of the issues in relation to the Foreign Office and DFID that classically come in to that, where there are certain clear, strategic objectives. No one would say they are happily resolved. I might suggest that one of the interesting issues for the Committee to look at is the departmental boundaries, because an interesting question for the Government, as they seek to achieve further savings in the next CSR and so on, will be departmental structures and lines. So far, the current Prime Minister has been pretty reluctant to do machinery of government change, for reasons we would applaud, because there is plenty of evidence that the savings are offset by the disruption and upheaval. However, there are questions, as Jill raised earlier, about departmental structures, particularly when you are addressing cross-cutting issues, which, as the Government go on, they will clearly have to address.

Julian McCrae: May I make one very quick point? One of the fundamentals we haven’t touched on is that the UK has an incredibly centralised state, especially in England, and some of the problems we find in joining up are an example of just that. To join up an employment service with a skills service where the two lines of accountability meet, if at all, in the Prime Minister, and the Cabinet Secretary possibly, is a crazy thing to attempt. Some of our lack of more localised control structure, which most other states have, is at the root of some of the difficulty we have in this joining-up space.

Q113 Chair: The Government’s strategy really is the CSR, isn’t it? That’s the Government strategy. Nothing else matters in this present climate, does it?

Julian McCrae: Anything strategy that is not linked to your budgets is not strategy.

Q114 Chair: So how is the Treasury, as an institution, bound into this overall Government strategy except by the Chancellor’s relationship with the Prime Minister and the other Ministers? Isn’t the mistake here to believe that we can create some institutional underpinning, when in fact it depends upon the will of the politicians to think and act strategically?

Julian McCrae: If you look at the examples of people who have run spending reviews in major times of austerity that have led to successful consolidations, in that they cut the spending and it stayed cut, you tend to find that your spending review processes focus not so much on just sorting out the spreadsheet and making the numbers add up, which is a traditional Treasury way of thinking about spending reviews, but on building the alliances and coalitions that are necessary to implement what are very tricky decisions. So, they focus on the political side, on how you build up the Cabinet consensus around the set of challenges, and they focus on the operational side, on how you get leaders in place who feel they own the plans that are coming out and which they have to implement.

Q115 Chair: But the Treasury seems incapable of distinguishing between £20 million off the World Service, which has enormous strategic implications, and £20 million off the out-of-work benefits bill. Okay, one is a demand-driven programme and one isn’t, but the problem is that it stretches into billions on the out-of-work benefits bill, so why are we bothering about £20 million off the World Service, when that will do so much damage? Does the Treasury make a distinction?

Julian McCrae: The spending reviews that we have run in the UK are notoriously bilateral. If you are running a spending review, from the Treasury’s point of view the most important thing is how you settle a political fight for resources. The last thing you want is Departments talking to each other, because they might gang up on you, so you get an extremely bilateral process. A spending review that you do in a time of austerity—where you really need to challenge yourself on some of those questions, join up the different things and make savings across departmental boundaries—looks very different from what we have traditionally run over the past 10 or 15 Sessions.

Peter Riddell: The spending review in 2010 was done in a very short period of time. It was produced in the third week of October, but it was launched only in June, after the Budget. It is a different opportunity. We assume that there will be a spending review in 2013—the next instalment. This is undoubtedly a pious aspiration, to meet exactly the point you are making, but there is actually time now to address the points that Julian is making. If there is a will, there is the opportunity to address exactly the points that Julian is making now, but it does not need to be so rushed.

Q116 Chair: Lastly, unless Jill has an urgent point to make, we need to address the question of public engagement and how strategy emerges from democratically elected politicians who think they know the minds of the people they represent, who put them into power. In this, I have in mind a virtuous or un-virtuous circle where public aspirations, interests and perceptions of interests inform strategic leadership in Whitehall, which in turn drives policies that are successful or unsuccessful. That success or lack of success then reinforces or undermines the sense of public identity and the values and aspirations.

24 January 2012 Rt Hon Peter Riddell, Jill Rutter and Julian McCrae

Do you see the circle that can work positively or negatively? One would argue that recently it has been working negatively, and that economic failure has undermined public confidence, which reduces aspirations or makes politicians think more short term. In that context, given the critical role of people and organisations outside Government feeding into the Government's strategy, how should the Government more rationally engage the public and provide strategic leadership to the public as a whole?

Jill Rutter: I will start by saying one or two things about that and then colleagues can come in. At the moment, there has been a lot of public engagement about what the Government have been doing, but it has been after the event. We have had an announcement, followed by a mobilisation against and some sort of reaction. We had a session yesterday with Will Cavendish, who runs the Red Tape Challenge, which is a sort of micro bit where they are trying to get public views. There is a really interesting piece about opening up some issues to try to take the public with you.

Q117 Chair: You are talking about what politicians call rolling the pitch?

Jill Rutter: A bit of rolling the pitch, but a bit of potentially not just rolling the pitch but throwing balls around a bit, and letting some other people on to the pitch to play.

Q118 Chair: But I am asking you about something different. I am asking you about how politicians know what sort of country the British people want this country to be.

Peter Riddell: I think they do.

Chair: Yes, they do.

Peter Riddell: My sense from a lot of contact with politicians over three or more decades is that they have a belief, which may be correct or otherwise, that they know what the public want—particularly on tax issues, which are crucial to this.

Q119 Chair: Well, our place in the world, and whether we should have nuclear weapons, or wars, and so on.

Peter Riddell: They have a core assumption. All right, they do lots of focus groups and lots of polling, but that partly depends on how you phrase it. I think the real inhibition here is being afraid of posing potentially what they regard as politically difficult options. If you look particularly at, say, tax issues, there has been a reluctance to have an open debate on strategic choices, because of some of the implications for taxation. It is interesting to look at what happened to the previous Government, which led up to the increase in national insurance contributions—this goes back to the earlier point we were making on health. There was a sense that, yes, health spending should rise, which was the strategic decision, but how could it be financed? The process of engaging the public was to have Derek Wanless to do these reviews, which all pointed in one direction—to have someone outside legitimising the decision that Gordon Brown

and Tony Blair had already taken—so the involvement was how you minimise the political risk of doing something that they initially felt was unpopular. It turned out to be unpopular with a long time-lag, not initially—it was initially successful. The politicians feel that they know all too well what the public think, so they narrow the debate or seek to influence the debate by having reviews that produce the results they want.

Jill Rutter: Most of the evidence is where you do proper deliberation and bring people in, and a lot of things that, *ex ante*, are deemed to be unthinkable are actually a lot more thinkable when you put the options out to people. A tax commission in Australia called the Henry commission asked people what they thought the future of the tax system should look like. That is not something that the Treasury has been very pro doing here, but it is interesting that the permanent secretary to the Treasury has done it. It was done over a year or a year and a half with quite a lot of deliberation. The Turner commission ran lots of road shows saying, "These are the choices on pensions. What do you want? Can we do that?" Julian was involved in a small exercise before the spending programme, asking citizens in Coventry how they would make spending choices. They probably weren't a million miles from where the Government ended up with their spending choices, apart from the fact that whenever you ask people to do an interpretive exercise, they never want aid spending.

Q120 Chair: But such public consultation exercises can be very subjective. We all know the dangers of push polling.

Julian McCrae: Exactly. They probably tell you more about how people think and approach subjects than what the answer is.

Q121 Kelvin Hopkins: What Governments do not do in Britain is present coherent alternative views of how we should run our world. If the two parties represented, on the one hand, America, the free market and inequality, with all the problems that come with that, and, on the other, Scandinavian social democracy, with full employment, a high degree of equality, a very peaceful society, very high spending and very high taxation, those are coherent alternatives, but they are never presented, because the politicians do not want the population to choose the latter, I would say.

Peter Riddell: I don't think it's as straightforward as that, if you look at the trends of actual spending and tax.

Q122 Lindsay Roy: Jill, you mentioned crowd-sourcing, and I think you want us to refer to Iceland and the way in which it is trying to create its new constitution. Do you think that social media and activities such as crowd-sourcing have a place in the development of a strategy and an understanding of the national interest?

Jill Rutter: I think it is interesting whether they have a place in the development of strategy. They are potentially more useful, and have certainly been used so far, around quite focused questions. The big

24 January 2012 Rt Hon Peter Riddell, Jill Rutter and Julian McCrae

Government example so far is the red tape challenge, where they put out a bunch of regulations and ask, "What do you think of them?" We were debating last night whether it was just a fancier-schmancier form of consultation, and it seems to me that the real use is where it allows people to feed in different ideas.

The Chairman asked whether these things are all fixed, and one of the really interesting questions in developing some of this crowd-sourcing is allowing different framings of the question to emerge. At the moment, you get framing by Government and you are nudging—we are all experts in behavioural economics now—people and priming the answer. It is really interesting. Can you actually get different issues emerging from crowd-sourcing?

We had somebody from Redbridge last night who had done some interesting stuff about presenting—it's the sort of thing that you are doing—budgetary choices of what sort of borough we want to be, whether we want to spend more and how we want to do that. They did that online, but of their 150,000 or so citizens, 5,000 participated, so there is always a question of whether you are just getting the people who love playing around on computers or whatever. They went out and nabbed people in libraries to try to deal with that. It is an emerging area in which people are feeling their way at the moment.

On the red tape challenge, they would say that they have managed to reach the sort of people who conventional consultations never reach, like bed-and-breakfast owners. There is an interest in engaging more people in the policy debate, but you then have to understand—this is really interesting—whether you can move beyond sucking up ideas to actually help people co-create solutions, as we call it in the jargon. If you have two sets of people saying x and y, can you actually provide a platform where the Government will say, "We don't mind whether it's x or y, or ½ x or ½ y. You go and sort out a regime you can both live with"? That is an interesting, new way of thinking about it. As Peter said, one of the ways we have done that before has been through these commissions, asking three or five wise, semi-representative people to think longer term. One of the huge advantages of those commissions is that they are able to bring some real focus and real depth of analysis and to actually think beyond the normal political boundaries. That is an area where the coalition has created some reviews, and it is not an unuseful part of the policy process when you need to go beyond the day-to-day and the extremely tactical.

Q123 Lindsay Roy: How do politicians and officials have a clear idea of the public views on major issues? Indeed, do they have a clear idea and robust information?

Peter Riddell: They often have very strong prejudices. As Jill has just been saying, the various kinds of outsourcing at other times can often refine those in an interesting way. The problem is a representational one—your 5,000 in Redbridge, compared with the whole population. How do you get that balance?

Oddly enough, I have never met politicians who do not think they know what their constituents think about issues. The issue is much more how widely

based things are, and that sometimes leads to risk assessments. That is why I think the idea of commissions and reviews is interesting. It is difficult for Governments to put out risky options. By definition, my old trade will always pick the riskiest—the flesh creeper. It is easier for reviews to put the unpalatable out there and stimulate a debate. There is an issue of distance—not deniability, but distance.

Q124 Chair: My concern is that politicians are endlessly asking the public what they think about things in order that they can just repeat what they think people want to hear. Very often, what people think they want to hear is not actually what they want after they have thought about it. The dichotomy in this process of public engagement is that you can be diverted down sidetracks. Yes, the public would like tax cuts and lower immigration, but if you campaign overtly on those subjects, they just think you just want their votes, and they do not think you are serious.

Jill Rutter: There is a lot of difference, though, with putting an issue out there and then having a campaign against it. Seen just an issue at a time, if you pick issues off one at a time, people will mobilise against the sale of forests, and they will mobilise against this and against that. The more interesting, constructive, big deliberative process would say, "Do you accept that we've got to make some unpalatable choices if we are going to do this? Given that, can we engage you better on ways of setting priorities?" On the Redbridge site, the moment you want to spend some money, you are forced to go and raise some taxes as well.

Q125 Chair: That is the interesting thing; it is where public engagement becomes an act of leadership, which is actually what politicians are elected to do. Do you think we should ask in the polling we are going to conduct whether the public think that strategic thinking is a waste of time?

Julian McCrae: Others will know more about polling. Do the public have a clearly formed answer to that question, or is it simply that asking the question is eliciting a response?

Chair: I think that is exactly it.

Peter Riddell: My view would be it is a pointless question to ask, because I did polling for the best part of two decades, and the public haven't the faintest clue what it means. They might have a view what lies behind it, but phrased anything like that, it is not something that people focus on at all; it is not a concept they focus on.

Q126 Chair: So just because strategic thinking does not have an immediate, political, positive impact, it does not mean that it is not an important thing—

Peter Riddell: That is a different thing. It can be very important, but it is not the way your constituents conduct political discourse.

Julian McCrae: If you possibly rephrase the question and ask whether they think Government should know what is actually happening, what they want to achieve and how they are going to achieve it, you might get a totally different answer to the question than if you talk about strategic thinking.

24 January 2012 Rt Hon Peter Riddell, Jill Rutter and Julian McCrae

Jill Rutter: Or even, “Do you think the Government has a clear sense of direction?” You could ask about that—the output from the strategic thinking—rather than the strategic thinking per se.

Chair: Thank you very much indeed for a most interesting session. We are looking forward to our next act that is to follow. Do stay if you would like.

Examination of Witnesses

Witnesses: **Professor John Kay**, Visiting Professor, London School of Economics, and **David Steven**, Director, River Path Associates, gave evidence.

Q127 Chair: Welcome to our two new witnesses. Please identify yourselves for the record.

Professor Kay: I am John Kay, author and economist.

David Steven: I am David Steven. I spend half my time at NYU, where I work at the centre on international corporation. I spend the rest of the time as a consultant with River Path Associates.

Q128 Charlie Elphicke: Mr Steven, welcome. In May 2010, I think I am right in saying you warned that strategic thinking in the UK has to reflect the fact that “the UK is far from being in control of its own destiny.” Do you think that events since then have reinforced your idea that we are flotsam in the global ocean going back and forth, or that we have more control?

David Steven: No, we have little control. This is one of the central strategic challenges. What do you do when events are moving very fast around you? You have a few cards, but you have no choice but to try to act. In Government, we are still a long way from accepting the nature of that strategic conundrum. In 2008, I spoke at a small summit for heads of state shortly after Northern Rock had collapsed. Most of the summit was taken up with congratulating the world on having escaped the financial crisis and talking about how to recover from it. Of course, it had barely begun at that stage and we have continued to have waves of crisis since then. If we believe that we are in a systemic crisis—and a systemic crisis that is not only economic, but has resource dimensions, environmental dimensions and increasingly a social dimension—we should start to behave quite differently as a Government.

Q129 Charlie Elphicke: Are you aware of the book written back in the 1970s about how world civilisation, as we know it, is going to collapse by the end of the century? What do you make of the conclusions of that?

David Steven: If you are talking about the work on the population done in the early '70s, it is really quite interesting to compare the two periods; 1973–74 was the last time when we had a burst of the kind of volatility that we have seen recently. We had an inter-linked oil, food and economic crisis, and leaders at the time were quite seized by the need to respond to it. In part, a supply response kicked in and we should not ignore the possibility that that will happen again. In 1974, the food price spike was much more serious than in 2008. Food prices in real terms went much higher, but food prices then fell almost every year until 2008. Volatility is cyclical; it is episodic. Once you get locked into an era of crisis, it tends to

reinforce itself. It is possible that you move into calm water after a period of time. I suggest that we have some quite complex transitions to get through before that can happen. I am just looking at the ways that new powers are rising up out of the system. That has to bed down in a way before we can get out of this period of crisis.

There are still some hard limits, if you accept what climate scientists are telling us. The vast majority of climate scientists are telling us there is only so much greenhouse gas that you can put into the atmosphere before the climate starts to behave in ways that are really quite hard to predict. Volatility is cyclical. You can get out of it. You have to work hard to do so. We should not neglect the fact that there was a huge policy response in 1973–74 as well, but we also need to look at some of the hard constraints.

Q130 Charlie Elphicke: So would you argue that, while we are flotsam and jetsam in the global ocean, that does not mean that we should give up on strategic thinking? We should think about the environment and build lots of nuclear power stations.

David Steven: I think it would be useful to have some strategy for our future consumption of energy, certainly. I think it is even more important to have a strategic vision at a time of uncertainty and change; it is just that you need a different kind of strategy.

I think it was Palmerston who talked about foreign policy being a process of floating down a stream and putting out a bargehook every so often to correct the course. For the strategic challenge, a better metaphor would be something like shooting the rapids. You have to have some sense of where you are going, but a lot of what you need to do is about the immediate challenges ahead of you, and an enormous amount of what you need to do is about co-ordinating with the other people in the boat. If you can start moving the boat in the same direction—that is strategy—then you have a chance of getting out of the situation alive.

On the energy point, we are currently in the early stages of a substantial change in the UK's energy endowment, as shale gas is discovered in much larger quantities than experts predicted. We have not even begun to work out what that might mean for our long-term strategy. We are allowing that battle to be fought on very small terms. We have allowed it to be subsumed into a fairly sterile argument about whether a couple of earth tremors are the critical question, and we are far from asking the big questions about what is likely to happen to the UK's energy security if we suddenly have much more gas than we expected. That is a perfect example of where the Government are

24 January 2012 Professor John Kay and David Steven

failing to develop a long-term strategic vision and follow it.

Q131 Charlie Elphicke: So the Prime Minister calls you in and says, “Look, our energy strategy: should we build some nuclear power stations—yes or no?” Would you say yes or no? *[Interruption.]* You say no. Now, the Prime Minister calls you in and says—

Chair: To be fair, I don’t think that that question is at the heart of this inquiry.

Charlie Elphicke: Its relevance will become clear.

David Steven: For the record, I would probably say yes, but I wouldn’t regard myself as having the evidence to make that decision.

Q132 Charlie Elphicke: I understand.

Say the Prime Minister calls you in and says, “Look, there’s lots of shale gas and shale oil on the North sea bed. No one particularly minds about fracking offshore particularly, so should we do that? Should we explore this resource and have energy security?”

David Steven: Absolutely—it’s a no-brainer—but are we going to do it in such a way that it is genuinely a transition fuel? Are we going to use it as an opportunity to restructure the way we use energy, or are we simply going to put another big slab of carbon on the table, allow gas to lower energy prices, drive consumption up and eventually lock ourselves into another dynamic that we would be better off not being in?

Q133 Charlie Elphicke: The reason I alight on energy is that I think it is a particularly interesting area. You have so many of the issues pulling in different directions and pushing you into different types of energy resourcing. That is why I am particularly interested in it. In identifying a strategy out of those competing issues, what approach and tools would you say are necessary to do that and to pick through the path?

David Steven: My area of expertise is international policy. Energy is pushing countries in vastly different directions. Very broadly, in the West, we have a stable consumption path. In some countries it is falling, but let’s call it broadly stable. Some countries have very low endowments; some countries such as the US, because of shale gas, have increasing endowments. For the emerging powers, their access to energy as their demand continues to grow quickly, as it will do if they have anything like the economic growth that they have had in the past, is the core of their geopolitical challenge. The way we work with China and India—I believe the figures for India say that, over the next 20 years, it will see something between a 60% and 95% increase in energy use, depending on the scenario—on these issues is a critical foreign policy challenge.

We run the risk, at the moment, of getting into a quite nasty zero-sum, tit-for-tat dynamic—you can see it beginning to happen around naval power in the South China sea, for example—but given that we have many advantages in this piece, we also have room for leadership and room to start creating frameworks in the international system that will manage these problems effectively. Domestic policy then has to be

aligned with that. We cannot any more be the country that makes a lot of noise in, say, the climate change talks, but does not have a very good story to tell at home.

I think that things are changing here. These changes are tough, but if we can begin to show that we have a long-term strategy for energy, we can then begin perhaps to work constructively with some of the key powers on this issue and we can also look at the countries that are being crushed by energy insecurity. Pakistan is a perfect example and we have seen the turmoil in Nigeria. These are countries with weak institutions. If we allow energy markets to have the kind of volatility that they have at the moment, they are going to find it difficult to maintain their security and stability.

Chair: Two brief supplementaries of my own—

Q134 Charlie Elphicke: Can I ask Professor Kay for his reaction?

Professor Kay: To which question?

Charlie Elphicke: Your observations on the dialogue that has just taken place.

Professor Kay: I will make two observations, both of which can lead into a more general discussion. The broad observation is that I think we need to start by talking about what we mean by strategy. In the 20 minutes I have been in this room, I have heard “strategy” being used in a variety of senses to mean a variety of things.

The area of energy policy, on which you have just been having that exchange, is relevant because one interpretation of strategy is planning, and in the energy sphere endless 30 and 40-year plans have been made at various times in the past, none of which have borne the remotest relationship to the reality of what actually happened. That kind of exercise has, largely in business, discredited the idea of strategy as planning in that sort of numeric, detailed sense, although it still has quite a lot of influence over the way Governments behave. We might talk about that.

In relation to the specific issues about what our energy policy should be, my view, which follows from what I have just said, is that one should start by understanding the two big problems of energy policy: one is that lot of things we do are on very long time scales; and the other is that we do not know—and cannot know—much about what the world will look like in 20 years’ time in ways that will be relevant to these choices.

When one thinks in these terms, it is not a matter of making up numbers or assumptions to resolve the uncertainty; it is a matter of thinking about robust strategies that will enable things not to work out too badly, whatever events occur. So, to answer your specific questions, my instinct would be that we want to do all these things—a bit.

Q135 Chair: I want to make two supplementary observations to which the answer is yes or no in both cases. The less we control the global environment, the more we are at the mercy of events. Doesn’t that increase the requirement for us to think strategically about how we are going to respond?

David Steven: Yes.

24 January 2012 Professor John Kay and David Steven

Q136 Chair: Just because we don't control events, is that an excuse for not trying to harness them for our own interests?

David Steven: Absolutely not.

Q137 Chair: In the way that a ship will navigate across a sea that it doesn't control.

David Steven: Absolutely. That is why we use the "shooting the rapids" metaphor.

Q138 Chair: Finally, a previous witness told us that the Treasury always showed unwillingness to think through negative scenarios. Do you think that Whitehall is good at confronting Ministers with downside scenarios to plan for the worst eventualities, such as windmills not producing enough constant electricity to be much use, the euro collapsing and so on? We now have a Prime Minister who likes being optimistic and we do not like these bad things being leaked, such as the health service running out of money, which was what the previous Prime Minister was confronted with.

Professor Kay: One of the problems of Government and of all large bureaucracies is the desire of subordinates in them to tell the people at the top the things that they want to hear.

Q139 Chair: Is it possible to institutionalise that very necessary negative challenge more effectively than we have it in Whitehall, or is it sufficient?

Professor Kay: No, I am sure it is necessary to institutionalise it, but institutionalising it and using it depend on the willingness of the people at the top to listen to negative challenges. I have sometimes thought that if I had a pound for every time someone in business had said to me something like, "What we really want is someone like you to challenge our thinking," I would be a very rich man—and it's never been true.

David Steven: I had a similar experience. I was talking to a permanent secretary, who is now long retired, and he said, "We need to set up a network of outsiders who will act as an awkward squad and ask difficult questions," and the official escorting me out said, as we went to the exit, "I have to explain to you why we're not going to let that happen." So there is an enormous amount of resistance to this.

It comes back to something quite fundamental in the way we frame our understanding, certainly of international policy. I have a big problem with the term "the national interest", which I think is often a cheap rhetorical device that allows the speaker to say whatever they want to say.

Chair: That is a very important point.

David Steven: I am absolutely sure that the Foreign Secretary did not say this, but he was reported as saying to the Prime Minister, "When we compare the break-up of the euro to the break-up of the Conservative party, the national interest is with the Conservative party."

Q140 Chair: That is not quite what he was reported to have said. That is not quite accurate.

David Steven: That is the quote as I recall it, but I will check.

I think that this shows that we are a country of competing interests and competing interest groups, and the idea that as soon as we pass over the borders that can be distilled into some platonic ideal of the national interest is, I think, wrong. It stops us from focusing on what I think is a more modest and realistic approach for Government: to look at the risks internationally that threaten British citizens and see—again, with a weak hand—what the Government can do to try to mitigate those risks, and to increase the resilience of their own strategies and the resilience of their citizens in the face of those risks. If you are looking at risk, you are pressed to look at bad news and you really have to look at some of the downside scenarios.

Chair: I am loth to cut you off. That was a very long yes, but a very interesting one.

Q141 Kelvin Hopkins: I want to follow that point, briefly. I have made the point many times in this Committee that in recent decades a view of the world—a paradigm, if you like—has been decided at the centre and all opposition to that view has been stripped out. Keynesian views have been stripped out of universities, the civil service, the Treasury and even politics. My own party went to great lengths to stop people who might challenge it from getting into Parliament. The party failed in that, but it was what Blair wanted to do.

That has led to the problems that we have now. There is not a serious challenge within the Treasury, above all, to the way of thinking about how we deal with our economic problems. If Keynes came back, he would be quite horrified to see what is going on.

Professor Kay: But it can be done, to some degree. My hero, in terms of what strategy means in politics, is actually Roosevelt. If one thinks about what he achieved, there are two or three characteristics. One is that he had some very broad, general, important ideas, which were loosely formulated—roughly speaking, they were to save American capitalism and defeat German and Japanese aggression. We admired him because he so plainly achieved those objectives. He had no very specific ideas about how those things were to be accomplished. In the process of operating, however, he was willing to listen to advice from everyone; challenge wasn't a problem, in part because he didn't have any overriding, overarching ideology. He was also interminably willing to experiment, and not only was he willing to experiment, but when the experiments did not work, he would drop the experiments and try something else. These are the skills of the truly great politician, but we do not find them that often.

Q142 Kelvin Hopkins: He was regarded as a dangerous leftist by orthodox classical economists, I think.

Professor Kay: Of course he was, yes.

Kelvin Hopkins: I agree with you about Roosevelt.

David Steven: May I make one very brief point about the media? The media is not conducive to having disagreement within any structure—it senses the blood in the water and attacks. I do not think that is an excuse, but it is a reason why political parties and

24 January 2012 Professor John Kay and David Steven

Government organisations have done their best to have a consensus-driven approach.

Chair: Strategy is more about media handling than long-term national interests.

Q143 Kelvin Hopkins: I was taught economics by a former Treasury official at university. He said that, in the past, there would be alternative views expressed in the Treasury and if ever there was a change of policy, such as a devaluation or whatever it happened to be, there would be somebody around who would say, “We’ve got one we prepared earlier”, and it was slotted into place straight away. That does not happen now, and the collapse of the ERM was an example of how badly we got it wrong, because we did not have alternative views in the Treasury saying, “Hang on; we may have got this wrong.”

