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Summary

- 1 The purpose of this paper is to help the Public Administration Select Committee with its enquiry into Good Government. The paper identifies characteristics of good government, drawing on the work of the National Audit Office with an emphasis on value for money and good financial management. The scope of the paper reflects the breadth of our work, which covers the whole of central government.
- 2 We are presenting the Public Administration Select Committee with an additional commentary on international models of good government, prepared for us by PricewaterhouseCoopers. The commentary focuses on two countries with different constitutional arrangements from ours: France and the United States.
- 3 Fundamentally, government is about designing and implementing public services and programmes, and doing so in a way that inspires trust in the proper use of public money. Our paper looks systematically at these three core areas:
 - design;
 - implementation; and
 - governance.
- 4 For each of these three areas, we describe the characteristics of good practice, followed by detailed consideration of activities involved in generating those characteristics. We quote extensively from our published reports in illustrating our points.

Design

- 5 Designing public services and programmes that serve the interests of all citizens is inherently difficult. Government has to strike a balance between keeping them as simple as possible, maximising efficiency and minimising the risk of error, and the targeting of scarce resources on assessed need, which entails administrative complexity. Timescales need to be realistic to allow enough time to plan and test new approaches before they are implemented. And customer needs must be the focus, making services accessible and flexible.
- 6 Good design begins with clear objectives, so that government intervenes where it can add value. Once the decision to initiate a service or programme has been taken, it is important to collect evidence in the form of reliable information and consultation with customers and stakeholders.

- 7 Using evidence, government needs to develop the business model for how a service or programme will be delivered. As government has moved towards achieving outcomes, rather than simply providing services, it has developed a wider range of delivery channels that involve a wider range of delivery partners. Before implementation, to make sure it will achieve its objectives, a business model needs to be assessed for both its economic and citizen impact.

Implementation

- 8 Once public services or programmes have been designed, they need to be implemented in a way that delivers high quality and efficient public services. They need to meet users' needs through capable, well-motivated staff, giving citizens the right to redress, and responding to redress quickly. This level of quality needs to be delivered as efficiently as possible, with departments identifying areas where they can make substantial improvements in their value for money.
- 9 Good implementation begins with realistic, reliable and comprehensive planning. Planning a service or programme needs a business case that allows senior decision makers to make a reliable judgement. It also needs to give enough time for implementation, considering the complexity, funding arrangements and use of innovative processes or technologies. Once planning is complete, government needs to develop its capacity to deliver that plan, in terms of the skills it needs, any innovation required, what goods or services it needs to procure, and whether it needs to outsource any of its functions.
- 10 As the delivery mechanisms of government have evolved, so have the required capabilities. To manage the delivery of a public service or programme well, government now needs greater ability to manage commercial contracts and projects. It needs to make the best use of technology to collect and use information. It needs to motivate its delivery partners through introducing competition and choice, and offering incentives to improve performance. And it needs to communicate effectively with the public, providing reliable and accessible information, and giving them the means to respond with their own.
- 11 To manage services or programmes effectively, government needs reliable performance information that helps it allocate resources, take decisions, improve programme management and report externally. This needs systems that provide good data quality, and the management capacity to use those data. This performance information is also critical to government's ability to learn from experience, as it must if it is to continually improve.

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Governance

- 12 By promoting high quality and efficient public services that are free of fraud or corruption, sound governance is fundamental to confidence and trust in public services. To be efficient, it needs to be proportionate to the level of risk involved, minimising the administrative burdens on both staff and citizens.
- 13 Good governance is driven by an organisation's leadership, which needs to set clear direction and manage internal communication in a way that engages staff, builds morale, and enables quick and effective decision-making. It can be enhanced by an appropriate Board and organisational structure that encourages performance to be reviewed and challenged, and holds the appropriate individuals to account. This is particularly important in central government where Accounting Officers, who are responsible for delivering the objectives set by ministers, need a clearly defined working relationship.
- 14 Resources are fundamental to government's ability to design and implement public services and programmes. Departments need the skills to effectively manage financial resources, often on a very large scale, through accurate forecasting and linking financial with operational performance information. It needs to manage substantial assets such as property, equipment and infrastructure. And it needs to get the most from IT to increase accessibility to its services and reduce costs.
- 15 All services and programmes carry an element of both financial and operational risk. Government needs to identify and manage these risks in order to minimise fraud and error and the possibility that they fail to deliver. This is particularly important when it needs to take action swiftly. On these occasions it may be acceptable to bypass some of the usual requirements for good design and implementation, so long as there are clear processes in place to manage the associated risks. Assigning personal accountability and having transparent reporting are critical features of good governance that help manage both risk and overall government performance

Part One

Design

1.1 Well designed programmes have three important characteristics: simplicity; realistic timescales; and customer focus. This section explores these characteristics, and then discusses the factors that help to generate good design.

Simplicity

1.2 Improving outcomes for all citizens fairly, equitably, and efficiently is inherently difficult. Complexity is often inevitable in government objectives. Child benefit, paid at a flat rate to all families with children, is relatively simple. Means-testing, which factors in people's needs when distributing benefits, adds unavoidable complexity. Complexity needs to be managed because it increases the risk of fraud, error, delays and higher administrative costs.¹

1.3 Errors in administering complex programmes can create real problems for citizens. Tax credits represented more than half of all complaints received by Her Majesty's Revenue & Customs in 2006-07. The proportion of complaints fully or partly upheld by the Ombudsman, at 74 per cent, was higher than for any other source of complaints. Many were about the process for recovering overpayments and its impact on customers.²

1.4 Departments have to address several issues, in particular:

- considering how complicated a system needs to be, and the effects on service delivery, both for users and front-line staff;
- identifying and removing unnecessary complexity and bureaucracy in order to maximise efficiency and minimise the risk of error;
- assessing the risks that simplification may disadvantage some citizens, be costly or require difficult legislative change; and
- managing any complexity that is inherent in a government objective, such as the complexity of means-testing.

¹ *Dealing with the complexity of the benefits system*, NAO, HC 592, 2005-06.

² *Tax Credits and PAYE*, 8th Report, PAC, HC 300, 2007-08.

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Realistic timescales

1.5 Programmes with unrealistic timescales are still common within government.³ Detailed delivery timescales are often governed by timeframes set out at the design stage.

1.6 Managing timescales well means:

- allowing time for early planning and detailed specification, saving both time and resources in the long run;
- making full use of closely monitored and evaluated pilots to test schemes on a small scale, prior to rolling out and testing on a larger scale; and
- managing pressures to change timescales once they have been agreed and built into programmes.

Customer focus

1.7 Departments often place insufficient emphasis on citizens' needs when acting to improve services. HM Revenue & Customs introduced shorter forms for people with simple tax affairs, simplifying information at the same time. However, some guidance still required a reading age of 16 to 17 years old, a level which less than half the UK's adult population reaches.⁴

1.8 Programmes with a strong customer focus are successful in:

- ensuring people can access services easily;
- understanding what information customers need;
- responding to customers' needs flexibly, coordinating with other service providers where appropriate; and
- telling customers what they can expect, and what they need to do.

³ *The National Programme for IT in the NHS: Progress since 2006*, NAO, HC 484, 2007-08.

⁴ *Helping individuals understand and complete their tax forms*, NAO, HC 452, 2006-07.

Achieving good design

1.9 The following sections discuss some of the activities involved in good design, as summarised in the table below.

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Initiating services and programmes

1.10 Good programme development starts with clear objectives. The Government has an objective to intervene only where necessary, reducing the burden of legislation while maintaining protections.

1.11 A clear understanding of the problem to be tackled, and consideration of a range of possible responses that include doing nothing, are the basis of good programme initiation.

- A robust analysis of a problem allows departments to develop objectives that clearly relate to the solution. The objective for the former Department of Trade and Industry's Renewables Obligation Order 2002 was clearly defined, specific and measurable, enabling the Department to monitor whether the Order achieved its objectives.⁵
- Clear objectives help departments assess a range of programme options. The Department of Trade and Industry did not undertake a systematic appraisal of the options available for discharging the accumulated personal injury liabilities it acquired from the British Coal Corporation. As a result, the taxpayer had to pay too much in administration costs and many claimants had a long wait for compensation.⁶
- Including an option to do nothing helps ensure that government regulates only when necessary and is useful in demonstrating the net impact of regulations. The Department for Communities and Local Government considered four options, including doing nothing and a non-regulatory option, when developing legislation on high hedges.⁷

⁵ *Evaluation of Regulatory Impact Assessments Compendium Report 2003-04*, NAO, HC 358, 2003-04.

