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research article

The inefficiency of centralised control and political short-termism: the case of the Prison Service in England and Wales

Sam Warner, sam.warner@bristol.ac.uk
University of Bristol, UK

David Richards, dave.richards@manchester.ac.uk
University of Manchester, UK

Diane Coyle, dc700@cam.ac.uk
University of Cambridge, UK

Martin J. Smith, martin.smith@york.ac.uk
University of York, UK

A paradox of the New Public Management reform – an influential school of thought in the management of public services in some countries – is that, despite its rhetoric of discretion for public managers, governments frequently reassert direct input controls at the expense of managerial freedoms to deliver – and be held accountable for – agreed output/outcome objectives. The existing literature explains this by highlighting elite incentive structures and institutional norms, but often neglects the wider implications for public managers beyond the centre. Addressing this gap, we trace the effects of public spending control from allocation to delivery through a detailed case study of prisons in England and Wales. We show how 'top-down' public spending control, hyper-centralised governance arrangements and ministerial activism combine to subvert managerial freedom and undermine ongoing service improvement. The overriding importance of year-by-year fiscal performance results in short-term, poorly evaluated decision making and limited capacity for strategic policy implementation. This case points to wider lessons regarding performance budgeting regimes in the UK and elsewhere.

Keywords HM Treasury • public spending • performance budgeting • prisons • Governance • New Public Management • British politics

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Introduction

Since the 1980s, New Public Management (NPM) has been the dominant paradigm of public administration in the UK and elsewhere (Hood, 1991; Pollitt and Bouckaert, 2017). NPM's central claim that it 'works better and costs less' than alternatives has been proved inaccurate (Hood and Dixon, 2015). One problem is that public manager discretion is often constrained under NPM by indirect, centralised budgetary control mechanisms (Maor, 1999; Hood, 2000; Talbot, 2005), even though this can create bureaucratic and inefficient financial management arrangements (Krause, 2009).

This article investigates the continuing importance of this NPM-informed tension by exploring the effects of performance budgeting for public managers and street level bureaucrats through a case study of prisons in England and Wales (Lipsky, 1980). Performance budgeting is one of the most enduring aspects of NPM because, unlike traditional budgeting practices designed to deliver input cost control (such as labour, materials, administration, capital), it emphasises controlling outputs – deliverables to citizens – and outcomes – the wider benefits for society (or public value) – as the primary measure of success (OECD, 2019). Research has shown that elite incentive structures produce a prioritisation of input controls, especially during periods of fiscal squeeze, contradicting apparently 'enlightened' NPM principles that advocate a focus on output/outcomes controls, alongside managerial autonomy (Kristensen et al, 2002; Schick, 2014; Hood and Piotrowska, 2021). This has the potential to undermine the delivery of public services if managerial flexibility is diluted (Pollitt and Bouckaert, 2017: 78).

The literature identifies a loss of incentives for public managers to use discretion when deploying resources. It predominantly focuses on core executive institutions, eliding over the effects on public financial management and public service delivery *beyond* the centre. This article addresses this lacuna by answering two research questions:

- What is the effect of NPM-informed performance budgeting frameworks on public managers *beyond* the centre?
- How do centralised 'input' controls shape the delivery of public service outcomes?

Our original empirical study is the Prison Service[1] in England and Wales, selected because it embodies these tensions since becoming an Executive Agency in 1993. The Prison Service's governance arrangements were designed to promote managerial autonomy over political interference, but input controls have dominated (Boin et al, 2006). As an 'unpopular' area for increases in public spending it is vulnerable to cuts, despite ongoing capacity and resource pressures created by political imperatives to appear tough on crime. In 2017, prisons in England and Wales managed 144 prisoners per 100,000 population, the highest in western Europe (Sturge, 2024). This article investigates the day-to-day consequences for resource management in prisons.

Our analysis reveals that to manage these tensions an increasingly hyper-centralised governance model, designed in part to strengthen input controls, has subverted managerial freedom and financial flexibility and undermined performance budgeting's emphasis on outputs/outcomes. This is contrary to Treasury rhetoric (HM Treasury, 2019). We argue the consequence is short-termism, inadequate evaluation of the use of public money and limited capacity for strategic prioritisation and policy implementation. The significance of our article is in identifying valuable lessons for policy makers navigating between short-term macro fiscal and political priorities and delivering improved outputs and outcomes for citizens in the medium-to-long term.

The article proceeds as follows. In the next section, we provide an overview of how performance budgeting frameworks have evolved in the context of NPM, before moving on to outline the research design and methodology. We then present our study of the evolution of performance budgeting in the context of prisons in England and Wales. We conclude by positing that hyper-centralised political and governance arrangements, combined with a short-term focus on input cost control, produces suboptimal policy outcomes that undermine longer-term public value.

NPM, performance budgeting and hyper-centralised governance

This section draws together elements of three strands of literature that relate to this article's argument – NPM, performance budgeting and UK governance – which collectively provide the analytical themes explored in our case study.

Managerial freedom and performance budgeting

The evolution of performance budgeting in the UK and elsewhere has been shaped by the adoption of NPM techniques in the 1980s (Hood, 1991; Pollitt and Bouckaert, 2017). Notable features include indirect governing relationships, the promotion of managerial freedom, private sector outsourcing, 'quasi-markets' and increased oversight and accountability through performance management. Under NPM, responsibility for public service delivery and financial management was devolved, situating managerial autonomy closer to the front line to draw on operational expertise. Paradoxically, such reforms were delivered in the context of increasingly pervasive indirect mechanisms of central government control (Maor, 1999; Hood, 2000).

This paradox is particularly evident in performance budgeting. A tension exists between controlling public spending for macroeconomic purposes and securing ongoing improvement in public service outputs/outcomes. Reforms designed for the former (for example, centralised control mechanisms) are not always compatible with optimal governance arrangements supporting delivery of the latter (managerial freedom and financial flexibility, for instance) (Pollitt and Bouckaert, 2017: 78). The literature identifies numerous obstacles to prioritising output/outcomes controls: legislative requirements for rigid budgets; political pressures; and embedded incremental norms and behaviour. Measuring and evaluating outcomes is also known to be highly challenging (and costly) and often conflicts with short-term political priorities (Kristensen et al, 2002; Schick, 2014). Shaping broad societal outcomes through public policy reflects 'fundamentally different' priorities to short-term input cost controls (Krause, 2009: 7), a disjuncture that is particularly prevalent in periods of fiscal squeeze (Hood and Himaz, 2017). Scholars have long predicted the death of NPM (Dunleavy et al, 2006), but, in performance budgeting, associated deficiencies remain relevant as politicians and finance ministries often prioritise short-term cost control to the detriment of broader governance principles.

Hood and Piotrowska's (2021) study of performance budgeting illustrates the point. They argue that the UK is a 'fair weather' output/outcome controller because broader performance measures are sidelined at moments of fiscal hardship. In contrast, it is an 'all-weather' input controller, primarily because political gains can almost always be made from rigorous control of administrative costs. Critics of alternative models emphasising managerial freedom argue that strong accountability mechanisms have proved to be an inadequate counterweight to a reduced emphasis on input controls (Robinson and Brumby, 2005: 76). Given the political imperatives, managerial freedom is the first victim of tighter budgetary control irrespective of the potential for operational challenges. Finance ministries recognise that the power to control inputs can shape management practices, whereas perceived weakness on public spending control creates spillover consequences elsewhere (Schick, 2001; 2014; Sterck and Scheers, 2006).

