Delivering better outcomes for citizens:

practical steps for unlocking public value

led by Sir Michael Barber

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Preface

I believe in the huge potential of the UK economy. I see the ambition to succeed in businesses, social enterprises, and our public services. In schools, hospitals, and police forces, we have huge talent. Unlocking that talent is essential to securing our future success.

Not only because public services are around a fifth of the economy, important though that is. More pressingly, doing so is necessary if we are to deliver the improvements in public services that taxpayers demand.

We have made good progress over the past seven years, reducing the deficit while improving frontline services, but we can go much further. To do that, we will need to unleash a new era in public service provision by harnessing technology, creativity, and ideas.

How do we go about doing that? Firstly, it is about measurement. If we can't measure results, people will talk about what they always talk about: money. We need to track how we turn public money into results for citizens. We need to understand the impact each pound spent has. And we need to prioritise to ensure that resources are allocated to where they will be most effective.

Secondly, it is about leadership. We have great leaders across our public services. Some of our most successful innovations – academies, foundation trusts, reform prisons – have involved enabling and empowering leaders. We need to give our leaders the freedom to decide the best way to deliver results, and then effectively hold them to account for whether they have done so.

Finally, it is about unlocking the ideas and creativity of our public sector and opening ourselves up to innovation. I do not believe the public sector should resist outside influence, or command and control from the centre. We need to champion an open, vibrant, and creative culture where all ideas are welcome regardless of where they come from.

All of this requires a new way of thinking – and a new relationship between the Treasury and departments. It means setting up the right structures to both protect public money and give our leaders the freedom to lead, encourage creativity and innovation whilst holding them to account for their performance.

Sir Michael's report provides hugely valuable insight into how to meet this challenge. It offers us a systematic way of understanding public sector results, and delivering the change that we need. If we can create a permanent culture of improvement and learning, then it will drive our economy, improve our services, and put our society in a strong position to thrive.

Rt Hon Elizabeth Truss MP
Chief Secretary to the Treasury
17 November 2017

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Foreword

All over the world contemporary governments find themselves in a triple bind. Citizens demand ever higher performance from government and public services; taxpayers are unwilling to pay more, understandably so in an era when median incomes have been, at best, rising slowly; and the burden of debt following the financial crisis remains high, imposing a real, immediate cost in interest payments and a significant burden on the next generation, if not paid down.

Under these intense pressures, how can governments succeed? The answer is, to borrow a phrase from the Prime Minister, Theresa May, to focus on 'the good that government can do'.[1] What this requires, above all, is to get the best possible value from every tax pound government spends. In economic jargon that means enhancing the productivity of the public sector.

The United Kingdom spends approximately £800 billion every year, around 40% of GDP. If government were able to maximise the 'good' this sum delivered, if public services were consistently of high quality, if markets were always effectively regulated, if opportunities for innovation were seized, if risks and threats were well-managed, then social mobility would be enhanced, opportunity would be opened up, the country as a whole would be more productive and many, many more people would lead more fulfilling and productive lives. And these gains could be delivered without raising or spending a single extra pound. In short, the potential prize for ordinary people from enhancing government productivity is huge.

To maximise the 'good' that government can do in this way demands that government and public services demonstrate their productivity and set out systematically to improve these. This is no more than common sense.

So what's the problem? Firstly, measurement of public sector productivity has proved elusive, in spite of the sterling efforts of top economists, such as the late Sir Tony Atkinson, over recent decades. What is relatively straightforward in the private sector, where both cost and price are clear, is much harder in the public sector. To take just one example, the difference in quality between one teacher or nurse and the next is hard to quantify in money terms but is hugely significant for outcomes.

Secondly, incentives in the public sector have traditionally been, to put it mildly, ambiguous. Ministers' performance tends to be judged on the size of the budget they negotiate with the Treasury, rather than how much they deliver or innovate. Civil servants tend to get bigger rewards and more status for managing more people or bigger budgets. Departments don't call time on budgets that aren't delivering. They rarely, if ever, go to the Treasury with ideas for spending less, even if, through innovation, doing so could improve outcomes. Some years ago, when I volunteered to return, in mid-year, part of a budget I had realised I wouldn't need, the relevant Treasury officials almost fell off their chairs in surprise – no-one ever did that, they commented.

Meanwhile, beyond Whitehall, public sector workforces tend to advocate simultaneously both more spending and less accountability for outcomes, thus reinforcing these counterproductive tendencies. The media often also reinforces them by focusing on inputs – numbers of doctors, teachers or police, for example – rather than on what is being delivered for citizens.

[1] Speech at Conservative Party Conference at the ICC Birmingham, October 2016

Moreover, the Treasury too has historically placed greater emphasis on inputs rather than outcomes. Of course, it is necessary and right that the Treasury should count the pennies - someone has to - but that should surely not be its only focus, even in hard times. As Chapter 2 makes clear, there have been a variety of attempts in the last forty years to broaden the focus beyond inputs but these have tended to be temporary and separate initiatives rather than irreversible changes in either the core processes or the culture.

