
The Government's Lead Non-
Executive's **Annual**
Report

Financial Year 2013-14

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Introduction

This is my third annual report as the Government's Lead Non-Executive Director and the final one for this Parliament. The report looks back at the progress made over the past twelve months, and sets an agenda for the year ahead. With three years of experience on which to draw, I also assess the effectiveness of the enhanced departmental board model and the more prominent role it gives to non-executives.



Non-executives have sat on departmental boards for some time, but in 2010 a number of important changes were made to the Corporate Governance Code. These included:

- The requirement that Secretaries of State chair boards;
- The appointment of a Government Lead Non-Executive;
- The appointment of a lead non-executive for each department;
- An emphasis on making departments more business-like.

This new model reflects the changing role of government, which has increasingly become a commissioning body, buying and managing a range of complex services and commercial relationships against an economic backdrop requiring efficiencies and cost savings. As a result it needs to be the smartest buyer in the nation, with much more effective management of risk. The civil service is also becoming smaller, a transformation which requires new and enhanced skills. They demand a focus on effective functional leadership and first rate talent management.

The revised Corporate Governance Code directed boards to advise and supervise in five areas: strategic clarity; commercial sense; talented people; results focus; and, management information. In previous years the non-executives have also identified three specific areas for urgent attention: the capability of boards and departments; major projects and procurement; and management information. The recommendations in this report build on the progress made in these priority areas.

Progress so far is good but incomplete. The issues on which the team of non-executives have focussed are complex and cannot always be resolved quickly. The introduction of cross-government leadership of various professional functions (such as finance and IT, for example) will take several years to become fully effective.

Feedback from departments confirms that they value the contribution that their non-executives have made over the last three years, not only in formal departmental board meetings, but also informally outside of board meetings. Some of the ways in which non-executives have contributed are highlighted in the case studies included in this report.

Enhanced departmental boards have become an established part of formal and informal governance in Whitehall. They have been responsible for significant improvements in the way departments are run and should be here to stay.

“The non-executives have continued to demonstrate how Government can benefit from their insight, challenge and expertise as we deliver our long term economic plan. I would like to thank them both for their dedication to their Departments and for their work more broadly to help Government function more effectively.”

Rt Hon David Cameron

“The non-executives continue to bring an experienced and valuable perspective to the work of government. Their clear focus on delivery is a breath of fresh air, and their introduction has had a lasting impact on boards and departments more generally.”

Sir Jeremy Heywood, Cabinet Secretary

“The civil service has a lot to learn from the non-executives. Their experiences running large commercial and voluntary sector organisations hold many lessons for our programme of reform of the civil service. They understand the complex environment we work in, but also continually push us to think about how we could do things differently.”

Sir Bob Kerslake

“The introduction of enhanced departmental boards has started to turn Whitehall into a leaner, more efficient machine that manages its finances more like the best-run businesses. The insight and contributions of the non-executives has been invaluable, and I look forward to continuing to work closely with them”

Rt Hon Francis Maude, Minister for the Cabinet Office and Paymaster General

“Non-executives provide an important internal challenge to ministers to help them deliver their objectives more efficiently and effectively. I strongly welcome the positive role they can play, in conjunction with the external challenge provided by the Public Accounts Committee and others, in strengthening the abilities of government departments to achieve value for money for the taxpayer.”

Rt Hon Margaret Hodge MP, Chair of the Public Accounts Committee

Chapter 1: Progress on 2012-13 priority areas

Last year's report stressed the need for non-executives to continue to concentrate on the capability of boards and departments; the management of major projects, procurement and commercial opportunities; and the use of management information. This section reports on what has been achieved and what remains to be done.

Capability of boards and departments

Boards

There are now 68 non executives across 17 departments. A full list is included in Annex A.

Non-executives are entitled to receive an annual fee of £15,000 (£20,000 for lead non-executives or chairs of committees). Of those who disclosed the information, 24 per cent waived their fee or donated it to charity. 28 per cent did the same last year.

As of April 2014 there were 23 female non-executives, representing 35 per cent of the total, compared to 36 per cent last year. Women remain better represented on departmental boards in Whitehall than on the boards of FTSE100 companies. However, the number of non-executives from black or minority ethnic backgrounds remains disappointingly low.