⁶ *Coal Health Compensation Schemes*, NAO, HC 608, 2006-07.

⁷ *Evaluation of Regulatory Impact Assessments Compendium Report 2004-05*, NAO, HC 341, 2004-05.

Collecting evidence

1.12 Evidence, based on reliable information and appropriate consultation, including whether similar programmes have succeeded or failed in the past, helps departments to decide detailed programme contents.

Reliable information

1.13 Clear decisions should be backed up by a detailed justification for choosing the preferred option. However we have found that the evidence base in many impact assessments is weak, particularly on costs and benefits, with the risk of poorly informed policy decisions.⁸

1.14 Good practice in collecting evidence includes drawing on a range of sources, verifying the quality of the evidence collected, incorporating relevant assessment expertise, and ensuring transparency.

- Information collected directly from source can be particularly strong. The Department for Communities and Local Government visited many small businesses when designing the Fire Safety Order.⁹
- Using a broad range of expertise strengthens evidence analysis. The Home Office used a joint team from its Immigration and Nationality Directorate, the Department for Education and Skills, and the British Council to analyse evidence for its 'Leave to Remain' policy.¹⁰

Consultation

1.15 Consultation allows departments to gather stakeholders' views and secure buy-in. Subjecting proposals to external challenge can help to identify unforeseen consequences of proposals and test the impact of different options. Methods include surveys, focus groups, workshops, road shows and web-based forums.

1.16 Effective consultation allows sufficient time for responses, makes it as easy as possible for stakeholders to respond, and makes full use of responses.

- Good consultation includes all stakeholders. Development of the Pension Credit was informed by discussions with a group of representatives from local government, the voluntary sector and other experts.¹¹ By contrast, the Home Office did not engage effectively with the local community or its elected representatives when planning an accommodation centre for asylum seekers. It had to cancel the project at a cost of £29 million after strong public opposition.¹²

⁸ *Evaluation of Regulatory Impact Assessments Compendium Report 2004-05*, NAO, HC 341, 2004-05

⁹ *Evaluation of Regulatory Impact Assessments 2006-07*, NAO, HC 606, 2006-07.

¹⁰ *Evaluation of Regulatory Impact Assessments 2005-06*, NAO, HC 1305, 2005-06.

¹¹ *Tackling Pensioner Poverty - Encouraging the Take-up of Entitlements*, NAO, HC 37, 2002-03.

¹² *The Cancellation of the Bicester Accommodation Centre*, NAO, HC 19, 2007-08.

- A combination of approaches often secures the best responses. The Department of Health used focus groups, reference groups, seminars, one day surgeries, and feedback events when consulting on national minimum standards for care homes.¹³
- Publishing consultation responses helps to demonstrate candour about the uncertainty that sometimes surrounds government programmes. The former Department of Trade and Industry included its own estimates of labour costs and those of the British Vehicle Salvage Federation during consultation about the End of Life Vehicles Directive.¹⁴
- Publicly explaining how consultation results have affected programme design is important to reassure contributors that their input has been worthwhile.¹⁵

Developing the business model

1.17 Capability Reviews found that departments often do not understand or communicate their business models well. Business models involve choices around delivery mechanism and delivery partners.

Delivery mechanism

1.18 As departments' aims have moved towards achieving outcomes rather than simply providing services, they have developed a wider range of delivery mechanisms.

1.19 Some objectives, like passport provision, are still met through a service. Others, like the aim to improve the health of the nation, require a combination of service provision and action to change people's behaviour.

- As the focus of service delivery has shifted more towards citizens, government has put more decisions in the hands of users. Adult social care is beginning to offer citizens the freedom to choose the services they need within personal budgets.¹⁶ This approach requires citizens to be well-informed and to have access to help in taking decisions.
- Government takes various measures to change citizens' behaviour, including information campaigns, funding, taxation and regulation. The gap between citizens' awareness and their behaviour, for example in household energy consumption, is a major challenge.¹⁷

¹³ *Evaluation of Regulatory Impact Assessments Compendium Report 2003-04*, NAO, HC 358, 2003-04.

¹⁴ *Evaluation of Regulatory Impact Assessments Compendium Report 2004-05*, NAO, HC 341, 2004-05.

¹⁵ *Developing Effective Services for Older People*, NAO, HC 518, 2002-03.

¹⁶ *Making it Personal*, Demos, 2008.

¹⁷ *Programmes to reduce household energy consumption*, NAO, HC 787, 2007-08.

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Delivery partners

1.20 A single department rarely controls all the resources it needs to achieve its programme aims efficiently. Programme design increasingly involves identifying which other organisations would make the most effective delivery partners. A service or programme may be best delivered at a local level, or it may need help from the private or third sectors. Government's high level objectives for the three year period between 2008 and 2011, expressed in 30 cross-cutting Public Service Agreements, require departments to work together.

- All government programmes need clearly defined goals, strong leadership, good measurement of progress, sufficient resources, and effective working relationships.¹⁸ These requirements become even more critical in partnership working.
- Lack of direct control increases the need for performance levers with associated sanctions and rewards.¹⁹ Arrangements need to address potential tensions between partners, for example between national and local objectives.
- Departments increasingly turn to the private and third sectors as delivery partners, spending £79 billion in this way in 2007-08.²⁰ Public bodies often struggle to coordinate their activities with the third sector.²¹ They also lack clear evidence of the effectiveness of using the third sector.²²

Assessing impact

1.21 Sound programme choices are informed by a good understanding of the likely impact of different options, particularly their economic consequences and how they affect different groups of citizens.

Economic impact

1.22 Regulatory Impact Assessments are intended to examine the economic impact of policy proposals, but four out of 19 had serious weaknesses in 2007 while there was room for improvement in a further 14.²³ Parliamentary Committees examining draft legislation make little use of Regulatory Impact Assessments because they do not trust the quality of the information.²⁴

¹⁸ *Joining Up to Improve Public Services*, NAO, HC 383, 2001-02.

¹⁹ *The use of sanctions and rewards in the public sector*, NAO, September 2008.

²⁰ *Public Services Industry Review*, Department for Business, Enterprise and Regulatory Reform, 2008.

²¹ *Working with the Third Sector*, NAO, HC 75, 2005-06.

²² *Public Services and the Third Sector: Rhetoric and Reality*, 11th Report, PASC, HC 112, 2007-08.

²³ *Evaluation of Regulatory Impact Assessments 2006-07*, NAO, HC 606, 2006-07.

²⁴ *Ibid.*

1.23 Despite shortcomings, there are instances of good practice.

- Sensitivity analysis takes account of uncertainty. The Home Office's impact assessment for its graffiti removal policy considered variations in: costs arising from local authorities having to issue notices; existing levels of compliance; and the extent to which affected parties already carried out graffiti clean-up operations.²⁵
- Securing relevant expertise helps departments evaluate all the potential impacts of a programme. To assess the enforcement costs of banning smoking in public places, the Department of Health commissioned estimates from an independent enforcement consultant and held discussions with experts from countries that had implemented bans.²⁶

Citizen impact

1.24 Individual citizens have different needs and demands, so programme design cannot consider citizens as one whole, but as different groups. Private sector organisations routinely divide their customer bases into segments, each containing people with characteristics similar to each other but different from those in other segments.

1.25 Programmes are likely to have the greatest impact on citizens if they are tailored specifically for different groups.

- The decision about how to segment customers depends on the issue. When considering access to primary health care, the needs of older retired people and younger working people clearly differ. An appropriate segmentation for roads policy would differentiate between the needs of pedestrians, cyclists and drivers.
- It is also important to determine whether new programmes could have unintended effects on particular sectors of society. For example, the Department for Culture Media and Sport failed to take into account the impact of new licensing regulations on small businesses.²⁷

²⁵ *Evaluation of Regulatory Impact Assessments 2005-06*, NAO, HC 1305, 2005-06.