Professor Kay: I think that that is right, from conversations I have had with people in the Treasury on the same kind of lines. There are probably two large things that have happened. One is the process you describe, in which the people at the top do not welcome challenge, and there is a single view, as it were, imposed on the organisation and people feel they will damage their careers by disagreeing with it. The other is the way in which politics relates to the media. If you start examining unwanted options, as it were, you do potential damage when that is leaked to the press, as it probably will be.

Q144 Lindsay Roy: Good afternoon, gentlemen—it is past 12 o’clock. What is your assessment of the UK’s strategic capability from an international perspective, and what are the strengths and weaknesses of that capability?

Professor Kay: To be honest, Mr Roy, I am not sure I feel able to answer that question. In some respects, I am not quite sure why I am here, but I think it is because I have done quite a lot of thinking about strategy issues in a business context. I am very interested in thinking about what one means by a strategy and how one approaches it.

Q145 Chair: We will come on to obliquity later on. Let Mr Steven answer the question about international comparisons.

David Steven: I think the UK is often as good as it gets. In many circumstances, the UK has leadership and is recognised as being better at doing joined-up thinking across government than its peers, but the bar is low—very low, often. We have an opportunity. Something that I would really like to stress is that I actually do not think it is that valuable, in the international field, for us to get that much better, unless other countries are making similar strides and similar investments. We effectively need to work with other countries to increase our mutual ability to deal with the complex risks that we often grapple with and fail to understand.

We also need to continue to take the opportunities that we have in the international system to set an example of how some of this work can be done. The time when we are best is when the pressure is really on. If you compare the London G20 summit with other G20 summits, the difference in the level of contribution the

UK made is a completely different picture, because the pressure was really on and the focus was really on, which drove a high degree of synthesis. We need to continue to take those opportunities, but move some of that practice to a more everyday way of working.

Q146 Lindsay Roy: Are you aware of other countries that have a better reputation for national strategy development? If so, where would we look? Is it smaller countries?

David Steven: What is happening in the US at the moment is interesting. Their quadrennial diplomacy and development review, QDDR, was a brave, visionary attempt—somewhat before its time in the American system—to think through some of the problems that you have been looking at here. There is a move in the State Department to look at some of these big cross-cutting global issues and use them to try to drive coherence. However, as we know, the US system is incredibly hamstrung in the way that it is funded and operated. It has very little long-term security and it is working from a low ebb. It is interesting that the American Government are taking a more assertive and expansive view of managing global risk, at a time when I think the UK has drawn in its horns slightly.

Q147 Lindsay Roy: A previous witness suggested that smaller countries have an advantage in terms of national strategy development. Do you agree?

David Steven: Not really, no.

Q148 Lindsay Roy: Singapore, for example?

David Steven: Sure, but it does not really matter. No, that is totally unfair. It can matter. Small countries can take leadership positions and make change happen. A lot of the big changes that do happen internationally, middle powers have got together, often in a fairly unobtrusive way, and created the conditions from which change becomes possible. However, it is the big, complicated, messy players who are dealing with big, complicated, messy problems, where the game is really at, and it is much, much, much harder to make strategy and make it stick in those systems.

Q149 Lindsay Roy: But big countries in your contention are not too complex to have a coherent national strategy.

David Steven: I think they are too complex to have a single coherent national strategy; they are not too complex to have the kind of resilient strategies that Professor Kay is talking about, where you have an understanding of the risks that you face, high-level, long-term objectives and a series of emergent strategies that try to take you there. Again, big systems don’t like that big vision; they don’t like the critique and they find the innovation very uncomfortable often.

Q150 Lindsay Roy: So it is about recognition of issues. For example, in the eurozone, trying to develop a strategy in case this, that or the next thing happens. Would that be a scattergun approach?

David Steven: What do we want for the eurozone? I am bemused from the outside.

24 January 2012 Professor John Kay and David Steven

Q151 Chair: The UK?

David Steven: Yes.

Q152 Chair: I have my own views, but that's not the issue. I am interested: when you asked that question, what do you expect the Government to be able to say?

David Steven: It seems to me that the Government believe that the eurozone needs to persist in some form, and believe, I suspect, that it is unsustainable in its current form, and I also suspect—I am guessing—that many of the steps currently being taken will not give us the eurozone that we need. If that is the underlying analysis of our position—with the acceptance that we have only a few cards to play—are we trying to create the shared awareness, the joint platforms that could take bad policy towards good policy and achieve the objective? That is important for us. I sense we are making it up a bit as we go along.

Professor Kay: We are bound to make it up as we go along.

Q153 Chair: We will come to that. Strategy is about making the best use of your strengths. National strategy would be about bending all the available resources of the state towards achievable and desirable ends. Does that mean that, as we become a smaller and more vulnerable country, we have to be more conscious in choosing and husbanding those assets that are central to our national interest? I am thinking particularly of our technological and industrial bases, which are relatively shrinking. What means do we need to sustain our foreign, military and domestic policies?

Professor Kay: You started by saying that strategy is about making the best use of your strengths. In large part, in business, that is true, but there is a difference between business and the state in this sense, because business is operating in a competitive environment technically, whereas states are, at least nationally, monopolies. Our foreign policy is not in the modern world being operated in competition with other people's foreign policy. That is a big difference between the way one should think about strategy and business and the way one should think about politics.

Q154 Chair: I must press you on that. Is not the strength of American foreign policy that they take a competitive stance on everything and they want to be the best in the world at everything? Do we not need to take a competitive stance in at least some areas and be the best in some things? Otherwise, we have no unique selling points, to use a business jargon phrase. What are our USPs and how do we make sure that we can exploit them?

Professor Kay: In foreign policy, why are we asking that question?

Q155 Chair: Because it is a competitive world out there and we are in competition with lots of countries that are not very nice.

Professor Kay: In competition in what sense? We want to keep the nasty countries from coming and bothering us and we would ideally like to help the nasty countries sort themselves out—although we do not seem to be very good at that—but that is not a

competitive exercise. Our aspiration is not to be better at doing that than the French.

Q156 Chair: Let me give an example. We probably have the most advanced sonar industry in the world. We are global leaders. That gives us leverage with all sorts of countries, including our most important ally, the United States. Maintaining that competitive advantage against the United States is in our national interest.

Professor Kay: At this point, we are moving on to talking about business and economics. There are economic areas—

Q157 Chair: That is a strategic asset from a defence point of view. We are able to have some leverage over American technological development because we have some unique advantages of our own.

Professor Kay: Yes, at that point, the politics and the business get tied up together.

Q158 Chair: To what extent do we need to do that more effectively and more consciously—picking winners, if you like?

Professor Kay: I think “picking winners” is a rather absurdly bad name. Picking winners is actually focusing on your strengths, which is a good business strategy. The reason picking winners is such a bad name in this country is we picked industries and sectors that were not winners, but we hoped that they might be—or they were losers we were trying to keep around. Asking what our competitive advantages are nationally in the economic sense and framing our industrial economic policies towards those is a very sensible policy. If we want to call it picking winners, so be it.

Q159 Chair: Do you think that we are good at it?

Professor Kay: No.

Q160 Chair: How would we get better at it? What do we need to do in order to get better at it?

Professor Kay: This goes back to how one ought to think about strategy. We need to start by asking basic questions. What are our areas of competitive advantage? Why? What are the ways in which we can strengthen these and what are the ways in which we can develop them? Strategy, for me, starts with the intelligent diagnosis of issues. That sounds banal, but it is not what people in politics or business typically do. They tend to start with policies.

Q161 Chair: Mr Steven, do you have anything to add?

David Steven: Primarily, this is an aspect of domestic policy. The tail often ends up wagging the dog internationally, and there is concern about that. It is easy for our foreign policy to become skewed by the need to protect what we think are the favoured industrial interests. I am not sure that the Americans' competitive approach, as you call it, has always served them well in many of the key problems that they are most interested in solving.

24 January 2012 Professor John Kay and David Steven

Q162 Chair: I think the Government's reaction would be to run a mile from picking winners. They would say that that is dirigiste, expensive, likely to be wrong and would maybe restrict other opportunities that arise.

David Steven: We do live in the era of commercial diplomacy, so called, so that does suggest that the Government does feel that it can pick winners and then somehow promote those winners through its foreign policy overseas. I have a lot of doubt about whether we will achieve results by doing that.

Q163 Chair: Can you pick winners in a free country? Singapore can pick winners. China can pick winners.

Professor Kay: The picking-winners policies I am talking about are not of constructing a national plan for what sectors we are going to be best in; it is saying that in Britain, for one reason or another, there are actually things we seem to be rather good at, such as, for example, professional and business services, defence electronics, pharmaceuticals and so on. What are the ways in which Government industrial policies can be supportive of these areas of demonstrated British industrial strength in international competition? That would be my picking-winners approach to industrial policy.

Q164 Chair: Do you think that Whitehall has the skills to do that?

Professor Kay: I think, given the problem as defined, probably yes.

Chair: Interesting.

Q165 Kelvin Hopkins: I have a slightly different philosophy from the Chair. We agree on some things, but on this we do not. The great comparison is with Germany. From the beginning after the second world war, Germany decided that it wanted to become a manufacturing power and they worked hard at doing that. We increasingly went for open economic liberalism. Our model has relatively failed. Theirs has succeeded. They are the strong power. We are much weaker. We started to go in that direction with Neddly, which was set up by Heath and abolished by Thatcher, but we were moving in this direction before Thatcher. Everything that you say shrieks to me that we need to manage our economy better. The really successful capitalist economies are the ones that have managed their economies—Taiwan or wherever. The ones that do not do well are the ones that allow the market complete freedom to do what it likes, such as ourselves. That is a strategic decision, and the policy has been pursued by successive Governments. The last thing that they want is intervention in, management of and guidance for the economy. I even challenged Gordon Brown over the exchange rate, which was far too high throughout the new Labour period. I suggested that we ought to intervene to bring down the exchange rate and he said, "No, no, no. We don't intervene to target exchange rates," but the Germans do, and they are successful at it, too. One of the reasons why they want to keep the euro going is that they know that if the euro goes, the new Deutschmark will appreciate rapidly and they will lose their competitive edge. They manage things and

control things in the way that we do not. Is that not the case?

Professor Kay: Let us explore the example that you have given a bit further. Germany, for example, has competitive advantages in high-level mass production engineering and speciality chemicals. You can see that those advantages are quite heavily embedded in German economic history. They have been true for a long time, and they are both reflected in and supported by systems of technical education in Germany that are designed to help train people for these kinds of activities at both production-line level and elite level. Those things have grown up together, and that is why Germany is a winner in these areas and will continue to be.

If you look at areas in which Britain has competitive advantages, you point to things like professional and business services, and a wide variety of them, not just financial services, which are what we easily think of. We have advantages in media. We have international competitive advantages in defence electronics and pharmacology. If you explain why, I think you see that it is a big advantage being an English-speaking country for some of those businesses, and we have been pretty good at elite education, even if we have not been very good at more mass education. Those are things that feed into those sources.

What we have in both countries is a set of institutions that support the particular industrial competitive advantages we have. I do not think Governments can or should invent structures like that from scratch, but you can see the ones that have emerged, and think of things that will help them and things that will hinder them. That would be my approach to industrial policy. It is not one that believes that the Government can plan the economy, but it is one that believes that there are areas like education and training, and trade negotiations that are Government policy areas whether we like it or not, and in which Government policies ought to be directed to supporting the competitive advantages of British firms.

David Steven: Financial services are seen by many to be at the heart of our competitive advantage, and I would strongly prefer the Government to try to make markets work than to expend their energy supporting our firms in the City. I think both objectives are important, but they are often not compatible around the same table, and if markets continue to be broken, we are all in big trouble, whether or not we have managed to protect one of our core industries.

Professor Kay: I think Mr Steven makes a very important point about the way we think about industrial policy, which is that we routinely confuse the interests of the development of an industry, and the interests of established firms in that industry.

Q166 Greg Mulholland: Professor Kay, I turn to you and your idea of obliquity. First, can you briefly explain that to us? It seems to me that you are suggesting that this is where goals are pursued indirectly, but can you elaborate on that for us?

Professor Kay: I have described some of the ideas behind that in what I have said already, and this is simply intended as a critique of the planning structures that we have been describing of the belief

24 January 2012 Professor John Kay and David Steven

that we can determine what our objectives are, put down a set of steps by which we can achieve them, and that having a strategy is thinking about issues and problems in those terms. I think real strategies have to be looser and more adaptive, and responsive to changes in environment. Not only do we not know much about their evolution, we cannot know much about their evolution.

Q167 Chair: Does that mean there is no point in trying to know?

Professor Kay: We should try to know, but we should acknowledge that there are things we will not know. What we do so often—we are very bad at doing it in Government—is to work out all the information we would want in an ideal world to make a particular decision. We did that in the energy policy cases. We work out all the information we ideally need to make a decision. We know we do not know any of it, so we build a model and make it all up, so that every cell in the spreadsheet gets filled in.

After this meeting, I am going on to talk about some of the modelling that is done in Government, in this case particularly in relation to transport modelling—the kind of modelling that supports the so-called case for the high-speed train, for example. It may or may not be a good idea, but the notion that I can appraise this by having some number, and there is a number in it, for what the value of time in 14 different uses will be in 2053 is just ludicrous. If you need to know that, you have not formulated the question in a sensible way, and that is what we have to learn.

Q168 Greg Mulholland: Thank you. I am conscious that parts of your answer sounded a little like the Don Rumsfeld quote about what we know we know and what we know we don't know, and so on. May I ask you a specific question? In our last report, which we did last year, we criticised the Government's approach as muddling through in the absence of a clear strategy. It really sounds as if you are saying that we probably got it wrong and that muddling through is the best, and indeed possibly the only, way to approach it. Is that really your attitude?

Professor Kay: There has to be an element of muddling through. That does not defend not having goals, but goals that are loosely defined in the Rooseveltian sense that I described, rather than goals that are targets, of which we have had so many: we are going to reduce child poverty by 50% by 2017, or we are going to ensure that 90% of ambulance calls are answered within eight minutes. It is not goals like that; it is loosely formulated ones that then get translated into specific policies and actions. I am not against rationality and organised thinking in politics and business—far from it. I am very much in favour of that, but at the moment we do a great deal of what I call bogus rationality, which is pretending we know things we don't and erecting elaborate models and structures of argument roundabout them, quantifying things that are not sensibly quantified.

Q169 Greg Mulholland: In the Cabinet Office submission to us for this inquiry it says that “in the international sphere we require flexibility and

adaptability to respond to continuously changing circumstances”, so do you think that the Government already are practising obliquity, and if so, can you give us any examples of that approach?

Professor Kay: In the sense in which you describe it, that is obliquity. Let us go back to the discussion we had earlier about energy policy. There is the notion that a lot of people argue, that we need a 30-year energy strategy, and you know what they mean by that and that it would have lots of numbers in it and would project what fuel prices of all kinds would be in 30 years' time and what the structure of British electricity and other generating capacity would be. These models, and I have spent part of my life building models like them, are basically rubbish.

The right way to think about it is to say, “Let us think about the things we don't know and can't know, and ensure that although there's a wide range of possible developments about fuel prices, greenhouse gas emissions, nuclear security and so on, whatever happened we would have relatively robust outcomes.” I think that in that area, that involves trying lots of different things, so that if the future does turn out to be a mainly nuclear one, we have the capabilities to do that. If there does turn out to be amazing quantities of shale gas, we will be well placed to exploit that. It is not saying that we know the answer to these questions and therefore that shale gas, or nuclear or something else is the route we should go down. We did that, of course, in Britain in the 1960s in that area, with rather disastrous results.

David Steven: May I say briefly, that I think we are muddling through, and I don't think that is what we should be doing? I have a very similar view to Professor Kay of what strategy is, but once you have a broad idea of what you want, the striving that you need to undergo to get there is completely different from the kind of passive process of muddling through. So adaptability is enormously important, but we need a much more proactive, campaigning type of mindset if we are to move towards these objectives. Often we are adapting, but very often we are more or less just sitting there waiting to see what happens, and those are two different things.

Q170 Chair: Is the Government's definition of our national interests, which is our freedom, security and prosperity, granular enough to enable the Government to frame their objectives and operate, or is it too general? Or should I table a parliamentary question?

Professor Kay: I do not think that is too general, because a high-level goal, something like that, is perfectly appropriate. Obviously, if you go beyond saying, “We are in favour of freedom, of security”—

Q171 Chair: Is it not a bit too much motherhood and apple-pie? Is it not meaningless?

David Steven: Yes, I think it is fairly uninteresting. What is interesting is the next level down—

Q172 Chair: They will not do a White Paper on our national interests; I have asked.

David Steven: What are the risks to prosperity? What are the risks to security? And how are we actively going to try and respond to those risks and increase

24 January 2012 Professor John Kay and David Steven

resilience in the face of those risks? Those are the interesting questions for me, and I think seldom have we asked them.

Professor Kay: I completely agree with that. It is right to start from there, but it is only useful to start from there if you go on to the phase Mr Steven has described—what are the threats to that, and how are we going to advance these goals? You have to translate your goals—so it is goals, in this very broad sense, diagnosis, what do we need to do to achieve these goals better, what are the threats to achieving them? Then it is policies that we adopt. That is in a sense muddling through. It is not saying, “By 2030 we are going to be the freest and most secure country in the world,” which are, indeed, the kind of terms in which these projections typically, very frequently, get taken forward, both in government and business.

Chair: We must draw our deliberations to a close, but let us have one final question.

Q173 Kelvin Hopkins: Can I suggest that I think, Professor Kay, there is a contradiction in what you have been saying? Your view is Panglossian—that we live in the best of all possible worlds, all is for the best and we muddle through. And yet your appraisal of Roosevelt does not accord with that. Roosevelt did the opposite. He saw a country falling apart as a result of cuts imposed by Hoover and so on, and he reversed that and started spending on public works to drive employment up. That was a completely different approach.

Also we were muddling through in the 1930s, before the second world war, until we suddenly woke up to the fact that we were really under threat from Germany. Then we went into overdrive and did a superb job in war production and winning the war—with the help of others, obviously, but in terms of war production we did the opposite of muddling through; we took hold of the economy and drove it very hard. Countries can do that. You cannot have muddling through and the best of all possible worlds on the one hand, and yet praise Roosevelt on the other. I am with Roosevelt; I am with the war production. I think we can do things and we should do them.

Professor Kay: I think muddling through is exactly what Roosevelt did, in both economic policy and foreign policy. I do, however, think you are right that moving, in both Britain and America, over to a very largely planned and directed economy once war began was an appropriate thing to do. There is a particular reason for that, which is that when you are fighting a desperate war, as we were then, you have a very limited, well-defined number of objectives and everything is subordinated to that. Planned economies can achieve a small number of objectives very well. What they conspicuously failed to do was to achieve the multiplicity of conflicting objectives that there are in a complex, modern, consumer-oriented economy. That is what market economies have succeeded in, and what the centrally planned economies failed to do.

Q174 Chair: May I observe, to test our understanding, that one interpretation could be that there is a disagreement between you—that, Professor Kay, you are more in favour of muddling through and,

Mr Steven, you are more in favour of what one might call strategic consciousness? Is there, in fact, a difference? Good strategy is not about closing down your options and sticking rigidly to a plan; good strategic thinking, Professor Kay, is about being as adaptable as you would like Government to be, but in an informed context.

Professor Kay: Exactly.

Q175 Chair: Is there a disagreement between you?

David Steven: I do not think there is a huge disagreement. If we talk specifically about some Departments, I would like to see the Foreign Office in London become a platform for strategic synthesis across these complex issues—that should be its function.

Q176 Chair: And the Treasury.

David Steven: And the Treasury. The Treasury actually does try and drive change in a systematic way—much more than the Foreign Office does. The Treasury and the Foreign Office are two parallel platforms. I would like to see DFID continue to be pushed in the direction of becoming a Department that specialises in working in fragile and complex environments and in trying to achieve change in them. I really like this term strategic consciousness. Departments require high levels of strategic consciousness, but they also require high levels of adaptability, because of the levels of uncertainty and the few cards we often hold, which we began this conversation with.

Q177 Chair: Do you agree, Professor Kay?

Professor Kay: I think good strategy is organised thinking about problems. I think we are all in favour of that. What I want to leave you with is that I am against two things that strategy often gets turned to, including in government. One is detailed quantitative planning.

Chair: Yes, we have got that message.

Professor Kay: The other is assertion of large goals, in the absence of clearly specified, or specifiable, paths as to how they could be achieved.

Q178 Chair: Or as Sun Tzu described it, strategy without tactics is the slowest way to victory. However, I fear that we have too much tactics without strategy, which he described as the noise before the defeat.

Very briefly, can we engage the people and organisations outside Government more effectively than Whitehall currently does?

Professor Kay: Yes. To go back to the example I mentioned, one consequence of bogus rationality is that it has been a method of excluding people from intelligently debating some of the issues. If you frame your debates in terms of particularly complicated models that are not really the basis of your decision making, it is a very effective way of, in effect, locking people out of sensible discussion, and it is used in that way.

Q179 Chair: Should that be the last word, Mr Steven?

David Steven: Yes, I agree with that.

24 January 2012 Professor John Kay and David Steven

Chair: Thank you both very much indeed. You you have certainly given us plenty of reasons. Thank questioned for a moment why you might be here, and you very much to both of you.

Wednesday 8 February 2012

Members present

Mr Bernard Jenkin (Chair)

Charlie Elphicke
Paul Flynn
Robert Halfon
David Heyes

Kelvin Hopkins
Greg Mulholland
Priti Patel
Lindsay Roy

Examination of Witnesses

Witnesses: **Lord Burns**, Chairman, Santander UK PLC, and **Lord Carter of Coles**, Chair, NHS Co-operation and Competition Panel, gave evidence.

Q180 Chair: Welcome to our inquiry into strategic thinking in Whitehall. We are particularly concerned to be very clear in our distinctions: we are not talking about how policies are formed or how departments are managed, but about how Whitehall thinks strategically, and how policy emerges from strategic thinking. In particular, in this inquiry we are wondering whether in fact strategy emerges from a policy-making process. That is particularly relevant to the role of the Treasury. The first question on my brief asks to what extent economic and financial considerations should shape the development of long-term strategy, but I wonder if I should be asking the question the other way around: to what extent should national strategy be shaping economic policy, and to what extent do you think it actually does so? I ought to ask you to introduce yourselves for the record.

Lord Burns: I am Lord Burns.

Lord Carter of Coles: Lord Carter.

Chair: Thank you very much.

Lord Burns: If I can begin with the first question on your brief, I find it very difficult to imagine that one can really think about making strategy without taking into account financial considerations. Almost every situation I have been in where one was thinking about strategy, one was looking at a situation of competing outcomes, competing use of resources or of seeking to cost things and see what alternative ways there were of using resources. To me, the issue of strategy and the issue of finance are in most cases—although not all—completely interdependent.

It also follows, in terms of Government running their finances, that of course they have to give great weight to the strategic outcomes they are seeking, and what they regard as the priority, where the real constraints are and where the real challenges lie. In times of war, for example, by and large finance becomes subservient to the strategic ambition. When I was in the Treasury, it was always said to me that in times of war the Treasury did very little other than sign the cheques. That is one extreme situation. Rarely are we in that kind of extreme situation. What we are looking at is competing uses of money and what are the things that require emphasis. Strategy has to drive finance, and finance has to be, it seems to me, a very important aspect in any strategic thinking.

Lord Carter of Coles: I would agree with that. Strategy is about analysis and choices. As you come to make those choices, the finances are a very strong factor in how you make them. Most strategy requires

some form of implementation, which mostly requires money. Therefore, the Treasury must be central to that. How much strategic thinking the Treasury does and how much it reacts is an interesting question.

Q181 Chair: Well, I am asking the question.

Lord Carter of Coles: The thing for me with strategy is the timeframe. Do we think of strategy in a three-year, five-year or 10-year term? Most businesses probably think in three-year terms, and have three-year rolling strategies with a further out view. I suspect that the Treasury has a three-year view on these things, which it relates to, and has things forecast forward. It would be roughly in that timeframe.

Q182 Chair: So would you think it fair for me to assert that, generally, but particularly in times of economic crisis, the Treasury has had a very leading role in the formation of Government strategy?

Lord Burns: The Treasury has a critical role in two respects. One is that it is the Department that deals with economic strategy, and most of the time, as far as Governments are concerned, economic strategy is a very important part of what they do—unless you get your economic strategy right it is very unlikely that the other aspects of your strategy will go well. Economic strategy is the Treasury's business, and it spends a lot of time on it. That is inevitably the case. The second feature is that, given the way that the Government works, with about 20 Secretaries of State and a large number of Departments, which all have their own statutory responsibilities, it is a very cumbersome process to try to bring it together and work out who should have the resources, over what time scale, how this should be monitored, and how it should be checked that people are delivering in what they are doing. The Treasury has a critical part to play in making sure that the strategies of individual Departments are being brought together in a way that is affordable and fits in with the economic strategy. That is a slightly different role. It is predominantly to do with public expenditure, and a slightly different role from the one of running economic strategy. But both are very important. It is no surprise that the Treasury in this country has always been very close to the centre of all policy and Government strategy.

8 February 2012 Lord Burns and Lord Carter of Coles

Q183 Chair: The Treasury has become a very powerful Department of State in the Government—probably the most powerful.

Lord Burns: It always has been. When I was in the Treasury, one of the things I liked to do from time to time was to go and look back at its role in periods in the past. It has always had great power. Back in the 1930s, the finance departments of Departments were more or less Treasury outposts. They were manned by Treasury people, and basically the Treasury ran them that way.

Q184 Chair: So, the way the country is today very much reflects the influence of the Treasury down the decades and centuries?

Lord Burns: The Treasury clearly does not run the health service, transport or education. They are not the people who are driving those things.

Q185 Chair: Is the Treasury a very influential Department or not?

Lord Burns: Of course it is influential.

Q186 Chair: The Treasury has made our country what it is today.

Lord Burns: It has played its part, certainly.

Q187 Chair: Do you think the public are broadly happy with the way the country is today? Has the Treasury done a good job or a bad job?