How governments manage the dilemmas for public administration varies markedly. Often, earned privileges and greater flexibilities are linked to agreed performance metrics or centrally prescribed standards of budgeting and financial management. Yet, the extent to which performance budgeting sustains managerial freedom relies on '[t]he capacity and willingness of a government to honour its side of the bargain'. This, in turn, is 'influenced by the institutional context and the widely varying systems of public administration' (Curristine and Flynn, 2013: 236). We are interested in how NPM's paradoxes permeate performance budgeting practices in the UK, investigating whether prioritising short-term input control over financial flexibility delivers suboptimal public policy outcomes because operational actors are constrained. We explore these tensions through the relationship between centralised spending control and rapid changes in the topography of UK governance.

From central control to hyper-centralisation

It has long been recognised that hierarchical and bureaucratic forms of government can undermine improvements in policy outcomes (Pressman and Wildavsky, 1973; Marsh and Rhodes, 1992; Smith et al, 2011). The UK Treasury acknowledged this fact, first, by embracing 'strategic' forms of public spending control (Parry et al, 1997) and, second, by becoming instrumental in the early rollout of NPM (Lowe and Pemberton, 2020). Under New Labour (1997–2010), multi-year budgets attached to Public Service Agreements (PSAs) – negotiated aims, objectives and targets agreed between the Treasury and spending departments – were intended to develop collaborative and cross-cutting conversations, involving departments and their stakeholders, to improve long-term outcomes and value for money (VfM) (Balls, 2019). A focus on outcomes necessitated a move away from 'micromanaging inputs' to enable 'greater flexibility and innovation in front-line delivery' (Noman, 2008: 13).

The Treasury supported 'operational decentralisation' alongside 'strategic centralisation' to retain control of aggregate public spending control totals. This approach reduces the capacity of spending departments and their stakeholders to take strategic decisions (Talbot, 2005). It embeds the principle of 'earned autonomy' – increasing delegation limits and flexibilities for spending departments judged to have robust financial management arrangements (HM Treasury, 2013; 2023) – into public financial management. This points to a wider set of arguments about Treasury power to influence the development and direction of economic and public policy by shaping the terms of the debate through various framework documents, including the Green

Book[2]. Here, short-term fiscal priorities overshadow long-term strategic investment decisions (Coyle and Sensier, 2020).

After 2010, the salience of input controls intensified under a government committed to austerity. The Treasury abandoned PSAs and prioritised its core finance ministry function, downgrading operational realities and the outcomes of public spending. An uncomfortable dilemma emerged, as the former senior Treasury official, Sharon White, admitted: 'It is slightly controversial, but *there will be areas where affordability and value for money just conflict*. I would not understate the importance that at the end of the day the money is adding up' (PAC, 2012: 11, emphasis added).

Criticism of the UK public spending framework – and the Treasury specifically – for prioritising short-term fiscal targets has been widespread. The fact that planning and spending control are treated separately has repeatedly compromised VfM (NAO, 2018; PAC, 2019; Wheatley et al, 2019). One former minister, Justine Greening, argues that the Treasury's failure to fix problems early incurs huge additional costs, often as last minute (and therefore inefficient) funding. This represents 'a hugely expensive way to run the nation's finances' and 'leads to real hardship on the ground' (Greening, HC Debate, 2019). Allocative efficiency, long-term resilience and frontline operational concerns are marginalised. The Treasury will 'squeeze the inputs side … and hope for the best' (Barber, 2021: x).

The Treasury's Public Value Framework (HM Treasury, 2019) seeks to address such criticisms by embedding broader considerations about public value, including long-term system sustainability and stewardship, into departmental business planning. Talbot (2011: 27) describes public value as both forward and backward facing: 'It tries to weld together ideas about efficiency and effectiveness in the provision of public services with notions of democratic legitimacy and trust … a synthesis of older public administration and public interest ideas with aspects of NPM'. The initial Public Value Framework did not downplay the importance of input controls or efficiency – indeed the terms 'productivity' and 'public value' are used interchangeably – and a 'more for less' philosophy is presented as crucial to longer-term objectives (Barber, 2017). If public value is about more than cost reduction, it should provide: 'a rough yardstick against which to gauge the performance of policies and public institutions, make decisions about allocating resources and select appropriate systems of delivery' (Kelly et al, 2002: 4).

The risk of downgrading outputs/outcomes in performance budgeting by tightening the input side of financial management practices is ever-present, reflecting the continuing salience of NPM's paradoxes (Elliott et al, 2022). Alternatives, including New Public Governance (Osborne, 2006) and Public Value Management (Connolly and van der Zwet, 2021), promote networks, collaboration, innovation, evidence, evaluation and so on, but have not been transformative in a context of centralised, input-focused financial management. A potential 'Faustian bargain' emerges as principles like effective policy delivery, accountability, public trust and satisfaction are 'traded down for the false economy of greater efficiency' (Flinders and Huggins, 2021: 89).

This risk is exacerbated by structural changes associated with New Political Governance (NPG), characterised by the concentration of ministerial power, the politicisation of governance arrangements and an increasingly 'promiscuously partisan' bureaucracy (Aucoin, 2012). In the UK, NPG has augmented NPM as disillusionment with the civil service and the skill sets of public managers has intensified ministerial control over policy making. The result is greater reliance on 'outsiders' and novel management techniques to deliver 'more for less' (Diamond, 2019). Political actors have always been the most powerful veto players in public spending decision making. In a system of *ex post* over *ex ante* scrutiny of spending decisions (Hood et al, 2023: 23–5), there are significant risks associated with overtly partisan, short-term decision making if delivering improved policy outputs/outcomes is the systemic objective.

Barber's (2017) counterweight to short-termism is the notion of stewardship – leaving a policy area in a better state than you found it. How this is realised inevitably varies across the public sector, in part reflecting the political salience of individual policy areas. It sits uncomfortably alongside the 'hyper-centralised' system of the Treasury's 'top-down' approach to spending control, centralised core government functions focused on input controls (Cabinet Office, 2015) and ministerial power to intervene under the Westminster model (Warner et al, 2021). The *principles* contained within HM Treasury's (2019) framework, alongside wider insights from the literature, offer a useful vehicle for investigating how the governance arrangements that surround various iterations of performance budgeting relate to the dynamic between input, output and outcome controls. In the next section, we outline the methodology we use to examine the consequences of this paradox for public spending in prisons in England and Wales.

Methodology

To understand performance budgeting's tensions, our approach examines control mechanisms across the delivery chain and how actors beyond Whitehall respond to them when delivering public services. We investigate how evolving governance models impact on actors in transforming inputs into outputs and outcomes, to examine the effect of often contradictory strategies that emerge from centrally mandated public spending priorities.

We present a qualitative empirical analysis of the governance arrangements relating to public sector prisons in England and Wales using a data set of 152 semi-structured interviews conducted between 2021 and 2023. Participants were drawn from different tiers of the delivery chain – both current and retired – including politicians, civil servants (the Treasury and spending departments), agencies and subnational government and the front line (such as prison governors) (see Table 1). These interviews were part of a project investigating the planning and control of UK public expenditure between 1993 and 2023. Of the total, 48 interviewees worked in the Prison Service or directly on prisons policy in parent departments. Some 30 worked, or had experience as, prison governors. The interviewees included participants from the Treasury, Home Office and Ministry of Justice (MoJ) with a role in public spending decisions affecting prisons. The interviews addressed delegated financial control, relationships throughout the delivery chain, managerialism, financial planning, implementation gaps and future lesson drawing.