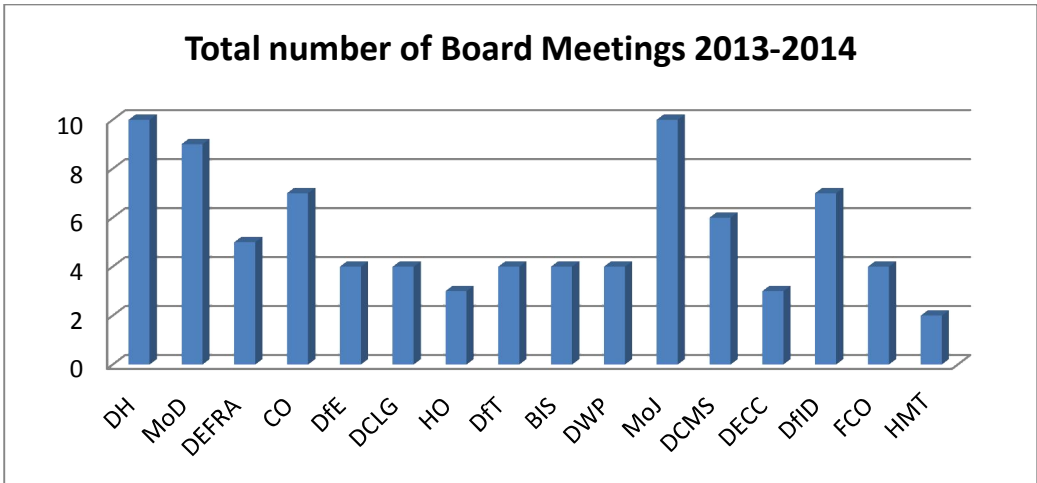
Non-executives come from a wide range of professional sectors and backgrounds.



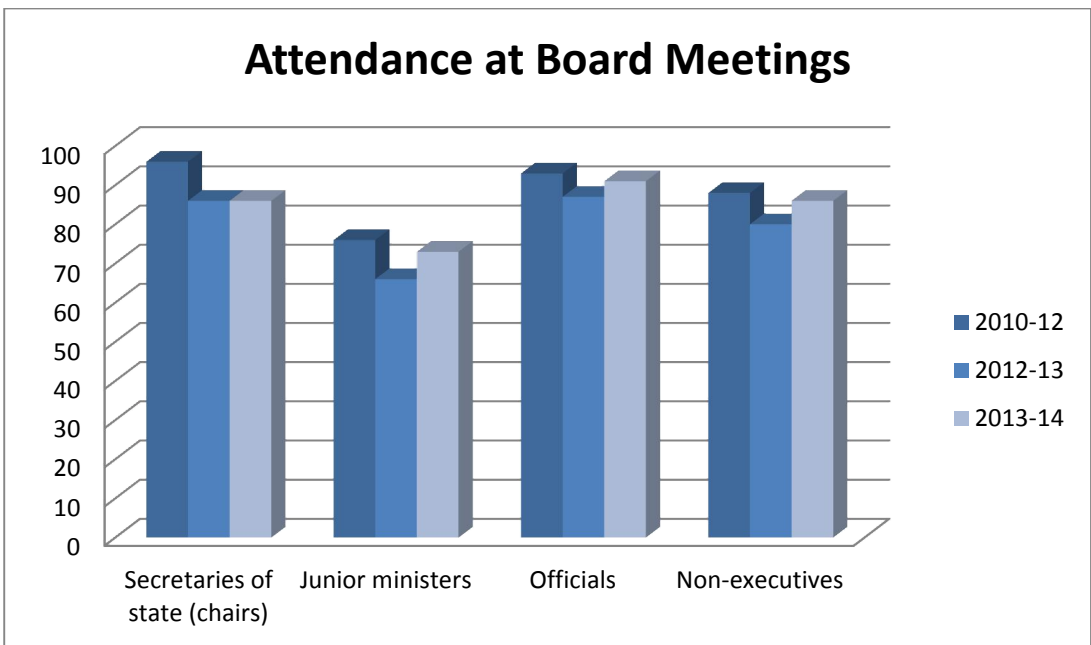
We continue to see an increase in the number of board meetings. In 2013-14 the total number of meetings increased by 40 per cent compared to 2012-13, and by 69 per cent compared to 2011-12.

Lord Browne's engagements as Government Lead Non-Executive

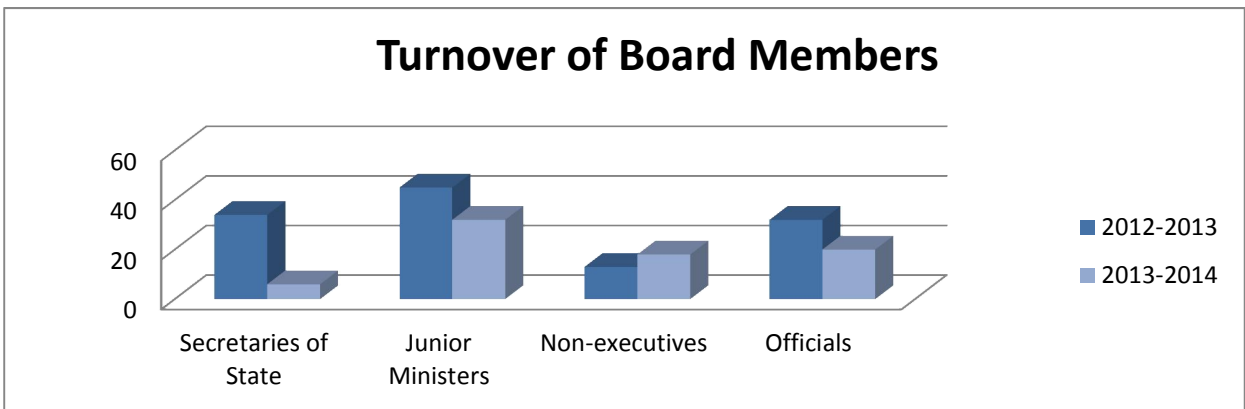
Lord Browne meets regularly with ministers and officials to discuss the work of the non-executives. In addition to these regular meetings and his meetings as lead non-executive director for the Cabinet Office, he undertook **60** formal engagements as Government Lead Non-Executive during 2013-14.