Lord Burns: The Treasury has its ups and downs. We as a country have our ups and downs. There are periods when economic policy has gone well and periods when it has not gone so well. As to the fundamental allocation of resources within Government, and the issues arising if you look at policies across a whole range of things—whether you think the health service is working well, for example, or whether we have the right education system—I would not put those at the door of the Treasury.

Q188 Chair: Everything that has gone wrong is therefore not the Treasury's fault.

Lord Burns: I am not saying either of those has gone wrong. That is the last thing that I would wish to argue. I am just saying that what the Treasury has to do is seek to make sure that the monies being spent across Government are being spent in a sensible way, that we have the right allocation of resources, that people spend what it is that they have been allocated to spend and that they are getting value for money from it—more the role of a finance function.

Q189 Chair: One of our previous witnesses, Julian McCrae from the Institute for Government, said the Treasury's approach to strategic thinking reflected the fact that, "The Treasury's usual answer would be, 'It's for Departments to figure out the strategy'"—once you have imposed the envelope on them—and sorting out the consequences of the financial restraints is their problem. That is pretty true, isn't it?

Lord Burns: No. It is a long time since I was in the Treasury, but this is a two-way street. Departments come forward with plans and proposals. They know they have a business-as-usual agenda and they have

an agenda for change that they wish to bring about. When you add together all of the demands of Departments, it invariably comes to a great deal more than that which is available, and there then has to be a process of negotiation to determine how the money will be allocated.

Q190 Chair: As an example, the Foreign Office is a very important department from a UK strategic point of view, but the expenditure on the Foreign Office is within the margin of error of some benefits, for example—the under-expenditure on a particular benefit. How does the Treasury evaluate between, say, cutting a few tens of millions from the World Service and agreeing to a decision that has a consequence of billions and billions of pounds in social security? Surely these are different order problems and have vastly different strategic consequences.

Lord Burns: They do. But, first of all, you say that the Treasury makes that decision. It does not. Certainly, what happened at the time when I was there is that it went first of all through a committee system, which looked at the competing demands for resources and the demands that were made by individual departments, and then went through a process of debating and evaluating which of them should cut back and how it was possible to meet the total envelope. Where there were then outstanding disputes, where Secretaries of State would not accept the conclusions of that committee, it would go to Cabinet. Cabinet would then decide whether to do A or B.

Lord Carter of Coles: Just going back to the point, I think the process between the Treasury and the Departments is quite iterative. I don't think the idea that there is an envelope, and then that's it, is quite correct. In my experience, the various spending lines within that—for example, how it is allocated within the Home Office, or the Ministry of Justice, as it is now, in terms of how the money is spent on prisons or probation, the splits between those and the efficiencies that might be sought—are the subject of constant debate.

Q191 Chair: My impression is that, if a Department wants to transfer money from one programme to another programme, the Treasury takes an interest in that.

Lord Carter of Coles: Absolutely.

Q192 Chair: So the Treasury is involved in micro-managing Departments. Micro-managing is perhaps a little emotive.

Lord Carter of Coles: Given the size of the Treasury spending teams, their capacity to micro-manage is relatively limited. If you look at the health budget, I am always struck by the fact it is £100 billion and there are 19 people in the Treasury who deal with that.

Lord Burns: When I was Permanent Secretary at the Treasury, we spent a huge amount of time trying to test what was the best relationship between the Treasury and Departments. There is a long history of the Treasury interfering less in the day-to-day running

8 February 2012 Lord Burns and Lord Carter of Coles

of Departments and trying to take what you might describe as a more strategic approach, which is to look at the big issues and the allocation of spending to see whether that spending was going on the things that were regarded as priorities.

The Treasury does take an interest. The main reason that it does so is that it is testing all the time whether or not: a) there is value for money, and b) Departments are going to stay within their spending limits. As you have just described in terms of the relationship between them, there is inevitably a certain amount of gaming that goes on between the Treasury and the Departments. Departments bid for much more than they know they are ever going to get. They have all kinds of tricks that they use—for example, putting forward and highlighting the particularly sensitive projects as the ones that they wish to have at the margin rather than others. The Treasury has its own ways of dealing with these things as well in response to that gaming. It is not always a pretty process, but it does involve the Treasury team having to take an interest in how Departments are shuffling money.

Q193 Chair: Who do you think takes a strategic view of what the Treasury does? Are we just reliant on the Chancellor and the Prime Minister? Is there a machinery in Government that puts what the Treasury does into a strategic context?

Lord Burns: At different times there have been different arrangements. For public expenditure, which is the most sensitive part of all this, there are well-defined arrangements, which do shift over time. During the financial crisis, if I remember, although I was not there, there was some new machinery set up in the Cabinet Office to deal with those issues. Otherwise, the major Treasury issues do go to Cabinet, but as everyone knows, there are some things that Chancellors have held very closely to themselves, particularly taxation changes. A lot of things to do with international economic relations, though, would go to Cabinet or to Cabinet Sub-Committees. It varies.

Q194 Priti Patel: In light of the remarks you have made thus far about the Treasury and its influence, how would you ultimately define the Treasury's strategic influence, first on Government Departments and, secondly, on the way that the country is ultimately run?

Lord Burns: I feel that I have tried to answer that question already. The Treasury has two main functions. One is to run economic strategy. The other is that it has a particular role to do with the allocation of public expenditure, and trying to ensure that the public expenditure made by Departments aggregates to a number that is capable of being balanced by taxation. Those are, to a degree, separate roles, and indeed in some countries these jobs are undertaken by different Departments. In this country the two are together. The Treasury is central, and plays a central and important part in the allocation of resources, in dealing with Departments, and on its own account it is obviously the place where economic strategy thinking takes place.

Q195 Lindsay Roy: Just to pursue the line of argument that we have been discussing so far, can Government be truly strategic when spending is compartmentalised by Department? We have heard strong evidence of a continuing silo mentality and an intense competition between Departments for resources.

Lord Burns: There is always going to be intense competition between Departments for resources, because whatever is being spent by Departments has to be raised in taxation. Raising money through taxation has its own problems. By and large, it interacts with the whole process of the economy. Most of the Governments that I have watched have had an ambition to keep taxation as low as they possibly could, and so there is always going to be constraint on public expenditure. The bids that are made by Departments are always going to be greater than the economy can support in the eyes of Government.

There has to be a process of competing for those resources. I have never been in an organisation where there was not competition for resources, whether between different parts of the organisation or between departments. That is what economics, in a sense, is about: the competition for resources. I regard the competition for resources as a good thing, because it makes people put forward the case that they have as to why they should have the resources rather than someone else.

Lord Carter of Coles: On the point about silos and competition, this is a great debate everywhere, whether it is in business or in Government. It seems to me that nobody has found a better way than silos. We talk about it, but if you want accountability and roles and responsibilities that are actually well defined, then, sadly, silos seem to have been the best way to achieve that so far.

As to the previous question about the Treasury, I think it is central, but if you look at the Departments, there is strong competition. In my time of observing this, I have seen very strong Secretaries of State change that balance by coming forward with very powerful arguments that meet a particular political imperative or something like that, which actually justified changing settlements. Clearly, the Treasury is there in that central role, trying to determine it, but as I said before, it is a very iterative and part of a powerful process when something of great import is out there.

Lord Burns: The thing to remember here is you can change things only at the margin. Huge amounts of public expenditure cannot be changed very quickly at all, because they involve fairly large bodies of people in different aspects of public service—in defence, teaching, the health service, the payment of benefits—which themselves account for a very large bill. The competition for resources tends to take place at the margin. In every spending round that I ever saw, there was an envelope, different Departments put in bids and there was a competition between them. It was not all silos. Large chunks of spending were determined, because it was business as usual, but at the margin were the things that came through the process of settling the public expenditure plans.

8 February 2012 Lord Burns and Lord Carter of Coles

Q196 Charlie Elphicke: In your view, how far exactly should Treasury processes, such as the whole Budget thing and setting spending settlements, promote strategic behaviour across departmental silos, and how would you change things to improve that?

Lord Carter of Coles: I think it is extremely difficult. If there was a cross-departmental agenda, there is the question whether you can top slice it and actually pull that money off and spend it in a different way. The whole question of accountability and the accountability of the spending of Departments to Parliament seems to me to underlie how the money is handed out and how it is held in those silos. I find it quite difficult: a number of times central functions in Government have sought to influence Departments or tell Departments what to do, but it has never been sustainably successful, in my view, apart from in the Treasury. There has not been another mechanism that has actually effectively joined up across Departments in any enduring manner. You might get things from time to time, an initiative or something else, that do so, but ultimately it seems to me to default back to those silos.

Q197 Charlie Elphicke: Couldn't you have a stronger Cabinet Office instead, so that cross-cutting is done more effectively by the Prime Minister of the day, rather than the Treasury meddling with the money?

Lord Burns: I have been round this circle a number of times. My instinct is that we do need a stronger centre. The problem is getting a stronger centre that works. In a sense, your question puts forward a particular paradox, which is that in most organisations if you are going to have a strong centre, it is a centre which revolves around the chief executive. However, the Cabinet Office is not the Prime Minister's Department. The Cabinet Office is the Cabinet's. It is there to serve the Cabinet as a whole. Our system of government is not organised around a Prime Minister's Department, where there is a strategy unit and a strategic choice process that centres around the Prime Minister. Instead it centres around the Cabinet. It is a very large body. That is very difficult to handle. As Lord Carter says, from time to time different solutions have been tried here. There was a think-tank—what was it called?—the CPRS, back in the 1970s, and at different times there have been different units. My observation is that over time the Government and the system are becoming better at dealing with some of these cross-departmental issues than they were. In the last 20 years, my observation has been that there is less silo-thinking than there was: quite a lot of initiatives that run across Departments have been pulled out, where project groups have been put together to try to see whether progress could be made. The old departmental boundaries do not always deal with some of the big issues, particularly social issues, problems of poverty, etc.

Chair: Lord Burns, your answers are fascinating, but we have to have shorter answers. I am most grateful to you.

Q198 Charlie Elphicke: Wouldn't it therefore make sense to rename the Cabinet Office "the Prime

Minister's Office", rather than trying to create a new thing, like delivery units and all the sort of rubbish that we have had over the last 13 years? Shouldn't we just grab the bull by the horns, and say, "Henceforth, the Cabinet Office is the Prime Minister's creature, the Cabinet Office Minister is a kind of creature of the Prime Minister, and we can have executive power throughout Whitehall to counterbalance the Treasury and make it more cross-cutting"?

Lord Carter of Coles: A chief operating officer of the Government? That is certainly something that people have discussed over time. It certainly could be considered and you could see the benefits that could come from that. Whether that would counterbalance the Treasury, I am not sure. Thinking of the number of times we have tried to do these big strategic plans, I was thinking of the national plan of 1964, or something like that, where people tried to go outside and do something bigger and different. But I certainly think that it is worth looking at. In many ways the Government do policy quite well, but do they do operations well enough? Do they have the strategic operating plan that they need to do these things? That might fill the gap.

Lord Burns: Personally I have some sympathy with that. It does not fit in with our traditions of Government and it does not fit in with the extent to which a lot of the statutory responsibilities here exist within Departments. It would be a major change, which would require being looked at in some depth. I fear that the time would never seem to be right to put this into practice. But I have a lot of sympathy with it. If I compare it with the world I now live in, the centres of companies have much more strategic power than I feel is the case with Government.

Charlie Elphicke: And the Presidents of the United States.

Q199 Chair: A more strategic capability for delivery would in fact encourage the Government to think more strategically about their aims, would it not? That is what we are really about in this inquiry—how the Government choose their strategic aims.

Lord Burns: My question to you is: can you do this with an organisation the size of the Cabinet? If you wanted to have a smaller group to engage in this, who is going to form that smaller group? Individual Secretaries of State are very jealous of their responsibilities.

Q200 Chair: That suggests the process of strategic assessment and analysis needs to be done by a smaller group, even if it is supporting that large group of people. That seems to be what is lacking at the heart of Whitehall.

Lord Burns: I would push you one step further than that: if that smaller group is to have an impact, it has to have real clout, in the way that Governments tend to organise themselves during wartime, which I referred to earlier.

Q201 Lindsay Roy: You have heard one possible option from Mr Elphicke. How can we have an overarching corporate strategy developed and promoted? You have mentioned extracting a small

8 February 2012 Lord Burns and Lord Carter of Coles

group. Are there any other ways in which we could get this big picture, into which the departmental priorities would chime?

Lord Carter of Coles: An interesting question is whether it should be done within the Government or without—should it be done by think-tanks, for example? If you look at the United States and the period of great strategic choices in the Cold War and wartime, third-party think-tanks played a great role in presenting options for the Government to choose from. It is awfully difficult sometimes: if the Government actually commission strategy, sometimes there is the question whether it has become the Government's strategy before they have had a chance to consider if that is what they want to adopt. There is balance; maybe this can be done another way, and not necessarily with a tight group. It needs to come into a tight group before it is moved into the Cabinet, but somehow we need to get those ideas from different sources.

Q202 Lindsay Roy: How would that be organised?

Lord Carter of Coles: There is a growth of good think-tanks—of research commissioned outside to look at particular things and then brought in, in some way, to formulate a strategy. That might be one consideration.

Q203 Kelvin Hopkins: A question to Lord Burns: when you were in post did the Treasury undertake scenario planning either for unexpected economic developments or other cross-Government contingencies?

Chair: It is a yes or no, isn't it?

Lord Burns: It is not. There are two ways of looking at this. I am not sure which one you have in mind. Most policies in my experience were subject to a great amount of stress-testing, which is trying to identify some ways in which the external world may come to impact upon the policy or where things may turn out differently from expectations, and then trying to see how robust the policy was. I would regard that as a stress-testing exercise. Governments have never been very good, in my experience, at what you might describe as looking at plan B, because Government do not like to think that plan A is not going to work. They fear that, by looking at plan B, there will be a loss of confidence in plan A. Of course, when plan Bs have been looked at, they never turn out to be the plan B, because by the time there is a problem with plan A, there are usually a lot of other factors that by then have changed as well. I am not a great believer in what people describe as scenario planning. I am a great believer in stress-testing and in making sure that policies can survive unexpected events.

Q204 Kelvin Hopkins: Professor John Kay, who recently came before us, put it rather more strongly than that. He said that there is a process in which, "The people at the top do not welcome challenge, and there is a single view, as it were, imposed on the organisation, and people feel they will damage their careers by disagreeing with it." I remember your appointment as Chief Economic Adviser to the Treasury and your appointment as Permanent

Secretary to the Treasury very well. I was writing about economics at the time, and I got the very strong feeling that, from the beginning, almost, of Mrs Thatcher's era, the Treasury took a particular direction and anybody who challenged it was marginalised.

Lord Burns: That certainly is not true of the Treasury. It operated a system where a great deal of internal challenge took place. Furthermore, it was not at all a hierarchical Department, where the only people who had a say were the senior people. Issues were challenged all the way up. Meetings with the Chancellor would typically involve people from a whole variety of grades within the area. What is true is that the Treasury is a Department that has always, in my observation, had strong political leadership. Strong political leadership is a very important aspect. We had a great deal of debate up to the point at which policies were decided. Once they were decided, it was a question of a rowing in and trying to make that policy work. By and large, that is the culture that has existed in the Treasury. The challenge takes place up to the point at which the decisions are made. Once they are made, you get on and try to make it work.

Q205 Kelvin Hopkins: One strategic decision that turned out to be catastrophic in your period was the decision to join the Exchange Rate Mechanism, which turned out to be catastrophic both economically and also for the Conservative Government, which lost the 1997 election largely as a result of the failure of that policy, right in the middle of your term. Was anybody challenging that? I know that the Cambridge Economic Policy Group and one or two others, such as myself, were arguing against it at the time, but was anybody seriously challenging that and suggesting it was a mistake inside the Treasury?

Lord Burns: This is a long story, which I am sure you have not got time to get into today. If you remember, the decision was made by the Labour Government at the end of 1970s, but also by the incoming Conservative Government, to join the Exchange Rate Mechanism once the time was right. This was a kind of sword that hung over the head of the Government throughout that time. There were many attempts made by different groups of Ministers to join the Exchange Rate Mechanism. The Treasury by and large challenged this all the way through, just as it has challenged on the issue of joining the euro.

Q206 Kelvin Hopkins: Denis Healey refused to join the snake—the EMS—early on.

Lord Burns: The policy was not that we would never join; it was that we would join when the time was right. That was a terrible decision, because it meant that this issue remained on the agenda throughout the period. The Treasury as an institution was not the driving force behind joining the Exchange Rate Mechanism. It was something that constantly came up—a political issue that was on the go all of the time. In the end the decision was made, for a whole series of complex reasons, to join at that point, and it then ran into all of the issues with German reunification. It was not a very good time.

8 February 2012 Lord Burns and Lord Carter of Coles

Q207 Chair: Did it reflect a failure of strategic thinking? To get it that wrong, for goodness sake—it must be a failure of strategic thinking.

Lord Burns: I am not sure it was a failure of strategic thinking. The strategic thinking all the way through was to try to prepare the ground and to be aware of the conditions under which it would work and those under which it would not work. It ended up facing a stress that was greater than had been contemplated, which was the stress that emerged from the result of German reunification.

Q208 Chair: There was a failure of the imagination about how it might develop, and then there was a long period of complete denial, which was very destructive for the economy.

Lord Burns: I do not agree with the second part, because, if you recall, what was put in place in 1992 at the time of the exit from the ERM was a policy to do with inflation control, which has lasted for 20 years.

Chair: I agree with that, but that is after we came out. We must not spend too much time on this, sorry. Thank you.

Q209 Robert Halfon: You have said that you do not like strategic planning.

Lord Burns: I did not say that; I said, “scenario planning”.

Q210 Robert Halfon: I meant scenario planning. Surely another way of looking at it is that it is preparing for eventualities. That must be a central role of what the Treasury does. If you look at current events in the eurozone, for example, the Treasury must be doing scenario planning for if the eurozone collapses.

Lord Burns: I am sure that they are looking at that. There are specific issues where obviously you have to look at options. As I say, I regard this as a process of stress-testing: trying to identify where the pressures are likely to arise and trying to identify events that may put the policy that you are pursuing into difficulty, and then deciding how you are going to react. My doubts about scenario planning concern people trying to paint big pictures of all kinds of different things that might happen in the world and to devise a series of policies to suit each of them. In my observation, the options that are looked at under that kind of exercise are rarely the options that eventually emerge or are terribly useful. I believe very strongly in the issue of what I call stress-testing—trying to identify where events may take place that would disrupt the policy that you have, and planning for how you might react to that.

Q211 Priti Patel: This is for Lord Carter. You have a background in carrying out a number of policy reviews across Government, which, ironically, have cut across departmental silos. You said earlier that trying to cut across silos and challenging behaviours is immensely difficult. Other witnesses have also said that. What has been your assessment of how strategically the Government have been able to work together across Government Departments? What are

the lessons: where are the strengths and weaknesses for this Government and, dare I say it, future Governments, especially in light of the transformational programme that is also going to take place across the civil service?

Lord Carter of Coles: Where it has worked best is where the Prime Minister of the day has driven it: where the Prime Minister has made it a priority and brought Departments together to meet a particular objective it has worked really well. It seems, though, that that is not a sustainable model; it can deal with issues but it cannot actually change the way that the machinery of Government works to deliver long-term answers to problems. You can deal with one-offs in that way, and it has worked very effectively as I have observed it.

I remain doubtful that we can make effective cross-silo working work. I think that the structure of the way that we run things—the whole concept of Cabinet responsibility and the role of the Secretary of State—makes that a great challenge. You can do one-offs: you can change things and move the direction a little bit, but fundamentally I think we have not cracked that problem. I watch large corporations and other Governments trying to do this as well. It is probably the single greatest challenge. We all hear the speeches about how, if we could all behave in a joined-up way, we would get so much more out of it, but I have not seen anywhere yet where this is actually satisfactorily demonstrated. Apart from in times of war and crisis, where people are prepared to break those silos up, I have not seen it.

Q212 David Heyes: You have both made comparative comments with business in the evidence that you have given so far. For example, Lord Burns, you have said that the centres of companies have much more strategic power than the centre of the Government. Is it more than just a question of degree? Is it that there is fundamentally different meaning to strategy as applied in business from that applied in Government? Do we mean the same thing?

Lord Burns: I think they are fundamentally the same thing. Most organisations have got to think about the challenges that they are going to face, how the world that they work within is likely to change and the way that that will affect them, and to try to identify policies and solutions to be able to deal with these factors effectively.

Governments are extraordinarily complex. Government Departments are very big. They are businesses, of course, that have no revenue stream. The biggest difference between Government and business is that Government Departments do not have a revenue stream. Revenue is collected collectively at the centre. This therefore means that you are dealing with an extra dimension in what is a very large and complex business.

I would say that strategy within individual Departments works reasonably well. People do a lot of strategic thinking. The challenge, as Lord Carter says, is where the Departments intersect and interact, and the choices that have to be made. That is much more difficult.

8 February 2012 Lord Burns and Lord Carter of Coles

Lord Carter of Coles: To support Lord Burns' point, the first thing is that business is relatively simple compared with Government. The objectives are straightforward: the directive is to satisfy the needs of the stakeholder groups, which are pretty clearly defined. That is harder in Government. Also, you always have the political imperative coming along and changing those priorities. One of the hardest things in Government is the balance between having a strategic plan and sticking to it. Whether it is Ministers or senior civil servants, there is an issue of consistency—of actually sticking with a thing as it goes along as opposed to constantly changing it. In business you get a much more stable environment, in my experience, to do those things.

Q213 David Heyes: Therefore, is it sensible to look to business to learn lessons that you can apply in Government?

Lord Carter of Coles: No. My experience of Whitehall is that everybody I hear referring to business usually does not last more than about a year. It is hardly an apt comparison because it is much more sophisticated and much bigger.

Q214 Chair: To press Lord Burns on this point: do not businesses work in relatively banded systems of thinking, where their aims are very limited, whereas with the world of politics and statecraft, you are into the laws of unintended consequences and the unpredictable, and you have to have a completely different set of strategic skills in order to operate in that climate?

Lord Burns: I am not sure that they need to be completely different, but I agree entirely with what Lord Carter says about the differences and the greater problems that there are in dealing with Government, as you say. I think there are some things that business does better. Businesses that I have observed typically deal better with the distinction between business-as-usual activities and change activities and innovations, whether those are takeovers, restructuring the business or whatever. That is because they are more contained businesses. What they have to do is much clearer. The distinction between investment and running costs tends to be clearer. There is a different accounting system. It is a very different world.

Q215 Robert Halfon: Can I just ask, do you think the current Government have a long-term strategic plan?

Lord Carter of Coles: Well, perhaps we should separate domestic and international.

Q216 Chair: Why?

Lord Carter of Coles: Because of the history of it. If you look at what we have in terms of defence and foreign policy, one can discern more clearly some strategic commitments to that. But as to whether they have an overall strategic plan for the domestic situation, then, no, I do not think so.

Q217 Robert Halfon: Why?

Lord Carter of Coles: Because I think that a succession of Governments have never felt the need for it.

Lord Burns: My interpretation is that there are a series of strategies for individual departments: there is a strategy for health, for education, for economic policy.

Q218 Chair: They are plans. That is not strategy in the strictest sense, is it?

Lord Burns: I am not sure about that. I am far removed from this now, but I would hope that they go beyond policies. I would hope they go much further, looking at the challenges that could emerge, how the world is changing, how people's demands for different kinds of services are changing, what is happening to technology.

Q219 Robert Halfon: Do they have a long-term strategy? That is my question: do you believe that the current Government have a long-term strategy?

Lord Burns: Probably not. I share Lord Carter's view: I am not sure that, in that sense, Government can have a long-term strategy.

Q220 Chair: The Government must have an implied strategy. All their policies must add up to an implied strategy—what we call an emergent strategy in our inquiry. The question is, are we consciously monitoring this emergent strategy or is it just an accident?

Lord Burns: No. I am going to repeat myself here. You have strategies for different Departments. At some point there is either an issue of whether you need interaction between some of those Departments because there are policies that cut across the Departments. Or you end up against the problem of competition for resources, where decisions have to be made as to whether we are going to support activity A to a greater extent and reduce our support for activity B. Those decisions do take place at the centre of Government. They have to be based upon priorities and upon what you think the biggest problems are that society, the economy and the country face. That process does take place. I would hesitate to describe it as a strategy.

Q221 Robert Halfon: In terms of devising strategy, in your own experience how do you use public opinion to shape the strategy of the organisation? If Government were to have a proper strategy and decision-making procedure, how would they use public opinion, bearing in mind 24-hour news cycles, the tabloid press and so on and so forth?

Lord Burns: Most businesses that I know spend a great deal of time looking at the views of their customers and the people that they engage with, whether it is by simply monitoring carefully the actions that people take in respect of their products or whether it is by looking at complaints, asking good questions and sampling opinion. I do not see why Government should be any different. If the Government are going to make choices between different areas, they need to know something about the extent to which the people of a country have

8 February 2012 Lord Burns and Lord Carter of Coles

greater happiness or unhappiness with some aspects of the services that they receive than others.

Lord Carter of Coles: However, Governments do have to lead sometimes. There is always a balance in taking decisions that are sometimes difficult and do not necessarily have the most popular support at that

moment but possibly in the longer term may be the right answers.

Chair: I am going to have to draw a line under this fascinating evidence session. We have really enjoyed it. My Lords, thank you very, very much indeed.

Examination of Witnesses

Witnesses: Lord Rees of Ludlow OM FRS, Astronomer Royal, and Sir David King FRS, Director, Smith School of Enterprise and the Environment, University of Oxford, gave evidence.

Chair: I hate to put you under pressure, but we are going to have to try to wrap this by 11.30 at the very latest. We are looking forward very much to what you have to say. Can I start by asking about science as a philosophy and the way science feeds into strategic thinking: what role do you think science has in feeding strategic thinking in Government? Perhaps you could also both introduce yourselves for the record.

Lord Rees of Ludlow: I am Martin Rees, a space scientist at Cambridge University. I have been involved in science strategy as President of the Royal Society, and I am on the House of Lords Science and Technology Select Committee.

Sir David King: David King, previous Chief Scientific Adviser to the Governments of Blair and Brown and currently Director of the Smith School of Enterprise and the Environment at Oxford University.