The interview material was coded using NVivo 12, adopting an iterative yet 'open' coding strategy. An initial coding framework was designed, drawing directly on key themes of our research (such as top-down control, short-termism, fragmented governance), before subjecting the data to systematic review, adding new codes and subcodes as we delved deeper (Creswell and Creswell, 2017). We conducted a rigorous process tracing exercise (Bennett and Checkel, 2014), tracking expenditure from initial

Table 1: Breakdown of interviewees

Department or organisation	Former politicians	Current politicians	Former officials	Current officials
Cabinet Office			1	
HM Treasury	4		19	5
Ministry of Justice	1	1	3	
Home Office	6		2	
Department for Business, Energy and Industrial Strategy			1	
Department for Education	3		6	2
Department for Levelling Up, Housing and Communities	1		5	1
Prison Service			21	9
Local government		2	4	23
Police and Crime Commissioner				1
Schools			5	11
Third sector				10
Inspectorates			2	
Professional bodies			1	1
What Works Network				1
Totals	**15**	**3**	**70**	**64**

Note: This table is indicative because several of our interviewees held relevant positions in more than one department or organisation or gained relevant experience and expertise after formal retirement. We highlight the full data set here because our understanding of Treasury control and UK governance is drawn from the wider project.

allocation decisions to implementation and through a feedback loop to understand the gap between the intentions of actors in the Treasury and Whitehall and policy outcomes on the ground in prisons. Working back from the front line, we looked for causal points when control mechanisms either failed or succeeded in meeting the Treasury's short-term fiscal targets *and* promoting improved policy outcomes. This allowed us to unpack the implications of performance budgeting strategies for actors at different stages of the policy chain, exploring how constraints and enabling mechanisms from above and below shaped the delivery of policy.

Performance budgeting in the England and Wales Prison Service

This section presents our research findings, illustrating how NPM has shaped the delivery of performance budgeting and undermined longer-term outcomes in prisons.

Reforming the Prison Service in the 1990s and 2000s

The Prison Service in the 1990s involved a challenging mix of often squalid conditions, prison riots, high profile escapes and inadequate budgetary control (King and Wilmott, 2022). The Woolf Report (1991) into the Strangways riots of 1990 recommended that prison conditions should be given more weight in policy decisions. Weak management structures, including a lack of oversight and monitoring, had led to an inefficient use of prison resources. A subsequent review into prison management argued that the unique complexities of the Prison Service necessitated greater operational independence from day-to-day ministerial control (Lygo Report, 1991). The Prison Service became an Executive Agency in 1993, with a non-departmental Director General (DG). Operational independence led to a profound change in leadership and management styles, emphasising the professionalisation of financial management and control in line with NPM.

The need for change is uncontested in our interviews. A former Prison Service DG described 'scandalously deficient' standards of financial control. The culture tolerated 'creative accounting' from the Home Office down to Governing Governors (GGs) – the most senior managers and budget holders in prisons – which the Treasury largely overlooked (Landers, 1999). In December 1993, an internal memo by the Finance Director (FD) concluded that financial management and control was 'shambolic'. The Prison Service acted to embed professional commercial and finance skills at agency and prison level. Strategic financial management questions about efficiency, measuring outcomes or VfM were unexplored because 'the only finance question we asked was how much will it cost'. This stemmed from the Treasury's narrow focus on input unit costs across the prison estate. For example, according to a former DG, 'as you get more and more overcrowding so would unit costs come down which is actually very popular with the Treasury, but it is running in the opposite direction to what the Prison Service wanted to do'.

The use of performance targets attached to the Prison Service's aims and objectives, agreed between the Home Office and Treasury, was part of the NPM-informed Next Steps Programme in the 1980 and 1990s (see Table 2). The Prison Service embedded performance management into individual prisons through key performance indicators and a Standards Audit Unit employing internal audits to ensure adherence to Prison Service policy. A former Prison Service DG described his leadership style as 'pretty prescriptive' because 'I thought the appalling nature of prisons required a very, very top-down approach'. This existed alongside a change in management culture in prisons that reflected the need for reform and the scarcity of resources amid a rising prison population. A former FD noted a 'huge cultural change' in the 1990s with the replacement of 'a whole bunch of governors who thought that efficiency meant cuts' by those 'who really wanted to make these resources work for them hard'. Most governors, including those who found targets and internal audit onerous and admitted gaming, acknowledged they focused minds and that performance standards and accountability for public funds improved. Supporters emphasised that governors operated within a framework of increased accountability while retaining autonomy to be 'imaginative'. A former DG recalled that he used to tell governors: 'as far as I'm concerned if you want to staff the prison with nothing but chaplains, you can do it, providing you hit the targets we've set you'.

Treasury-imposed efficiency drives in the late 1990s were described by a former FD as about 'how much we could drive costs down safely' rather than 'drive quality up for the same cost'. The early 2000s saw additional funding (see Figure 1) alongside increasingly sophisticated management information, enabling improved strategic targeting of resources. A former DG observed control became 'about how to spend that money well, rather than not having enough money'. Sustaining a trajectory of continuous performance improvement in the context of a rapidly rising prison

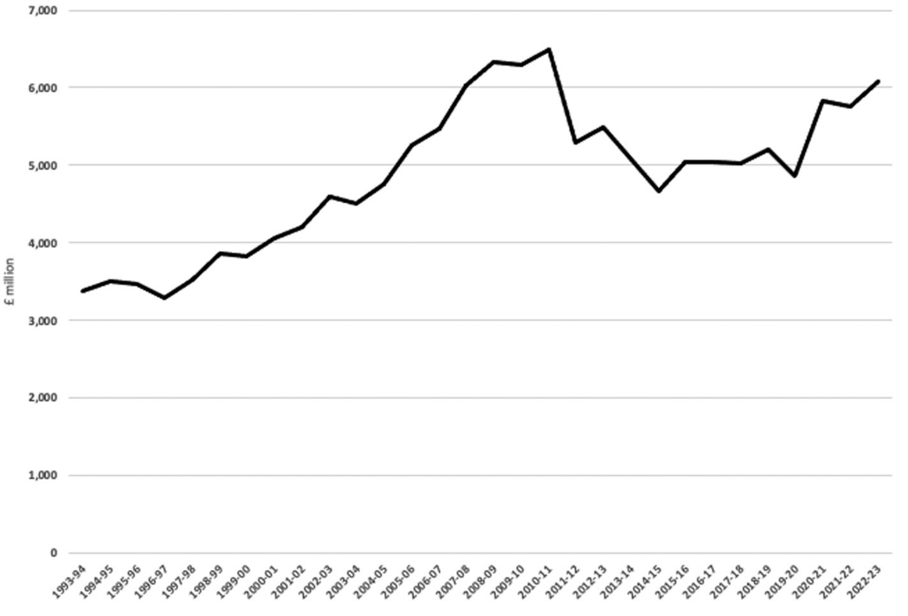
Table 2: Four snapshots of Prison Service output and outcome objectives, 1993–2023