²⁶ *Evaluation of Regulatory Impact Assessments 2006-07*, NAO, HC 606, 2006-07.

²⁷ *Evaluation of Regulatory Impact Assessments 2005-06*, NAO, HC 1305, 2005-06.

Part Two

Implementation

3.1 Even a well-designed programme can fail if it is not implemented properly. Good implementation has two essential characteristics: high quality public services and outcomes, delivered with efficiency and value for money. This section describes these characteristics, and then discusses the activities that support good implementation.

High quality

3.2 Citizens want public services that work. They want them to be easy to find out about, simple to use and responsive to their needs. They want them to deal with their requirements, preferably in one go and, if they cannot do this, they want to know by when they will be dealt with. They do not want to be passed between different offices or handled by staff who know little or nothing about them. They do not want to be greeted by impersonal answer phone messages or expected to complete long forms.²⁸

3.3 A high quality public service has the following characteristics.

- Arrangements for delivering it are robust and well-developed.
- It has been designed to meet users' needs and to be simple to understand, cost effective and repairable if it fails.
- Staff are capable, well-motivated, well-trained and, especially on the front line, able to empathise with and improve the satisfaction of customers.
- Recognising that mistakes will sometimes happen, those who deliver the service will appreciate citizens' right to redress, establish efficient complaint and compensation channels that are accessible to all, and be swift to provide redress where things go wrong.
- The service itself and its performance levels will be publicised to all users, using innovative approaches as well as established methods.
- Those who deliver the service should promise only what can realistically be achieved, concentrating on understanding the service's capabilities and repeatedly delivering to the same high standards.

²⁸ *Delivering high quality public services for all*, 63rd Report, PAC, HC 1530, 2005-06.

Efficiency and value for money

3.4 An increased focus on public service efficiency, following the 2004 Gershon Review, will continue in the current Spending Review period.²⁹ There is scope for improvement in several key areas.

- Strong strategic leadership at the centre of government is necessary to achieve greater efficiency and effectiveness. The Cabinet Office estimates that departments could save £1.4 billion a year by implementing shared corporate services. However, it has no timetable for achieving this level of saving, lacks clear baselines of current costs and performance, and has not defined benchmarks against which to measure performance.³⁰
- Public bodies can make savings by comparing their efficiency to others and acting on the results. Departments' performance in managing office property varies significantly and, taken overall, is 40 per cent worse than in the private sector. There are potential annual savings of £326million, with even more if arm's length bodies were to perform to the same standards.³¹
- There is great scope for savings if different parts of the public sector worked jointly to achieve efficiencies. For example, public bodies could get better value when using consultants by sharing information routinely, within and across organisations, about price and performance.³²

²⁹ Budget 2008: the government aims to deliver £30 billion of net cash-releasing savings by 2010-11.

³⁰ *Improving corporate functions using shared services*, NAO, HC 9, 2007-08.

³¹ *Improving the efficiency of central government's office property*, NAO, HC 8, 2007-08.

³² *Central government's use of consultants*, NAO, HC 128, 2006-07.

Achieving good implementation

3.5 The following sections discuss some of the activities involved in good programme implementation, as summarised in the table below.

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Learning		

Planning

3.6 Programmes' high level outcomes and timings have to be backed up by more detailed implementation plans. This involves developing business cases and establishing detailed implementation timings.

Business case

3.7 There are always competing demands on a department's resources, so senior decision makers need to know whether a project or programme is a sensible investment.

- Business cases must be free of bias. The preferred bid in the business plan for the Paddington Health Campus Scheme proved to be greatly over-optimistic. The 2000 plan estimated costs of £300 million and completion in 2006. By 2005 the projected costs had risen to £894 million, with completion slipping to 2013.³³

³³ *The Paddington Health Campus Scheme*, NAO, HC 1045, 2005-06.

- An adequate business case includes plans for realising and measuring benefits, and addressing the risks in achieving them. The project to build an accommodation centre at Bicester to house asylum seekers cost the taxpayer £29 million and delivered no benefits.³⁴ The business case did not fully recognise the risks being faced. The project was finally abandoned when it became clear that benefits would never exceed costs.
- When using external suppliers to deliver a project or programme, public bodies need good evidence that there is a sufficiently strong market to deliver it. Factors that may weaken bidders' interest include knowledge that a dominant supplier is already involved, project size or complexity, or the existence of other bidding opportunities. The proportion of private finance projects receiving only two bids increased from 15 per cent for projects that closed prior to 2004 to 33 per cent for those closing between 2004 and 2006.³⁵

Timing

3.8 The timing of implementation needs to balance the benefit of putting arrangements in place as early as possible against the risk to service quality of moving too quickly.

3.9 Getting the timing right involves judging the complexity of a programme, looking in detail at funding arrangements, and assessing the risks in using innovative processes or technology.

- When introducing the Single Payment Scheme, the Department for Environment Food and Rural Affairs chose to implement the most complex option for reform in the shortest possible timescale, and the Rural Payments Agency badly underestimated the scale of the task. This led to delays in making payments to farmers, erroneous payments and additional project and administrative costs.³⁶
- The Inland Revenue introduced on-line income tax self assessment in 2000 with a major advertising campaign before the product was fully complete.³⁷ Over 100,000 customers were persuaded to test the service, but system problems led to poor service and bad publicity.
- Projects require access to funding at the right time. The Department for Communities and Local Government distributed grant funding for the Thames Gateway regeneration programme to meet its own cash-flow needs rather than those of recipients, providing nearly half the grant in the last month of the financial year.³⁸

³⁴ *The cancellation of Bicester Accommodation Centre*, 25th Report, PAC, HC 316, 2007-08.

³⁵ *Improving the PFI tendering process*, NAO, HC 149, 2006-07.

³⁶ *The Delays in Administering the 2005 Single Payment Scheme in England*, NAO, HC 1631, 2005-06.

³⁷ *E-Revenue*, NAO, HC 492, 2001-02.

³⁸ *Thames Gateway: Laying the Foundations*, NAO, HC 526, 2006-07.

Develop capacity

3.10 Once a programme plan has been developed, organisations have to secure the capacity to deliver. This can include recruiting or developing the right skills, procuring goods and services, outsourcing entire functions, and innovating.

Skills

3.11 Changes in technology, new commercial approaches, and continuous pressure to improve performance make it necessary for public bodies to adjust their mix of skills and expertise. The demand for professional skills in government was highlighted in the 1968 Fulton report and is as relevant today with shortfalls in key skills such as programme and project management, IT and finance. Capability Reviews and the Professional Skills for Government initiative illustrate the continuing emphasis on skills.

3.12 Good management of skills involves identifying skills requirements, planning a model for recruitment, and attracting and retaining the right personnel.

- The Defence Procurement Agency recognised that it did not have a detailed picture of the skills it would need for the future, so it conducted workforce planning for specialist streams, developing recruitment and retention plans to meet its needs.³⁹
- A good staffing model will assess the impacts of employment activities in both the short and long term. The Royal Navy is still affected by a loss of skills resulting from recruitment cutbacks in the 1990s.⁴⁰
- Introducing more flexible pay structures for specialists can help with skill shortages. The Ministry of Defence broke the link between pay and rank for its doctors and pilots to aid recruitment and retention. It has since extended the approach to nurses, IT staff and linguistics specialists.⁴¹
- Public bodies can build their skills capacity by recruiting specialists on short-term contracts, and then transferring those skills from the private sector. The Ministry of Defence's Procurement Reform Programme included a contract requirement to transfer skills from consultants to permanent employees. The success of the skills transfer was improved by using it to trigger part of the consultants' payments.⁴²

³⁹ *Driving the Successful Delivery of Major Defence Projects: Effective Project Control is a Key Factor in Successful Projects*, NAO, HC 30, 2005-06.

⁴⁰ *Recruitment and Retention in the Armed Forces*, 34th Report, PAC, HC 1633, 2006-07.

⁴¹ *Ibid*

⁴² *Central government's use of consultants*, NAO, HC 128, 2006-07.