Lord Rees of Ludlow: It is clear that an increasing proportion of the long-term issues confronting us as a nation have a scientific dimension, and therefore it is crucially important that scientific input is made, at the appropriate level, into these decisions. Most of the issues that concern scientists are intrinsically long term. Whether you call them strategy or not, I do not know, but clearly they involve some sort of planning on a horizon of 10 or 20 years. That is where science comes in, but, of course, it is important to bear in mind that scientific input is only one element of the decisions that politicians have to make. Any important policy question, be it on energy, environment or industrial policy, has to take into account the science and engineering, but also has to take into account the other social, ethical and economic aspects as well.

Sir David King: My introductory comment to this would be that I am a physical chemist—i.e. there is a specific area of science that I am trained in—but I always read widely in economics, politics and philosophy, and when I came into Government I was very keen to interpret the word “science” in the old way, that is to incorporate all of knowledge. So when I was advising Government, I would bring in the appropriate physicists or engineers but also appropriate economists and social scientists to tackle the problem with me before giving advice. I think the way in which I can answer that question best is in the old Latin meaning of the word “science”, from scientia—in other words, use the knowledge base as a means of advising Government. That formed the basis of my position in Government.

I can also give an answer in terms of very practical situations I was faced with. The first disaster that I had

to handle was the foot and mouth disease epidemic of early 2001. What I discovered in terms of Government strategy was that the Department, which was then the Ministry of Agriculture, Food and Fisheries, tackled the problem by—and in characterising in this way, I may be criticised—taking out the lessons learnt from the 1967 foot and mouth disease outbreak and applying them. That is not sensible in a changing world. We were, therefore, surprised by the intensity of this outbreak, which had really come about from the fact that animals are now moved across the country at various times during their lives considerably more than before. Also, we did not take account of modern science and technology and what could have been done to manage that outbreak much more quickly.

Q222 Chair: In terms of vaccination, for example?

Sir David King: Vaccination at that point was not on the cards: if we had vaccinated animals, we would not have been able to distinguish animals that had foot and mouth disease from animals that had been vaccinated, because there was no means of distinguishing. Nevertheless, there were procedures that we introduced—can I use the phrase, “on the hoof”, Chair? I was working 24/7 for 6 weeks, determining new processes to bring this under control. We did bring it under control, but I never wanted to be in that position again.

I had inherited the Government’s Foresight programme and I completely revamped that programme. The way I did that was to use the way that Foresight had been developed in the United States—Herman Kahn was a great figure, and also the Shell foresight programme. We investigated how that had been done, and I introduced an in-depth Foresight process, and in my time initiated a dozen Foresight programmes. Each of these was a detailed analysis involving in a minimum case 100 experts—in a maximum case, 350—over two to three years, to study strategically issues of importance to the Government that take a timescale of beyond 10 years. For example, nuclear new-build is on the agenda now. Building a new nuclear power station is going to be with us in 100 years’ time.

Q223 Chair: I understand all that. My question was really at a philosophical level above this.

Sir David King: Right. The meta-level.

Q224 Chair: Science, necessarily, is about discovering what we can know; yet in politics and

8 February 2012 Lord Rees of Ludlow and Sir David King

statecraft we have to make decisions in the absence of knowing everything, and indeed in a climate where we actually do not know what we do not know. What has science got to offer, when so much of political decision making has to be done in this climate? What has science got to offer in this respect? Is science just one of the elements that we feed into this process, and not the answer?

Sir David King: Again, I should like to answer this question. It is philosophical, because while we were running the Foresight programme, I had the comment from Government: “We have to make strategic decisions on issues that you are not considering, and we need quick answers.” We set up a horizon-scanning process. To do that we established what we called a Sigma scan, which looked at what technology was on the horizon that may be of use to Governments in the future, and a Delta scan, which looked at what problems were likely to arise in the future. Using this as a basis, we set up a computer programme that enabled us to respond very quickly to Government horizon-scanning queries.

Q225 Chair: So we can do strategy on a computer?

Sir David King: We used the computer to our best ability to meet these rapid-fire demands coming in from the Government. We did give advice. I think the advice was useful to every single Government Department. I worked closely over that period with at least 35 Ministers in developing strategies.

Q226 Chair: Lord Rees, do you think there is a danger in regarding science as salvation—that we can become over-reliant on science? Science is very attractive, because it provides concrete data and concrete answers, when in fact we have to learn to work without those.

Lord Rees of Ludlow: We get on better with it than without it; we have to accept its limitations. Clearly, some things are well understood, some things are not well understood, and no doubt there are Rumsfeld’s unknown unknowns as well. Those have to be fed in, and in any long-term policy one has to bear in mind what you said earlier, Chairman, about the laws of unintended consequences: you cannot be confident of what is going to happen in future decades.

Despite that, it is fair to say that in something such as foot and mouth disease, as Sir David mentioned, one had to use the best science that was available, ditto for BSE and other issues. When we come to long-term questions like energy, then clearly science and engineering have to be used and we need the best expertise. One has to plan 30 years ahead. We may not get everything right; we may fail to foresee some technical breakthrough that might change things, but we do the best we can.

Perhaps I should say that, when we talk about science, as Sir David said, we should include engineering. One of the problems in many Government decisions is that there has not been enough engineering input. Offshore wind, for instance, is an example of that. I like to flatter engineers by reminding them of a rather nice cartoon, which shows two beavers looking up at a hydroelectric dam, with one saying to the other, “I didn’t actually build it, but it’s based on my idea.”

That shows the balance between the science and the engineering in many contexts.

Q227 Chair: Finally on this strand, do you feel that, when you feed scientific knowledge into the strategic process, you are actually feeding a strategic process, or do you feel that science is being grabbed as an answer too readily? What sort of assessment or analysis happens to your scientific input?

Lord Rees of Ludlow: I would have thought that the most obvious example is the Government’s energy policy, which is clearly something that looks 30 or 40 years ahead. It has to be based on the best science and engineering, and also on the goals to gradually decarbonise the economy. That is an example of where we clearly need the best science and engineering in order to guide policies.

Q228 Chair: Sir David, do you feel that the best use was made of your advice?

Sir David King: In my time we published the results of eight Foresight programmes. The programme that had the greatest publicity was on obesity. We raised the problem in a different way from how it had been raised before, and it is still very much more in the public eye than it was before. It is an extraordinarily complex situation, as it does not just belong to the Health Service, the Department for Culture, Media and Sport or to the Department for Education: it cut right across every Government Department.

In each of these Foresight programmes, we engaged strongly with Ministers who could see the power of the techniques we were developing. By the way, these techniques were based on scenarios; we were not predicting the future but building various scenarios into the future, and then looking at what Government decisions were required to optimise opportunity and manage risks on each of these scenarios.

The outcome, I would have to say, was never terribly satisfactory. If I give you an example, one of the first programmes we started was on flood and coastal defences for the UK. The initial response from the ministry was, “We are doing this.” We were saying, “No, we are taking a longer look at this.” If you take the Thames Barrier as an example of forward-looking science and engineering, it took many decades to get it up and running. We were saying that we needed to take an 80 to 100-year look at flood and coastal defences for the UK.

The outcome of this was an additional £500 million being spent, largely through the Environment Agency, to protect housing, the built environment and people from flooding, at the level it was at in 2000, as we move forward in time. We had co-operation from all of the appropriate industries, particularly, for example, the insurance industries, which were fully involved in that process. Typically, we engaged stakeholders who would be concerned with the roll-out of the programme. That was absolutely key. I think, however, that in time this gets lost. I believe that we should revisit flood and coastal defences, taking another long-term view, because the dust has settled.

Q229 Chair: The strategic surveys tend to be one-off, rather than continuing—is that what you saying?

Sir David King: Actually, the biggest outcome from that programme was that I received an invitation from Premier Wen Jiabao to go to advise the Chinese Government on flood and coastal defences. We sent our team out there, and the net result was that their understanding of flood risk around Shanghai is now considerably better than it was before, and they are putting in place a very extensive strategic plan for the defence of Shanghai from flooding down the Yangtze. I am not saying that we have done badly on this. I simply feel that all sorts of problems tended to arise because our projects necessarily were inter-departmental or trans-departmental in their nature.

Q230 Chair: I have two other, very brief, questions, and then I will move on. Do you feel that we husband our science base sufficiently in the UK as one of our key strategic assets?

Sir David King: I produced a paper in the journal *Nature* in 2004 examining the position of British science in relation to every other country in the world. The paper's conclusion was that, in terms of the science output per pound invested in the science base, we were easily the most productive in the world.

Q231 Chair: But do the Government take a strategic approach to this?

Sir David King: It therefore required a strategic approach. Lord Sainsbury, as Minister of Science, and I worked closely with the Treasury on this. We produced a 10-year plan, for 2004 to 2014. Again, by the way, Premier Wen Jiabao asked to see me, and wanted us to help with the Chinese development of a strategic plan. You may be interested to know that the outcome was that, where we had said that we should increase the science budget at twice the rate of our GDP growth, Premier Wen Jiabao decided to do exactly the same. The only difference is that a 10% per annum growth in their GDP meant that they were investing in the science base at an increased rate of 20% a year.

Lord Rees of Ludlow: We are fortunate in our science, but if we ask what our strategic aims for this country are, one of them, declared by both Governments in recent years, has been to make the UK a preferred location for R and D, a centre for high-value-added manufacturing and a preferred destination for mobile talent. Clearly it is crucial that we succeed in that, because if we do not get smarter, we will certainly get poorer. We do, indeed, have a lot going for us. One of my concerns as an academic, and indeed as someone involved in this, is to make sure that we do not jeopardise this long-term strategy, which is essential for our health, by short-term hiccups, and own goals. That is the thing that worries us.

Sir David King: Could I quickly follow up? The point about our strategy was science innovation for wealth creation. This was looking strategically at the outcome for the manufacturing base in the UK, based on this enormous strength in our science. I still believe that the connectivity has not been properly made. We have become a magnet for top scientists across Europe. If we look at the number of appointments of top scientists in our universities, you can see that. We have some very good examples of spin-out

companies. The density of spin-out companies in the so-called golden triangle between Cambridge, Oxford and London is the highest in the world. But we do not seem to make the big transition between the small high-tech companies and the large companies that will lead the way forward and help our economic recovery.

Q232 Chair: Which is not a science problem.

Sir David King: It is more a problem of strategic direction. For example, South Korea is a very good example of strategic direction. The South Korean Government decided to back the development of broadband in Korea before the rest of the world. They had scientists who were right at the helm of the development of broadband. They invested an enormous amount of public money in creating a platform.

Q233 Chair: So, Governments should be prepared to pick winners?

Sir David King: I believe that this phrase "picking winners" is the biggest blockage from the Treasury. I think that the groupthink in the Treasury is always, "Good heavens, David. You are not suggesting we should back..."

Chair: Lord Rees?

Lord Rees of Ludlow: We do not pick particular companies, but we surely pick broad areas where we see that we have a competitive advantage. The life science strategy of the Government is an example of doing just that. There are areas in the physics-based sciences where we should do the same. The problem has really been that the Government measures that have been taken to stimulate innovation have not been on the required scale. Just as one example, there has been talk for many years about the need for some institutions to bridge the gap between what it is appropriate for universities to do in research and what is profit-making. The German Fraunhofer institutes is the model that has been cited, and there has been lots of talk about them. We talked about Newton institutes and then they were Faraday institutes; now they are called Catapult centres for some reason. These are now being set up, but probably not on a big enough scale. So this is one of many areas where we are doing something and the rhetoric and policies are right, but the implementation is on too small a scale or too slow.

Sir David King: I will just throw in a simple fact: there would have been no Silicon Valley in the United States without DARPA funding. Public funding from the Defense Agency is what pulled through all of that technology in Silicon Valley.

Q234 Priti Patel: Sir David, you said that in your time you were working across Government with around 35 Ministers. It sounds like in your capacity as Chief Scientific Adviser you were quite embedded, basically, across Government. Do you think that the Government as a whole have a strong enough understanding of science, scientific data, technology, the interconnectedness that modern technology brings, and the value that the Chief Scientific Adviser can bring to policy and decision making? Bear in mind, of course, the caveat that decision making always has this feel of political imperatives and politicians have

8 February 2012 Lord Rees of Ludlow and Sir David King

a particular mindset of quick wins—what is going to make the Government look good and generate an element of feel-good factor with the public as opposed to the long-term approach that science and technology can offer.

Sir David King: The first part to my answer is that what I did manage to achieve after the foot and mouth disease epidemic was the placement of chief scientific advisers in different Government Departments. Up to that point we only had a Chief Scientific Adviser to the Prime Minister and the Cabinet and to the Ministry of Defence. We now have chief scientific advisers in all Government Departments. That is now embedded in the process.

I would question whether advice is taken from these advisers where it is appropriate. Let me give you an example, which you may find surprising. In the current economic crisis in the world, there is an enormous elephant in the room that the economists do not want to hear about, which is global oil production capacity. The price of oil increased gradually up to 2005: it gradually doubled from \$20 to \$40 between 1997 and 2005. Production increased from 64 million barrels a day to 74 million. Since 2005, production has hit a wall. We are still at no more than 75 million barrels a day—I am talking about crude oil production—and the price has gone shooting up to \$140 and down again. It only comes down when the global economy is brought down. It shoots up again as the economy begins to recover. At \$100 a barrel, as we had last year for the first time as the average through the year, Europe spends \$1 billion a day on imported oil. It used to be a fraction of that. If I look at the Greek and Italian economies, a big part of their deficit is the increased cost of imported oil. I do not see economists taking this into account.

So my biggest point, Chairman, is that we need to integrate forward thinking, not just put science in a box here and economics there. The economic thinking is a groupthink that led to the inability to predict the downfall of the global economy. Oil prices went up to \$140 a barrel just before the downfall. It was not a fluke. Ten out of the last 11 financial crises have been preceded by sharp rises in oil prices. We have a debt crisis, which of course made it a dramatically poor financial downturn, but until we actually cope with the fact that the oil price will continue to rise until it turns the economy down and grasp that in our strategy, we are not going to manage to regrow our economies.

Q235 Priti Patel: On that point, there is a role for technology to play here. Lord Rees touched on energy policy and strategies as well. Nuclear is almost like the elephant in the room, where we seem years away from actually developing anything. How strategic, in your view, is the whole technology piece versus the economic arguments and benefits, versus political ambition?

Lord Rees of Ludlow: Can I answer both questions? On chief scientific advisers, thanks to what Sir David and his successor as Government Chief Scientific Adviser have done, there are now chief scientific advisers in most Government Departments. In fact the House of Lords Science and Technology Select Committee has just completed a study of how

effective they are being. Clearly the outcome is rather mixed, and the importance of these people is greater in Departments like the MOD and DEFRA than, for instance, in DCMS. We do not expect one size to fit all, but I think it is in all cases very important to have independent people of high standing.

The other point you mentioned was about R and D and energy. Here again, the scale of our R and D effort is not as large as the problem demands. It would be wonderful, not least for attracting young people into engineering, if we were to declare the aim of taking a lead in some versions of clean energy and provide this for the export market and the world. We are not doing it on a big enough scale. In terms of nuclear, the scale of our effort is really very meagre indeed. About £15 million has been spent on nuclear R and D¹. We are not even able to provide a watching brief on future developments, still less to participate in them. Indeed, there is a worry about whether we will have enough people with training in nuclear engineering for safety roles when the present generation, who are now in their fifties, retire. That is an example of where under-investment is going to lead to long-term losses.

Q236 Paul Flynn: What dangers do you foresee if that money is not invested?

Lord Rees of Ludlow: First of all, if we cannot provide expertise on a safety level, that is clearly bad news. If one feels that nuclear is going to be part of our energy mix, and moreover if one thinks that Generation III and IV nuclear reactors are going to be more efficient and safer than the rather old designs that are being used and commissioned now, then it would seem a pity if the Brits not merely did not have any people who could take a lead in developing them but did not even have people who were well informed in order to calibrate and assess them.

Q237 Priti Patel: On that point, is that a failure of political ambition from the Government or is this about a complete failure of strategic thinking from both politicians and people at the heart of Whitehall with regard to the role of Foresight, working with technology and the insights that scientific advisers are bringing when we look around the world?

Lord Rees of Ludlow: The nuclear story is a depressing one, from our leadership role 50 years ago to the present situation. Chris Huhne, until recently the Minister, made a rather frank speech at the Royal Society saying that the UK had made almost every possible mistake in the past, and so now it should try to do the right thing at last. We have had a rather poor record in the past of delays and poor choices, and trying to ride too many horses at the same time.. This is just part of the story of our energy policy not being well enough co-ordinated and not being followed through quickly enough.

Q238 Chair: Is this relying too much on scientists or not enough?

Lord Rees of Ludlow: No, I think scientists can only offer advice and do the designs. It is, as you know, a matter of whether the public will invest or whether it

¹ Correction from the witness: About £11m of public funds are spent annually on nuclear R and D.

8 February 2012 Lord Rees of Ludlow and Sir David King

is accessible for the private sector to invest. The science is only the first element if you want to have a successful nuclear policy.

Sir David King: I would just come in quickly on that question.

Chair: I thought you might be stung by that.

Sir David King: I just want first of all to say that I think economics is far too important to leave to economists alone, and yet, if we look at the advice given to Government, you will find that it is the economists, who I believe are guilty of groupthink most of the time, who give advice without taking into account what science can deliver for them.

Q239 Chair: The economists can be the worst at pretending that they are operating within closed data systems when in fact they are dealing with very unpredictable events.

Sir David King: In terms of the failure of strategic thinking in the energy area, there is a massive opportunity for wealth creation out of the new challenge arising from oil resource limitations and pricing going up, which is to find alternatives to fossil fuels to provide energy for our economic situation. Britain is in a very strong position to lead the way because of the strength in the science, engineering and technology base.

The question is whether we are going to get smart enough in a strategic direction to develop that. When I was in Government I did manage to set up the Energy Technologies Institute as a public-private enterprise, so half of the money came from Government and the other half from eight major energy companies. The idea behind this was not that £1 billion investment over 10 years was enough to change the whole situation, but that it should stimulate investment from the private sector in what was going to be a growing opportunity.

Lord Rees of Ludlow: I would just say that, obviously, the private sector needs security and long-term planning. We have seen a recent example of what should not happen in the very sudden change in the rules for subsidising solar panels. I am not saying that the earlier rules were right or wrong, but to change the rules suddenly is not going to encourage people to make long-term investments. That is an example of a sort of own goal, where one might have a good long-term aim, but if the rules are tinkered with in an unpredictable way then that is going to make it harder to follow though.

Q240 Paul Flynn: When you last came before this committee, Sir David, you were lukewarm on marine power and other renewables. In hindsight, how does that foresight look?

Sir David King: I was lukewarm on wave energy.

Q241 Paul Flynn: Well, tidal power I think was the one that came up.

Sir David King: I am going to continue to say that I was lukewarm on wave energy, but I happen to be in favour of tidal power in the Severn. That is in my view a very positive way of producing a large amount of energy in a renewable way. I am very much in favour of renewables and microgeneration of

electricity, but I am not in favour, specifically here, of picking winners. I think we need to create a higher price for carbon so that we produce these alternatives.

Q242 Paul Flynn: Tidal power is immense, eternal, British, clean and untapped. Do you not regret that you have not been an advocate of increasing the work, and not just at tidal barriers, as there are other, probably more efficient ways of doing it?

Sir David King: I do not regret what I was doing, because I have a feeling that I was pushing this agenda harder than anybody else.

Q243 Paul Flynn: If you take your horizon scanning, did Fukushima appear on this? A year ago there were 54 reactors generating power in Japan. There are now three. Isn't nuclear appearing to be the most fragile of energy-generating sources?

Sir David King: Here we are going to disagree. I believe it would be fair to say, post-Fukushima, that nuclear energy per kilowatt hour is still the safest form of energy that we have yet devised, just in terms of the number of fatalities. We do need to keep track of the facts: despite the enormity of the Fukushima disaster, there has not been one fatality arising from it.

Q244 Paul Flynn: I do not particularly want to get into an argument on this, but there were 53 fatalities named.

Sir David King: I beg your pardon.

Paul Flynn: It is plainly held. I will send you the details, if you like. The situation is that, post-Fukushima, the argument in Germany, Holland, France and a whole range of other countries has concentrated not only on the public's perception, which has been well reported, but on cost. In this country, we have had no examination of the additional costs, as a result of Fukushima, for protecting against terrorism or from the natural events that are likely to turn up. Are you happy that the Government have persistently refused to look at additional costs?

Sir David King: At Oxford University I have established a school that does futures work. We produced a report last year, which was published just two weeks after Fukushima, on nuclear waste and material in the UK, looking at the situation in Cumbria in particular. We are currently preparing a report on the future role of nuclear energy in the UK, which will be published in March this year.

I believe that the Government are keen to see that we continue to produce these reports at arm's length from Government, where we are not influenced directly by Government. I do not believe that the Weightman report was a poor outcome of Fukushima. I think that the Government immediately set up Weightman to look into the outcomes of Fukushima, and his report is a very good analysis of the situation.

Q245 Paul Flynn: I am sorry, I have to interrupt you. In that report there is no mention of cost. Weightman has said that he was not even qualified to consider costs. That report was set up by Government to shore up collapsing public and investor opinion. It was a part of spin. Weightman would admit that.

8 February 2012 Lord Rees of Ludlow and Sir David King

Kelvin Hopkins (in the Chair): The Chairman is absent momentarily, so may I say that although this is an interesting debate, it is probably more appropriate for the Energy and Climate Change Select Committee.

Sir David King: I would just say that Weightman is an independent nuclear adviser.

Q246 Priti Patel: We have touched on energy security and also climate change to a certain extent. These issues are global in nature and require a strategic and co-ordinated response—there is no doubt about that. I would be interested in both of your views as to what the appropriate strategic approach should be from the UK Government to respond from a long-term point of view, or a vision of how long that strategic response should be, heading into it. Also, it seems that we are in a period right now where multilateral government seems to be declining. How can this Government, future Governments and the thinkers and decision makers within Government, so Whitehall as well, use the type of strategic models and risk management tools—scientific data as well as technology—to really think ahead to prepare this country and, dare I say it, other countries as well against some of these threats and global challenges?

Sir David King: Can I add to your list of global challenges one that concerns me greatly, which is biological weapons? I believe we ought to be banning biological weapons. I think that the international community needs to take that on board in the way that chemical weapons have been abolished. We need to work strongly with the United States to try to push that through. The reason I say this is that we attempted to work strongly with the United States when I was in Government, but the United States did not wish to go down that route.

Chair: This is a question of policy. We are interested in how the Government make strategic judgments.

Sir David King: I was just explaining why I think—

Chair: I understand that, but the subject is in danger of becoming a Christmas tree on which we all hang our opinions. That is not the purpose of the session. Mr Flynn, did you finish your line of questioning?

Q247 Paul Flynn: Lord Rees, you have said that “it is depressing that long-term global issues of energy, food, health and climate get trumped on the political agenda by the short term and parochial”. I wonder what you had in mind. But isn’t it true that Government decisions are taken on the basis of pressure or prejudice and not on the basis of evidence, let alone scientific evidence?

Lord Rees of Ludlow: I think that was in my Reith lectures or somewhere similar. I am sure that it is true. I do not need to tell parliamentarians that the urgent tends to trump the important.

Q248 Paul Flynn: How do you get across to scientifically illiterate Prime Ministers and Ministers that their policies are wrong?

Lord Rees of Ludlow: Obviously, we have to have the best scientific advice. We have to try to have some bipartisan consensus on these long-term questions like the environment or energy. Regarding what you said about public ignorance, I tend to think that scientists

grumble too much about public ignorance of their subjects. I find it gratifying how interested people are in aspects of science, whether it is dinosaurs or space. It seems to me just as deplorable if the public cannot find Afghanistan or Korea on a map, and many people cannot. In both cases, ignorance prevents people from participating in debates.

The important point is that it is not just the scientists who should decide these issues. They should be decided after wide democratic discussions. For those discussions to get above tabloid slogans, the public have to have a feel for what the issues are and, even more importantly, a realistic assessment of risk. One of the problems, related to what Sir David just said, is that the public has a disproportionate view of risk. We fret too much about carcinogens in food, etc, but do not worry enough about bio-error, bio-terror, cybercrime and things of that kind, which are far more serious—these low-probability, high-consequence events.

Q249 Paul Flynn: How does a scientific adviser to the Government turning up with his slideshow about what is going to happen in 100 years’ time compete with people who do not want to see wind turbines out of their windows?

Lord Rees of Ludlow: With great difficulty, obviously. It is fairly clear that any investment in energy, whether made by the public or private sector, is going to be looking 40 years ahead.

Q250 Chair: The real question is, what is lacking in the machinery of Whitehall that makes this more difficult? What should there be in the machinery of Whitehall that would support Ministers and enable them to make better strategic decisions about these things?

Lord Rees of Ludlow: There are instances where it is clear that decisions were made on the basis of inadequate thought. I would classify offshore wind as being an example of that. Also one needs to have consistency. In many of these areas, like environment and energy, there is a long-term plan, but the trouble is it is being scuppered or rendered suboptimal by small changes.

If I may, I will turn to another area close to my own interests, which is our policy on universities. We have a good university system. There have been very major changes. A huge experiment has been done on the system and it may or may not turn out well. However, not only are these big changes being made, but small tinkering is being done, month by month. This makes it very hard to organise things in the long term. I would say that in many areas of Government what would be crucial would be to leave the long-term plan freer from short-term tinkering.

Q251 Paul Flynn: One final question. Other countries, such as Finland and Israel, have committees for the future, which take decisions based on their reactions in 15, 25 or 100 years’ time. In this Parliament we have POST, the Parliamentary Office of Science and Technology, which does a splendid job of explaining complex scientific issues in terms that are digestible for the majority of MPs. We also have

8 February 2012 Lord Rees of Ludlow and Sir David King

Foresight. But what else should we be doing, especially here in Parliament, if we are going to improve the role of scientific advice in decision making?

Lord Rees of Ludlow: It would be good if a higher proportion of those getting elected to Parliament had a scientific background. At the moment it is a rather low proportion. We should be grateful to organisations like POST for doing what they can and to science journalists for what they do to digest difficult science. Within the civil service, one needs perhaps not just a Government Chief Scientist or a chief scientist in each Department, but perhaps a rather stronger support group for each of these people. Some Departments have a good cadre of scientists, others do not. Scientific participation at all levels of Government is probably rather too low.