This review was commissioned precisely because Treasury ministers and officials, to their credit, recognised that this needs to change. It would be arrogant as well as inaccurate to suggest that this report solves these profound historic problems at a stroke. It does, though, propose clear practical steps in the required direction of travel. It suggests a new basis for dialogue between the Treasury and departments, one based on the outcomes being delivered as well as budget allocation. Without suggesting that the Treasury weakens its control on the inputs – on the contrary in fact – it also suggests a way of reviewing whether productivity (or public value) is being delivered and a means of benchmarking programmes, including those that cut across departmental boundaries, on their productivity.

It suggests that, in the second decade of the 21st century, there should be no excuse for not having good data to enable effective monitoring of the outcomes programmes are delivering. It argues that continuous improvement – marginal gains, if you prefer – and disruptive innovation should not be optional extras but embedded in the way business gets done in Whitehall. Above all, it argues for a much stronger emphasis on outcomes, medium- and long-term, as well as inputs.

These changes in turn would alter incentives – ones which reward more and better for less, rather than bigger budgets or more staff. In other words, the report makes the case for a change of culture as well as process across government and the public services, a change that if successful would affect ministers, officials and all those who work in the public sector. It would put the benefit to ordinary people’s lives and aspirations at the heart of policymaking and budgeting.

Given the history, cynics will say that none of this will ever happen. Of course, if we concede to the cynics their view will become a self-fulfilling prophecy. This review says we can do much better; it says, seize the moment to change course. It says cultures can and do change. It says that, in the consultations during the preparation of this report, we have found frustration with the current approach and, more tellingly, genuine enthusiasm for trying something new and radical and different.

The next step, which is the least we owe it to citizens and taxpayers, is to grasp the opportunity provided by this new enthusiasm, to trial a new approach and thus seek to maximise ‘the good that government can do’.

Sir Michael Barber

17 November 2017

Executive summary

Governments affect people's lives every day: they tax, spend, regulate, supervise and, perhaps most importantly, deliver vital public services. World-class public services have a direct and lasting impact on people's lives, be this making them healthier, safer, or better educated. Simply put, when governments deliver better services, people's lives improve.

Delivering world class public services involves turning public expenditure into outcomes that citizens value. Successive UK governments have focused on either controlling public expenditure or on delivering specific public service outcomes. They have had considerable success, and have innovated in ways admired around the world. However, they have rarely succeeded in doing both at the same time. The challenging fiscal position (highlighted most recently in the Office for Budget Responsibility's *Fiscal Risk Report*)[1] coupled with growing demand for better public services and the pressures of an ageing population mean that now, more than ever, the government needs to achieve both.

Improving public sector productivity – doing more with less – is a key way to deliver this. However, doing so is notoriously difficult.

The key challenge – highlighted in the academic literature – is one of measurement. While in the private sector measuring productivity is relatively straightforward (both inputs and outputs have a cost), this is frequently not the case in the public sector. A hospital might deliver a large number of medical appointments with the funding allocated to it, but if those appointments do not translate into improved health outcomes for patients then the service is not improving the lives of those it serves. A gallery or museum which has sound financial management and effective procurement procedures will not be maximising the value it delivers if it fails to educate or inspire its audiences and play a role in the local community. The methodological problem is both compounded and reinforced by the frequent lack of good quality, comparable data to enable analysis and performance tracking over time.

In the absence of consistent output data and productivity metrics, the temptation has been to equate inputs with outputs: more funding equals a better service. As attractive as this assumption is, it cannot be sustained in practice. It can stifle innovation, encouraging greater focus on quantity over quality and less consideration of how additional funding is being used. It means the public debate all too often degenerates into a political impasse of 'spending versus cuts'. And it has a negative impact on conversations within government. Though departments retain a clear responsibility to maximise the value of their spending, it remains the case – not just in the UK – that larger budgets are equated with prestige and importance. In preparing to negotiate spending settlements, departments rarely propose cutting ineffective areas of spending, reducing baseline expenditure, or innovating to deliver more for less. The Treasury tends to reinforce such behaviour through its own ways of operating.