In spite of a greater number of meetings, board attendance by Secretaries of State, junior ministers, senior civil servants and non-executives has increased compared to 2012/13.



There have been no major Ministerial reshuffles in this period, so turnover among Secretaries of State and junior ministers has been low. Turnover amongst non-executives has increased slightly, reflecting the fact that some non-executives' three-year terms have come to an end.



All departments continue to have a risk and audit committee chaired by a non-executive. Not all departments have a nominations and governance committee, but in almost every case, non-executives have advised on senior appointments and remuneration.

The latest board effectiveness evaluations showed that boards felt they had made good progress in the areas previously identified as needing improvement. Most departments reported that board remits and members' roles and responsibilities had become clearer due to revisions of the departments' board operating framework or as a consequence of governance reviews. Ministerial engagement with boards, although improved, continues to be disappointing in some departments, particularly amongst junior ministers. The evidence suggests that better attendance by ministers is often associated with board agendas that better reflect ministerial priorities.

Non-executives have made an equally important contribution outside of formal board meetings. Several boards emphasised the benefits they have derived from applying the skills of their non-executives to the work of sub-committees and particular projects. Some have given non-executives a formal role in particular departmental work streams or projects.



Non-executive involvement in reviews at the Department of Business, Innovation and Skills

“In November 2013, Sir Andrew Witty delivered a far-reaching review into the role of universities in economic growth, bringing together a wide range of stakeholders from inside and outside the Department.

Sir Andrew personally drove the project forward, ensuring that the review broke new ground in mapping scientific and industrial capability in key areas. The final report presented some challenges for Government as well as recommendations for universities, LEPs and other organisations. Many of the recommended changes were implemented over a very short timescale.

In addition, over the past year Dale Murray has acted as a trusted and authoritative advisor on small business and enterprise policy and communications. She has helped the Department identify the priority areas for Government action, offered challenge during the policy development process and insight on how to improve the way BIS communicates the Government offer to small firms and entrepreneurs. This has been invaluable to the Department and over the course of the year BIS has developed and implemented a cross-Government small business strategy which has led to a ministerial review of small business support schemes and ultimately a cross-Government small business marketing campaign.”

Allan Cook, Lead Non-Executive, Department for Business, Innovation and Skills



Audit & Risk in the Department for Culture, Media and Sport and its Arms-Length Bodies

“Non-executives have made a significant contribution to the work of the Department for Culture, Media and Sport. This includes the work of Dr Tracy Long, who chairs the DCMS Audit & Risk Committee (ARC), bringing her extensive experience of governance across PLC, mutual, privately owned and public sector organisations.

DCMS sponsors 44 arm’s-length bodies (ALBs) with very wide ranging remits, from the BBC, Sport England and the British Museum, to very small organisations such as the Treasure Valuation Committee and UK Anti-Doping. The ARC provided substantial advice and challenge to the Department in the preparation of the Department’s consolidated Group accounts including all 44 ALBs. In discharging her responsibility as ARC Chair, Dr Long meets regularly with the Accounting Officer, Finance Director, members of the Executive Board, Internal Audit and the NAO, and holds strategic risk workshops with senior management.

Dr Long is the non-executive representative on the ALB Governance Board which owns and oversees implementation of the ALB strategic Risk Evaluation Framework, focussing on legal and financial, operational, organisational and reputational risks faced by DCMS. The strategic ALB risks and actions are now reported to, and approved at, each ALB Governance Board meeting.”

David Verey, Lead Non-Executive, Department of Culture, Media & Sport



Review of the DVLA at the Department for Transport

“In October 2013, the Department for Transport asked me to lead an independent review of the DVLA. The purpose of the review was to look at the opportunities for transformation of the DVLA’s services and processes to improve service delivery, increase efficiency and lead to a reduction in the cost of services for businesses and the taxpayer.

Having someone who is impartial is vital to a review such as this to ensure that all areas that need improvement are identified and all solutions fully considered. I was able to bring a fresh pair of eyes to the business, spoke to a wide range of stakeholders, assessed the risks of the existing programme of reform, and constructed a number of strategic recommendations to improve the DVLA.