Innovation

3.13 Innovation is the process of developing and implementing new ideas in ways that improve organisational performance. Innovation can help public services become more effective by reducing costs, increasing productivity and offering improvements to customers.⁴³ Its importance is illustrated by initiatives such as the introduction of the e-Government Unit and the creation of the Department for Innovation Universities and Skills to promote innovation in the UK economy, including the public sector.

3.14 The right culture and management approach can encourage innovation and well-managed risk taking.⁴⁴

- A joined-up approach to innovation can help to embed a culture of innovation in government by spreading good practice and sharing lessons. The Invest to Save initiative attempted to encourage this by providing funding to projects that promoted new ways of working between government organisations.⁴⁵
- Innovation has to be managed systematically. This includes regular collection and use of performance data on innovation, piloting and review of new approaches, and senior management involvement in learning and sharing lessons from across government and the private sector.⁴⁶

Outsourcing

3.15 Outsourcing can be an effective way for government to use expertise from the private sector in building capacity rapidly in specialised areas. It requires an assessment of needs and capacity, the knowledge and skills for public bodies to become intelligent clients, fair competition for contracts, and effective analysis of bids.

- The Ministry of Defence needed to know its own requirements and capabilities when considering a contractor's bid for maintaining aircraft ejection seats. A series of studies into future maintenance needs provided a benchmark against which to measure the bid and helped in redesigning the maintenance process. The Department concluded that using internal maintenance offered better value in the longer term than outsourcing.⁴⁷
- In-house expertise of outsourced functions helps in assessing bids, and measuring and challenging suppliers' performance. The Child Support Agency outsourced most of its IT capability, losing its internal expertise to verify assurances from the supplier, EDS.⁴⁸ The IT system went live with 14 critical defects and 500 other faults that affected the accuracy of Child Benefit calculations and lost the trust of staff.⁴⁹

⁴³ *Achieving Innovation in Central Government Organisations*, NAO, HC 1447-I, 2005-06.

⁴⁴ *Achieving Innovation in Central Government Organisations*, NAO, HC 1447-II, 2005-06.

⁴⁵ *Managing Risks to Improve Public Services*, NAO, HC 1078-I, 2003-2004.

⁴⁶ *Achieving Innovation in Central Government Organisations*, NAO, HC 1447-I, 2005-06.

⁴⁷ *Transforming logistics support for fast jets*, NAO, HC 825, 2006-07.

⁴⁸ *Child Support Agency: Implementation of the Child Support Reforms*, 37th Report, PAC, HC 812, 2006-07.

⁴⁹ *Child Support Agency: Implementation of the Child Support Reforms*, NAO, HC 1174, 2005-06.

- There is a risk of not receiving best value when contracts expire because incumbent suppliers hold an advantage over competitors. When reletting its IT contract, HM Revenue & Customs attracted competition by paying for bidding costs as well as costs of transition from the current system.⁵⁰
- Outsourcing can raise issues around intellectual property rights. The Identity and Passport Service is trying to quantify the risk of infringing patents relating to new ePassports, as the contractor owns several rights to the technology.⁵¹

Procurement

3.16 Central government spent approximately £95 billion on goods and services in 2007-08,⁵² while the figure for the wider public sector was far greater. Good value for money in procurement requires consideration of the whole life costs of goods and services being procured, coordination to take advantage of economies of scale, commercial skills to manage the procurement process, and the ability to draw on knowledge and lessons learned.

- Good procurement is not simply about initial purchase price. Whole life costs are key, from purchase, through maintenance and operation, to contract termination or disposal of assets. Quality and sustainability are central issues. Pressure to reduce initial costs has been one of the main barriers to sustainable procurement.⁵³
- Public sector procurement has been uncoordinated in the past, which means that organisations may pay more than they need. There are over 50 public sector procurement organisations operating across the UK, many of which offer framework agreements for the same goods and services.⁵⁴
- Professional skills can help Departments be more commercially astute, using buying power and professional procurement expertise to secure better deals. HM Prison Service has made good progress in implementing a new procurement strategy, led by a centralised professional team and backed up by regional units.⁵⁵

⁵⁰ *HM Revenue & Customs: ASPIRE - the re-competition of the outsourced IT services*, NAO, HC 938, 2005-06.

⁵¹ *Identity and Passport Service: Introduction of ePassports*, NAO, HC 151, 2006-07.

⁵² *Public Expenditure Statistical Analyses 2008*, HMTreasury.

⁵³ *Sustainable procurement in central government*, NAO, September 2005.

⁵⁴ *Assessing the value for money of OGCbuying.solutions*, NAO, HC 103, 2006-07.

⁵⁵ *The procurement of goods and services by HM Prison Service*, NAO, HC 943, 2007-08.

Managing delivery

3.17 Managing the delivery of programme objectives demands strong information, sound project and contract management, good use of consultants, competitive markets, incentives, and good public communication.

Information management

3.18 Information is often central to delivering services, such as calculating taxes and benefits or treating patients. Technology is playing an ever-increasing role, making information management more efficient but also introducing significant new risks such as data loss.

3.19 Good information management is about collecting and sharing the right information for government's own purposes, helping citizens take and use the information they need, and maintaining adequate data security.

- E-government can make it easier for citizens to conduct transactions. The Department for Transport and its Agencies made vehicle registrations and Vehicle Excise Duty payment available on-line at the end of the 1990s. Simplifying processes, reducing turnaround times and making services available 24 hours a day led to higher levels of customer satisfaction.⁵⁶
- Information sharing between public bodies brings risks that must be managed. As part of the National Programme for IT, the NHS set out various policies to maintain the security of patient information, as well as operational controls such as smartcards, passwords, and variable access rights.⁵⁷
- Good information use can reduce the administrative burdens on citizens and public bodies. In contrast, people claiming under Coal Health Compensation Schemes had to sign mandates allowing access to numerous pieces of information including GP, hospital, and social security records.⁵⁸ This created substantial work for those claiming compensation, as well as for public bodies in providing and collating documentation.

Project management

3.20 Good project management is important for good service outcomes, as it can affect all aspects of delivery, from the allocation of resources to staff motivation and performance measurement. A lack of skills and proven approach to project management is one of eight common causes of project failure.⁵⁹

⁵⁶ *Electronic service delivery in the driver, vehicle and operator agencies in Great Britain*, NAO, HC 204, 2007-08.

⁵⁷ *The National Programme for IT in the NHS: Progress since 2006*, NAO, HC 484-I, 2007-08.

⁵⁸ *Coal Health Compensation Schemes*, NAO, HC 608, 2006-07.

⁵⁹ *Common Causes of Project Failure*, Office of Government Commerce/NAO, OGC website.

3.21 Good project management is about people having the right skills and communicating properly.

- It is important to retain staff with good project management skills, knowledge and experience throughout the course of a project. By 2001, the National Probation Service Information Systems Strategy was late and over budget, and on its seventh programme director in seven years.⁶⁰
- Open working relationships between public bodies and delivery partners can help with areas such as risk management, contract incentives and innovative ways of working.
- Thorough testing of processes and production equipment, progressive implementation rather than a sudden switch of systems, and an effective communication plan all help projects to succeed. Attention to these factors enabled the Identity and Passport Service to deliver the ePassport programme to time, cost and quality standards.⁶¹

Contract management

3.22 Contracts are at the heart of many public services and programmes. Under the Private Finance Initiative alone there are over 500 operational projects. Future payments are worth over £90 billion up to 2031-32.⁶²

3.23 Sound commercial skills and the ability to negotiate contractual mechanisms help to protect value for money.

- Getting the best value from contracts depends on the ability of the public sector to negotiate good deals. Mechanisms like market testing and benchmarking can preserve value for money in long term contracts when market prices change. The Ministry of Defence periodically benchmarked its fixed telecommunications contract to monitor BT's value as a supplier, helping to reduce costs.⁶³
- Outsourced implementation carries the risk of contractors not delivering. The National Physical Laboratory suffered long delays to a building specification and construction project carried out by Laser.⁶⁴ The former Department of Trade and Industry had assumed that the financial consequences of failure for the contractor would ensure delivery despite the demanding specifications. In fact, the contractor's failure to deliver resulted in termination of the contract, delaying completion of the building by six years.