Sir David King: The question is a very good one. There are several countries that do take the issue of futures seriously. I see myself now as an expert in futures. Although the Foresight programme in Government continues, it is still marginalised in terms of general decision making within Government. The strategy group within Number 10 that was set up during my time in Government was looking at much shorter term issues than what I would describe as futures scenario gaming. Futures work is looking 10 to 100 years into the future, as I said before.

I believe this has to be done by bringing together scientists, economists, social scientist, technologists—in other words, you need the expert community to sit with the political community and advise on future trends, opportunities and risks. The contribution that this could make to the direction on strategy for the Government would be enormous. I realise there are political differences of opinion, and some of this has surfaced here. I happen to think that climate change is a critically important issue. I also think that our oil supply is a critically important issue. I am prepared to go to nuclear energy as part of the parcel of solutions.

Chair: That is a policy matter. Thank you for that.

Lord Rees of Ludlow: I think we need a strong cadre of experts who are independent of Government. If you contrast our situation with the US, we find a big difference, especially in the area of defence. In the US, because of the revolving-door system of Government, there is always a group of well-informed experts who are out of Government and can criticise Government policy and have a high-level debate. That is harder in this country because Government service is more of a long-term career and secrecy is more pervasive. So it is harder in this country, especially in defence-related areas, to have an informed debate where you have expert outsiders speaking on an equal level with those in the Government. That routinely happens in the US.

Q252 Chair: Maybe we are more sensitive about conflicts of interest.

Lord Rees of Ludlow: Maybe.

Q253 Kelvin Hopkins: Setting aside particular policy issues, I take the view that we should have many more scientists in and around Government and politics, and rather fewer economists. Having come

from a scientific background but being an economist myself, I have seen both sides of the fence.

Lord Rees of Ludlow: You said that; we did not.

Kelvin Hopkins: I did. Many economists are no better than, at best, mediaeval alchemists and possibly even witch doctors in some of the things they do and say. I also knew that the average intelligence level of the students I taught economics to was much lower than that in applied science and mathematics. On the other hand, is it not the case that, just as politicians choose economists to say the things that they want them to say, to an extent they do that with scientists as well? We talked about scenario-planning in an earlier part of our meeting. We want a range of views and a debate, if one likes, rather than picking out a scientist you particularly like. The extreme case was Stalin and Lysenko—a complete charlatan, but because it was an authoritarian regime, he was promoted as a serious person.

Sir David King: During my time in Government it was absolutely clear—I made it clear—that I was an independent science adviser. I think that is a role for the science adviser: to be parachuted in from outside Government, not to be a civil servant trained through and through, and to have the ability to keep the trust of the public and the trust of Government. That particular high-wire act is necessary for a chief scientific adviser.

Look at the BSE crisis. As soon as a science adviser does the bidding of a politician, there is always going to be the risk that science takes the can. In other words, the public loses trust in science. That is what I inherited when I began. Contrast that—if I may—with the United States, where my opposite number was Jack Marburger, whose views on climate change were the same as mine, but who never spoke those views out in the public domain. The contrast was absolutely stark.

Lord Rees of Ludlow: On many issues, like BSE and climate, the science is clearly uncertain. Scientists have to give politicians a best estimate of what the scientific consensus is and the balance of probabilities. What is even more important is that scientists should realise that, even if the science is certain and fully worked out, there can be a range of policy responses. When it comes to aspects of policy involving ethics, economics or social science, then the natural scientists have no special expertise. What has gone wrong in the climate debate, for instance, is that, it is quite proper to have a debate on how we respond to the possibility of climate change, but those who disagree with Government policy just rubbish the science quite unnecessarily. Even if the science is agreed, it is still perfectly possible to take different views on how we deal with it. It is crucial to keep clear water between the science, whether it is certain or uncertain, and the overall policy recommendations, in which the science is just one element.

Q254 Paul Flynn: One final word: I think we want to thank our two witnesses for their contribution to British life and sympathise with them, as the whole wealth of 2,000 years of scientific achievement can be trumped by a headline in the *Daily Mail*. That is the sad reality. You mentioned defence and defence

8 February 2012 Lord Rees of Ludlow and Sir David King

thinking. To put it as simply as possible, we went to war in Iraq on the basis of non-existent weapons of mass destruction. We stayed in Afghanistan on the basis of a non-existent terrorist threat from the Taliban. We might now be stumbling into a war on the basis of a non-existent missile and nuclear threat from Iran. What hope is there?

Sir David King: I wonder if I may come back to that, even though I am treading on political ground. Iraq is a country with a very large remaining oil reserve.

Chair: I think we are straying. It was a good rhetorical question.

Sir David King: But I do believe that is a very important issue. The elephant was there again.

Q255 Kelvin Hopkins: I have very much enjoyed listening this morning to your wise words, even though we may debate the policy issues. The points you have made about having different disciplines involved in policy making are absolutely right, but unfortunately we are not in that situation. The short-termism of politics and Governments choosing economists who flatter their prejudices is a serious problem. I would not suggest at all that either of you have anything else but pure objectivity in your advice, but we do have commercial interests. There are people in the pharmaceutical industry advising the Department of Health. We have people playing down the dangers of alcohol and the damage it is doing because of the baleful influence of the drinks industry. How much do you think that the Government are influenced by these industries and private interests, and are pushing to one side scientific arguments that are inconvenient?

Lord Rees of Ludlow: Clearly, they are deeply influenced by all kinds of lobbying. It is not entirely inappropriate that there should be these inputs, but the role of the scientific adviser to a Minister ought to be to try to cut through that and, if there is a scientific consensus, to make sure that it does not get obscured.

Sir David King: It is correct, as Lord Rees says. There is another complication, which is that the interests of the British economy are often aligned with some of those special interests you referred to, particularly as we have such a strong pharmaceutical industry in the UK. There is an inclination for Government to provide support to the pharmaceutical industry precisely for that reason.

Independent advice is absolutely crucial in all of these cases. The *Daily Mail* headline is what we in Government were always up against; whether it was genetically modified food or whatever—it did not matter—you could be derailed by that process.

Q256 Greg Mulholland: From a slightly different perspective, we had a very interesting session yesterday with Professor Gwyn Prins, who actually suggested that we are putting too much emphasis on scientific thinking instead of accepting the presence of uncertainty. Just to quote from his interesting written evidence to us, he said, “Dazzled by the world-altering powers of Enlightenment science, it assumes that all significant problems are tractable to one type of knowledge and to scientific solution. This fallacy underpins the recent proliferation of scientific advisers

across departments. It also makes it appear shameful for civil servants to admit to ignorance or to say that nothing can be done (or should be done) by Government.” Do you agree with that?

Sir David King: No.

Lord Rees of Ludlow: I did in fact read his evidence. He is right in saying that we should not underestimate the uncertainties and that, therefore, we should keep many options open in our strategy and not assume that we can be confident about what will happen 20 years hence, either on a scientific front or on the geopolitical front. I do not think that any scientist would claim that their input is anything other than a part of mix. But it is surely a crucial part of the mix when we are talking about energy, health or the environment.

Sir David King: I know of no professional scientist who has a high standing who does not understand uncertainty and errors in measurements and predictions. It is part of the job of training a scientist to make sure that they understand the uncertainties in what they are dealing with. The difficulty is, as Lord Rees says, that when scientists discuss uncertainties, it can be picked up by the *Daily Mail* and others as indicating that the scientists do not know what they are talking about.

Let me give an example, Chairman. If you fly in a jet aircraft, you are stepping into the most complex piece of technology that we have generated. It is carrying large numbers of passengers into the air. We have the safest means of travel in potentially the most dangerous form of travel. It is the safest because the precautionary measures taken by the scientists and technologists involved are in the extreme. Every possibility of an event that can go wrong in those aircraft is checked through and checked through again. Why? Because it would be the end of the aircraft industry if we had a few of these aircraft crashing.

What I am saying is that the level of uncertainty depends on the nature of the problem that you are looking at. I did have to say to a Prime Minister once that the chances of the temperature rise because of global warming exceeding 2 degrees centigrade, even if we manage to defossilise the global economy, were still more than 50%, and the chances of a 3.5 degree centigrade rise were still more than 20%. If I took off in an aircraft and the pilot said, “I only have an 80% chance of landing safely,” I would get off that aircraft. Scientists do know about uncertainties.

Q257 Chair: You have just made a very interesting comparison in your example. The predictability of what an aircraft will do is in what I would describe as a much more bounded system of probabilities than, for example, predicting climate and the outcome of the next 30 years of politics on the climate. That is a completely different order of problem. In defence of Professor Prins, he is talking about different forms of knowledge. You are talking about technical knowledge, when it comes to aeroplanes, which does not really apply itself to the art of statecraft or how you run a Government. That is surely the limitation of science. The other question I would ask is this: is a sprinkling of scientific advisers a substitute for having a scientific branch of the civil service, which

8 February 2012 Lord Rees of Ludlow and Sir David King

is what we used to have, in which there were people who understood science, and whose job it was to understand science, impregnated throughout the civil service instead of being planted on the top? Which is more satisfactory?

Sir David King: You are quite right. The ending of the scientific civil service took an area of special training out of the civil service. We ended up going right down the route of the general training that civil servants have. The attempts to appoint highly qualified scientists in the civil service began again in about 2005, when it was realised that we were taking on very few scientifically trained people. That did follow through. We still have scientists. DEFRA will have scientists in laboratories producing work that is relevant to the department. But the general run of the civil service has very few experts within it.

Lord Rees of Ludlow: The other important thing was the privatisations of 20 years ago, which depleted the stock of experts in Government service generally. That clearly altered the nature of the scientific civil service.

Chair: This has been an absolutely fascinating session for us. It has ranged very widely. Could I ask each of you perhaps to reflect further on what mechanisms in Government are lacking and, if you felt able, to offer us some more thoughts in writing on that, in order to make sure that there is a framework in which better decision making and better strategic thinking is made? I think that is what would help us most in our inquiry. If you want to add anything at that point, please do.

Lord Rees of Ludlow: Is the university system within your remit?

Q258 Chair: The way that Government interacts with universities certainly is. Maybe you want to make something of that point.

Sir David King: In my view there is a serious lack of strategic thinking within and across Government

Departments. There is very little strategic thinking of the long-term nature that I believe is necessary within the Cabinet Office and Number 10 as well. I think this is a serious issue that applies in Governments throughout the world.

Ms Patel asked a question before she left about international negotiations. There is an absence of long-term thinking at that level as well, today. People are caught up with the current financial crisis. I have heard many people—not just our Ministers—say, “Let us first deal with this financial crisis.” This financial crisis is tied to many of these other issues. We have to be able to grasp them all together. Until we see leadership from the top saying, “We need strategies and this is how we do it,” this will continue.

I will give you one example, Chairman. If I may, I will come back to the issue of nuclear energy and its future in this country. We have a nuclear decommissioning commission, because that was set up at a time when the Government of the day, back in the 1990s, had decided we were going to decommission nuclear power stations and not go for new nuclear. There is no authority dealing with new nuclear power build, whether it is price or whatever. There is no authority. We are in a very strange situation. Inertia is often the big driver; we just stay with the institutional structures we inherited.

Lord Rees of Ludlow: Also, there is the unjoined-up nature of Government. To give one example, clearly the visa restrictions are causing problems both for the high-tech commercial sector and for universities—faculty and students. I am sure that it was not thought through, and there is not enough contact to ensure it is dealt with optimally. That is just one example of a lack of joined-up Government.

Chair: Lord Rees and Sir David, thank you very much indeed for a fascinating session.

Wednesday 22 February 2012

Members present:

Mr Bernard Jenkin (Chair)

Paul Flynn
Robert Halfon
David Heyes

Kelvin Hopkins
Greg Mulholland

Examination of Witness

Witness: **Rt Hon Oliver Letwin MP**, Minister of State, Cabinet Office, gave evidence.

Q259 Chair: May I welcome our witness to this second inquiry that we are conducting into strategic thinking in Government? Could you kindly identify yourself for the record?

Mr Letwin: Oliver Letwin, Minister for Government Policy.

Q260 Chair: Could I start with just a tiny bit of narrative that explains why we are doing this second inquiry? It is very much a response to the Government's reaction to our first inquiry, where we sensed there was some push back against the very idea of having a national strategy or grand strategy. Could you expand on the memorandum you submitted to the Committee, explaining that quite strong feeling of yours?

Mr Letwin: Thank you, yes. I am sure more of this will come out as we discuss specific things, but of course I am more than willing to begin by saying something general. What I have tried to set out in the memorandum is our view that it makes abundant sense for Government to adopt certain strategic aims, and indeed we have adopted some, which I have laid out. I have to say I do not think they are particularly controversial—that is to say, I suspect that the six, I think it is, strategic aims that I laid out would be broadly shared across the political parties represented on this Committee.

Chair: We will be coming to them later.

Mr Letwin: Fine. So, I think it makes sense for the Government to be clear-minded about their strategic aims, but as I say I think that those would be broadly uncontroversial, in Britain, anyway.

It clearly also makes abundant sense for Government to try to fashion a set of coherent policies that they believe will achieve those aims or further the achievement of those aims. Again that is something we believe we have done. It was the purpose of the coalition agreement to do it in the first place, and certain foundational documents that I also referred to in the memorandum further that. Indeed, that led to the development of business plans, which encode the things that we believe the Government have to do in order to pursue those policies and create an apparatus that this Committee has investigated for monitoring whether that has been achieved and so on.

It is a characteristic of the policies we have adopted in furtherance of our aims, however, that on the domestic front—again, I referred to this in my memorandum—rather than trying to pull levers and hope that there is something at the other end, we believe the proper and best way to proceed in general is to create frameworks

that create incentives within which people will do the things that it is our policy that they should end up doing. In the field of national security and foreign affairs, in order to further our strategic aims—for example, the maintenance of a free, democratic society well protected from its enemies—we believe it is necessary to adopt policies that maintain a great deal of flexibility, because the scene outside this country and indeed, so far as the security of this country is concerned, inside it, is constantly shifting. We then come to the question, what does the Committee mean by grand strategy? I do not know. If what the Committee means by grand strategy is what I have just described, then we are all for it. If what the Committee means by grand strategy is something that is a completely fixed view of the future and the adoption of policies that assume that view of the future will be realised under all circumstances, then I do not agree with it, but I doubt whether the Committee really could mean that. If it does not mean either what I have set out broadly or a completely fixed view of the future, what does it mean? Our scepticism about the phrase “grand strategies” springs from this fact—that we are unclear what it could mean other than something too fixed to be realistic.

Q261 Chair: It seems to me that we are talking at cross-purposes. You think we are talking about some kind of national plan, as though we were trying to recreate something of the former Soviet Union. That is not what national strategy is about. National strategy is as much about maintaining flexibility. It is about thinking strategically and maintaining a process. I think what you have talked about in your first answer sounds much more about implementation and plans for implementation rather than strategic thinking.

Mr Letwin: I am not clear what it would be to do strategic thinking in the context of flexibility—which it sounds as if we are agreed upon—if it were not to adopt, clear-mindedly, certain aims, to try to formulate policies that over a considerable number of years we believe will further those aims, and then to concern ourselves with the implementation of those policies and to adapt them as necessary in the face of realities. I cannot see what else one would do to engage sensibly in strategic thinking than those things.

Q260 Chair: I suspect that, when we come on to your six strategic aims, we will not find much to disagree about, because they are so general in nature as to be almost meaningless. There are many other goals that have been selected by the Government that

22 February 2012 Rt Hon Oliver Letwin MP

seem to have stumbled into the programme of the Government without any coherence. This is why this inquiry is now asking about and looking at emerging strategy: how does the Government's strategy emerge? Perhaps I could give some examples, by asking one or two further questions. Do you seriously believe there is any serious possibility of our achieving our carbon reduction targets by the 2020 deadline?

Mr Letwin: Yes.

Q261 Chair: Why do you think abolition of the existing House of Lords is an urgent and strategic priority against the present economic crisis and other challenges the Government are facing, given the ability this legislation might have to paralyse the whole Government?

Mr Letwin: If we thought it was urgent, we would have introduced it at an earlier stage in the Parliament.

Q262 Chair: So it is not urgent?

Mr Letwin: What we thought was most urgent we began by doing: for example, deficit reduction we thought was urgent. However, we think it is important. There are many things that are important that are not as urgent as some things that are urgent. We think it is important to reform the House of Lords, because we think it is important for the sake of achieving the very first of my goals here—a free and democratic society—that governments and the Executive should be continuously held in check by the legislature, and we think that the House of Lords is more likely to be able to hold Government properly to account and to check the power of the Executive effectively if it contains a healthy, democratic element. So that is precisely part of achieving our strategic goals, and that is why it was set out from the beginning in the coalition agreement.

Q263 Chair: The Prime Minister used to say it might be third-term priority.

Mr Letwin: The Prime Minister, indeed, took a view in the Conservative Party manifesto that we would work towards a “consensus”. That was the word in the Conservative Party manifesto. When we came into coalition, we made an agreement with our counterparts in the coalition to advance this activity as an important part of creating a more effective check on the Executive, wrote it in the coalition agreement and are now implementing it. That is part of our strategic activity. I do not think you could choose a better case of the Government being clear-minded about their strategy. It does not fit the pattern you were alleging, that there are things that suddenly came into the strategy from outside. That was there from the beginning.

Q264 Chair: Would you agree that the 9 December veto at the European summit was a strategic moment in our relationship with the European Union?

Mr Letwin: I do not know what “a strategic moment” means. I am very clear that it was something the Prime Minister said he would do if he had not obtained certain conditions.

Q265 Chair: So it has no strategic consequences?

Mr Letwin: I think almost everything that is done by a Government—

Q266 Chair: On a scale of one to 10, where 10 is a major strategic moment and zero is a tactical issue of no strategic consequence, where would you put it?

Mr Letwin: Do you mean a scale of one to 10 from things that matter a lot to things that matter a little?

Q267 Chair: I am talking about things that have geopolitical consequences for our relationships with other countries in this context. Does this have a long-term impact on our relationship with the European Union or is it an incidental matter?

Mr Letwin: It is certainly not an incidental matter. It has been a very persistent goal of this Government not to find ourselves becoming part of, or bearing the burdens of, being part of the eurozone.

Q268 Chair: So it was a consequential decision rather than a decision that leads to other major consequences?

Mr Letwin: Almost every decision that Governments take lead to—

Q269 Chair: You are being very evasive, Minister.

Mr Letwin: No, no. Let me finish, if I may. Almost every decision that a government take leads to all sorts of long-term consequences. That is one of the complexities of government. I would have thought we would all agree about that. This was a decision that arose from a settled plan, announced at the beginning of this Government, and as part of their strategy, not to be in the eurozone and not to bear the burdens of being in the eurozone. That was why the Prime Minister took the stance he took, because he believed that it was not appropriate, in the light of his strategy and his policy, to take any other decision.

Q270 Chair: I think I will put that down as “will not answer”.

Mr Letwin: No, no, forgive me, Chairman, I have answered that very clearly, which was that it was an important decision.

Q271 Chair: When Parliament returned after the Christmas Recess, the Secretary of State for Scotland launched a consultation paper on a referendum about Scotland possibly leaving the United Kingdom. When was the decision actually taken to issue that consultation paper, and what led to that consultation paper being issued?

Mr Letwin: I could write to you and give you the exact date when the decision was made. I cannot recall it with certainty.

Q272 Chair: I would be grateful for that, because I submit that actually it was made over a very short space of time—a matter of days.

Mr Letwin: I was just about to go on to say that, though I cannot recall the exact date and will write to you about that, the discussions leading up to that decision, in which I was myself involved, went on for

22 February 2012 Rt Hon Oliver Letwin MP

many months. These were decisions that were very much discussed.

Q273 Chair: But when you went on holiday before Christmas, were you expecting to do that on your first day back?

Mr Letwin: I do not recall the exact sequence of events but I can tell you absolutely that this was a decision that emerged from gradual discussion over quite a considerable period—again, I will write to you about the exact period but I suspect it was more than six months—during which we weighed up all sorts of possibilities about ways in which we might proceed, and came eventually to that conclusion.

Q274 Chair: Does the same go for the abrupt change in the policy on child benefit, which emerged as a great surprise to many of us at the Conservative conference? That decision was not foreshadowed in the coalition agreement, and seems to be at variance with things we said in our manifesto. When was that decision made?

Mr Letwin: Specific fiscal decisions are not laid out in the programme for Government.

Q275 Chair: It is not a fiscal decision; it is a spending decision.

Mr Letwin: It was a decision that had a very significant fiscal impact and was announced by the Chancellor. Those decisions that are the totality of the specific spending and tax decisions that constitute our deficit reduction programme were not laid out in the programme for Government. They are decisions that are typically made under pretty close conditions of confidentiality within the Treasury and with a very small number of other colleagues. That decision also took some time to make.

Q276 Chair: This inquiry is going to be about analysing how decisions emerge and what they imply about our strategy. I think I have just gone through a number of very major decisions the Government have taken in recent months, some of which seem just to have come out of the blue. They do not seem to be part of a coherent strategy.

Mr Letwin: Obviously your view, Chairman, is your view. It is not one that I can do anything other than respect. I do not agree with it, and I have stated—I hope, clearly—that each of the decisions you have referred to actually emanated from a pretty coherent view over a very long period. For example, the one you last mentioned, child benefit, stems from a deficit reduction programme that is very persistently pursued throughout this Government. The European one that you mentioned stems from a long-held view we took about our relationship with the eurozone, and so on. Each of those decisions seems to me, very far from the way you have represented, a good example of decision making within the context of clear-minded pursuit of certain strategic outcomes on the basis of policy.

Q277 Chair: We should be able to discern a coherence from these events?

Mr Letwin: Yes.

Q278 Chair: So, you rather like our new approach of trying to analyse how strategy emerges within Government so that we can help you try to improve that process?

Mr Letwin: I certainly welcome the efforts of this Committee to improve the administration of the United Kingdom—evidently, as that is its purpose.

Q279 Chair: But you like this concept of emergent strategy?

Mr Letwin: I am not entirely sure what you mean by emerging strategy. Let me go back to my language, because I think part of the problem with this whole discussion is that the language is extremely difficult to penetrate. My view is that, as well as adopting clear-minded aims, Government need to adopt a set of policies that are coherent with one another and coherently related to the achievement of the aims. If your inquiry is an inquiry into whether we have coherent aims, whether we have coherent policies and whether our policies are coherently related to our aims, then I entirely welcome it. That is indeed, in my view, the duty of government.

As I say I would not use the words “emerging strategy” to describe this, but I am not trying to quibble about the words. If what you are aiming at is coherence, both internally and with our aims in our policy-making, I am all for it.

Q280 Chair: So you would agree with one of our witnesses, who said that he was very much opposed to the idea of an emergent strategy, which seems to be tantamount to admitting the absence of leadership in the system?

Mr Letwin: Again, I have obviously read the transcripts of the discussions. I think a lot of the discussion has been muddled by unclarity about the use of terms. I am very clear what I mean by “strategic aims”. I have laid them out so I assume the Committee will also be clear what I mean by them. I am clear what I mean by “a policy”. You have mentioned five or six of them. I think, therefore, the question, “Are our policies good ways of coherently achieving the aims?” and the question, “Are the policies coherently related to one another?” are good and clear questions. If we could stick at that level, I think we would all be clear what we are trying to discuss.

Q281 Robert Halfon: With regard to the response you have given about strategy and the six strategic aims, how do you respond to the criticism from some that these six strategic aims are motherhood and apple pie? Any Government would say they want a “free and democratic society”, for example.

Mr Letwin: I think they are, very luckily, broadly shared in Britain today. Next to you sits a distinguished member of a different political party whom I suspect would also share these aims. I cannot speak for him, he can speak for himself.

Paul Flynn: We are great comrades.

Mr Letwin: I would guess there is a lot in common there. This is a very lucky feature about Britain. Do not let us take this for granted. There have been many countries at many times—actually, most of the world for most of its history—where those would not have

22 February 2012 Rt Hon Oliver Letwin MP

been taken for granted or indeed agreed with by the people running the country; or at least, had they said they agreed with them, they would have been lying, because that was not what they were seeking to achieve. It is a great thing about our democracy that broadly we agree about what we are trying to achieve and that most of the debate, therefore, inside Britain, goes on about the policies that are best suited to achieve these aims. Therefore, most of our attention is focused on the question, “What policies will achieve these ends best?” Of course, that leads you into immense difficulties and complexities.

Q282 Robert Halfon: But aren't they just values rather than strategic aims?

Mr Letwin: No, they are not values; they are strategic aims. For example, if I take the aim of achieving “a strong, sustainable and growing economy”, there are people around in Britain today, utterly decent people who I guess broadly share our values, who do not believe that Britain's economy should grow. There are some people who think that growth is itself an overrated commodity.

Robert Halfon: Very few.

Mr Letwin: Few, but nevertheless it is a perfectly sustainable position. I am talking about the category of the thing, and the category of the thing is that this is an aim. It is a specific aim that you might disagree with. As a matter of fact, we all agree with it and so the questions for us all are, “How do you get the economy to grow in a way that is sustainable and strong?” Incidentally, I should draw your attention to the fact, sticking on this one example for a moment, that had we been writing that 30 or 40 years ago, people, with certain honourable exceptions, probably would not have put in the word “sustainable”.

Q283 Robert Halfon: But who would not agree with, “A fair deal for those who are poor or vulnerable”, for example?

Mr Letwin: I hope nobody. The question is how you achieve it. Choosing that as an aim, as opposed to simply being one of the people who agrees with it, means that you then have to think of policies that will try to achieve that. Of course, our whole programme of welfare reform and our programme of trying to encourage, empower and facilitate the Big Society—which this Committee has investigated—are part of our aim to achieve a fair deal. It is not the articulation of the aims so much as putting it on your list and thereby forcing yourselves as a Government to formulate policies that will achieve it that is the interesting thing.

Q284 Robert Halfon: How were these six strategic aims actually devised? What happened? What was the process by which you came up with this, and how long did it take?

Mr Letwin: As a matter of fact I think it took quite a long time, because of the nature of the formation of this Government. Both of the political parties in the coalition did a lot of thinking about what they wanted to put on their list, so to speak, before the election, and, as luck would have it, both had come up with broadly similar priorities. Indeed, that is one of the

things that made it possible to form a coalition. In the course of forming the coalition, in that rather sort of hothouse atmosphere, we spent some considerable amount of energy, although not a very long time, agreeing what the things were that we were most trying to achieve. Then we tried to make sure the policies we set out in the coalition programme for Government were ones we thought would achieve those aims.