Leading this review provided me with an unrivalled insight into how the Department and DVLA work. I was particularly impressed by the range of services provided by the DVLA. As a non-executive, it is important that I have a good knowledge of how DfT and its agencies work.

The review was published in February 2014 and all of my recommendations were accepted. The review has since helped to inform and provide direction for the DVLA’s recent strategic plan that will improve services for its customers.”

Mary Reilly, Non-Executive, Department for Transport



Responding to the Francis Inquiry at the Department of Health

The Permanent Secretary asked Catherine Bell and Chris Pilling to consider how the Department could respond to the findings of the Francis Inquiry, in particular the question of what practical steps could be taken to enable staff in the Department to gain a closer connection to the day-to-day realities of health and care, patients and service users. The non-executives brought to bear their personal experience in the civil service and private sector, and considered the merits of similar schemes found in Government, the 'back to the floor' approach of the commercial sector, and the practical experience of health and care professionals.

While the fact that there was no direct relationship of the Department to the 'frontline' of care brought particular challenges, and the requirements not to compromise the provision of health and care, or put DH staff at risk, were paramount, the non-executive made recommendations that balanced those practical issues with proposals that would see DH officials gaining significant exposure to the experiences of patients, service users, and health and care providers.

The resulting 'Connecting to patients and people who use services' programme has made a significant impact to staff in the Department, challenged preconceptions of officials and civil servants, improved connections between the Department and the rest of the health and care system, and shown the potential to improve policy making capability and further elements of civil service reform.

Peter Sands, Lead Non-Executive, Department of Health



"DWP Non-executive Willy Roe supported the independent triennial review of the Health and Safety Executive which considered the purpose and capability of the HSE by chairing the Review's challenge panel. The challenge panel was external to DWP and under Willy's leadership provided robust challenge and scrutiny to the assumptions and conclusions of the review. Feedback on the review and the Challenge Panel have cited the process as an example of good practice."

Sir Ian Cheshire, Lead Non-Executive, Department of Work and Pensions



Connecting with the department at the Ministry of Defence

"The Defence Board sits at the centre of strategic decision-taking in the Ministry of Defence. Meeting monthly and ably chaired by the Defence Secretary, Philip Hammond, it provides unified leadership with strong independent challenge. Its management information and the quality of its board papers has continued to develop and we aim to be best in class not just in Whitehall but also when measured against corporate boards in the private sector.

Over the year, non-executives have drawn on their private sector experience to provide support and challenge as the Department made strategic decisions on creating new operating entities with private sector business partners. Holding to a balanced budget whilst delivering state-of-the-art military capability has been a top priority. Risk management and corporate governance are being strengthened throughout the Department and a pool of able Non-Executives has been recruited to fill vacancies in the MOD's subsidiary Boards as and when they arise. Connectivity within the Department has been greatly enhanced by the Board holding its meetings in various locations around the Defence Estate accompanied by Town Hall sessions with front-line staff both military and civilian.

Defence Business Services, the Defence Infrastructure Organisation, and Defence Equipment & Support are being transformed into very different entities with various forms of private sector participation being introduced to help drive through structural reforms and improve operational efficiencies. The skills of the Defence Board non-executives have had an important role to play in these developments."

Gerry Grimstone, Lead Non-Executive, Ministry of Defence



Digital progress in Department for International Development

"Digital tools and techniques, and in particular the use of innovative technology, is contributing in many diverse ways to our primary objective of reducing poverty. Joining DFID as a NED, and lead on the Digital Strategy for the SoS, has given me the opportunity to bring together a panel of experts to advise the Department, challenging conventional thinking and introducing new ideas.

One opportunity to showcase progress was when we brought together a range of voices and experiences at a 'Digital for Development' event earlier this year. I also commissioned a hands on session for members of the management board in which they had direct experience of a range of digital channels."

Tim Robinson, Non-Executive Director, Department for International Development



“This year energy and energy policy hit the front page. The debate about how you keep the lights on, at a price people can afford, whilst addressing the impact of climate change was already centre stage even before the Ukraine crisis heightened the issue further. There are no easy answers, and it is certainly not the role of NEDs to provide them, but, hopefully, we have helped both the Executive team and Ministers think their way through how to communicate the individual issues, the inter-relationships between them and their approach, in a way which helps the public understand the strategic choices we face as a country.”

Tom Kelly, Non-Executive, Department of Energy and Climate Change



“Non-executives in the Home Office are involved in a wide range of activities outside of the Supervisory Boards. As the department continues to determinedly drive its modernisation programme forward, this includes review and advice on major strategic areas of transformation such as Philip Augar's work on the restructure of the Border Agency.