Government	Fiscal context	Performance budgeting regime	Prison Service's main priorities and objectives
Conservative (1992–97)	Consolidation	Next Steps Programme	HM Prison Service Annual Report, 1993/94: • keep prisoners in custody; • maintain order, control, discipline and a safe environment; • provide decent conditions for prisoners and meet their needs, including healthcare; • provide positive regimes that help prisoners address their offending behaviour and allow them as full and responsible a life as possible; • help prisoners prepare for their return to the community; • deliver prison services using the resources provided by Parliament with maximum efficiency.
Labour (1997–2001)	Expansion	Public Service Agreements	HM Prison Service Annual Report, 2004/05: • ensure safe and decent conditions for prisoners; • reduce reoffending and improving prisoners' prospects on release; • maintain order and control; • increase diversity and equality; • maintain security and preventing escapes; • improve healthcare.
Labour (2001–05)			
Labour (2005–10)			
Coalition (Con/Lib Dem) (2010–15)	Consolidation	Departmental Business Plans (not public)	NOMS Annual Report, 2014/15: • prevent victims and change lives; • transform the way offenders are managed in the community in order to bring down reoffending rates; • reshape the way prisons operate and reducing overall unit costs.
Conservative (2015–19)		Single Departmental Plans	MoJ Outcome Delivery Plan, 2021/22: • protect the public from serious offenders and improve the safety and security of our prisons; • reduce reoffending.
Conservative (2019–24)		Outcome Delivery Plans	

Source: HM Prison Service (1994); HM Prison Service (2005); NOMS (2015); MoJ (2021).

population was accompanied by constant Treasury pressure to become more efficient, but savings were reinvested in the Prison Service's core priorities of decency, safety and rehabilitation. A former DG admitted that the Prison Service had 'a very flabby budget' because it deployed and managed staff inefficiently. This allowed senior managers to 'cope with quite a number of demands simply by becoming more efficient'. Being 'a friend of the Treasury' during the New Labour years allowed one DG to make the case for increased investment, while deploying staff more efficiently ensured that subsequent DGs (later Chief Executives (CEs) after a reorganisation in 2007) could target resources to improve outputs, including 'buying in additional drug treatment, enhancing health care, delivering mental health support, doing better detox, better education'. The effective allocation of resources was supported by managerial freedom to deliver agency level priorities.

Figure 1: Total public expenditure on prisons, 1993–2023 (adjusted for inflation at 2022/23 prices)



Source: HM Treasury Public Expenditure Statistical Analysis, various, https://www.gov.uk/government/collections/public-expenditure-statistical-analyses-pesa.

From the mid-2000s, delivering non-cashable savings – improved outputs through more efficient use of existing inputs – proved inadequate when Treasury pressure to deliver cashable savings grew as the public finances tightened. A former FD explained that, in the early years, savings could be 'disguised' because there was 'new money'. The problem was that 'there was [not] enough thinking in those times about what were recurrent savings and what were non-recurrent savings'. A gradual centralisation of finance, human resources and procurement functions ensued with the creation of a Prison Service Shared Service Centre. It sought to curtail 'unorthodox' behaviours among governors, in exchange for professionalised and standardised corporate services. Around £30 million a year in cashable savings was delivered. Senior operational managers stressed it was successful because the Prison Service controlled it. A former FD noted it benefited from 'the balance between economies of scale' and 'a leadership team that really understood how corporate services support operational delivery'. A former CE emphasised that inputs were controlled to redirect resources toward improving outputs/outcomes: 'We didn't do that to give money back to the Treasury, we made that decision to recycle the money into services that we wanted to deliver'.

The governance model that emerged during the 1990s and 2000s professionalised financial management and demonstrably improved frontline performance. Prison Service managerialism was 'values-driven' and is regarded as a major factor in turning prisons round (Liebling and Crewe, 2012; Bennett, 2016). The framework allowed for a robust focus on input efficiency, but managerial freedom at agency level saw a sustained focus on operational concerns and the delivery of outputs and outcomes. But a potential tension exists: 'there is a fine dividing line between strong command-and-control, which is able to get the system by the scruff of the neck and improve it, and excessive command-and-control, which ends up stifling and constraining the system's ability to realize its goals' (Bastow, 2013: 239–40). This dynamic will be explored below.

The limit of efficiency drives from the mid-2000s

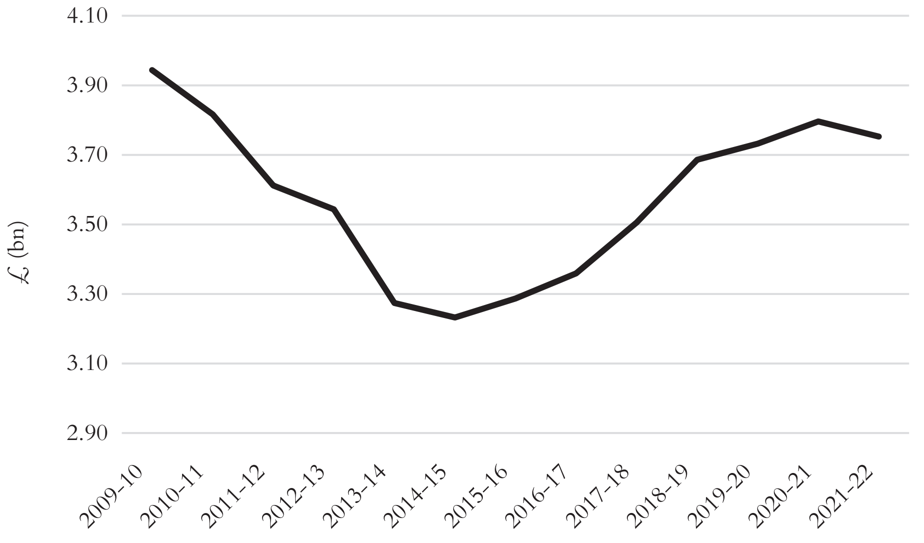
The focus on efficiency savings accelerated in the mid-2000s. The 2004 *Gershon Review* established that efficiency drives only improve productivity and VfM if outputs are maintained, despite reduced input costs (NAO, 2006). The Prison Service largely achieved this aim. But in 2007/08, senior officials in the Prison Service resisted further efficiencies, fearing serious operational consequences and declining performance. A Treasury-commissioned review of prison management advocated standardised operating models involving zero-based budgeting and large 'titan' prisons to drive down the cost-per-prisoner (Carter, 2007). The Treasury welcomed the review. A former CE argued: 'you could do more with less, and Treasury, let's face it, they're always keen on that being said'.

The complexities associated with benchmarking input costs across prisons, including staffing levels, were only partially understood in Whitehall. A former Permanent Secretary noted that the 'different vintages' of establishments across the prison estate meant that 'translating what worked in one prison wasn't always easy'. Senior prison managers were concerned that if prisons ran too 'hot', 'you can't cope with emergencies because you have absolutely no resilience, because you've taken it all out' (former CE).

Several interviewees observed that competitive political posturing to appear tough on crime created a prison population explosion in the 2000s, yet the risk profile and capacity pressures curtailed the temptation to cut back too far. After 2010, austerity changed everything. When PSAs were abandoned, operational and performance concerns were deprioritised to the corporate requirement to cut expenditure. The MoJ absorbed a 23 per cent budget cut over five years (HM Treasury, 2010). Prisons were vulnerable because the then agency, the National Offender Management Service, accounted for more than half of MoJ's overall budget. As 50,000 of MoJ's 90,000 staff were prison officers, senior officials saw this as an obvious saving. Michael Spurr, the CE, removed £983 million out of a £4 billion budget.

Initial wholesale privatisation plans were rejected because the Secretary of State, Chris Grayling, believed savings would take too long. Instead, running costs in prisons reduced by £310 million between 2012 and 2016. Spurr told us: 'that was driven from a central point. The Treasury set the austerity. The department accepted it. It was then an agency decision about how we're going to take out 10,000 people'. Grayling argued his remit was to deliver cuts. On the consequences for performance, he deferred to 'the advice of the professionals' who advised the Prison Service could 'do things differently and make it work'. Grayling claims to have been 'hands-off' on operational matters (King and Willmott, 2022: 143–6). This is disputed by Prison Service officials, who struggled to manage what they regarded as the 'populist', 'interfering tendencies' of ministers. This reflects the wider shift in emphasis on performance budgeting during this period and diverging priorities between activist ministers and public managers in prisons.