⁶⁰ *The Implementation of the National Probation Service Information Systems Strategy*, NAO, HC 401, 2000-01.

⁶¹ *Identity and Passport Service: Introduction of ePassports*, NAO, HC 152, 2006-07.

⁶² *Making Changes in Operational PFI Projects*, NAO, HC 205, 2007-08.

⁶³ *The Private Finance Initiative: The Contract for the Defence Fixed Telecommunications System*, NAO, HC 328, 1999-2000.

⁶⁴ *The termination of the PFI Contract for the National Physical Laboratory*, NAO, HC 1044, 2005-06.

- Contract variations brought about by changing requirements can present high risks to value for money, as changes are often made without competition and can attract additional fees. In 2006 alone, changes to operational deals under the Private Finance Initiative cost £180 million.⁶⁵ Organisations can improve their contractual terms by providing for competitive tendering when changes are necessary.

Consultants

3.24 There is significant room for improvement in how the public sector uses consultants.⁶⁶ In 2005-06, the public sector spent approximately £2.8 billion on consultants, a 33 per cent increase on spending in 2003-04.⁶⁷ Where they bring relevant expertise, consultants can contribute much to government clients. Annual efficiency gains of 30 per cent could be achieved, however, releasing more than £500 million a year.⁶⁸

3.25 Government organisations could be smarter and more commercially astute in their use of consultants.⁶⁹

- Consultants are often used when in-house staff already have the necessary skills and are cheaper. In the public and private sectors, 40 per cent of organisations have used consultants when they did not need to.
- Understanding what skills are core allows organisations to build their own capacity by recruiting and training the right staff. IT and project management skills are particularly important.
- Contracts with incentives and fixed prices help to control costs and formalise joint objectives between client and supplier. In 2005-06, the average central government organisation commissioned only one per cent of consulting projects using incentives in contracts.
- Better management information on an organisation's entire spending on consultants can help in comparing price and quality, negotiating best prices, and assessing whether benefits justify costs.

Competition and choice

3.26 Departments have been making greater use of competition and market forces to improve efficiency since the 1980s. Building on privatisation and private sector delivery, departments are now using competition and choice within the public sector to drive change.

⁶⁵ *Making Changes in Operational PFI Projects*, NAO, HC 205, 2007-08.

⁶⁶ Treasury Minute reply to 31st PAC report 2006-07, Cm 7216.

⁶⁷ *Central government's use of consultants*, NAO, HC 128, 2006-07.

⁶⁸ The NAO's Consultancy Assessment Toolkit, available on the NAO website, contains assessment questions as well as guidance on using consultants.

⁶⁹ *Central government's use of consultants*, NAO, HC 128, 2006-07.

24 Part One Good Government

3.27 A competitive market requires greater information for the consumer, as well as the freedom to change suppliers.

- To aid choice, consumers need performance measures that allow fair comparison. Since earlier work by the National Audit Office,⁷⁰ the Government has developed school performance measures that adjust for both pupils' prior attainment and characteristics such as gender and family background. These measures provide an indication of the progress that a school's pupils have made, and are published alongside less sophisticated measures based on pure academic attainment.
- Greater citizen choice often requires providers to change their behaviour. The Department of Health had a target that by the end of 2005 every hospital appointment would include the right of the patient to choose the hospital. However, by May 2008, only 45 per cent of patients surveyed recalled being offered a choice of hospitals by their GP.⁷¹

Incentives

3.28 As the business of government has become devolved, outsourced, and delegated in other ways, there is a greater focus on the need to provide incentives for better performance. The performance levers used to motivate delivery bodies can be strengthened through rewards for good results and sanctions for poor results. Rewards and sanctions can be:

- financial, in the form of bonuses or penalties;
- operational, such as granting organisations greater or lesser autonomy from inspection; or
- reputational, as in the publication of league tables.

3.29 Rewards and sanctions have to be designed and used in a way that exerts the right influence on those subject to them.

- Only 40 per cent of major government programmes use formal rewards or sanctions to improve performance.⁷²
- Sanctions or rewards must be set at the right level to have the desired motivational effect. The Department for Environment Food and Rural Affairs was fined by the European Commission for failures in its delivery partners, but it passed on only five per cent of this fine to partners.⁷³
- Delivery bodies need confidence in data used to assess performance and determine rewards or sanctions. The National Treatment Agency invested substantially in its data

⁷⁰ *Making a Difference: performance of maintained secondary schools in England*, NAO, HC 1332, 2002-03.

⁷¹ Provisional headline results, National Patient Choice Survey, England, May 2008, Department of Health, 2 September 2008.

⁷² *The use of sanctions and rewards in the public sector*, NAO, September 2008.

⁷³ *Ibid*

system, which now produces data that are trusted by delivery partners and are used to reward more efficient organisations with increased funding.

- Sanctions and rewards must be applied consistently. The Child Support Agency failed to do so, signalling to people that it is easy to avoid penalties. At the time of our report, only 19,000 out of the 247,000 cases of complete and partial non-compliance were being dealt with by the Agency's Enforcement Directorate.⁷⁴

Public communication

3.30 Public services will not meet expectations if communication between service providers and users is ineffective.⁷⁵ Citizens need to know what services are available and how to use them, including how to assess eligibility. The internet, leaflets, letters and forms, call centres and front-line staff are all important in communication between government and the public.

3.31 Effective communication means providing reliable and accessible information, and giving users the means to respond with their own information.

- None of the Department for Work and Pensions' leaflets was likely to be fully understood by those of low literacy, and most required a reading age higher than the national average, preventing them from serving their purpose.⁷⁶
- Government spends over £200 million a year delivering services and providing information on-line.⁷⁷ However, a third of government websites do not comply with the Government accessibility standards, making it difficult for disabled users to access information.
- Groups most likely not to use the internet, such as the elderly and people with low incomes or low education, risk being excluded.⁷⁸ Public bodies need to continue to offer high quality telephone, post and face-to-face services for those who prefer not to use online services.
- Well-designed forms make it easy for customers to provide accurate and complete information. They are short and simple, with clear and concise guidance that tells customers what they need to know and where to get help. HM Revenue & Customs removed the need for an accompanying booklet about its PAYE Notice of Coding by tailoring guidance to personal circumstances and including it on a single short form.⁷⁹
- Customer complaints systems can provide feedback to measure and improve service performance, but departments do not make enough use of the information.⁸⁰

⁷⁴ *Child Support Agency - Implementation of the child support reforms*, NAO, HC 1174, 2005-06.

⁷⁵ *Delivering High Quality Public Services for all*, 63rd Report, PAC, HC 1599, 2005-06.

⁷⁶ Department for Work and Pensions, *Using leaflets to communicate with the public about services and entitlements*, 7th Report, PAC, HC 133, 2006-07.

⁷⁷ *Government on the Internet: Progress in delivering information and services online*, 16th Report, PAC, HC 143, 2007-08.

⁷⁸ *Ibid*

⁷⁹ Treasury Minute, reply to 20th PAC Report 2006-07 Cm 7366.

⁸⁰ *Citizen redress: What citizens can do if things go wrong with public services*, NAO, HC 21, 2004-05.

Measuring performance

3.32 Effective delivery requires public bodies to measure and review performance, especially where delivery is undertaken by others. Well-designed performance information systems ensure data quality and provide information that enables staff to take action.

Designing performance information systems

3.33 Performance information should identify how an organisation is progressing towards its objectives. A key factor in the failure of the introduction of the Single Payment Scheme was that the Rural Payment Agency did not have information on the number of outstanding claims, or the time it would take to complete them.⁸¹

3.34 A performance information system needs to be focused on an organisation's aims and objectives, appropriate to the stakeholders who are likely to use it, balanced across the organisation's work, robust to withstand organisational changes, integrated into the management processes, and cost-effective.⁸² In particular, our work has highlighted issues of focus and balance.