With the appointment of Mark Sedwill, non-executives are also invited on a monthly basis to attend the Permanent Secretaries Executive Management Board to focus on a particular theme. With a background in operations and technology I attend those that review the programmes of work and change projects that are underway. The Home Office is undergoing a complex and challenging programme of change to modernise systems and procedures. Attending the Executive Management Board meetings with the directors-general allows me to use my private sector experience to independently review and assess the programmes. Outside of these meetings I can then follow up with the relevant areas of risk management and large scale change and transformation. I've found the Home Office to be very open and receptive to any advice and recommendations.”

Sue Langley, Non-Executive Director, Home Office

Appointments

Non-executives have had a role in the performance appraisal of permanent secretaries, and have been involved in numerous senior appointments within departments and across their arm's-length bodies. However, the development of a complete system of talent management, linking personal development with succession planning, has been slow, particularly when it comes to succession plans for permanent secretaries. I make a number of recommendations on improving talent management later in this report.



Capability-building in HM Treasury

"The Treasury sub-committee of management and non-executives has focused particularly on the development of the senior team, recruitment and talent management. One of the non-executives, Dame Amelia Fawcett, played a leading role in shaping the department's improvement plan, Building a Great Treasury (BGT), which will be published this summer and sets priorities for 2014-15 and beyond.

In particular, Amelia personally conducted a series of interviews with the Treasury's most important stakeholders, and led the discussions at the sub-committee on the Treasury's need to reward and retain key staff in order to fulfil its role and meet those stakeholders' expectations."

Baroness Hogg, Lead Non-Executive Director, HM Treasury

Management information (MI)

In the complex delivery environment of government, where there is no clear financial or profit incentive, the availability of high-quality MI plays a critical role in ensuring that the government delivers its policy and operational objectives. If the government is to make the right decisions, it needs the right metrics. Since the establishment of enhanced departmental boards, non-executives have reported that the demand for, and quality, of MI has increased. The Quarterly Data Summary (QDS) was introduced in 2011 and began the process of collecting consistent MI across Whitehall, thus enabling comparisons on key metrics. The challenge in forthcoming years will be to ensure that the MI supplied to board members, including the QDS, adapts and changes to the needs of different departments and adds value without placing an undue burden on the civil service.

With that challenge in mind, the HM Treasury *Review of Financial Management in Government* has put forward a ten year strategic vision for the future of financial and MI reporting which encourages the consistent production and application of MI across government. The forthcoming booklet on board reporting, published by the Cabinet Office, will provide an overview of best practice in MI.

These improvements, though welcome, have come from a low base, and have not been implemented uniformly across government. Departmental boards should continue to focus on the collection and application of high-quality MI.



Management of Major Projects

“Non-executives have used their professional experience to support the FCO’s management of major projects, helping the department establish and adhere to the most effective governance procedures. Ongoing examples include the project to consolidate and refurbish the FCO’s London estate, and the procurement of an IT Service Management and Integration system.

Every meeting, the Board considers the dashboard of major projects – noting the progress, financial status and overall risk ratings for each project. The FCO has come a long way in its management of these projects. It has a clear governance system that ensures rigorous Departmental Board scrutiny at relevant stages in the business case process, and allows the Supervisory Board to consider the high-level picture with confidence. Non-executives apply best practice for project management in the private sector when considering business cases and the overall dashboard. This continues to help refine internal processes – such as on the appointment of Senior Reporting Officers, and on the need to capture and report the benefits of completed projects.

Overall, the result has been to bring more commercial professionalism to the scrutiny of major projects.”

Sir Richard Lambert, Lead Non-Executive, Foreign and Commonwealth Office



Improving data and capability at the Department of Education

“The Department for Education’s non-executives have played an active role across the Department, focussing on the key management drivers of capability, organisational clarity, management information and IT infrastructure. The non-executives have, in particular, promoted an increased rigour in the quality of management information within the department, which has led to an overhaul of the delivery information received by members of the Board.

The department’s Performance Committee, a sub-Committee of the Board chaired by non-executive Theodore Agnew, scrutinises this regularly to ensure the department’s various programmes are on track. Non-executives have also played a role in the recruitment of a number of key senior appointments, encouraged the department to focus relentlessly on applying continuous improvement techniques to all aspects of work, and used their expertise from the world of business, to offer advice on contract management.”

Paul Marshall, Lead Non-Executive, Department for Education

Major projects, procurement and commercial opportunities

Major Projects

Non-executives have played an important role in improving the leadership and management of major projects in government. My report *Getting a Grip*, published in March 2013, provided an overview of the progress made, and sought to accelerate reform by making a series of recommendations to improve the processes, behaviour and culture of major project leadership.

Following the recommendations of *Getting a Grip*, the Major Projects Authority (MPA) has strengthened its processes for reviewing projects at the start of their lifecycle. In the most serious cases, the Major Projects Review Group can now recommend that ministers pause or redefine the scope of projects. The MPA also now assesses projects at key stages, and subjects them to project validation reviews, risk analysis, benefits reviews and exit reviews.