Q285 Robert Halfon: It still looks like a set of principles—very good ones, but still a set of principles rather than a strategic plan.

Mr Letwin: It is not a set of policies; it is a set of aims. The set of policies, which is several hundred long, is there in the programme for Government, aimed at achieving these things. This is where we come back to the very interesting discussion that the Chairman precipitated on what it is to have a strategy. In our view, it is to be clear-minded about the aims you are trying to achieve, then to formulate a set of policies that you think will achieve them, and then to try to make sure that those policies are actually implemented. Whether you are successful or not will depend on whether, as a matter of fact, when implemented, those policies achieve those aims.

Q286 Robert Halfon: Did you make any effort to engage the public when you devised these strategic aims?

Mr Letwin: I think I can fairly say we all did, because, as the two parties went into an election having chosen the things that they would emphasise, and as the election produced a certain set of results, I think one can fairly say that they have been subject to a very considerable—in fact, the toughest—democratic test.

Q287 Robert Halfon: All three parties would choose those. There would be no difference in any of the three parties from what you put down. As I said, no one would argue against having a fair deal or a vibrant culture or beautiful environment.

Mr Letwin: As a matter of fact, I think it is the case that British politics is in a happy position at the moment, where there is not too much disagreement between the political parties about the strategic aims; the disagreements are about which policies will best achieve them. I agree with you.

Q288 Chair: Can I just summarise, then? So, actually, strategic thinking for a Government is very easy: you write your manifestos, you stand in an election, you get a majority or you form a coalition, and then you look at what you have in your manifesto, write down the lowest common factor agreement stuff between the two parties, and, bingo, you have a strategy. That seems to be what you have done.

Mr Letwin: You keep on reverting, Chairman, to the word “strategy”. I am using very careful language. The strategic aims are there. That is not too difficult because, as a matter of fact, we share them. It might be difficult at other times, but at this time in British politics it is not too difficult. What is difficult is formulating the policies that will then lead to the fulfilment of those strategies.

22 February 2012 Rt Hon Oliver Letwin MP

Q289 Chair: What are the strategic aims that serve as a guide to what policies you pursue and what you actually do? These are so general in nature that they do not serve any purpose, in terms of what policies you pursue. I can tell you that there are members of this Committee from all sides of British politics who would come up with completely different policies and would claim that they were trying to achieve the same strategic aims.

Mr Letwin: Yes. There are disputes about which policies will best achieve these aims.

Q290 Chair: So these strategic aims are not very useful, then, are they?

Mr Letwin: They are very useful, because if you do not know what your aims are, you certainly could not have a coherent set of policies coherently for achieving them. Let me take a case—one which I think you and I disagree about, Chairman. In here it says a “strong, sustainable and growing economy”. If one omitted the word “sustainable”, then we would be omitting a whole strand of policy, which is about trying to make sure that there is an encouragement of biodiversity, a reduction of carbon and other things of that sort.

Q291 Chair: We are going to burn more coal to generate our electricity over the coming decades.

Mr Letwin: Some people who do not place the emphasis we place on sustainability do not take the view that we should place as much emphasis in our policy as we do on making sure that we are reducing carbon. The question you asked me a little while ago was whether we thought we could achieve the 2020 carbon reduction targets. The answer I gave you was “yes”. The reason for that is that we have adopted policies that we think will do that. The reason why we have adopted policies we think will do that is that it is one of our aims to do that, set out here. You were saying that you thought that these aims had no effect on policy. I am giving you a clear contradiction of that, which is that the fact of including “sustainable” here leads one into a domain of policy making that you personally, I think, disagree with. So here is a real disagreement.

Q292 Chair: I am not expressing any view on it. I am just wondering whether we are going to achieve it when we are going to burn more coal in our power stations over the next decade or so than we burn now, otherwise the lights will go out.

Mr Letwin: I am trying to point out that having the word “sustainable” in the aims does have an effect on the policies you choose, and has had an effect on the policies we have chosen.

Q293 Chair: But it does not seem to have much effect on the policy. These strategic aims do not seem to have any effect on the policy, because they do not provide any steer whatsoever as to what policies should actually be, because they are so general in nature.

Mr Letwin: They do. No setting of an aim determines how you will achieve it, but the setting of an aim does preclude doing some things that would not achieve

that aim, and opens up the field to prioritise those things that will achieve that aim. That is the relationship between aim and policy.

Q294 Chair: Can you give an example for “a free and democratic society”? What does that preclude the Government from doing?

Mr Letwin: For example, it actually is the basis upon which we committed in the programme for Government to enlarge the scope of the Freedom of Information Act; to be the most transparent Government not only in our history but in the world; to publish a vast amount of additional data; to reform the constitution; to create a more effective decentralisation of power, so that people would have greater democratic control over their police, over their local authorities, over their neighbourhoods, over their planning—

Q295 Chair: So, people who are against those things are against a free and democratic society?

Mr Letwin: No. Chairman, I am trying to be very careful. I am distinguishing between agreement about aims and the fact that you could have different policies for achieving those aims, and yet pointing out to you how, from that aim, we have evolved a whole set of policies clearly designed to achieve that aim. I am not saying that somebody else who had a different set of policies might not also hope that those policies would achieve that aim. But there is a relationship between the aim and policy, a very clear one, and I was sketching it out, I think rather powerfully. I think it is difficult to deny that the things that I was describing would not be on our agenda were it not that we had this aim. So, putting down this aim matters.

Q296 Paul Flynn: Can I welcome you as one of the few coalition Ministers who has demonstrated in the past that you have a working brain? I hope that this does not become a major impediment to you in your job now. We have been told by one witness that one of the problems with strategy is the different timescales that Departments have. DFID works in Afghanistan on a 10-year horizon, the Ministry of Defence on a six-month one and the Foreign and Commonwealth Office on a shorter period. One could add that the Government’s timescale is tomorrow’s *Daily Mail* headline. Do you accept this or are you planning your strategies beyond the life of this Parliament and possibly the next Parliament?

Mr Letwin: Let me take the last part of your question first, because it is quite a deep question and I want to go through it in reverse. The first point is, yes, we are doing things that we think will have their main effects in five, 10, 15 or 20 years from now. For example, our energy policy is not one that is designed to transform the scene tomorrow or next year, but over the course of decades. Similarly, our deficit reduction plans are going to lead, we hope, to Britain being in a better condition fiscally—I know they are controversial, but that is our hope—some years from now, not tomorrow or next week. There are many other examples: for example, our school reforms are very consciously an attempt to change schooling over decades, not over weeks or months. Of course, one

22 February 2012 Rt Hon Oliver Letwin MP

might agree or disagree with them, but that is the timescale. So, my answer to your last question is, yes, we have adopted lots of policies where we are very conscious that they will have their effects only over quite a long period.

Going back to the first part of your question, which as I say I think is a very deep question and one that we spend a lot of time thinking about, I would give you the following answer. There are inevitably many different timescales over which Governments have to operate and different Departments have to operate at the same time. That is one of the great complexities of government, it seems to me, in any country. You do of course, in a democracy, have to be responsive to what is going on day by day in the media. There is no point in any of us trying to deny that. On the other hand, you have these very long ambitions. Between the two, you have things that need to be done at different lengths of time away. Different Departments—but even within a Department, different parts of the Department—will inevitably have different timescales attached to different kinds of actions. So one of the great things that we try to do in our Cabinet Committees and in our National Security Council is not to obliterate these differences, as we do not know how to obliterate them—they are just a feature of life—but to be conscious of them, and to try to make what we are doing for the very short term coherent with what we are doing for a slightly longer term, and, in turn, coherent with things for longer than that. That is a very difficult juggling act all the time.

Q297 Paul Flynn: Let me just take one example from your reply. The nuclear policy changed in 2007 under the last Government. Next week we have the anniversary of Fukushima. A report has been done, which excluded any reconsideration of the cost of nuclear power. New nuclear is proving hugely costly, and no nuclear power station has ever been built on cost. There are huge sums to pay for clearing up the mess; it might need burying in Scotland. Is it sensible to proceed with that programme, without a reassessment of the cost post-Fukushima?

Mr Letwin: We think it is sensible to proceed in the way we are proceeding. If you will forgive me, let me go through the entire chain to make a point in relation to the Chairman's earlier questions. Having adopted the principle of "a strong, sustainable and growing economy", we were faced with the necessity to achieve simultaneously three important goals in energy policy: the lowest cost that we could achieve for the consumer and business; the greatest security of supply that we could achieve; and the lowest carbon emissions that we could achieve. Our assessment remains that it is difficult to achieve sufficient quantities of each of those three goals, which are often in contention with one another, without having a significant component of nuclear power. Therefore, we think it is sensible to proceed with negotiations with the providers of nuclear power.

As you engage in those negotiations, one of the things that will happen is that the price will disclose itself. That is what the negotiations will eventuate in, among other things: a price and a set of liabilities. At that stage, we will have to judge whether the price that we

are being asked to bear as a nation, and the liabilities, if any, that the nation is being asked to take on, are ones that are worthwhile in the light of what nuclear power can deliver for security, for reduction of carbon and for the long term of our energy sector. That is a judgment that can only be made once the price has been disclosed in the contractual negotiations, and that is when we will engage in that review.

Q298 Paul Flynn: Lord Rees made the point to us that without a robust strategy the immediate will always "trump the important"—that 2000 years of scientific discovery and knowledge will be trumped by a tabloid headline. Is this happening in your Government?

Mr Letwin: I think there is always a danger of what Lord Rees describes and what you describe in a democracy, but I have to say that I think this Government have been peculiarly good at not allowing the day's headlines to deflect them from long-term activity, whether you happen to agree with the activity or not.

Just today there is a great deal of publicity about our health reforms, and I suppose that a Government who wanted to get a good headline for a day might suddenly abandon their health reforms. We have not abandoned our health reforms. We are pursuing them. There are many other cases in which this Government, having set out a quite ambitious reform programme—whether you agree with it or not—have stuck by it, despite a great deal of opposition of various kinds. There has been much opposition to our welfare reforms, but we are pursuing those. I could go on with a long list.

While it would be absurd for me to claim that this Government are never in any way affected by the day's headlines, I think I can claim that we have a very persistent attitude to pursuing long-term policies with long-term goals, despite the fact that, sometimes, we go through quite considerable periods of controversy in the media.

Q299 Paul Flynn: Are you continuing the long tradition in the Civil Service of the unimportance of being right, and are you still promoting people on the basis of failure? I am thinking of the lady who just came from the Border Agency, where there was utter chaos, who had an extraordinary period involving an election scandal in Birmingham and has now been promoted as a result of her clearly troubled past. Is this a question, again, of what you do in the Civil Service, namely, move people sideways or promote them when there is an embarrassing situation?

Mr Letwin: One of the features of the British constitution, which I think is a good one and I suspect we might agree about, is that Ministers do not make decisions about the promotion or otherwise of particular civil servants. The reason for that, as you are very well aware, is to prevent civil servants from simply becoming creatures of politicians.

Q300 Paul Flynn: You were responsible for turning GOD into a trinity, recently, and the result of that is what is going on now. You must take responsibility somewhere.

22 February 2012 Rt Hon Oliver Letwin MP

Mr Letwin: Absolutely. Sorry. It has always been the case that at the very apex of the pyramid, when it comes to appointing the Cabinet Secretary and the head of the Civil Service, the Prime Minister of the day, there being no one else to do it, is indeed influential. Of course, I accept collective responsibility for the decision to run the Civil Service through a Cabinet Secretary, a head of the Civil Service and a head of the Cabinet Office in three separate roles. I may say that I think that they are working extraordinarily well together, and you may want to take evidence from them about that. That is at a different level from the one you are describing. The management of the Civil Service is something that Ministers have not tried to intervene in or interfere with, I think rightly, because however imperfect it may be at any given time, politicians making decisions about the careers of specific civil servants will open up another set of problems.

Q301 Paul Flynn: A final brief question. Is it not true that Governments make cowards of all politicians, that the brave words of the Prime Minister when he was in opposition about how he was going to take on lobbyists have now melted and become very weak policy, and that it was exactly the same with Labour? Labour, in fact, did not stand up when this Committee produced a report calling for major reforms on lobbyists. Is it not the case that when Governments change, it is not a change of philosophy or strategy, but a question of exchanging scripts?

Mr Letwin: Well, I think that is an excessively cynical view.

Paul Flynn: Oh, surely not.

Mr Letwin: Actually, the case you quote I do not think is a good one for arguing that, because there are two changes that we have made—sorry, one change we have made and one change we are about to make—that together will have a profound effect on lobbying. The change we have already made, which is little noticed but is there and you can go and look at it on a website, is that every meeting with a Government Minister is now transparent: you can see who has come to a meeting. The Lobbying Register will tell you, for any person you are looking up, who has come to see a particular Minister, who their clients are, so you can tell what is actually going on. Now, I think that that is a major step forward, and does live up to what the Prime Minister and others have said in opposition.

I do not accept, therefore, that, as you put it, being in Government just means collecting somebody else's script and being a coward. I think on the contrary, if you were to level an accusation against this Government, it would have to be that, having adopted a very considerable reform programme, we are sticking to it, and so if you disapprove of the reform programme, you disapprove of that. But I do not think you can claim that we have been cowardly and have given up on long-term goals. We are, on the contrary, fulfilling them.

Q302 Paul Flynn: We notice a failing in enthusiasm for the Big Society, which has been referred to on this Committee as “a dead wheeze walking”.

Robert Halfon: Only by you.

Q303 Paul Flynn: Are you really telling us that, when the Big Society guru has fled the scene, when the Committee running it has not met for 11 months, when the Prime Minister can hardly say the three words “the Big Society” anymore, this is showing your courage in maintaining a policy that clearly has failed?

Mr Letwin: I think I disagree with every part of that.

Paul Flynn: That is disappointing.

Mr Letwin: I am sorry to disappoint you. First of all, the Prime Minister repeatedly uses the words. Secondly, as a matter of fact we have taken three kinds of action, and are continuing to take three kinds of action, immensely to strengthen the Big Society: first, we have taken a whole series of moves to reduce the impediments and bureaucratisation and regulation of it by implementing Lord Hodgson's reforms, by changing a whole series of things including health and safety legislation effectively—

Chair: Forgive me, Minister.

Mr Letwin: Let me just quickly say this, because I do not want to have the one on the record without the response. We have taken, secondly, a whole series of moves to make it more financed, hence for example, Big Society Capital, and, thirdly, a whole series of moves to ensure that it is empowered through community assets, neighbourhood councils and many other things besides. I think it is an extraordinary example of persistence of policy. Again, you may not approve of it, but it is very clear where we were trying to aim and where we are continuing to go.

Paul Flynn: I wish you a long career.

Q304 Robert Halfon: Just to clarify, for the record, it was Mr Flynn who described the Big Society as that, not the rest of the Committee. Just to go back to what you said when I asked you about how strategic policy was decided, you said that the electorate had decided this over the course of the election. Do you really think that is the case? Surely the electorate just thinks about who is going to improve the NHS, or tax policy, or whatever it may be. They are not going to be thinking about these principles that you have set out.

Mr Letwin: I do not really agree with that. There are parties in the United Kingdom that do not share all of these aims by any means. I will not demean the Committee by mentioning the name of one of them in particular, but there certainly is a party in the United Kingdom that would not honestly be able to say that it was in favour of a free and democratic society, in my view, and certainly would not be able to subscribe to a “socially cohesive, socially mobile” society in the terms in which I, and I think you, mean it; and that party did not get very many votes.

I think that it is a sign of the maturity and excellence of our democracy that, while parties have different views about some of the policies needed to achieve these goals, the main political parties share the goals, and the public votes for them because it shares the goals. There is a terrible danger of thinking that, because, as a nation, we are incredibly lucky that a huge, overwhelming mass of the population and the

22 February 2012 Rt Hon Oliver Letwin MP

three main political parties all agree about something, somehow this is in the nature of the case. There are many, many countries in which these things are not agreed. I do think that it is because we have a vibrant democracy that it tends to bring the major parties to the point where they adopt goals that are broadly in line with the goals of the population, and get voted for accordingly, and if they from time to time fail to place significant emphasis on some of the goals, they stand in danger of losing that consent, as I think our own party did, for example, because we did not place sufficient emphasis on sustainability.

Q305 Robert Halfon: Do you envisage these strategic aims changing over time? If so, how would you engage the public when you were changing the aims?

Mr Letwin: They might change, I suppose. I think I have given an example where, 50 years ago, people would not have put the word “sustainable” in there. Actually, I am not sure that everyone would have written in a “beautiful and sustainable built and natural environment” at all times, either. So these aims do get articulated differently at different times, despite the degree of consensus which there is around most of them most of the time for us as a country.

Changing them is something that takes a long time and emerges as a result of a great deal of cultural and political discussion. I draw your attention to my own party’s evolution in coming to place more and more emphasis on sustainability, and indeed on beauty. These are things that, some years back, our own party did not particularly emphasise. How does that emerge? Well, it emerges in the course of the political discourse. The point I think I need to make to you, but also to the Chairman and the Committee as a whole, is that I therefore do not think that being clear-minded about your strategic aims is at all a minor thing. I think it is a very major thing, but I do see entirely that it is not the same as the hard graft of fashioning policies that will achieve those aims.

Q306 Kelvin Hopkins: You have said—and this is a quotation from you—that “we don’t know what will happen, so let’s try to be able to respond to a whole series of different possibilities”. You then go on to say that as a result you “constantly try to maintain an adaptable position that allows us to respond to events as they unfold”. Can you seriously claim that this approach has been reflected in the Government’s response to events in the last two years?

Mr Letwin: Yes, I think I can. But, as I thought the Committee might ask about that sort of point, I have done a little looking at cases in which, in recent history, and in England, not some far-off place, people tried to project the reasonably near-term future with confidence. I want to draw the Committee’s attention to two documents. One is the 1959 policy for fuel. In 1959, the strategists in Government produced the following argument: there seem to be no good arguments—I would draw to the Committee’s attention that they did not say, “on balance”; they said there were no good arguments—for restricting the growth of oil usage in this country. That was about 14 years before the biggest oil shock created the biggest

economic problem for 40 years. The paper goes on three paragraphs later to say that, by contrast, the gas industry is struggling for its life. That was about five years before Britain converted to natural gas, which became the major fuel. So here were the assembled talents of British industry and expertise in British Government trying to predict the relatively near-term future for Britain’s energy and getting the two major propositions that they could have made predictions about completely wrong.

In case anybody thinks that is something that is in the past and has got better, let me draw the Committee’s attention to the 2008 Budget, which was about six months before the Lehman’s disaster and the biggest banking crisis in our history. The Chancellor of the day said, “Over the past decade the UK economy has become increasingly resilient to shocks ... key to developing greater resilience has been the macro-economic framework.” I am not saying this as a partisan attack on either of these documents. I am saying this because here are people trying to look not terribly far into the future, not about minor things but about things that are among the most major choices facing the country, and getting them completely, hopelessly, diametrically wrong. That is not because they were stupid or ill-informed. It is because they were human beings. We just do not know very much about the future.

I want to give you one further case, which I think is the most significant one for the purposes of this investigation, of which I have some personal experience. In the National Security Council we have gathered with us the heads of the intelligence agencies, as the Committee knows. We get a lot of information from them, from the Foreign Office, which is also represented, and from the military, which is one of the points of the committee—that it is not just politicians discussing it. There is also a vibrant intelligence community that is connected with ours around the world, and all the newspapers and other media of the world, and the commentators, and the many consultants, and so on. Using the whole of that collective wisdom, not a single suggestion was made to us, or indeed I believe to any of the other equivalent bodies around the world, that there was going to be an Arab Spring. Nobody guessed it. It happened quite contrary to anyone’s predictions.

So, here we have three fields—energy policy, the running of Britain’s macro-economy and the biggest events on the world stage—and in all three cases it turns out that human beings are not very good at predicting what is going to happen in the very near future. What else can you do but adopt a set of policies that try to maintain the maximum flexibility so that you are able to respond flexibly to the unknown? Coming back to the energy scene, that is one of the very reasons why our persistent view has been that we have to make sure, for example, that we do not put all our eggs in one basket—that we do not just build gas stations or just build renewables or just build nuclear—because we do not know whether gas is going to be cheap or expensive, whether nuclear will become more or less feasible, whether renewables will become cheaper or more expensive. These are all unknowns. I believe that our approach of trying to be

22 February 2012 Rt Hon Oliver Letwin MP

clear-minded about our aims and trying to adopt policies that we think will go there but trying to maintain flexibility in the face of changing circumstances is the only rational approach.

Q307 Kelvin Hopkins: You are playing to some of my prejudices about Governments getting these things wrong time and time again, but your sentence, which is so masterful it sounds almost like Sir Humphrey—

Mr Letwin: Oh dear.

Kelvin Hopkins: He could have said that. It sounds like you are suggesting pragmatic firefighting, which is at odds with what the Government are doing. The Government clearly have a very strong and determined direction on health, on welfare reform, on pursuing nuclear power and so on. In a sense this is your pragmatism and what sounds like your traditional conservatism: let us not do very much; let us just manage things and hope that they carry on. True conservatism, traditional conservatism, is not radical; it is managing things and conserving things.

Mr Letwin: I certainly would not want to debate with you what true conservatism is, as I have never known. What I am clear about is that there is no conflict between a persistent and determined attempt to achieve certain policy outcomes that we think will contribute to the strategic aims, including very considerable reforms—you are right, this Government have a very determined set of reforms which they are seeking to bring about—and on the other side maintaining flexibility. In fact, the way these come together is that the nature of the reforms we are bringing about is such, we believe, that it will increase rather than reduce flexibility. What we are trying to do is to decentralise, to hand over more power to individuals and communities to determine their own circumstances and to create less centralised decision making, precisely because we think people are more likely to get things right in the long run if they can adapt to changing circumstances locally rather than be dragooned into achieving certain results centrally. So, the structural shifts that we are trying to bring about, whether in energy, localism or in many other fields, are aimed at increasing flexibility and resilience through flexibility rather than being aimed at achieving results against the false supposition that we know what is going to happen in the future.

Q308 Kelvin Hopkins: My view is that there is, and has been for a long time, a very determined sense of direction in Government, driven by ideology, not by pragmatism, and that for a long time those who disagree have been marginalised. I quote Professor John Kay, who came before us recently and said, “People at the top do not welcome challenge, and there is a single view, as it were, imposed on the organisation and people feel they will damage their careers by disagreeing with it.” We heard examples before the last election, in this Committee, of civil servants who tried to challenge, and that perhaps a few of them were, shall we say, sent to manage a power station in Yorkshire, to change a metaphor slightly. There is this ideological direction, and yet you say you are just flexible and pragmatic.

Mr Letwin: Pragmatic was your word. Flexible is my word. As I say, the two come together. Let us take the case for reforming schools. We are aiming to create a structurally different system of schooling in England, within which individual schools run their own affairs, money follows the choices of parents and pupils, and schools compete for parents and pupils, because we believe that will raise the average standard of schooling and education provided, because that contributes to many of the aims, in particular, the aim of a “well-educated population”. That is what you call ideology and what I call a policy carefully conceived to try to achieve a strategic aim. We might disagree about whether it is the right policy or the wrong policy, but in any event it is a policy adopted for that purpose.

Is it a policy that allows for flexibility? Yes, precisely because each individual school will have a great deal more flexibility about how it goes about doing its job of educating its pupils. We are not trying, in contrast to the perfectly possible alternative policy, to tell each school how to do it. We are trying to let the choices of parents and pupils determine the success or failure of schools so that schools can adapt to the kinds of pupils that are in their areas, the circumstances of those pupils, the character of the schools’ own teachers and so on, giving schools much more freedom of manoeuvre. It is a much more flexible policy.

If you are asking whether we are very inclined to listen to people who tell us that this whole approach to making our schools better is wrong, no, we are not, because we believe that is the right approach to making schools better. We think, with all the evidence we have available to us as human beings, that when people are freer and compete, standards tend to rise. In that sense, you are absolutely right that the Government continue to try to achieve a particular policy and are not put off by the fact that there are some people who disagree. If we were put off by people disagreeing, we would never have any policy about anything because, as a matter of fact, people disagree about everything, and you either adopt a policy or you do not. If you do, you will have some people who disagree with it and you will have not to pay them any attention while you pursue the policy. Having said that, in the details of the policy, as I am acutely conscious of in the case of this particular policy that I am just discussing and also in many others, there are many people who come along to Cabinet Committees, but also to Ministers in Departments, and indeed in inter-ministerial discussions, and say, “We have spotted that, if you are generally speaking trying to achieve this, and you have underneath that done X, Y and Z, Y is not coherent with X and Z; it is not working well, and we should change it.” Then we do very much listen, and a lot of our discussions are about the detailed implementation of the general policy to achieve the goal. I would say that is exactly in line with what this Committee has been advocating: that we should have a clear view about where we are trying to get to, and then be willing to look at the evidence about the particular detailed policy that will or will not get you there.

22 February 2012 Rt Hon Oliver Letwin MP

Q309 Kelvin Hopkins: We could debate this at length and I could go on. But the essence of it is that the rigid direction is always that markets work. We must create everything and put everything into a market context and then things will work. I am reminded—and I shall finish here—that, some 30 years ago, Milton Friedman, much beloved of some, but not by me, was interviewed by a hostile interviewer on American television, who asked if his economic views promoted human welfare. He of course said, yes. There was a challenge, and the interviewer said that they clearly do not, because they lead to inequality and higher unemployment. There was a really robust argument, at the end of which, Milton Friedman lost his cool and said, “Alright, it is about freedom.” It was not about promoting human welfare. I suspect that is what infuses Government policy and has done for a long time. The idea that, in practical terms, we are doing the things that will benefit everyone in the longer run is not something that I believe to be strictly the case, and that what John Kay has said about people who do not agree with that philosophy being marginalised is what has been happening in my party and in your party. Your party signed up to that ideology in any case.

Chair: A yes or no will do.

Kelvin Hopkins: I have finished.

Mr Letwin: I did not hear the exchange you described between Milton Friedman and somebody else. I do want to correct one misapprehension. We do not believe that markets work in every context by any means. Our purpose and proposals for the reform of the police force do not involve competing police forces. You cannot give criminals vouchers to choose which police officer to be arrested by. We do believe that where you cannot get choice and competition, you need to have some other form of direct accountability if at all possible, and that is why we are moving towards elected police commissioners. It is a different model. So we are not wedded to the view that markets are always the solution by any means.