- Performance measures can focus on inputs, outputs or outcomes. While inputs and outputs are generally easier to measure, they do not necessarily reflect the outcomes citizens want. Only 15 per cent of Public Service Agreement targets for 1999-2002 used measures of service outcomes, rising to 79 per cent for 2005-08.⁸³
- Government performance information systems do not always include a balanced set of measures that focus management attention on all important aspects. The Department for Communities and Local Government set targets and measured progress for some of its objectives for the Thames Gateway Programme, but did not do so for others.⁸⁴

Ensuring data quality

3.35 Effective use of performance measures and targets to improve public sector delivery requires good quality data. Inaccurate data can cause or hide poor service. Managers and staff at some NHS Trusts manipulated activity and records to make it appear that they had hit waiting list targets. Some patients waited longer than they should have done and their conditions may have deteriorated during the longer wait.⁸⁵

⁸¹ *The Delays in Administering the 2005 Single Payment Scheme*, NAO, HC 1631, 2005-06.

⁸² *Choosing the right FABRIC - A Framework for Performance Information*, HMTreasury, Cabinet Office, National Audit Office, Audit Commission, Office for National Statistics, 2001.

⁸³ *Measuring Performance in Government Departments*, NAO, HC 301, 2000-01.

⁸⁴ *The Thames Gateway: Laying the Foundations*, NAO, HC 526, 2006-07.

⁸⁵ *Inappropriate Adjustment to NHS Waiting Lists*, 46th report, PAC, HC 517, 2001-02.

3.36 Systems used to collect and analyse performance information must be reliably specified and operated, and must present results clearly.

- Only 50 per cent of the systems used by departments to measure performance against their Spending Review 2004 Public Service Agreement targets are fully fit for purpose.⁸⁶
- Data systems need controls that mitigate risks to data quality. Measuring the number of offenders brought to justice relies on crime data from many police forces and courts, carrying a risk of inconsistent data collection. To manage this risk, the Home Office developed and implemented the National Crime Recording Standard.⁸⁷
- Performance information must be presented clearly, transparently and comprehensively. The former Department of Trade and Industry had a target to increase business investment in research and development, measured by patents taken out in the US, EU and Japan. However, its 2006 Autumn Performance Report covered only patents taken out in the US.⁸⁸
- Corporate governance arrangements can support data quality. As part of the 2007 Comprehensive Spending Review, all departments were required for the first time to name individual Data Quality Officers, responsible for the reliability of data used to report against Public Service Agreements.

Using performance information

3.37 Good quality performance information helps departments to allocate resources, take decisions, improve programme management and report externally. Parliament and others need both financial and performance information to assess whether resources are used well.

3.38 Performance information is most effective when it is demonstrably used by management, for example to make comparisons and quantify benefits.

- Management feedback to staff based on performance information reinforces the message that performance matters.⁸⁹
- Performance measures can be used by managers to drive improvement by comparing performance over time and against other organisations. NHS Trusts can compare efficiency indicators, such as the average length of hospital stay, to identify opportunities to improve.⁹⁰
- Measuring performance is important in realising benefits and demonstrating value for money. A military programme for digital radios was approved on the grounds that it

⁸⁶ *Fourth Validation Compendium Report: Volume 1*, NAO, HC 22-I, 2007-08.

⁸⁷ *Ibid*

⁸⁸ *Fourth Validation Compendium Report: Volume 1*, NAO, HC 22-I, 2007-08.

⁸⁹ *Choosing the right FABRIC - A Framework for Performance Information*, HMTreasury, Cabinet Office, National Audit Office, Audit Commission, Office for National Statistics, 2001.

⁹⁰ *The Efficiency Programme: A second review of progress*, NAO, HC 156-I, 2006-07.

would achieve significant operational benefits, but the Army did not start to measure actual benefits until two years after implementation.⁹¹

Learning

3.39 Learning from their own experiences and those of others can help public bodies meet commitments to deliver improvements to public services while also securing efficiency savings and tackling complex problems like obesity and climate change.

3.40 Learning can come from many different sources, such as internal experience, external partners, stakeholder and customer feedback, audits and evaluations. Public bodies need routinely to draw lessons from their actions, applying and sharing these lessons across government.

- Learning lessons needs to become part of a formal routine management process. The Department for Environment Food and Rural Affairs learnt some lessons from the outbreak of classical swine fever in 2000 but did not incorporate them into a structured national emergency response plan, partly contributing to the £3 billion cost of dealing with the 2001 outbreak of foot and mouth disease.⁹² Subsequent action means the Department is now better prepared for any future outbreak.⁹³
- Activities that happen frequently across government, such as the implementation of IT projects and the procurement of goods and services, offer great potential for lessons to be learned and shared. Gateway Reviews and Department Centres of Excellence offer a structured way to record and share lessons.⁹⁴

⁹¹ *Delivering digital tactical communications through the Bowman CIP programme*, NAO, HC 1050, 2005-06.

⁹² *The 2001 Outbreak of Foot and Mouth Disease*, NAO, HC 939, 2001-02.

⁹³ *Department for Food, Environment and Rural Affairs, Foot and Mouth Disease: Applying the lessons*, NAO, HC 184, 2004-05.

⁹⁴ *Delivering Successful IT-Enabled Business Change*, 27th Report PAC, HC 113, 2006-07.

Part Three

Governance

3.1 Governance arrangements provide a framework to protect the core functions of design and implementation. A competent governance structure assures users, stakeholders and taxpayers that departments deliver public services efficiently without fraud or corruption. Good governance is fundamental to confidence and trust in public services.

3.2 Governance arrangements must not overwhelm the activities they are designed to protect. Like all public activities, governance arrangements must be efficient, appropriate to the level of risk involved, and impose the minimum administrative burdens on staff and citizens alike.

3.3 Good governance flows from organisational culture as well as from systems and structures. The Committee on Standards in Public Life has established seven principles that it believes should apply to all in the public service.⁹⁵

Achieving Good Governance

3.4 The following sections describe activities involved in good governance, as summarised in the table below.

Governance		
Process	Topic	Page
Leadership	• Direction	30
	• Internal communication	30
Structure	• Board	31
	• Organisational structure	31
	• Relationships with ministers	32
Resource management	• Financial management	32
	• Asset management	33
	• IT management	34
Risk management	• Financial risk	35
	• Operational risk	36
Accountability and transparency	• Personal accountability	36
	• Reporting	37

⁹⁵ The seven principles are: selflessness, integrity, objectivity, accountability, openness, honesty and leadership.

Leadership

3.5 Strong leadership is about setting a clear direction and making sure the internal communication structure allows important messages to be heard throughout the organisation.

Direction

3.6 Clear direction and engagement from senior management help an organisation to communicate its priorities and commitment to staff and stakeholders.⁹⁶ A lack of direction can lead to confusion among stakeholders, poor staff morale and missed objectives.

3.7 Strong direction requires consistency of senior management appointments, as well as clear responsibilities and accountability.

- Maintaining the same leadership was a key factor in the success of the roll-out of the Jobcentre Plus office network, as it provided a consistent approach and leadership style. Stakeholders also praised senior management's active approach to managing the project, characterised by fast and effective decision-making.⁹⁷
- One of the main problems for the Thames Gateway Programme has been a lack of clear roles and responsibilities in the delivery chain. Over 100 organisations are involved across central, regional and local government, as well as the private and voluntary sectors, with multiple funding streams and lines of reporting. This has made it difficult for government, investors and developers to see a clear direction for investment.⁹⁸

Internal communication

3.8 The quality of communication within a programme can have a major impact on its success or failure. Effective communication, top-down, bottom-up and across functions, can ensure good morale and buy-in, and enable decisions to be made quickly and effectively.

3.9 Senior management have to establish clear and active lines of communication among different stakeholders, and create a culture that does not penalise staff for bringing problems to attention.

- Poor communication between the Home Office's Immigration and Nationality Directorate and the Prison Service led to over 600 convicted foreign criminals being released from prison between 2001 and 2005 without being considered for deportation.⁹⁹

⁹⁶ *Delivering successful IT-enabled business change*, NAO, HC 33, 2006-07.

⁹⁷ *The roll-out of the Jobcentre Plus office network*, NAO, HC 346, 2007-08.

⁹⁸ *The Thames Gateway: Laying the Foundations*, 62nd Report, PAC, HC 693, 2006-07.