Non-executives have welcomed the efforts of the Major Projects Leadership Academy to meet its target of enrolling 340 participants by the end of 2014, using private sector best practice to improve the competence and skills of civil service project leaders. Building on this success, the MPA will continue its work to develop project leadership across government. The appointment of John Manzoni as Chief Executive of the MPA will also bring fresh impetus to these important reforms. Non-executives have much more to contribute in this area, and I make further recommendations in the next section of this report.



Digital Services within HM Revenue and Customs

“HMRC is pushing ahead with its plans to provide services online, offering services designed around the customer which will be easier to use. In shaping our approach, we have had the benefit of non-executive board members with experience in transforming services through digitisation.

In particular, Volker Beckers former CEO of npower and Edwina Dunn, co-founder of dunnhumby a leading data mining and analysis company who led in designing the Tesco Clubcard. Their experience has been a valuable guide to designing services for the future which work for our customers and work for us.

Having access to such external expertise both within and outside the Board has been invaluable and has already helped us to develop our first three digital “exemplar” services - PAYE online, digital self assessment and Tax for my Business.”

Ian Barlow, Lead Non-Executive, HM Revenue and Customs



Review of the Fire Service at the Department of Communities and Local Government

I supported Sir Ken Knight, appointed by the Minister, to complete a review of efficiency in the Fire Service across England. Using experiences from large scale business operations, this support enabled best practice in benchmarking and identifying opportunities for savings to be applied, which contributed to the report finding efficiency gains worth at least £200m.

Sara Weller, Lead Non-Executive, Department of Communities and Local Government



Contributing expertise to major projects at the Department for Environment, Food and Rural Affairs

The Non-executives provide valuable commercial expertise to Defra's major projects. Their contributions focussed in particular on the Common Agricultural Policy (CAP) Delivery Programme, Thames Tideway Tunnel Project and the delivery of the Independent Shared Services Centre.

In the last financial year, the Non-executives were part of a challenge panel providing constructive input to the Triennial Review of two of Defra's largest Network Bodies, the Environment Agency and Natural England. The review was an important way of ensuring that the right delivery arrangements were in place across the Defra Network and that Defra's Network Bodies were operating effectively and efficiently.

Iain Ferguson, Lead Non-Executive, Department for Environment, Food and Rural Affairs

Commercial sense and procurement

The fully integrated Crown Commercial Service (CCS) has recently been launched, bringing the government's central commercial capability into one organisation. Development of the CCS was informed by the *Cross Government Review of Major Contracts*, guided by the Ministry of Justice's review of contracts led by Tim Breedon, the department's lead non-executive.

The CCS is now undertaking a separate review to consider the current and future commercial capability requirements of departments and their arm's-length bodies. Two non-executives, Sue Langley and Allan Cook, are members of the review's advisory group.



Contract Management Review at the Ministry of Justice

“Following the identification by the Ministry of Justice of anomalies in the billing practices of the department’s electronic monitoring contracts, I conducted an independent review of all aspects of contract management across the department.

The review considered how major contracts are managed in the department including: governance arrangements; clarity of roles and responsibilities; suitability of management information and key performance indicators as well as audit arrangements; and, assessing performance against recognised good practice.

The report, published towards the end of 2013, compares findings against NAO good practice guidelines and contract management models in public and private sectors and points towards next steps for a strategy for change. A number of improvement actions were recommended to be implemented without delay. Since publication of the report the Department has responded positively and initiated a programme of work to address the recommendations of my review, aimed at raising standards of performance in this area. The Ministry of Justice Board is receiving regular progress updates.”

Tim Breedon, Lead non-executive, Ministry of Justice

Priorities for next year

Major projects and risk management

While there have been improvements in the management and leadership of major projects, much remains to be done. In the long-term, non-executives would like to see the government becoming fully world-class in this area.

For that to happen, boards also need to take more responsibility for risk management. There should be explicit discussion of risk tolerance at board level to identify how much project risk a department is prepared to absorb. This is not happening at present, which means that departments are either taking on too much risk, or taking on risk without fully understanding its implications.

Non-executives have the experience and expertise to judge risks inherent within projects and to act as an internal scrutiny panel for their department's project portfolio. Some departments have already made use of these skills by asking their non-executives for advice on specific major projects and inviting non-executives to be on major project governance boards. All departments must now make full use of the expertise that non-executives can offer.

Departments should also set out formal arrangements for escalating a review of a project to the departmental board at an early stage. Projects above a certain cost threshold should automatically go to the board for approval. Projects which fall under this threshold but which, in the view of the departmental management, are particularly innovative, should also be subject to board approval, as should existing projects where a major change in scope or budget is being proposed.