Figure 2: Overall resource spending on prisons, 2009/10 to 2021/22 (adjusted for inflation at 2021/22 prices)



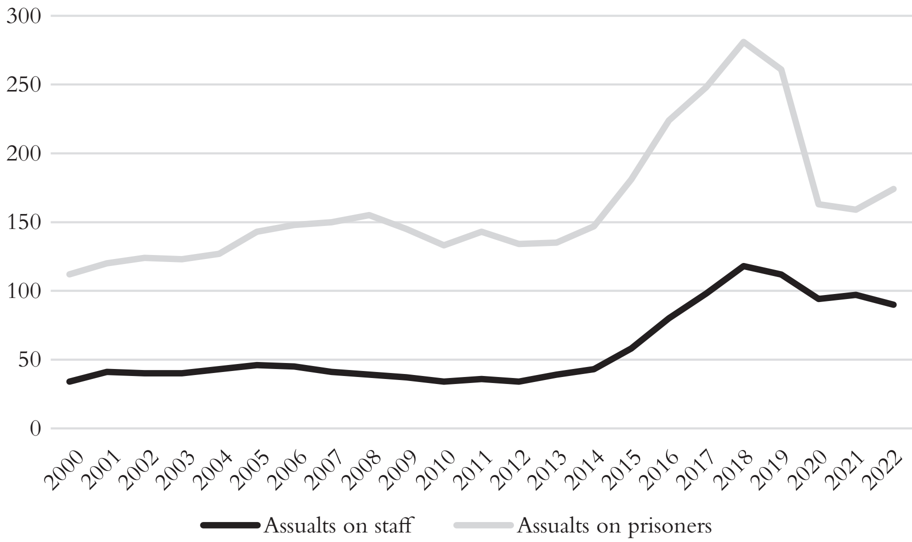
Source: MoJ (2024).

The Cabinet Office presented the *Prison Unit Cost Programme* (2012) as best practice in benchmarking to 'incentivise less efficient prisons to identify areas for improvement and learn from more efficient prisons' and 'intelligent outsourcing to further drive down costs' (Aldridge et al, 2016). Figure 2 illustrates the scale of cutbacks to day-to-day resource budgets. Rapid input cost savings went far beyond the organisation's capacity, undermining performance measured against long-standing metrics while reinvestment in the delivery of outputs/outcomes ended.

Most GGs we interviewed were not against benchmarking. Previously, one observed, there was a degree of 'historical luck as to whether or not you were a well-funded or poorly funded prison'. A Prison Group Director (PGD) – a senior manager with responsibility for a geographical cluster of prisons – argued after 2012 benchmarking became 'an excessively blunt instrument' that was 'purely around cutting cost … there was absolutely no thought from politicians to Permanent Secretaries, the DGs, about any business change that would need to take place following such a radical change in the price of imprisonment'.

The Treasury's steer to reduce costs cascaded down through the organisation. A former Chief Inspector of Prisons (CIP) recalled how GGs even undershot centrally prescribed benchmarks 'because their performance was not judged on the value they produced at the end, it was simply whether they had met or exceeded the financial target they had been given'. A former CE described 2011/12 as the last point that performance and efficiency were aligned. Thereafter, as unit costs rapidly reduced, performance against other key objectives, including output/outcome metrics, deteriorated (see Table 2). For example, Figures 3 and 4 illustrate that safety in custody worsened as violence and incidents of self-harm increased. This reflects a wider decline in 'decency' standards, an often-used phrase by our interviewees. The system struggled to cope with the demands of the most complex prisoners, highlighted by the rise in self-harm incidents among female offenders.[3]

Figure 3: Prison assaults per 1,000 prisoners, 2003/04 to 2021/22



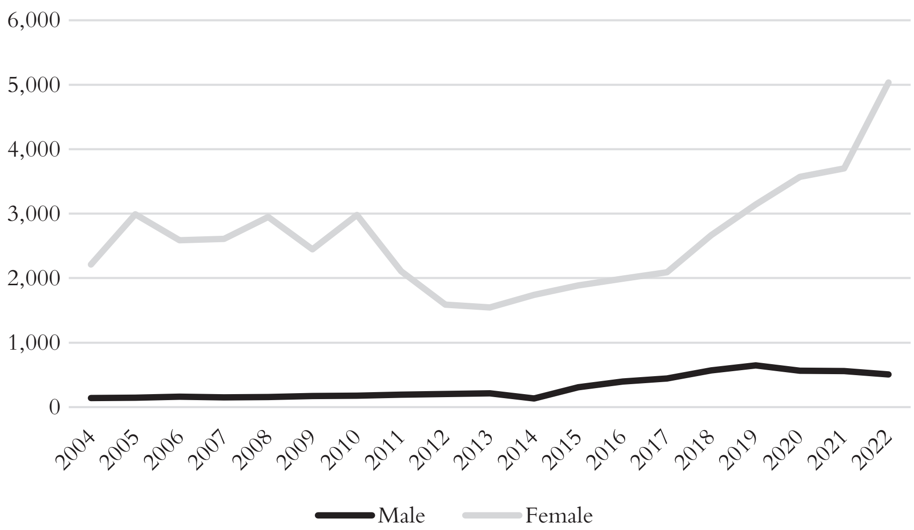
Source: MoJ (2023b).

Spurr explained that 'we took a lot of money out, but … in my view, we also took value out'.

What is not well understood is how the emerging governance model supporting this cost-cutting exercise undermined any recovery. The Prison Service historically adopted a top-down 'command-and-control' model (Bastow, 2013). It was well-suited to reducing its headcount by 10,000 because it required 'pretty strong central oversight … any organisation trying to go through that amount of change would have difficulty' (Spurr). It involved limiting traditional flexibilities around staffing levels. Spurr argued once benchmarking was delivered governors would be re-empowered 'to flex the staffing in their individual establishments to take account of how they wanted to drive improvement or change, etc., and give them much more flexibility'. This did not happen because a hyper-centralised functional model emerged. It replicated the principle of shared services but, crucially, repositioned power in Whitehall to the detriment of operational sensitivity.

Core functions, including finance, human resources, procurement, IT expertise and so on, were centralised in the MoJ. Spurr accepted the logic, but fought to 'have some recognition about that balance of value and differentiation rather than central control for everything without an understanding of the business'. We label the new governance model *hyper-centralised* because it fortified greater budgetary control at departmental level, undermining agency flexibility. As Figure 5 illustrates, this created a complex and confused set of governance relationships. The problem, as a former MoJ FD noted, was that 'some of the things that we'd baked into [the Prison Service's] solution were taken out because they didn't fit the whole civil service'. This example of Treasury-led 'strategic centralisation' (Talbot, 2005) means that the Prison Service CE, who once had a FD under their direct line management, lost strategic influence over finance. The FD reports to a Head of Finance in the Cabinet Office. Spurr reflected: 'If their boss is actually in the finance world, wanting the outcome that the finance world wants, not necessarily what the business wants, they're more inclined to assuage their bosses'. Managerial freedom at agency level is reduced because 'the

Figure 4: Self-harm rates per 1,000 prisoners, 2004 to 2022



Source: MoJ (2023)

flexibility you had over your staffing, the flexibility you had over the finance once the budget was allocated, is much less than it was'.