⁹⁹ *Home Office Resource Accounts 2004-05 and Follow-up on Returning Failed Asylum Applicants*, 60th Report, PAC, HC 1079, 2005-06.

- Openness helps managers identify and address problems quickly. For its Trojan and Titan heavy armoured vehicles projects, the Ministry of Defence held a monthly meeting that gave an open forum for staff to air views.¹⁰⁰

Structure

3.10 An effective structure for public bodies includes a suitably designed Board, an organisational structure that supports robust decision making, and clear arrangements for managing relationships with ministers.

Board

3.11 The Board is an important factor in the successful implementation of any programme. As well as determining key objectives and deliverables, the Board sets a programme's direction.

3.12 An effective Board includes the right people with the skills and experience to review and challenge financial and performance information.

- To address concerns that it was failing to provide adequate coordination in developing the Thames Gateway, the Department for Communities and Local Government introduced a cross-government Board to coordinate central government investment and provide stronger leadership.¹⁰¹
- Board members need the right mix of skills and expertise to oversee an organisation's operational performance, as well as its finances. Every Board should contain a qualified Finance Director to ensure appropriate financial governance.¹⁰² A Board will usually also include non-executive directors who do not manage the organisation but bring an independent perspective on strategy and performance, and offer both challenge and support. They need more support from departments, particularly in terms of clearly defined roles and detailed information about operations.¹⁰³
- Audit Committees help organisations follow accounting and auditing standards and adopt appropriate risk management arrangements. Strong internal audit functions provide support to Audit Committees.¹⁰⁴

Organisational structure

3.13 Departments' organisational structures affect individual programmes. Sound structures ensure clear accountability and financial responsibilities, and nurture working relationships across different programme strands.

¹⁰⁰ *Driving the Successful Delivery of Major Defence Projects: Effective Project Control is a Key Factor in Successful Projects*, NAO, HC 30, 2005-06.

¹⁰¹ *The Thames Gateway: Laying the Foundations*, 62nd Report, PAC, HC 693, 2006-07.

¹⁰² *Managing financial resources to deliver better public services*, NAO, HC 240, 2007-08.

¹⁰³ *Managing financial resources to deliver better public services*, 43rd Report, PAC, HC 519, 2007-08

¹⁰⁴ *Financial Reporting And Financial Management*, NAO, HC 417, 2007-08.

- The public sector becomes more complex as new projects and programmes increasingly involve multiple departments. This complexity influences decisions on the best structures for planning and delivering services.¹⁰⁵
- Designations of Chief Information Officers and Senior Responsible Owners, together with initiatives like Centres of Excellence, are important in helping departments develop management arrangements and reporting structures, including at a local level.¹⁰⁶

Relationship with Ministers

3.14 Ministers define policy, while public servants in departments and other bodies deliver it. Departments feed into the policy making process by providing data and analysis.

3.15 Departments' responsibilities focus on the Accounting Officer designation applied to Permanent Secretaries.

- Ministers need full assessments of the financial implications of policy proposals to help them take decisions. Only 41 per cent of departments claimed that proposals always include full financial assessments, while only 20 per cent considered that thorough financial assessments were the basis of policy decisions.¹⁰⁷
- If an Accounting Officer considers that a policy decision conflicts with his or her stewardship responsibilities for public money, he or she can request a formal direction from the Minister.¹⁰⁸ Such directions are not common: there were just eleven from 2000 to 2007, ranging from four in 2000 to none in 2004 and 2007.

Resource management

3.16 Resources underpin a department's ability to support the design and implementation of programmes effectively. Most importantly, public bodies need strong management of finances, assets and IT.

Financial management

3.17 Central government annual spending is forecast to grow to nearly £700 billion in 2010-11.¹⁰⁹ Departments have to manage this money effectively in order to convert it into efficient and effective public services.¹¹⁰

¹⁰⁵ *Delivering High Quality Public Services for all, 63rd Report, PAC, HC 1599, 2005-06.*

¹⁰⁶ *Delivering successful IT-enabled business change, 27th Report, PAC, HC 113, 2006-07.*

¹⁰⁷ *Managing financial resources to deliver better public services, NAO, HC 240, 2007-08.*

¹⁰⁸ *Managing Public Money, HMTreasury, 2007.*

¹⁰⁹ *Budget 2008, HMTreasury, 2008.*

¹¹⁰ *Managing financial resources to deliver better public services, NAO, HC 240, 2007-08.*

- Flexible resource allocation can secure a quick response to national or global developments, such as a banking crisis.
- Strong forecasting skills help public bodies allocate resources in response to changing circumstances, such as the NHS allocating resources to cope with an ageing population.
- Confident oversight of devolved budgets, such as those of the country's 25,000 schools, depends on effective monitoring.

3.18 Departments still have scope to improve their ability to forecast future resource needs, link financial with operational performance information, and improve the finance skills of operational staff.

- Since 2003, departments have not significantly improved their ability to forecast. While there is less overspending than before, there is still significant underspending. Across all Departments between 2002-03 and 2006-07, total underspending in excess of five per cent of resource expenditure was £1.8 billion.¹¹¹ Some was due to poor forecasting, potentially withholding resources unnecessarily from areas of need.
- Most departments do not link financial and operational performance information in a way that allows them to assess value for money, either for investment decisions or when evaluating programmes.¹¹² This has caused difficulties for departments when reporting efficiency gains because they have to put financial values on operational performance. Only a quarter of departments' reported efficiency gains were reliable.¹¹³
- Operational staff do not have adequate financial skills to manage budgets and reporting requirements. Better skills would help in squeezing more value out of information in accruals accounting systems.¹¹⁴

Asset management

3.19 The public sector owns and manages substantial assets, including property, equipment, and infrastructure. Office property alone was worth £30 billion in 2005-06 and cost £6 billion a year to run.¹¹⁵ Asset management provides a significant opportunity for improving value for money.

3.20 A well managed asset lifecycle covers procurement or construction, day-to-day management and maintenance, and eventual sale or disposal.

¹¹¹ *Managing financial resources to deliver better public services*, NAO, HC 240, 2007-08.

¹¹² *Ibid*

¹¹³ *The Efficiency Programme: A Second Review of Progress*, NAO, HC 156-I, 2006-07.

¹¹⁴ 'Accruals accounting' is a commercial approach to accounting which has been adopted by central government. It replaced cash accounting, which simply recorded money spent in a year, with a system that also values assets

¹¹⁵ *Improving the efficiency of central government's office property*, 22nd Report, PAC, HC 229, 2007-08.

- Good quality ongoing support and maintenance are necessary to get the best value for money from assets. The Ministry of Defence used the 'Lean' methodology to create a production line for repairing and maintaining fast jets. It saved £1.4 billion between 2001-02 and 2006-07 and made 11 more aircraft available for front line operations by reducing turnaround time.¹¹⁶
- Departments are currently not meeting the sustainability standards for constructing and refurbishing buildings, with only nine per cent of projects meeting requirements.¹¹⁷ They are now encouraged to consider the financial efficiency and environmental sustainability of assets through whole life costing.
- Minimising whole life costs also means maximising resale value. Government IT equipment is set to grow from 1.7 to 2.6 million units between 2005-06 and 2010-11 but the public sector does not achieve the same resale value as the private sector. There is also little evidence of available discounts being taken up when switching from old equipment to new, requiring procurement and disposal functions to be coordinated.¹¹⁸
- The public sector is starting to use accruals-based accounting information to improve its management of assets and liabilities. It identified and sold underutilised assets valued at £18.5 billion in the three years from 2004-05 to 2006-07.¹¹⁹

IT management

3.21 IT can increase accessibility and reduce costs. Around 45 per cent of online access to government websites occurs in the evenings or weekends, when government offices are normally closed.¹²⁰ The Land Registry was able to reduce the unit cost of processing applications to register land from £27 to £22 by computerisation.¹²¹ IT also has a role in removing data duplication, streamlining processes, tackling fraud and contributing to efficiency savings.

3.22 Getting the most from IT involves knowing how it will achieve benefits, having senior management oversight of projects and programmes, and developing the knowledge and expertise to be an intelligent client.