Q310 Chair: Moving on, I have to say that some of your answers to my colleague Mr Hopkins are absolute music to our ears, with regard to how Government get things wrong. One does then ask the question, why do we spend so much time and money horizon scanning, trying to predict the future, when we know we cannot predict it?

Mr Letwin: I think that is also a very deep question. Let me just spend a minute or two on it, because it is something that I have been thinking about quite a lot for the last couple of years. Given that I am very sceptical about the ability of human beings, let alone Governments, to prophesy the future with accuracy, it is a good question: why do we spend so much time worrying about it?

Q311 Chair: Would it not be better to spend money on the skills we need senior civil servants and permanent secretaries to demonstrate? This has been described by one of our witnesses. I am sure you are familiar with the *Nicomachean Ethics* and the four types of different knowledge: *techné*, *epistémé*, *phronésis*, that is, practical wisdom, and *metis*, which

is conjectural knowledge or what we might call imagination. Because we spend so much time pressuring civil servants to respond to individual events on a weekly basis, the depressing email coming out of Downing street once a week saying, “Please can we have your announceables for the next fortnight?” is what seems to drive the system of Government. Do we give enough space in our system of administration for our senior Civil Service to do those leaps of imagination that give them the opportunity to imagine the black swans or the golden swans—the great opportunities that I would say in this country we have been rather bad at dealing with for the last 30 or 40 years?

Mr Letwin: Let me come back to question on the *Nicomachean Ethics* and the types of knowledge that civil servants need. Just to continue for a second on the question of forecasting, the Government do spend a good deal of time, in one way or another, trying to look into the far and medium future. You might ask why we bother, given how bad we all are at it. I think I have come to the conclusion that actually it does make sense to spend time and effort looking at the future, as long as you remember that you will probably get it wrong. The reason why it makes sense to continue looking at the future is that at least you can try to identify as many of the very large risks as you can. Having a policy structure that is as resilient as you can make it in the light of an analysis of the very large risks and the uncertainties is a good thing to have. It is worth trying to chart what the very large risks are.

Q312 Chair: Would you agree that there is some concern right at the top of the Government that the long-term conjectural imaginative thinking, which in the end drives the identification of our national interests and how to pursue them, is being a bit squeezed out and is something that we need to concentrate more on?

Mr Letwin: No, I do not accept that it is being squeezed out at all. First of all, there has been more attention recently to the question of identifying risk—much more. The classic case in the context of the National Security Council is the National Risk Register, which is a very serious-minded attempt to identify and quantify risk and also to look at the degree of likelihood attached to given risks. This is an uncertain game and is imperfect, but it is much better to have such a register and such an effort than not. I am proud that has been introduced and is being used. So far as thinking through the long-term effects of things that we are doing is concerned, that is something that goes on enormously in committees and between Ministers and civil servants. It simply is not true that the whole Whitehall machine is driven, which was the word you chose, I think, by the grid. The grid is a necessity of modern democratic politics and the 24-hour cycle. But the important point is to make sure—which I think we pretty much have—that the announceables, as you describe them, are things that emerge from things that are going on anyway, and are not created specially for that day’s news.

22 February 2012 Rt Hon Oliver Letwin MP

Q313 Chair: So you think the Civil Service is replete with phronesis and metis?

Mr Letwin: When I was teaching Aristotle in Cambridge I used to warn my students against trying to use these categories exactly, because I do not think that they work terribly well. I certainly do think that the Civil Service has a great deal of practical wisdom. One of the points of trying to rely more on the Civil Service and less on consultants to do things is that we think that the Civil Service was underestimated.

However, Jeremy Heywood has put forward some very interesting proposals, which we are working on with him and with Bob Kerslake, about the possibility of some degree of contestability so that outsiders also have a chance to use their expertise to challenge some of the policymaking that goes on inside the Civil Service, because although the Civil Service does contain a great deal of practical wisdom, there are many other people who have it as well.

Q314 David Heyes: We did not do Aristotle at Blackley Technical, and I have never recovered from that, so I have a fairly simple question. Is the structure of Cabinet Government conducive to good strategy-making?

Mr Letwin: I am very sorry to do this, but it comes back to a considerable extent to this vexed question of the word “strategy”. I think that Cabinet Government is very well suited to the business of challenging and discussing policies in order to determine whether they are policies that will achieve one’s strategic aims. I do not think that Cabinet Committees are particularly good as a vehicle for looking at the detailed implementation of policy. We are conscious that we need to do much more work than Governments have typically done and we have yet done to identify the best ways to make sure that good policies are translated into good outcomes through good implementation. If you ask me where the system of Government in the UK is weakest, I would say it is at the level of making sure that the implementation works so that you get the results you were hoping to get from the policies that you have adopted, which is of course a necessary precondition for them achieving the strategic aims you are trying to achieve.

Q315 David Heyes: So there is the need to do more. The inference from that is that there is not time set aside in Cabinet to enable strategic discussion. Is that correct?

Mr Letwin: No. If by strategic discussion you mean discussion about whether our policies are adapted to achieving our goals, there is a lot of that that goes on and it goes on well and carefully and seriously. I suspect it has under many regimes, and it certainly does at the moment.

What I am saying is that that is what the discussion does, and it inevitably does, because if we gather Cabinet Ministers and others around a table for a couple of hours to discuss a serious subject, a couple of hours is quite a long time in ministerial diaries, as you will be conscious, but is not nearly enough time to start looking underneath the strategic level, if you like—whether the policy is well adapted to achieve

the goal—into the question of how this is in practice being implemented. That is something that demands weeks and months of labour, often outside Whitehall out there on the ground, looking at what is actually happening.

So the real challenge for us is finding the mechanisms to make sure that we are discovering what is really happening on the ground and that we can respond by changing policy if necessary if it is not being implemented in the right way, or by changing the implementation, if that is what has gone wrong

Q316 David Heyes: But not strategic thinking in the sense of looking far ahead and considering the implications of that; that does not take place at Cabinet level.

Mr Letwin: On the contrary, looking far ahead is exactly what does take place; that is to say that we are sitting there and asking ourselves the question, “If we adopt this policy, will it achieve our long-term goals? What long-term effect will it have?” That is the discussion that does happen in Cabinet Committees and happens well in Cabinet Committees.

Q317 David Heyes: A lot of the evidence we have taken has given a very strong message that there is a need for a stronger centre of Government. Would you agree with that?

Mr Letwin: I think there is quite a strong centre of Government, in the sense that the Prime Minister and the Deputy Prime Minister are enormously powerful, and the apparatus that surrounds them is considerable. I think it is also important that we do not disempower the particular Departments. It is important that they retain their expertise and their considerable degree of autonomy. The way in which I think one can reconcile those two things, and make sure that the Government as a whole are marching in the direction they are aiming to march in, is by ensuring that we have sufficient co-ordination between Departments. That is the purpose of the National Security Council and of the revivification of the Cabinet Committee system.

We thought about this quite hard, and we came to the conclusion that neutering the Departments and running everything from the centre would be wrong, simply allowing each Department to tread its own path would be wrong, and that the way to avoid either of these evils was to have Departments with some considerable degree of autonomy but brought together and co-ordinated so that every decision was made in a committee that actually draws Departments together. The National Security Council is a very good example of that.

Q318 David Heyes: But much of the evidence we have had speaks well of the way strategy is worked out within individual Departments. It is the pulling it together at the centre that is the weakness and why many of the people who have given us evidence make a strong argument in favour of a stronger centre.

Mr Letwin: That has not been my experience.

Q319 David Heyes: Would, for example, an office for the Prime Minister help to improve that?

22 February 2012 Rt Hon Oliver Letwin MP

Mr Letwin: Although there is not something called “the Office of the Prime Minister”, the Prime Minister has an enormously impressive private office and an enormously impressive policy unit. The Prime Minister operates heavily through the Cabinet Office and my own work there.

Q320 David Heyes: The Cabinet Office is not the Prime Minister’s office, is it? It definitely is not.

Mr Letwin: The Cabinet Office is a separate office from Downing Street, but there is a door that is constantly being opened, as we move back and forth between the two. The work that Will Cavendish’s team, for example, does on implementation and on the deregulation agenda and the work that the Economic and Domestic Affairs Secretariat does are absolutely interwoven with the work of the policy unit and the Prime Minister’s private office, and indeed with the Deputy Prime Minister’s private office, which happens to be in the Cabinet Office.

All of this works together, and in this Government, very unusually, works very closely with the Treasury, so that at the centre of Government, if you take together the Prime Minister, the Deputy Prime Minister, the Cabinet Office and the Treasury, you have a group of powerful entities and Ministers working together the whole time to try to bring together the activities of Government. Whether you call that a Prime Minister’s office or do not call it a Prime Minister’s office, I really do not mind. But it is certainly a strong centre.

The crucial point I am at pains to make, however, is that it does not operate simply by telling Departments what to do—and it should not, in my view. It works with Departments to try to make sure the activities of Departments are co-ordinated with one another so that the Government machine as a whole is moving in the direction it is seeking to move in. I think that is the right balance.

Q321 Greg Mulholland: Minister, is not the reality that, in the end, strategy comes down to money? Certainly a lot of the evidence and opinions that we have heard very much suggest that in the end that becomes the overwhelming driving force. You yourself told us when you came before us last January that you, understandably rightly, work very closely with the Chief Secretary to the Treasury and perform quarterly reviews of the departmental business plans with Secretaries of State and permanent secretaries. Is that not really clearly showing that it is actually the Treasury that drives strategy across Government?

Mr Letwin: No, I do not think it would be right to think that the Treasury drives what I would call policy across Government. It is, however, certainly true that there is very little point in adopting a policy that you cannot finance, and very little point in trying to carry out a policy that has not got sufficient finance to make it work. So, especially if you are very short of money, as the Exchequer is at present, you have to be extremely careful that the policies you adopt are policies that are financeable within the very tight public expenditure constraints under which we operate. I would describe it as a constant dialogue between what we seek to achieve and what it is

possible to achieve in the light of the financial constraints. In other words, the Treasury is not there, outside a certain domain, driving policy, but it is in there discussing the financeability of policy the whole time.

Q322 Greg Mulholland: It is more than just how much policies cost, isn’t it? The Treasury has an influence in guiding whatever Departments do. The most powerful example in the experience of the last couple of years is the National Planning Policy Framework, the draft NPPF. It is notable that the DEFRA *Natural Environment White Paper* clearly recognises the intrinsic value of the natural environment as a whole, yet that is not then carried over into the draft NPPF, which is clearly directly related to it. Then, of course, the NPPF has the presumption in favour of sustainable development, with the default answer being yes, but that clearly seems to trump DEFRA’s *Mainstreaming Sustainable Development* document of February last year, which says, “Our long-term economic growth relies on protecting and enhancing the environmental resources that underpin it.” So, is that not a clear example that, from a strategic point of view, not just from a figures point of view, when it comes down to it, the Treasury is king and will dictate strategy across the Departments, as it clearly has in this case?

Mr Letwin: No. I think I disagree with each part of that. First of all, I would be happy to exchange correspondence about this, but if you read carefully the National Planning Policy Framework and the *Natural Environment White Paper*, on both of which I have been heavily involved personally, you will find that they have extraordinarily similar views about the policies in them, about the preservation of biodiversity, the natural environment, the natural habitats, areas of outstanding natural beauty, sites of special scientific interest, and many other things besides. They are well-aligned documents.

Secondly, it was not the Treasury by any means alone that was a party to the discussions about the need to have a clearer planning framework, and one which achieved a proper balance between social, economic and environmental concerns. On the contrary, that was a discussion in which the Department for Communities and Local Government, DEFRA, the Department for Business, Innovation and Skills, the Treasury, Number 10, the Deputy Prime Minister and a range of other Cabinet Ministers were very much involved. There is certainly a very strong view within the Treasury, quite rightly governed by our strategic aims, that we should have a strong and growing economy, but there is also a view that it should be a strong, sustainable and growing economy, and that is why the National Planning Policy Framework came out very clearly with these three legs of environment, society and the economy, and not just with an economic leg to it.

That is actually a good example of the opposite of the phenomenon you are talking about. What we have tried to do is to balance concerns for economic growth against concerns for the sustainability of our environment and against concerns for the sustainability, prosperity and well-being of our

22 February 2012 Rt Hon Oliver Letwin MP

society. I would say that the Treasury plays its part, which is enormously important. When it comes to the money, it has an enormously important role in making sure that what we are proposing is financeable, but it does not drive policy.

Q323 Greg Mulholland: You are well aware that many people in a coalition of organisations—the National Trust, the Campaign for the Protection of Rural England—do not feel that balance is there in the current draft NPPF.

Mr Letwin: You have mentioned the two organisations that have campaigned very strongly about that. We have certainly taken, and are taking, very careful note of their detailed comments. As a matter of fact, their detailed comments do not relate to very many of the passages in that document, but in any event I do not agree with their campaign.

Q324 Greg Mulholland: Are you going to tell us if the default yes to development will be in the revised NPPF when it comes out?

Mr Letwin: You will have to see the final version when you see it. As I say, I am very clear that, as a matter of process, this is not Treasury-driven. I certainly would accept that tax policy is Treasury-driven. That has always been the case, I think. But outside that domain, actually, the Treasury is a participant—an enormously important participant, of course, but just a participant, nevertheless—in the discussions of policy. It is not driving policy across the range.

Q325 Greg Mulholland: Looking at spending priorities and decisions, clearly they are very much at the top of the Government's agenda across all Departments. How strategically do the Government, led by the Treasury, make the trade-off between different spending priorities? Clearly it is more than just looking at how much things cost. Do we look at the rate of return for things like the BBC World Service or for foreign aid? Is that part of the strategic thinking when coming up with spending decisions?

Mr Letwin: This is a very important question. The decisions about the allocations of spending within the envelope that the Chancellor has proposed and the Cabinet has approved are collective decisions. Unlike tax decisions, they are not driven by the Treasury. Of course, the Treasury plays a major role in the discussions with Departments as we come up to the results of a given spending review. That was true in the last one, and I am sure it will be true in the next one. But the final decisions that are made, either in the context of the PEX Committee, on which some of us sat with specific Secretaries of State, or finally in Cabinet itself, are collective decisions. Do they involve judgments of weights of social and economic return? Yes. We have inherited much from the previous Administration but have also much developed the system of impact assessments to look at returns in a systematic and careful way. *The Green Book* stipulates that Departments in bringing forward a policy have to look at returns. When we were engaged in the most important activity that is focused specifically on return, namely investment activity, a

collective decision was made, unusually, to bring the whole of the capital budget of Government within a single purview, and it was at the PEX Committee—not in interdepartmental negotiations, nor in the Treasury alone, but at PEX Committee—that we went through the entire set of bids from Departments for investment in capital projects ranked against their returns to see what it would be rational to allocate spending to. While inevitably those judgments are, as always, subject to uncertainty, it was a rational approach that I suspect we will want to adopt again in the next spending review.

Q326 Greg Mulholland: A final question from me. I think we would all agree that a strong economic base is a central plank of any Government strategy. Is there an argument, do you think, for the Government picking winners and supporting UK strategic assets through direct policy intervention?

Mr Letwin: There is certainly a strong reason for Government to try to put a large amount of ministerial effort and time into selling those parts of our industrial product and services abroad that we are particularly good at, and hence in which we have goods and services that are particularly competitive. That is why the Prime Minister personally, the Chancellor, Foreign Secretary, Deputy Prime Minister and others, including the Business Secretary, spend a much larger proportion of their time than in recent Administrations going to other countries selling British industrial and manufacturing services to people abroad. It is undoubtedly the case that we major on those where we have a competitive advantage.

Secondly, we are putting a great deal of emphasis on making sure that the fantastic science base that we have in our universities is linked in an appropriate way with our manufacturing industry; it has been a national failure that it has not been in the past. That is why we have adopted these new institutes from Germany, sometimes called Fraunhofer Institutes, translated into what we call Catapult centres, which bring together the best research in our universities with the best research and development in our firms, and indeed with nascent firms. There are some inspiring examples. If you go to Sheffield and you see the Advanced Manufacturing Research Centre there, you can see the kind of thing that can now be done. This has been a pattern beginning in the previous Government and much enlarged under the present one. That does inevitably involve the Technology Strategy Board making judgments about where we have the most powerful science base and the most powerful industrial muscle and putting the two together.

Thirdly, there is no doubt at all that, where we have outstanding capacity, for example in aerospace, pharmaceuticals, in IT, we need to ensure that people are trained to the requisite level. That is one of the reasons why we have been, among other things, promoting the Queen Elizabeth II Engineering Prize—to try to make it more attractive to the brightest young undergraduates to go into advanced engineering and the application of science in general. There are many other examples. I hope what I am illustrating is that, while we are certainly not in the business of trying to identify which company to back, we are trying to play

22 February 2012 Rt Hon Oliver Letwin MP

to our strengths as a nation and to push other countries to buy our best, from our best sectors, and try to strengthen those sectors further, rather than simply spreading our limited money round all sectors as if they are all as globally competitive as each other.

Q327 Paul Flynn: 577 of our brave soldiers have died and 2,000 others live on, broken in body or mind, as a result of the strategy of going to Iraq on the basis of fear of weapons of mass destruction that did not exist. We have remained in Helmand province and fought on, on the basis of a terrorist threat to the UK from the Taliban that did not exist. We might well go to war in Iran for fear of attacks by missiles that do not exist carrying nuclear weapons that do not exist. While there might well be an honourable case for peacekeeping in the world, in Kosovo, in Bosnia and in Sierra Leone, the core reason of our involvement in these invasions of other countries seems to be the belief that Britain should punch above its weight. Why?

Chair: Ignore the preamble. The question is very interesting.

Mr Letwin: I cannot really comment very much on the Iraq situation as I was not a part of the Government then, as you know. In the case of Afghanistan, which I have obviously been much involved in over the last two years on the National Security Council, I have to say that I do not recognise your description of it. It is not a threat from the Taliban to our security that is the issue; it is the threat that arises from a destabilised Afghanistan and, indeed, potentially instability in the AfPak region as a whole, and the ability of al-Qaeda to capitalise on that that does pose a direct threat to the UK. I cannot speak for why we went in in the first place, because I was not part of the Government who made that decision, but the reason for staying there, only for a period, as we hand over to—

Paul Flynn: To the Taliban.

Mr Letwin:—what we hope will be a reasonably stable regime, is precisely to try to create a degree of stability that does not allow al-Qaeda to capitalise on the situation and become much more able to intervene in our own domestic security. So that is the reason. Whether this is right or wrong is a different question. But if your question is what the motive is, it is not to show that Britain can punch above its weight; it is to try to protect our own country by trying to hand over to a more, rather than less, stable regime, given the circumstances in which we found ourselves at the beginning of this Parliament.

Q328 Chair: We are not punching above our weight, whatever that means?

Mr Letwin: I think I would use a different phrase, which is that we have made a conscious decision not to engage in strategic shrinkage. We are trying to have a leading influence in the world—not an influence that pretends that we are the United States or China or Russia but, nevertheless, an influence that is very considerable. While I am sure that is not what motivated our remaining in Afghanistan, it is our intention to do that. The Somalia conference today is a good example of the way in which the Foreign

Secretary, I think very ably, and the Prime Minister and Deputy Prime Minister have managed to bring other countries together to try collectively—not Britain alone, it would not be possible; and not incidentally by a great armed invasion, but by discussion and collective effort—to create more stability in a particular country that is particularly dangerous for all of the rest of us. So I think that is a good case of how the decision not to engage in strategic shrinkage and the efforts that have been put in to enlarging and making more effective our diplomatic effort have resulted in Britain being able to play a leading part.

Q329 Paul Flynn: Do you believe the loved ones of the fallen and those who have been so badly damaged in the war will be consoled at the outcome, where, in Iraq, a cruel, oppressive Government has been replaced by a cruel, oppressive Government, and in Afghanistan the likelihood is that a Taliban regime will be replaced by a Taliban regime?

Mr Letwin: I do not accept your description of equivalence in Iraq. I think that the regime in Iraq is vastly preferable to its predecessor, but, as I say, that is not a decision in which I was myself involved. In the case of Afghanistan, I do not think that anyone would be comforted if they thought that it was just going to be the same thing as there was many years ago. Our hope, in building up the Afghan national security services—the army and the police—and in handing gradually over to them a situation that is stabilised, is that there will be thereafter a degree of stability in that country greater than there was before, where al-Qaeda will not be able to run free, and where the situation vis-à-vis Pakistan will not be destabilised, and where, as a result, there will be less fear of terrorism being exported to our own country. So then, yes, I do think that even those who suffered tragic loss would recognise that that loss is a noble sacrifice if what it means is that it protects us better at home. I think we should celebrate the enormous efforts that our troops have made to deliver us from that kind of threat.

Q330 Chair: Minister, we must shortly draw to a close, but this last exchange causes me to look again at the six strategic aims. Not engaging in strategic shrinkage and maintaining our influence in the world I think by any standards would be regarded as a strategic aim. That is not expressed.

Mr Letwin: No.

Q331 Chair: That would be a bit more controversial than what you have put down here.

Mr Letwin: But those are two policies that we think contribute to the achievement of the strategic aim of “a free and democratic society properly protected from its enemies”. I was just describing precisely the point.

Q332 Chair: But I think that if you wrote down, “maintenance of our influence in the world”, it would be a bit more informative about what you are trying to achieve.

22 February 2012 Rt Hon Oliver Letwin MP

Mr Letwin: No, it would not. That is a policy goal that arises from the aim. I think that this is really very important. We do not see maintaining our influence in the world as an end in itself. The end we are seeking is a free and democratic society properly protected from its enemies. Therefore, we are intervening in Somalia through the Somalia conference and other means, and in Afghanistan, because those are places where there is a direct threat in our view.

Q333 Chair: These choices form a very subjective area, do they not? For example, you have not got, “maintenance of the unity and independence of the United Kingdom”. That sounds like a good strategic aim.

Mr Letwin: It is perfectly possible, Chairman, for you to formulate any number of aims.

Chair: Exactly.

Mr Letwin: But our aim is a free and democratic society properly protected from its enemies in this context, and we regard the maintenance of the United Kingdom as an entity as something that will contribute to achieving that.

Q334 Chair: Presumably you select some strategic aims because that is where you are going to concentrate your effort. I would have thought that maintenance of the independence and unity of the United Kingdom is going to come under considerable challenge because of the situation in Scotland. One of your strategic aims might have been deficit reduction, because that seems to be possibly the greatest threat to our stability and the security of the lot.

Mr Letwin: That is our policy, and it is a policy not because deficit reduction is an end in itself but because we think that, contrary to other parties, reducing our deficit by as much as we are trying to do is the way to maintain low interest rates and a strong, sustainable and growing economy as a result.

Q335 Chair: My argument is that your chosen strategic aims do not actually tell you anything. They do not tell anybody anything about what the Government are really trying to achieve.

Mr Letwin: They tell you only what it is we are actually aiming for. That is what aims do.

Q336 Chair: Some people would say motherhood and apple pie.

Mr Letwin: Okay, Chairman. The difference between us is that I do not think that you are allowing for the fact that we have actually done some thinking about the things that are ends in themselves, as far as we are concerned, and the things that are approximate aims, policies, which you pursue in order to get to those ends.

Q337 Chair: When were these six aims first written down?

Mr Letwin: They run through the programme for Government.

Q338 Chair: But when were they expressed?

Mr Letwin: I expressed them to you because you asked me what our strategic aims were.

Q339 Chair: So you came up with these six strategic aims because we are having an inquiry into strategy?

Mr Letwin: I put them down on a piece of paper because you asked me, but if you read the programme for government, you will find them running through the whole document.

Q340 Chair: One might say that they would never have emerged had we not had an inquiry.

Mr Letwin: On the contrary, any reader of the programme for government would have to see that those aims are there. They are spelled out over and over again in the document.

Q341 Chair: I hope you have enjoyed this session as much as I have. I would say that we give credit to the Government—well, one or two of us might.

Paul Flynn: I wish him all the best for his brief career.

Chair: But we are likely to suggest that the Government could improve their score on strategic capability, which is what we are really concentrating on, in terms of co-ordinating cross-departmental strategic thinking more effectively, ensuring that resources match strategic objectives more effectively and ensuring that there is greater demand for strategic thinking at the top of the Civil Service to avoid crowding out by day-to-day activity. I certainly give you credit for what you now claim to be an informal network of strategists across Whitehall. I do not think that was acknowledged as existing before our previous inquiry. What plans do you have to address the gaps we are likely to highlight in our report?

Mr Letwin: Well, Chairman, I cannot tell you what plans we might or might not have to address gaps you may or may not identify.

Q342 Chair: I have explained to where I think they are.

Mr Letwin: When you have spelled them out, we will no doubt wish to respond to them. I have to tell you that I do not think that there is a deficit in the capability of Whitehall to think about how to formulate coherent policy that aims at coherent results.

Q343 Chair: So, whatever we put in our report, you will regard it as completely otiose and unnecessary?

Mr Letwin: No, very far from it. If your report identifies gaps that we were not aware of, we will respond to you with constructive suggestions about how we fill them.

Q344 Chair: We shall continue to try to make you aware of them.

Mr Letwin: Thank you.

Chair: Minister, thank you very much.

Mr Letwin: Thank you very much.

Written evidence

Written evidence submitted by Cabinet Office (ST 01)

In the Government's 20 December 2010 Response to your Committee's report on UK Grand Strategy we committed to providing you with an update on progress on two particular issues—bringing the strategy-making community closer together and strengthening its collective working; and developing collaborative working on national security issues across the relevant Government departments. The work that Government has undertaken to progress these two areas is set out below.

1. Following the Strategic Defence and Security Review (SDSR) we committed to explore ways to bring the strategy-making community closer together and strengthening its collective working. Work has been taken forward as follows.

(a) NATIONAL SECURITY STRATEGY NETWORK

A number of national security departments have "strategy units" which support the development of forward-thinking in foreign, defence and security policy. As set out in the SDSR, we have a commitment to strengthening the central direction of Departmental strategy units. We have now established a formal strategic thinking network, overseen by the National Security Adviser, where representatives from each national security Departmental strategy unit meet. They have met on a number of occasions to discuss and map out their Departments' work programmes and they will build on this to identify opportunities for future collaboration on national security programmes. The strategy network has formalised its terms of reference and objectives and convenes on a six weekly basis. The main aim of the network is to build a national security community, ensure closer coordination and where appropriate to conduct pieces of collaborative work.