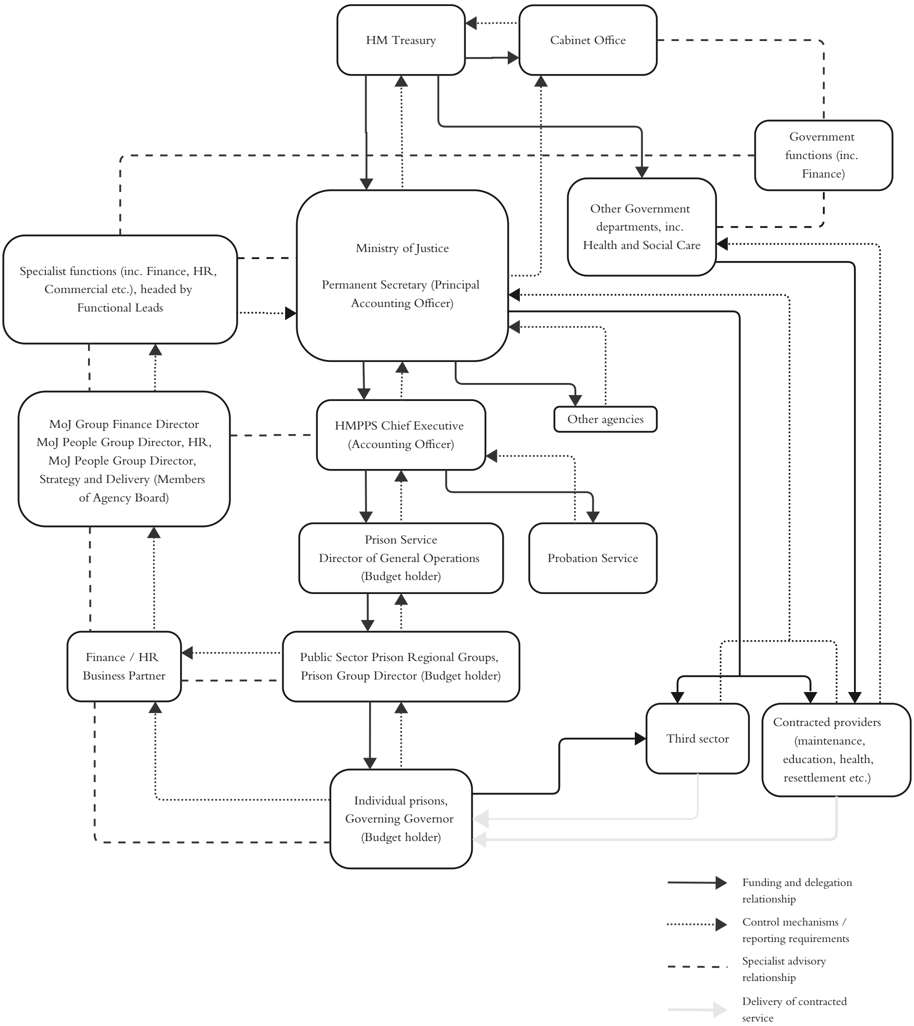
A steep decline in performance necessitated increased funding in 2016 and the recruitment of an additional 2,000 prison officers. Nevertheless, the new hyper-centralised governance model significantly constrained flexibility at both local and agency level, making it more difficult to deliver improved outputs/outcomes.

Political accountability versus management autonomy

The Prison Service's operational independence was further undermined by increasingly hands-on ministers in MoJ seeking to bolster direct accountability against agreed targets (King and Willmott, 2022: 158). This amplified hyper-centralisation and made devolving autonomy to GGs harder. Reduced autonomy at agency level cascaded down to the front line. A former CIP explained that functional heads control finance, human resources and procurement, with GGs increasingly seen as 'conductors of an orchestra … they're not running or controlling things, they're trying to manage the component parts'. A former CE observed that governors 'have got very little financial clout but are still notionally accountable for a budget that they don't control. That's ridiculous'.

Some interviewees felt minimising costs through outsourcing overly fragmented the delivery environment, leaving GGs as 'contract managers' for centrally procured contracts with no formal levers of influence. Few believed they were adequately trained for this approach, a fact acknowledged by the Prison Service (Education Committee, 2022). GGs do not directly manage education, healthcare, drug services and numerous resettlement functions. The risk, according to a former CIP, is that 'those things on which a lot of the security and culture of that prison depends [GGs are] not actually controlling'. We heard stories of informal ways to influence providers

Figure 5: Governance relationships, 2017 to the present



Source: Authors' own analysis.

through building positive relationships, but accounts of bureaucratic inertia and a lack of sensitivity to operational needs were common.

Few dispute that specialists should deliver services in prisons. In the 2000s, the Prison Service promoted this approach to increase funding and improve outputs for health and education. Problems arise, a GG explained, because 'all of those component parts have their own reporting lines up to their own national structures and they clash'. For example, local finance and HR managers have been removed and replaced by Finance and Human Resources Business Partners who oversee multiple prisons. They report to a Group Business Partner who reports directly into functional leads in MoJ. GGs are line managed by a PGD, who has broad oversight over operational matters and is budget holder for the region. This creates confused accountability lines. One GG described the difficulties associated with dealing with 'different managers with different priorities'. Another noted how 'you can end up with conflicting advice' from the Group Finance Director and PGD: 'I report to my boss, so I'm gonna do what my boss says, not what somebody that's completely outside my line says. They don't have any authority over me. It's just advice. And they don't understand, and they're not responsible for, the actual operational business risks that I'm managing'.

Our interviewees regarded previous governance arrangements as superior because finance and human resources managers were part of the prison, sitting on senior leadership teams and engaging in issues 'in the round'. Finance Business Partners are seen as remote and lacking operational understanding.

Hyper-centralisation (alongside standardisation) makes decision making reactive rather than strategic. Most flexibility has been lost. Contact with Finance Business Partners appears sporadic. Centrally managed procurement contracts and standardised operating models inadequately account for local priorities. A particular flashpoint is routine maintenance, where the estimated backlog increased from £900 million in 2019/20 to £1.3 billion in 2021/22 (Davies et al, 2022: 114).

Reduced flexibility produces suboptimal outcomes. For example, a PGD told us that he had more financial autonomy as a GG before 2012 than he does across his entire region now, despite being responsible for a much larger budget. He described previously being able to generate finance by saving money from the pay budget and making efficiencies to deliver minor capital investment. 'Governors don't do that anymore because they can't really spend on anything', he explained. Minor maintenance jobs – including preventive maintenance – have become increasingly bureaucratic because GGs must secure sign-off from their Finance Business Partner. GGs do not have an 'urgent need' budget, causing significant delays.

GGs of prisons with significant challenges, notably staff retention, felt aggrieved because 'none of these risks are taken into consideration in terms of the budget that I'm given or my flexibility with resources, formally by the system'. They rely on those further up the chain – their PGD – for 'a bit of temporary flexibility' but the hyper-centralised nature of the system limits what is possible. A former Permanent Secretary saw this as a dilemma for the agency to manage because it 'ought to be capable of running the Prison Service with delegation as one of its tools'. This ignores how the hyper-centralised governance model removes this option with input control tightly regulated from MoJ and the Cabinet Office. A former FD sets out the problem: 'You don't want [governors] to invent completely new programmes and do … things that aren't evidence-based, but equally, you don't want to stamp out innovation completely, because some of the best things in prisons did come from governors innovating'. Interviewees believed the hyper-centralised governance model squeezed innovation and stewardship, contrary to the Treasury's Public Value Framework. A long-serving GG explained: 'there just isn't any real driver under the finance side in the public sector that gets you thinking innovatively … No recognition, no reward, no prompting for that'.