In the experience of the non-executives, the most effective way to manage risk in the civil service would be to adopt the 'three lines of defence model', and ensure that arm's-length bodies do the same. This model is widely used in the private sector, and provides for project risk to be assessed by teams with different perspectives. The three lines of defence are, in ascending order:

1. The operational management team running the project or contract. This team is accountable for the project's success and for managing the risks involved;
2. A separate corporate risk management function (usually located in the Finance Team and headed by the Finance Director). This team should ensure that the management team has the capability and tools required to assess and manage risk properly;
3. The internal and external audit functions providing due diligence and checking that the correct procedures were followed. In government this is provided by a department's internal audit and the National Audit Office.

Applying this model to the civil service may, in some departments, involve a restatement of authorities and responsibilities.

Embedding functional leadership

The need for effective functional leadership, with full-time heads of profession for functions such as finance, project management and IT, is essential. Heads of profession should be responsible for identifying where more capability is needed and taking steps to build it. In the past, heads of profession in government were not full time; they did not speak for the civil service as a whole; and their roles did not include advising on the execution of major projects. Reliable functional advice and activity enable management and boards to focus on the design and delivery of policy.

Non-executives have strongly supported the government's move towards a more unified approach in legal services, HR, communications, property, IT, commercial services, internal audit and financial management.

The HM Treasury *Review of Financial Management in Government* sets out the models of functional leadership for finance and internal audit. These now need to be implemented rapidly and I am pleased that eight departments are now a part of the Cross-Departmental Internal Audit Service.

Legal and communications services are becoming well-functioning professions, with clear leadership and deployment of professional staff across Whitehall departments. We have also seen similarly good progress on HR.

The Government Digital Service was a major step forward, but effective functional leadership in IT continues to lag behind the development of other professions. The consequences of slow progress are clear. In January 2014, 45 per cent of civil servants identified the provision of 'better computer equipment' as the most important contribution the civil service could make to improve the way they work.

Talent and capabilities

Government policy cannot be delivered effectively without having the right people, in the right place, with the right skills. Good talent management is absolutely crucial to this.

HR professionals in the civil service are leading some important work, including a new Talent Strategy and the creation of more rigorous talent governance arrangements. But the effectiveness of talent management continues to vary across the civil service, and generally follows the amount of time available and used by senior leadership to enact it. I recently completed a report assessing talent management in the civil service. Its main findings and recommendations are summarised below:

Show that it matters. Permanent secretaries and directors-general should all have a specific objective covering succession planning and talent management, and should ensure that they devote sufficient time to it.

Focus on the top of the organisation first. The civil service must get talent management right for the Top 200 if it is to become part of the organisation's 'DNA'.

Be clear on what is meant by ‘talent’ and think strategically about talent for what? Good talent management can only happen when there is clarity about the future shape and needs of the organisation.

Tighten up talent governance. The number of people considered by talent management boards needs to be low enough to allow quality conversations. People must know when they have been discussed and be informed of the outcome of these conversations.

Make it simple. Identify five key questions to be used as a guide for talent management conversations with individuals and at Talent Boards.

Make better use of non-executive expertise. A non-executive with talent management expertise should be appointed to the Senior Leadership Committee. Non-executives should also play an active role in mentoring civil servants on talent management, especially permanent secretaries. Nominations and Governance Committees should have a clear role in scrutinising departmental talent grids and succession plans, which is not currently happening in all departments.

Make it transparent and use it to support more diversity in the senior civil service. Staff must understand and have confidence in talent management processes, and boards should assess talent management outcomes against diversity criteria. The Cabinet Office and departmental non-executives should provide an effective challenge function in both of these areas.

No new processes should be launched. Talent management requires that the right strategy, the right processes and the right culture are in place. The strategy and processes are generally fit for purpose. The changes that are now needed are about behaviour and leadership.

Supporting board chairs

Secretaries of State are organisational leaders, which means that they should be provided with the support they need to lead effectively. That support should include the provision of time for Secretaries of State to discuss their approach to key strategic and delivery issues with board members, and providing them with training where necessary. As leaders of their departments, Secretaries of State should also be allowed to devote sufficient time to managing the department’s project portfolio, and to ensuring clarity in accountability for actions to be undertaken.

The role of board chair is crucial, because effective meetings are precursors to good decisions. Developing suitable support arrangements should be a priority for the Cabinet Office, in consultation with other departments, in the run up to next year’s election.

Junior ministers also play an important role in board meetings, but their continued patchy attendance at boards in some departments is concerning. At my request, they have been urged to attend by the Prime Minister, and board secretariats have sought to create agendas that are more engaging to junior ministers. Board agendas should in future include regular reports from junior ministers on subjects in their portfolios, so that their engagement and attendance becomes the norm.

Chapter 3: Evaluating enhanced departmental boards

It is not possible to measure directly the contribution of the non-executives, but we have evaluated their effectiveness through regular board surveys. These show that non-executives have helped to make the approach to the delivery of the government's priorities more business-like. Just as importantly, they have contributed a great deal outside of formal board meetings. Not all departments make full use of their non-executives, but I hope the recommendations in this report and the examples of success from the past three years will help them to do so.