- The Department for Work and Pension's Payment Modernisation Programme demonstrated clear links between its business case, its benefits realisation plan, and its systems for tracking benefits.¹²² The Department secured stakeholder support and expects to save £1 billion by 2009-10 as a result of the new system.

¹¹⁶ *Transforming logistics support for fast jets*, NAO, HC 825, 2006-07.

¹¹⁷ *Building for the future: Sustainable construction and refurbishment on the government estate*, 3rd Report, PAC, HC 174, 2007-08.

¹¹⁸ IT Units are desktop computers or laptops. *Improving the disposal of public sector Information, Communication and Technology Equipment*, NAO, HC 531, 2006-07.

¹¹⁹ *Managing financial resources to deliver better public services*, NAO, HC 240, 2007-08.

¹²⁰ *Government on the Internet: Progress in Delivering Information and services Online*, NAO, HC 529, 2006-07.

¹²¹ *Better Public Services through e-government*, NAO, HC 704-I, 2001-02.

¹²² *Delivering successful IT-enabled business change*, NAO, HC 33-II, 2006-07.

- Effective oversight of IT-enabled projects and programmes demands senior management time. The Small Business Service ensured senior level engagement in its web portal programme by requiring Programme Board members to sign a Memorandum of Understanding stating their roles and responsibilities, and to take it in turns to chair meetings. The portal won awards and received 5.7 million visitors in the first twelve months.¹²³
- Outsourced IT functions require sufficient in-house specialist knowledge and expertise so public bodies can be intelligent clients, managing suppliers effectively. After outsourcing most of its IT in the 1990s, The Pension Service appointed a new Chief Information Officer, who further strengthened the organisation's IT skills and capabilities. This capability played a crucial role in the success of its Pension Credit Programme.¹²⁴ In contrast, the Child Support Agency lost its internal expertise when outsourcing IT, leading to the problems described earlier in this paper.¹²⁵

Risk management

3.23 Effective risk management can help departments avoid failures in service delivery. Well managed risk-taking also presents opportunities to deliver better public services, make more reliable decisions, improve efficiency and support innovation.

Financial risk

3.24 Fraud and error is a key financial risk facing government. HM Revenue & Customs estimated under-collected VAT at 14.2 per cent of the net total in 2006-07, equivalent to £12.8 billion.¹²⁶ The Department for Work and Pensions estimated that the social security system lost around £2.7 billion a year to fraud and error in 2007-08.¹²⁷

3.25 Financial risk is minimised by designing robust and secure systems, and testing them for potential weaknesses.

- Weaknesses in system design potentially represent the greatest financial risk. In recent years the Department for Work and Pensions has made changes to its counter-fraud activity, including a more risk-based and intelligence-led approach, a faster case management system, and a more targeted advertising campaign.¹²⁸ As a result, the Department estimated that fraud fell by around £500 million between 2001-02 and 2006-07.¹²⁹

¹²³ *Delivering successful IT-enabled business change*, NAO, HC 33-II, 2006-07.

¹²⁴ *Ibid*

¹²⁵ *Child Support Agency: Implementation of the Child Support Reforms*, 37th Report, PAC, HC 812, 2006-07.

¹²⁶ *Measuring Indirect Tax Losses - 2007*, HMRC, 2007.

¹²⁷ *Department for Work & Pensions Resource Account 2007-08*, NAO, HC 863, 2007-08.

¹²⁸ *Progress in Tackling Benefit Fraud*, NAO, HC 102, 2007-08.

¹²⁹ While estimated fraud reduced by £1.2 billion, £700 million of this was the result of a change in how the Department defined fraud.

- Without adequately testing or piloting a new system, it is difficult for public bodies to identify and prevent financial risks. Individual Learning Accounts,¹³⁰ introduced by the former Department for Education and Skills to subsidise training for people lacking skills and qualifications, were implemented before proper testing. Risk assessment and management were inadequate, resulting in nearly £70 million of fraud.

Operational risk

3.26 Well managed risks can help in finding new ways to deliver services, but public sector programmes frequently fail to identify risks or manage them properly. Organisations need clear direction from senior management on when it is appropriate to take well measured and mitigated risks. Only 20 per cent of respondents to a survey felt their departments rewarded people for taking well managed risks.¹³¹

3.27 Public bodies need to manage risks carefully and be clear about who is responsible for them.

- Some organisations are aware of risks but fail to manage them effectively. The Child Support Agency took a large risk by developing a complex IT system in a short time period at the same time as undergoing a major reorganisation. It did not act on warnings from numerous sources that they were at the edge of what was achievable, and the IT system still had 500 defects three years after it was built.¹³²
- There must be clarity about where risk lies in collaborative enterprises. Public services are increasingly delivered through complex mechanisms involving public, private and voluntary sector organisations. Departments and their chains of service providers, including private sector contractors, need a common understanding of key risks and responsibilities for managing them.¹³³

Accountability and transparency

3.28 Clear accountability and transparent reporting are central to sound public management.

Personal accountability

3.29 Clear personal accountability is as important for individual projects or programmes as for entire organisations. If no single person is accountable, individuals can pass blame to others, with serious consequences for day-to-day management.

3.30 Personal accountability for departments has been defined for many years through Permanent Secretaries' duties as Accounting Officers. It is now becoming common for projects and programmes to have Senior Responsible Officers.

¹³⁰ *Individual Learning Accounts*, 10th Report, PAC, HC 544, 2002-03.

¹³¹ *Managing Risks to Improve Public Services*, 15th Report, PAC, HC 1078-I, 2004-05.

¹³² *Child Support Agency - Implementation of the Child Support Reforms*, NAO, HC 1174, 2005-06.

¹³³ *Managing Risks to Improve Public Services*, NAO, HC 1078-I, 2003-04.

- Accounting Officers have their responsibilities clearly set out in Treasury guidance. This makes them responsible for regularity and propriety, the selection and appraisal of programmes, value for money, management of opportunity and risk, learning from experience, and the financial accounts.¹³⁴
- Clear accountability is especially important for projects or programmes that are shared by organisations. The Paddington Health Campus scheme had three partner organisations. It cost the taxpayer £15 million and was finally abandoned. A key reason for failure was the absence of a single clearly accountable person.¹³⁵

Reporting

3.31 Good reporting is critical for informing Parliament and the public about the activities and performance of public bodies, allowing them to hold those public bodies to account.

3.32 Reporting must be open, reliable and consistent. Independent auditing helps to make information more credible, both internally for management when making decisions and externally for Parliament and the public who need to trust it.

- Inadequate reporting by public bodies can hide problems. An estimated 80 per cent of their building projects would fail to meet the required environmental standards.¹³⁶ The extent of failure had not been appreciated because of significant weaknesses in the Government's own monitoring procedures.
- Independent auditing is critical in providing Parliament and the public with trust in what government is doing and reporting. The National Audit Office routinely audits the reliability of government reports on progress against efficiency targets¹³⁷ and Public Service Agreement targets,¹³⁸ in addition to auditing the accounts of government bodies.
- Performance reporting needs to be consistent across organisations, particularly when the subject matter is complex. Departments sometimes report differently on the same basic data. Reported performance on greenhouse gas emissions was markedly affected by different approaches towards emissions trading schemes.¹³⁹
- Accepted reporting standards can improve reliability, consistency and comparability. Government accounting will introduce International Financial Reporting Standards from the 2009-10 financial year.¹⁴⁰

¹³⁴ *Managing Public Money*, HMTreasury, 2007.

¹³⁵ *The Paddington Health Campus scheme*, NAO, HC 1045, 2005-06.

¹³⁶ *Building for the future: Sustainable construction and refurbishment on the government estate*, NAO, HC 324, 2006-07.

¹³⁷ *The Efficiency Programme: A Second Review of Progress*, NAO, HC 156-I, 2006-07.

¹³⁸ *Fourth Validation Compendium Report: Volume 1*, NAO, HC 22-I, 2007-08.

¹³⁹ *UK greenhouse gas emissions: measurement and reporting*, NAO, March 2008.

¹⁴⁰ Budget 2008, HMTreasury, 2008.