Spurr emphasised the 'classic balance between how you drive costs down and at what point do you actually lose the benefit by driving costs down'. The risk is that short-term cost-cutting measures undermine outcomes, producing a longer-term false economy:

> You get a vanilla service that goes to everybody because they want to do the same service for civil servants in DWP as in MoJ generally, as for prison officers. And it doesn't work quite like that. So, you end up then having to

> retrofit … putting some admin staff back into prisons because the service you're getting is vanilla, and therefore not meeting all your needs at a local level. … I'm sure that was driven by Treasury, but equally driven by the Cabinet Office and the centre of the civil service … There becomes a point where you've just gone too far … The quality of service becomes so degraded that it's actually costing you.

This reflected the view of many of our interviewees. A PGD noted: 'We may have saved money by having a functional leadership model, but it's probably costing us significantly in the long term … including prisoners taking their own lives because of the prisons that they're living in'.

The politically imposed input focus of the hyper-centralised governance model has squeezed out operational flexibility. The resulting dysfunctionalities of NPM have intensified as public spending control objectives in Whitehall are now largely separated from performance management.

Post-2010 austerity and outcomes

The 2010–16 period highlights the consequence of imposing short-term input control while neglecting performance and longer-term outcomes. This contrasts with the 2013 *Financial Management Review* identifying a cross-Whitehall belief in the 'need for even greater attention across the whole of government on VfM and the outcomes achieved from government spending, particularly as fiscal consolidation continues' (HM Treasury, 2013). According to a former Permanent Secretary, even after the acute phase of austerity ended, the Public Value Framework's principles struggled to 'infuse' conversations about cost reductions: 'I'm afraid, without being too critical of the system that the Treasury certainly administered in those days, it was very bean-county … Outcomes, value for money and social value struggled to get a look in'. Whitehall's focus on inputs – primarily headcount – led to the non-cashable elements of organisational efficiency being lost.

Operational actors directly dealing with the Treasury were sympathetic to its role. Whitehall and senior Prison Service officials understand that population pressures made prisons a spending control liability. Several Treasury officials explained that tight control of capital expenditure for prison building is used to contain the overall budget and focus ministers on competing priorities. Their argument is if you build more prisons, politicians will fill them up. A former Director of Public Spending observed that the figures on executive releases at times of acute population pressure suggest this tactic is effective. But it makes the process ad hoc and inefficient. Prison building plans are incredibly unpredictable (Hewson, 2022). The consensus among senior Prison Service officials is that this is the product of 'populist politics' with politicians unwilling to confront the fact that longer sentences, a spiralling prison population and underinvestment is unsustainable.

Senior officials and GGs are less understanding about an apparent unwillingness to adequately consider the long-term impact on policy outcomes and overall system resilience. A former GG and senior Prison Service official highlighted the 'unspoken Treasury mantra' that 'if something is shit it better be cheap', admitting 'we've ended up with a prison system which meets both of those criteria actually'. Both the

Treasury and MoJ stand accused of squeezing input costs without thinking about safety. Permanent Secretaries were perceived by prison managers to be 'just out of touch with the realities of trying to deliver things in an organisation'. A former GG observed: 'it always felt like the MoJ and the Treasury were more interested in the input … the Treasury just wanted to get the money and that was it'.

Interviewees felt that the targets culture has gone too far and no longer operates as a management information tool that relates resource allocation to performance. A former CIP noted that, during the 2000s, 'I very, very rarely told [the DG] something about a prison he didn't already know' because the management information was robust. Interviewees felt that prison managers have 'switched off' to targets. A PGD explained:

> I'm more concerned about self-inflicted deaths in custody than the targets around them … I do not talk to my governors about their performance in the sense of their KPIs [key performance indicators] and what they're doing. What I'm interested in: is it decent? Are people safe, i.e., not dying? … Let's use those expectations as our measure for what we need to be achieving because the targets are so bloody complex and convoluted.

Performance management was described as an 'assurance model' focused on processes, not outputs and outcomes. It is designed to ensure compliance and reassure a fragmented group of actors further up the delivery chain. Hyper-centralisation has produced a model that feels distant, time-consuming and counterproductive. As one GG explained: 'I think the people that are accountable to ministers at very short notice for why something has or hasn't happened – that constant need to give those assurances centrally – will get in the way of people properly letting go and letting governors have proper autonomy'.

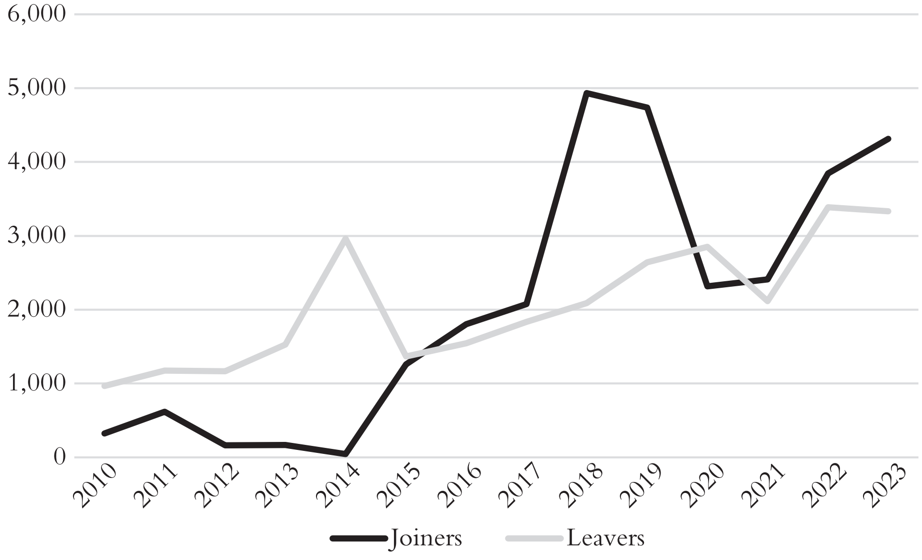
Previously, DGs and CEs had exacting standards, but could also 'manage the politicians'. A current PGD told us: 'we're being managed by the politicians, by what the political imperative is'. This adds to the disconnect and has bred cynicism about prescriptive, hyper-centralised policy and rhetorical commitments to 'earned autonomy' for GGs. The core message was that the system is designed to deliver compliance, not improved outputs/outcomes.

Treasury officials, conscious of difficult trade-offs, tried to understand operational concerns within the parameters of an obvious knowledge asymmetry. A former FD acknowledged that 'certainly in 2010, the politics of it would have overwhelmed even the best of spending teams'. Interviewees spoke of the constant challenge of patching-up crumbling buildings well past their life expectancy, a form of short-termism that has long been identified as providing poor VfM (Bastow, 2013).

Reducing input costs by cutting headcounts and employing new recruits on worse terms and conditions (MoJ, 2012) created a recruitment and retention crisis (see Figure 6). A GG explained: 'you can't quantify [the loss of experience] in terms of how much institutional collective knowledge, just general jail craft, you've lost'. In a 2023 survey, over half of prison officers did not feel safe at work (Justice Committee, 2023). Between 2016 and 2022, staff off sick nearly doubled, from 1,456 to 2,879 (Bish et al, 2023). A PGD explained:

> The retention issues that we have around staff well-being means that we don't invest in staff well-being, so people leave us traumatised a year or two after

Figure 6: Band 3–5 prison officer joiners and leavers, 2010–23



Source: HMPPS (2023).

> they start, which means it's a quick turnover of staffing … That's all about value for money. [£14,000 training costs for new prison officer]. That's a bloody lot of money when you're going through this sort of attrition rates that we go through … right now.