National security issues usually cut across the remit of several Departments. With their good visibility of the breadth of work conducted within their own Department, "Strategy Units" are well placed to spot opportunities for their Departments to work closer together. Closer working between these units is expected to achieve the following objectives:

- Improve cross-Government awareness of current and future "strategic" projects.
- Spot overlapping areas of interest, and commission joint projects.
- Pool resources where necessary, enabling work which might otherwise be unachievable.
- Share best practice and techniques and ideas for improvement or broader application.

They are also sharing ideas on how best to engage with academics and other experts external to Government. This should help ensure that Whitehall is more open to wider perspectives and fresh ideas and carefully considers challenges to strategic convention.

As outlined in my previous memorandum to the Committee, we are also exploring options to improve education in strategy across the national security community. The UK Defence Academy has been working with the Cabinet Office to develop collaborative leadership training for relevant senior civil servants in the national security community. The pilot course phase has now successfully completed. The National Security Secretariat is working with the Defence Academy and other Departments and agencies to identify ways to develop this for national security Departments' induction programmes by the end of this year.

(b) STRATEGIC CAPACITY—DEFENCE REFORM

The Defence Secretary published Lord Levene's report on Defence Reform earlier this month, accepting all its recommendations. That report recognised that the MOD's capacity to think strategically and to contribute coherently and effectively to Government strategies was weak. It recommended a number of measures to strengthen this function within the Department.

For example, the report recommended reinforced governance structures for strategy. It clarified that PUS and CDS should jointly lead Defence strategy and chair a new strategy group to consider how Defence can most effectively support Foreign and Security Policy objectives as set out in the National Security Strategy. The report also recommends the new Defence Board, chaired by the Defence Secretary, should provide oversight to the formulation and delivery of strategy including monitoring the implementation of the Defence Engagement Strategy as one of its strategic objectives. This is currently being developed by the Ministry of Defence and the Foreign and Commonwealth Office and seeks to coordinate and prioritise international engagement and Defence diplomacy. It will form a core part of the Defence Strategy. In addition Lord Levene's report made a number of recommendations which will result in a head office which is smaller and more strategic, and focused on setting direction rather than micro managing delivery.

Implementation of many of these recommendations is already underway, and the Defence Secretary has committed to provide more detail on his plans in this regard in the Autumn.

(c) US/UK JOINT STRATEGY BOARD

Following the publication of the SDSR, we have been conducting further work to identify opportunities for joint strategic working. On 25 May the Government announced the creation of a UK-US Joint Strategy Board. The Board will enable a more guided, coordinated approach to analyse the “over the horizon” challenges we face in the future and also how today’s challenges are likely to shape our future choices. It is designed to integrate long-term thinking and planning into the day-to-day work of our governments and our bilateral relationship, as we contemplate how significant evolutions in the global economic and security environment will require shifts in our shared strategic approach.

The Board is co-chaired by the US National Security staff and the UK National Security Secretariat, and will include representatives from the Departments for State and Defense, the Foreign and Commonwealth Office, the Ministry of Defence, the Office of the Director of National Intelligence and the Joint Intelligence Organisation. It will report to the UK and US National Security Advisers. The Board will meet quarterly alternating between sites in the US and the UK, and will be reviewed by respective NSAs to decide whether to renew its mandate.

2. We also committed to exploring the possibility of developing and examining the effectiveness of collaborative working on national security issues across relevant Government departments. Examples of work in this area include.

(a) BUILDING STABILITY OVERSEAS

The Government will shortly publish its strategy for Building Stability Overseas. The strategy stems from the NSS and SDSR commitments and its purpose is to address instability and conflict overseas. It sets out how we will do this using all of our diplomatic, development, defence and security tools, and drawing on our unique experience, relationships, reputation and values. Work on the strategy has been taken forward jointly by the Foreign Office, Department for International Development and the Ministry of Defence, working closely with other Government Departments. The strategy draws on insights from the Arab spring and from a wide range of external experts. The National Security Council was consulted as the strategy was developed.

(b) PREVENT REVIEW AND CONTEST STRATEGY

The review into the Government’s strategy for stopping people becoming terrorists (Prevent) was published in June 2011. A new version of the Government’s strategy for counter-terrorism (of which Prevent is one part) followed in July 2011. The Office for Security and Counter-Terrorism (OSCT) at the Home Office has lead responsibility across Whitehall for counter-terrorism so production of both these strategies was led by the OSCT Strategy Team. An effective counter-terrorism policy depends on many Government Departments working together. Throughout the strategy development process OSCT worked with the Ministry of Justice, Foreign and Commonwealth Office, Department for Communities and Local Government, the police and security and intelligence agencies. The National Security Council was consulted throughout the process and cleared the final strategies.

(c) STRATEGIC COMMUNICATIONS REVIEW

The SDSR noted that strategic communications are an important element of the Government’s security strategy and included a commitment to produce a National Security Communications Strategy. To inform the development of the communications strategy a review was commissioned by the National Security Adviser. The review included an assessment of current practice and capability of government communications in this area; interviews with policy leads for each security risk and communications practitioners across departments and agencies; and an analysis of best practice approaches in the UK, US and NATO. As a result of this review a cross-Government approach to National Security and strategic communications has been agreed to improve Government’s collaborative working in this area. This will be taken forward by a cross-Government group of experts under the chairmanship of No.10. This group will work with senior national security risk owners to ensure that strategic communications is integrated into forward planning; identify ways to improve the Government’s capacity, both in terms of training for staff who are not communications professionals and access to advice from those who are; and plans for integrating strategic communications into the Government’s response to significant new security issues.

(d) THE NATIONAL CYBER SECURITY PROGRAMME (NCSP) AND THE WORK OF THE OFFICE OF CYBER SECURITY AND INFORMATION ASSURANCE (OCSIA)

Cyber security is a cross-cutting issue that requires partnership across Government, the private sector, and internationally. Government Departments including BIS, FCO, Home Office, DWP, GCHQ, MOD (and many others) have worked together to shape the Government’s strategic response and the underpinning of the National Cyber Security Programme. Our shared approach means ensuring the cyber security agenda contributes across the breadth of the Government’s economic, social and national security objectives. Internationally, OCSIA is working with a range of countries. With strong OCSIA policy input, FCO is leading work on an international conference to discuss norms of behaviour in cyberspace. Within the UK a number of private sector companies are working with Government to design the approach needed to protect our shared cyber interests. Working in

new ways with a wide range of organisations and individuals is challenging, but we are convinced it is right that we respond to the greater interconnection that cyber space brings. In this fast-moving environment there is an important role at the centre in shaping a shared vision and approach.

(e) RISK ASSESSMENT

Government already co-ordinates an annual cross-Government assessment of civil emergency risks which informs resilience and contingency planning: the National Risk Assessment (NRA). In the 2010 National Security Strategy, the Government conducted the first ever National Security Risk Assessment (NSRA) in which subject-matter experts identified and assessed the full range of existing and potential risks to our national security. The Government made a commitment in the NSS to review the NSRA every two years. The methodology of both assessments has been reviewed this year. The two Assessments will in future align more closely, with plans to run some elements jointly in 2012. Strategic all-source assessment, horizon-scanning and early warning across Government feed into both Assessments and scientific evidence is used to identify and assess the risks therein. Following recommendations from the Government Chief Scientific Adviser's "Blackett Review" and the House of Commons Science and Technology Select Committee's February report, further scientific advice will now be accessed specifically to identify, assess and facilitate the co-ordination of evidence for cross-cutting or indistinct risks and risks which trigger one another. The NRA and NSRA are overseen by the National Security Council which continues to drive forward the UK's national strategy.

July 2011

Additional written evidence submitted by Cabinet Office (ST11)

STRATEGIC THINKING IN GOVERNMENT

The basis of the coalition that was formed after the last general election was a shared assessment by the two parties forming the Government on where the national interest lay, particularly on the urgent need to form a strong, stable Government able to tackle the country's fiscal and economic challenges. The Programme for Government that resulted from the Coalition formation discussions therefore represents the Government's strategic assessment of the actions needed to secure the UK's national interest and our strategy for doing so.

The Public Administration Select Committee is raising a large number of difficult and complicated issues. But these issues ultimately resolve into two fundamental questions for government:

- what does the Government see as the UK's long-term national interest? and
- how does the Government believe that the national interest can best be advanced?

As indicated in the Programme for Government, we believe that our national interest lies in promoting the welfare of our citizens, through the advancement of six strategic aims:

- a free and democratic society, properly protected from its enemies;
- a strong, sustainable and growing economy;
- a healthy, active, secure, socially cohesive, socially mobile, socially responsible and well educated population;
- a fair deal for those who are poor or vulnerable;
- a vibrant culture; and
- a beautiful and sustainable built and natural environment.

We believe that these six strategic aims are very widely shared across the UK political spectrum—and that they are therefore likely to remain our national ambitions over a long period of time to come.

Despite the many internal and external challenges—economic, geo-political, social and environmental—that pose threats to the fulfilment of these strategic aims, Britain is a lucky country. Our predecessors have, over a long history, secured our well-being to an extent that few other countries can match. Accordingly, the task of government today is to find the best means of:

- preserving our very substantiated legacy of national advantages, while also;
- ensuring that we make further advances in fulfilling each of our six strategic aims.

To a very considerable extent, the different strategic aims are mutually reinforcing: a free society underpins a vibrant free market economy; a vibrant economy enables us to provide for our national security, for public services that improve the lives of our citizens, for transfers of income that support the poor and vulnerable, for the leisure that creates the basis of culture and for the investment that sustains our environment; the advancement of these social and environmental ambitions in turn reinforces not only the political stability that underpins a free society but also the vibrancy and sustainability of our economy. But there are, of course, times when two or more of our strategic aims are to some degree in tension with one another. Under such circumstances, government (at the highest level, through Cabinet and its committees) needs to adjudicate on the balance between competing strategic aims. This is the first sense in which government needs to engage in strategic thinking.

Beyond the need to balance competing strategic aims, government requires the capacity to think through the actions needed to promote each of the strategic goals. The present Government does this through a series of devices, which are related to one another:

- the Coalition Programme for Government, which describes the basic steps that we believe need to be taken at this moment in our history to secure the well-being of our citizens;
- a series of foundational documents (including the budgets, the spending plans, the Growth Reviews, the National Security Strategy, and a range of White Papers such as the Open Public Services White Paper, the various health, education and welfare White Papers, the other public service White Papers, and the natural environment White Paper);
- the departmental Business Plans that set out the actions being taken by each Department to make a reality of the commitments in the Programme for Government; and
- legislation enacting, as necessary, the policies contained within the foundation documents and Business Plans.

In other words, this is a Government that has not “sub-contracted” strategic thinking to some groups of officials or others, whether at the centre or dispersed through Whitehall. On the contrary, it is a Government with a clearly articulated and documented set of plans for promoting each of the forms of well-being which it is our strategic goal to promote. These are plans developed by Ministers through collective, inter-Ministerial, Cabinet discussion. In this administration, Ministers attending Cabinet are themselves the people who have in various forums debated, agreed and authorised the plans that govern our strategic action.

One last, general observation: we do not believe that the achievement of our strategic goals is something that can be brought about by mechanistically “pulling levers”. Whether in the sphere of international relations (economic, commercial or diplomatic) or in the sphere of domestic policy (economic, social or environmental), we believe that government needs to have a proper sense not only of its own power but also of its own limitations. Our policy is accordingly driven not only by a clear sense of the forms of well-being for our citizens that it is our strategic aim to achieve, but also by an acknowledgement that in the international sphere we require flexibility and adaptability to respond to continuously changing circumstances, and that in the domestic sphere we require frameworks within which participants in our economy and society are given the right long-term incentives rather than being subjected to a series of sporadic bureaucratic interventions. It is these two, fundamental attitudes to the relationship we have with the wider world and with our own citizens that inform, respectively, our global agenda and our domestic reform agenda.

Clarity about strategic goals does not—and, in our view, should not—imply a narrow, mechanistic approach to achieving these goals.

1. Do we in the UK have a broad enough concept of national strategy in government?

The UK’s national strategy is set out in the Coalition’s Programme for Government, which captures the six strategic aims to promote the welfare of our citizens. For instance, Coalition commitments on civil liberties, defence, equalities, crime and policing and national security are designed to deliver a free and democratic society, protected from its enemies; those on banking, business, jobs, deficit reduction and taxation are designed to deliver a strong, sustainable and growing economy; commitments on welfare, social care and disability, pensions and older people aim to achieve a fair deal for those who are poor or vulnerable.

2. To what extent is Government strategy based on evidence?

The six strategic aims to promote the national interest are based on judgement and choice, rather than evidence. The policy approaches to advance the achievement of our strategic aims, however, do of course draw on evidence—both in the domestic and in the international spheres. During the policy development process, departments are expected to use the full range of available evidence when developing any given policy. In global security and defence policy, full account is taken by the NSC and relevant departments of information from external and agency sources. In domestic policy, the Government recently revised the Green Book to stress that policymakers should consider the full range of factors when developing policy, not just those that are easy to measure. In addition, the Regulatory Policy Committee, established in 2009, is tasked with providing independent scrutiny of proposed regulatory measures put forward by Government. Its role is to challenge where proposals are not supported by robust evidence and analysis.

3. Are there examples of policy-making programmes or processes that illustrate effective strategic thinking and behaviour within Whitehall?

The Cabinet and Cabinet Committee process ensures strategic continuity in policy-making, resolving any tensions between policy areas. The Prime Minister’s Office, Cabinet Office and Treasury regularly monitor and review progress against implementation plans. Departments are held to account through a regular progress report published on the No10 website.

In addition, civil servants in departmental strategy units and other groups such as the Behavioural Insights Unit are tasked with taking a cross-cutting view of the Government’s work. On public services delivery, new processes introduced by this Government include for example payment by results—providers are given

flexibility and freedom to achieve outcomes, promoting innovation and productivity. This approach is illustrated by the Department for Work and Pensions' payment by results of welfare-to-work providers.

4. How well has the government fulfilled its own commitments in the National Security Strategy, the Strategic Defence and Security Review and its response to the PASC report "Who does UK Grand Strategy?"

The Government will publish a public statement on overall progress in implementing the commitments in each of the priority policy areas set out in the NSS and SDSR later this Autumn. Since October 2010 we have made significant progress. Some of the key developments include: the beginning of major work on the defence programme, including the difficult task of bring the defence budget back into balance: the Three Month Exercise, Lord Levene's Defence Reform review and the Future Reserves Review, reflect the high priority we continue to place on bringing commitments and resources into line, while our Armed Forces are engaged in Afghanistan and Libya.

In counter terrorism we have revised the UK's Counter-terrorism strategy CONTEST, and reviewed some of the most controversial counter-terrorism and security powers, making significant changes. We have also taken steps to protect our cyber security, to preserve our ability to obtain communication data and to intercept communications. Work is currently in hand to create a National Crime Agency and improve border security by increasing the scope and capability of e-borders, and developing a new Border Policing Command.

We will refresh the SDSR every parliament and commit to a biennial review of the National Security Risk Assessment to ensure that the fundamental judgements remain right and that the changes it sets out are affordable and that we have the right capabilities in place.

5. How effectively does the Government assess the UK's national interests and comparative advantages or assets, including industries as strategic assets; and how does the Government reach decisions to protect and promote them?

Protecting and promoting our national interest is at the heart of the National Security Strategy. Part 2 of the NSS focuses on the opportunities offered by Britain's distinctive role in the world and discusses the particular skills and strengths that we can bring to bear through our comparative advantage as a central player in many global networks including economic, diplomatic and technological. Our openness offers a unique set of opportunities and the strategy rightly sets out our ambitions for our country in the decades to come—Britain will continue to play an active and engaged role in shaping global change. We will maintain our global presence and the ability to project our power and values around the world.

The NSC facilitates effective Cabinet Government across the foreign and domestic security policy agendas. It is the central forum for collective discussion of the Government's objectives for national security and their effective delivery in the current financial climate. The discipline of systematic, weekly consideration of national security priorities in a Ministerial forum chaired by the Prime Minister ensures Ministers consider national security in the round not as separate blocs. The NSC is supported by the National Security Adviser (NSA) who is responsible for the coordination of advice and the implementation of decisions reached by the Council.

The NSS and SDSR shaped the contribution to the Spending Review of key Departments For the first time we have a national security strategy which provides priorities for action and which feeds directly into decisions about resources.

6. Who is doing the strategic thinking on the UK's role in an uncertain 21st century?

Strategic thinking on the UK's role is not undertaken in a vacuum by a single person or institution. The collegiate approach of the coalition Government, based on proper consideration of issues in and through a series of interlocking cabinet committees, is designed to ensure that we keep in mind the contribution of and interaction between different policies so that they together advance our strategic aims.

7. What is the role of the UK government in leading, enabling and delivering strategic thinking?

While the Government plays an important role in developing strategic thinking, there is thinking that cities and regions, businesses and civil society are actively involved in leading, enabling and delivering, in particular as a result of the devolution of policy-making to local levels. It should be for Local Authorities to work out their own strategies. The introduction of locally elected mayors, elected police chiefs and neighbourhood planning are giving more power to people and putting communities in control.

8. What are the skills that the Civil Service need to develop to build on existing strategic capacity? What are the relevant institutional, structural, leadership, budgeting and cultural reforms that are needed to support Ministers and the Civil Service?

The Civil Service exists to support the Government. Government Ministers collectively decide which policies to pursue, and the Civil Service adapts to support these. Within central Government, strategic thinking is a core part of the learning and development programme for Civil Servants. There is an informal network of strategists across Whitehall, which meets regularly to promote information sharing and identify opportunities for joint work.

9. *What can we learn from what other countries, both in terms of what they do in strategic policy making and how they perceive the UK?*

We agree with the Committee about the importance of learning lessons from how international partners approach strategic thinking and policy across government. We regularly look for opportunities for where we can best engage with other countries to share expertise and develop joint thinking.

Following the publication of the SDSR, and as outlined in our interim update to the Committee in July, a new UK/US Joint Strategy Board has been established, which will provide an opportunity to share and jointly formulate strategic thinking on national security issues with the US.

There is an informal international network of strategists working at the centre of Government, covering over a dozen countries. This includes the Centre d'Analyse Stratégique in the Prime Minister's Office in France, Strategic Policy and Implementation in the Department of the Prime Minister and Cabinet in Australia and the Office of Strategic Affairs, Crown Prince Court Abu Dhabi. Whilst the work of these units will vary according to the local context, they typically provide support on cross-cutting issues and help incubate new ideas.

December 2011

Written evidence submitted by Nick Butler (ST 13)

Presented by Nick Butler, Visiting Professor and Chair of the Kings Policy Institute, Kings College London—formerly Senior Policy Adviser to the Prime Minister 2009–10 and Group Vice President for Strategy and Policy Development at BP plc from 2002 to 2006.

To answer the questions posed by the Committee it is perhaps helpful to consider what a national strategy would look like. From that starting point one can begin to see the gaps between what is and what could be, and to question why the gaps have not been filled in recent times.

A national strategy would start from a statement of purpose—what is our aim as a country over a defined period of time?

The statement of purpose should be as unambiguous and as simple as possible in order to make it explicable to the widest possible number of people. In the absence of war or a direct military threat such a statement of purpose can be complicated because most Governments will have multiple objectives—from enhancing health care to protecting the natural environment. But to constitute a true national strategy there needs to be a clarifying and unifying objective—against which all other aspirations are secondary.

That clear statement of purpose should be followed by an objective analysis of the context within which the purpose is to be delivered and of the factors within that context which make success more or less likely.

That in turn would be followed by an assessment of the means available to achieve the stated strategic objective, and the policies which Government intends to pursue to achieve the desired intent.

Good strategy can only flow from cool realism about the strengths and weaknesses of one's position, and to be realistic that must include some assessment of limitations of public power.

This is where consideration of national strategy can be confused by conventional thinking about military "Grand Strategy". Much of the literature on grand strategy assumes that the power of Government is undivided and almost absolute. Governments are considered able to deploy resources at will including private resources such as corporate assets. That is in part because so much strategic writing is focused on wartime when Government powers are greater and the strategic national purpose carries the imperative of survival. But the problem also arises because much of the literature on national strategy has not caught up with the real life constraints on any Government imposed by open international markets and modern communications technology:

- As we are seeing on a daily basis in the current Eurozone crisis the financial markets do not wait for an orderly process of analysis to be completed or for the emergence of consensus through the normal six monthly cycle of summit meetings. Once weakness is perceived the market pursue that weakness until they see that action has been taken to manage the problem. The power of Government is thus constrained by market perceptions of strengths and weaknesses.
- Secondly, and again in contrast to the conventional view of "Grand Strategy", Governments do not hold or control all knowledge about what is happening. To limit the flow of information to citizens and to those hostile to one's objectives is now hard if not impossible because of the power of technology, and the diversity of global information systems. Problems and challenges cannot be censored away, and few decisions can truly be taken in secret. Nor can the flow of knowledge and opinion be controlled even by Governments with extensive powers to close down communications systems. The Mubarak Government in Egypt fell despite having such controls. The Chinese Government continues to struggle with the dissemination of opinion across the internet.

- Thirdly there is the question of ownership and control particularly in respect of industrial assets. A hundred years ago most major UK firms were owned and led by UK citizens. Their shareholders and directors were also UK citizens as were most of their employees; even if the companies were operating around the world. Government could legitimately expect to be able to influence the decisions of such companies. Now a typical multinational, even if headquartered in Britain, has a non British CEO and Chairman, majority foreign ownership and only a tiny minority of staff who hold a UK passport. Commandeering the assets of such a company is no simple matter.
- Fourthly, the strategic context facing Governments is set not just by their own actions and decisions but by the actions of numerous non state actors. The financial problems which afflicted Ireland and which in a different way are now affecting France are the result of actions taken predominantly by the private financial sector. The scale of the negative impact of those actions has weakened both countries and severely constrained the strategic freedom of both Governments.

An honest national strategy will acknowledge such limitations and will be clear on what the UK government can and cannot do to pursue any particular policy objective.

On this basis the UK does not have a national strategy and has not had one for many years.

Different governments have expressed national purpose in different ways but outside times of war there has been a tendency to express multiple objectives with little clarity on priorities. Governments do not like to admit weakness and there has been little or no discussion of the limits of public power.

I do not believe that the absence of a clear national strategy is reflective of lack of capacity in Whitehall. My experience, both in Government and in working with Ministers and officials from a private sector perspective, has suggested that there were many extremely able people, perfectly capable of developing good strategic thinking.

Some serious attempts at long term thinking have been undertaken by variously named Strategy Units in the Cabinet Office and Downing Street but the end results have been a series of reports which were largely unread and therefore irrelevant. There is much good strategic thinking on policy at a Departmental level, though there is remarkably little linkage across Departments.

Why then does this weakness of analysis and linkage persist? Why has no national strategy emerged?

First, and most obviously, the time scales of politics are very short. Strategy sessions are at best a low priority when Ministers and senior officials are struggling to keep up with pace of events. The lack of interest in long term strategy is compounded by the timescales involved. National strategies take time to deliver. For most people in Government the extreme horizon is four years, and the practical horizon is the end of the week.

Time pressures alone, however, are not a sufficient reason for the absence of a national strategy. I believe the more important reason is that national strategy has simply not been judged necessary.

Just as strategy has to be grounded in reality so it must be based on the imperative of necessity. For businesses, and many other institutions, strategic analysis focuses on positioning in particular markets, choices on products and skills to develop, decisions on the balance of financing between debt and equity. Choices have to be made, and are taken in the context of intensive competition which cannot be ignored. In many cases the future of the company depends on strategic judgments and corporate executives and company boards probably spend more time on strategy than on any other single issue.

Government has shown itself capable of rising to strategic challenge in wartime—when necessity drives the integration of action in support of the single imperative of survival and victory.

Until recently, however, such an imperative was absent from the narrative of peacetime politics.

The UK has been stable, at peace, reasonably prosperous by international standards, with manageably low levels of unemployment. Our trade routes are open and there has been little or no major internal dissent. Individual issues which might have threatened this situation—such as the future of Northern Ireland, or the dispute over the future of coal mining have therefore been managed in isolation.

Different governments might pursue different approaches to particular questions—from the quality of secondary education to the relief of poverty but these were within the context of a broad acceptance that the UK while clearly no longer a world power retained great strengths in both economic and political terms. Such complacency was never likely to drive the development of national strategy.

Equally there has been no clear understanding of the potential role which Government could play in developing a national strategy—especially if that strategy involved interventions in economic decision making. This takes us to issues beyond the scope of the Committee's enquiry, but it is important to note that for many, including some from the left of the political spectrum, the notion that Government could and should make strategic choices has smacked of a belief in centralised planning and even public ownership—both of which were largely discredited by the failures of the 1960s and 70s.

That is, I believe, a deeply misguided view of what strategy is really about—but the confusion persists, especially in the Treasury, and has limited genuine strategic thinking. This stands in contrast to the development

of national strategy elsewhere—for instance in Germany and France where the public power and private resources are aligned in support of the national interest.

I would argue that the situation has now changed and that the economic insecurity which threatens the status quo and the comfortable view of the UK's strengths justifies the need for a much stronger and more integrated national strategy centred perhaps on the objective of securing the UK's economic role in a rapidly changing world and maintaining the standard of living to which the British people have become accustomed. The risk that relative decline (which is inevitable given the rise of China and other economies) could turn into absolute decline as both industry and services migrate elsewhere is real and in many sectors already evident.

That seems a worthy and indeed essential strategic objective because if we cannot earn our living all other strategic objectives, including our desire to defend ourselves and our strategic interests, will be that much more difficult to achieve.

From that starting point the construction of a national strategy would be relatively straightforward, even if the delivery of the detailed objectives remained extremely difficult.

One could define the context, the goals, the means available to achieve those goals, and the limits of those tools. One could also bring together the analytical resources and direct experience of both the public and private sectors to develop an understanding of what could and should be done and to identify the different roles of the different actors involved.

If the importance of the strategic objective was widely accepted—including the risks associated with failure—I believe many of the misunderstandings could be overcome and national strategic thinking could be seen not as a reversion to some form of state control but rather as a means of combining the creative use of public power with the incentives provided by an open market economy to secure our national future.

November 2011