The enhanced Corporate Governance Code set out how boards would advise and supervise departments, with a more prominent role for non-executives with a business background. While the Code sets out how this could be done, departments have often tailored their approaches to suit their own circumstances and challenges. The 'comply or explain' element already in the Code should be applied consistently. Departments should follow the provisions of the Code or – if an alternative model is more suitable for their needs – explain why they have applied it.

What makes an effective board?

With three years of information from the annual Board Effectiveness Evaluations, we can conclude that the following ingredients are essential:

- **The engagement of board members.** The engagement of board members is crucial if boards are to have an impact. Effective chairing of board meetings ensures that all members are engaged. Boards work well when they are accompanied by the development of informal relationships and rapport amongst board members.
- **A clear board remit.** Most departments have now reviewed their governance arrangements to tighten up the focus and purpose of board meetings. Those that have not should do so as a matter of priority and involve their non-executives in the process.
- **A clear strategic focus.** The best boards now have a clear sense of the key strategic challenges facing their departments (such as risk, resourcing, capability, performance and major projects). Good management information and oversight of arm's-length bodies help them to address these challenges.
- **Effective sub-committees.** Systems should be in place which facilitate productive working relationships between boards and their sub-committees.
- **Good board operations.** Boards need effective support from their secretariat. Information must flow freely between management and non-executives, agendas should be focussed, and board papers need to be concise and circulated in good time. We now know what makes the best board secretariats effective, knowledge which should be used to improve the structures and processes in all departments.
- **Recognition and optimisation of non-executives' contributions outside of board meetings.** On average, a third of a non-executive's time is spent in board meetings and two-thirds on other work. The best boards optimise the use of their non-executives beyond formal board

meetings, using their skills on particular work-streams and reviewing their involvement with specific projects on a regular basis.

The non-executives have made a significant contribution in all areas of their remit. They have brought an invaluable external perspective to departmental boards and other key projects and initiatives, and they should continue to be involved in shaping the reform of the civil service. I believe that the enhanced departmental board model should remain beyond the lifetime of this Parliament, and that the civil service should look to non-executives to provide continuity and expertise during any transitional period following the next election.

Summary of Recommendations

- a) Departments should establish clear arrangements for assessing projects, including escalation procedures where necessary. Departmental boards should automatically consider: (i) all projects above a certain cost threshold; (ii) particularly innovative projects; and (iii) already approved projects where a significant change in cost or scope is proposed;*
- b) Departments should adopt the three lines of defence approach in order to manage risk more effectively;*
- c) There should be a major push to improve talent management across Whitehall with permanent secretaries having a specific objective on talent management;*
- d) The civil service must accelerate the strengthening of functional leadership, especially in finance, IT and property;*
- e) The civil service should develop a support package for Board Chairs, with particular emphasis on effective portfolio project management, accountability and chairing of meetings;*
- f) The Corporate Governance Code should be revised to reflect the experience of the first three years of the enhanced departmental board model.*

List of government non-executives (as of June 2014)

Department	Lead non-executive				
BIS	Allan Cook	Professor Wendy Purcell	Dalton Philips	Alan Aubrey	Dale Murray Professor Ann Dowling
Cabinet Office	Lord Browne	Ian Davis	Rona Fairhead	Dame Barbara Stocking	
DCLG	Sara Weller	Stephen Hay	Nick Markham	Grenville Turner	
DCMS	David Verey	Dr Tracy Long	Ruby McGregor-Smith	Ajay Chowdhury	
DECC	Martin Stewart	Tom Kelly	Terry Morgan		
DEFRA	Iain Ferguson	Catherine Doran	Sir Tony Hawkhead	Paul Rew	
DfE	Paul Marshall	Theodore Agnew	Dame Sue John	Jim O'Neill	David Meller
DfID	Vivienne Cox	Richard Keys	Eric Salama	Tim Robinson	
DfT	Sam Laidlaw	Alan Cook	Ed Smith	Mary Reilly	John Kirkland Richard Brown
DH	Peter Sands	Dr Catherine Bell	Mike Wheeler	Chris Pilling	
DWP	Ian Cheshire	Willy Roe	Dame Clara Furse	David Lister	
FCO	Sir Richard Lambert	Rudy Markham	Julia Bond	Heather Rabbatts	
HMRC	Ian Barlow	Philippa Hird	Edwina Dunn	Volker Beckers Norman Pickavance	John Whiting
HMT	Baroness Hogg	Michael O'Higgins	Dame Amelia Fawcett		
Home Office		Sue Langley			
MoD	Gerry Grimstone	Graham Williams			
MoJ	Tim Breedon	Bill Griffiths	Dame Sue Street	Fields Wicker-Miurin	