Those who dealt directly with the Treasury were pragmatic about fiscal constraints. Governors on the operational side were more frustrated. A former GG lamented an absence of 'intellectual curiosity' about the resulting waste in terms of money and outcomes, emphasising an unwillingness to critically evaluate the evidence. The decision to invest in building women's prisons, contrary to the Treasury's own commissioned research, is one example. It is widely accepted that a 'whole system' trauma-informed approach in the community achieves better outcomes and is more cost effective (NAO, 2022a).

Our interviewees made clear that an outputs and outcomes-focused approach was preferable but is seen as notoriously difficult to achieve. A former FD suggested:

> We could probably get towards costing an output – what does it cost to deliver this intervention with a prisoner in a prison. But what we really want is to get into which of the interventions make prisoners less likely to reoffend, and what's the cost benefit of that? And then you look at societal benefits of not having those offences. The difficulty you get into is that the societal benefits are not cashable, as far as the Treasury is concerned.

Short-term budgets and policy churn obstruct the strategic investment required to do this work. A former CE believed that investment in research and evaluation was an important issue, but it 'would have to be long-term, big cohorts, lots of work and expensive'. He argued: 'The last thing ministers wanted, as they were already beginning to have to save money [in the 2000s], was to spend money on research. They were cutting research as that was a central overhead'.

Post-2010, politicians deprioritised investment in evaluation of spending decisions (including cuts) across government. This is particularly problematic in a policy context where political expectations and timeframes are unrealistic. What is affordable does not necessarily deliver VfM over the longer term and may have detrimental consequences across the public sector. The 2022/23 CIP Annual Report highlights that inadequate investment in opportunities for education, training or work, alongside increased violence and drug use, undermines rehabilitation, a core government priority (HMIP, 2023). The estimated social and economic cost of reoffending is £18.1 billion per annum (Newton et al, 2019).

A former PGD argued: 'Politicians, people in the Treasury, want short-term solutions to very complex long-term problems that were not all within the gift of the Prison Service'. Despite a desire to think more broadly about these complex policy challenges, a GG told us: 'We never ever talk about HMIP reports, outcomes, recommendations, with any conversations about money, they just never align in my experience. They're not ever considered together. No one is looking at what is the connection between those things … they are completely disconnected elements'.

A hyper-centralised governance approach involving performance budgeting elided over the intricate linkages between financial management and operational concerns as a driver of improved policy outcomes. This contradicts the Treasury's strategic frameworks and attempts to associate resources more closely to agreed priorities through Outcome Delivery Plans (Clyne and Davies, 2022). A narrow focus on short-term fiscal performance constrains local innovation and undermines an evidence-informed approach to delivering long-term outcomes. Until financial management is reconnected with the broader concerns of prison management, it is difficult to prioritise outputs/outcomes in performance budgeting.

Conclusion

This article highlights the enduring paradoxes of NPM as governments continue to impose central control. Our article reveals how this constrains actors throughout the delivery chain and produces dysfunctional governance arrangements. It offers an alternative, but complementary perspective to the dominant approach in the performance budgeting literature that focuses on top-down, elite incentive structures. Our evidence shows that without managerial freedom and financial flexibilities at the *appropriate* level – in this case a semi-autonomous agency and individual prisons – the delivery of effective public services can be undermined, producing suboptimal outcomes for public money.

Our case study of public spending on prisons in England and Wales charts the emergence of a hyper-centralised governance model, pushed by political and administrative actors in the Treasury and Cabinet Office to deliver austerity cuts. This exacerbated NPM's tendency to promote input controls without an adequate consideration of consequences on outputs/outcomes. In the case of prisons, this was militated against during the 1990s and 2000s as semi-autonomous prison managers refocused efficiency savings on performance-related priorities. The new model constrains prison managers, deskilling the next generation of governors and exacerbating the operational challenges they face. Intentionally separating corporate, commercial and operational functions has created competing incentives throughout the delivery chain. Ministers have reasserted political control and dramatically reduced the Prison Service's autonomy and strategic capacity. Elsewhere, when political and administrative centralisation was used to deliver 'cutbacks' in prisons, prison managers struggled to manage the worst consequences for performance and morale (Schmidt, 2021). This effect was clearly borne out in our research. The outputs/outcomes the MoJ is judged against continue to deteriorate while the Prison Service engages in ongoing crisis management (Hoddinott et al, 2023).

The article provides new evidence of how central NPM principles of managerial freedom and financial flexibility are constrained to the detriment of long-term outcomes. Managerialism, professional financial management and clear performance objectives contributed towards much needed reform and efficiency in the 1990s and 2000s. But the pre-eminence of short-term fiscal targets, when coupled with a hyper-centralised governance model, undermined the stewardship function of public managers. Our evidence suggests that centralising corporate functions without operational sensitivity has produced a false economy whereby spending decisions are not evaluated *ex ante* against the need for continuous performance improvement. The cross-government functional model and multi-departmental shared services is now embedded (despite questions raised on VfM grounds (NAO, 2022b)), suggesting this pattern is likely to be replicated across the UK public sector.

The UK experience provides a cautionary lesson about performance budgeting regimes in highly centralised states. Osborne and Gaebler (1992) argued that states should provide the strategic 'steer' but not 'row' in the delivery of public services. In the UK, this only ever partially translated into reality, in part the product of an asymmetric set of power relations legitimised under the Westminster model (Marsh et al, 2024). Despite deficiencies in strategic capacity in an increasingly fragmented governing context, the UK state continues to design financial control and governance systems that impact directly (and inefficiently) on day-to-day delivery (Richards et al, 2023). This approach to NPM has failed as costs have risen, despite performance flatlining (Hood and Dixon, 2015).

Most significantly, our analysis suggests that NPM's paradoxes still influence performance budgeting in public administration systems characterised by short-termism and hyper-centralisation (both political and administrative). The UK's failure to deliver on the forward-looking principles of its Public Value Framework – stewardship, managerial entrepreneurialism and innovation at both agency and local levels – highlights the importance of a strategic centre that promotes flexibility throughout the delivery chain. As our case study illustrates, there can be longer-term costs to the public sector and public finances if policy outputs/outcomes in high-risk areas are neglected. Delivering improved outcomes requires local adaptability, but this cannot be achieved when input-controls crowd out innovative use of public money at the front line.

Notes

[1] The Prison Service has been reorganised regularly since becoming an Executive Agency in April 1993. It has existed as Her Majesty's Prison Service (1993–2004), the National Offender Management Service (2004–2017) and His Majesty's Prison and Probation Service (from 2017). Devolution in Wales has not altered the fact that all powers relating to prisoners and the prison estate are held by the UK government. The Scottish Prison

Service is responsible for prisons in Scotland. For clarity, we refer simply to the 'Prison Service' in this article.

[2] The Green Book is HM Treasury's guidance document on how to appraise policies, programmes and projects. It is intended to support efficient policy development and resource allocation across government and to maximise value for money (HM Treasury, 2022).

[3] The responsiveness of governance systems to the complex needs of female offenders, often related to histories of trauma and abuse (Fitzpatrick et al, 2023), is a significant issue. The gendered dynamics of public administration here is an important avenue for future research.

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Research ethics statement

This research project was granted ethics approval by the University of Manchester Proportionate Ethics Committee (Ethics Reference Number: 8662). Permission to conduct interviews with prison governors was granted by the Ministry of Justice National Research Committee in November 2021 (REF 2021-181).

Conflict of interest

The authors declare that there is no conflict of interest.

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