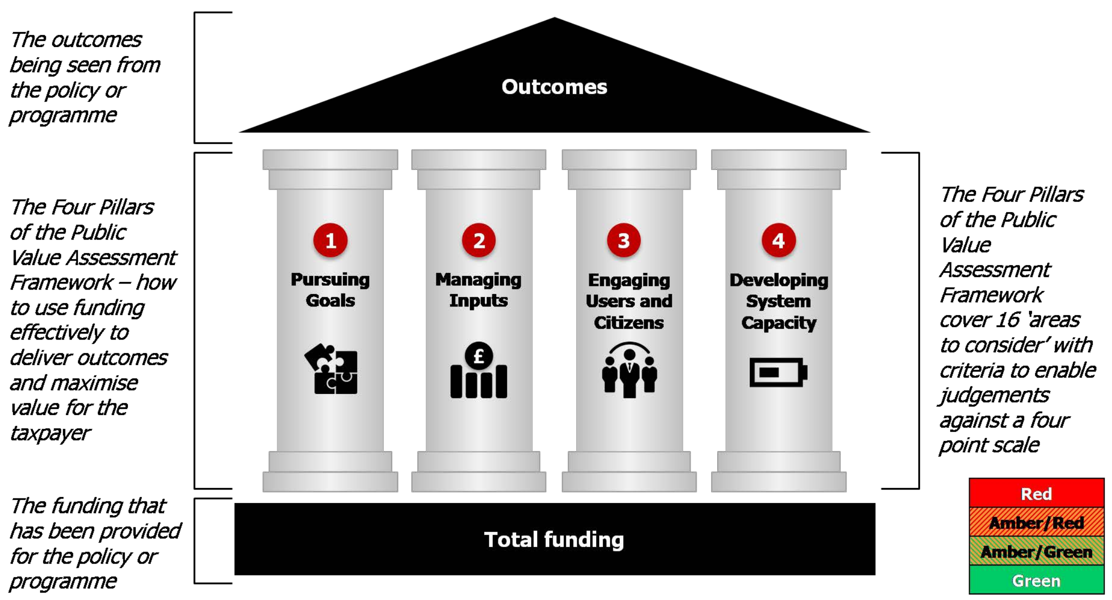
Nonetheless, governments in the UK have made numerous attempts to address the public sector productivity challenge. These have made real progress: the work of the Prime Minister's Delivery Unit in the early 2000s pushed the frontier of delivery methodology; following the Atkinson Review, the Office for National Statistics has become a world-leader in public sector productivity measurement methodology; and the Treasury's current system of Spending Reviews and spending control framework is internationally recognised as world-leading. However, these

[1] 'Fiscal Risk Report', Office for Budget Responsibility, July 2017 (available at: http://budgetresponsibility.org.uk/frr/fiscal-risk-report-july-2017/)

periodic reports, units and initiatives have taken place in the absence of an embedded strategy for continuously improving efficiency and productivity. These have often had a significant short-term impact, but have generally lacked follow-through. They have not addressed the central challenge for both Whitehall and the wider public sector: how to change cultures and behaviours within government to do better in future.

Tackling this challenge is the core focus of this review. It examines how to institute and embed continuous productivity measurement and improvement across the public sector. To achieve this the central recommendation of this report is to introduce a new Public Value Framework[2], set out in the diagram below (a full version of the Framework is included in Appendix A):

Chart 1.A: Public Value Framework



The overall task is clear: optimising the process of turning funding (primarily but not exclusively government funding – represented by the floor) into policy outcomes for citizens (represented by the roof of the temple). Achieving this rests on the strength of the four Pillars.

Pillar 1 focuses attention on the outcomes expected from a given budget over a 3- to 5-year time horizon, including the potential impact on human capital.

Pillar 2 explores how well inputs are being managed. As noted above, the UK has a considerable track record of success with each of Pillars 1 and 2 but has rarely managed to focus on both simultaneously.

Pillar 3 highlights the need to convince taxpayers of the value being delivered by spending, and of the importance of engaging service users. There are many areas of public expenditure where the active engagement of the user of a service can make an enormous difference to improving outcomes, such as altering their lifestyle to improve their health. If this is neglected, then it can do much to frustrate the successful delivery of outcomes.

[2] See Annex B for glossary of terms

Pillar 4 emphasises the long-term sustainability of the system and the importance of responsible stewardship. Those responsible for a service or institution need make sure that, as they make progress on Pillars 1, 2 and 3, they are also strengthening its capacity to deliver in the long term. Leaving an institution in better shape than one found it may not seem as immediate as the other Pillars, but is vital to delivering long-term public value.

These pillars solely assess the process of turning funding into policy outcomes. They make no judgement on the amount of funding allocated. Nor do they speculate on what might be achieved with different levels of funding; they simply look at what was done and how money could be spent better. The Framework also seeks to avoid using observed outcomes to infer judgements on the health of the process. A programme could be outperforming its outcome targets but still have scope to be more productive; just as a highly productive programme could fall short of its performance targets.

For the Framework to be effective at changing cultures it needs to be integrated into the ongoing conversations and processes around public expenditure, both between the Treasury and departments and within departments themselves. Regular assessments to the Framework – or Public Value Reviews – will be key to achieving this. These could be undertaken on large budgets, either within individual departments or across departmental boundaries. They should be collaborative, involving joint teams drawn from the relevant departments, the Treasury and other experts, and establish a shared evidence base from which judgements can be made (on a 4-point scale) about progress within each Pillar and actions to improve performance. The reviews also need to be appropriately incentivised with sufficient accountability to ensure the agreed actions are delivered. The experience should be sharp, focused and rapid, initiating a fresh rhythm of practical, constructive conversations about maximising public value.

The benefits of this approach are numerous. The Framework will be a practical tool for assessing the chances that public value is being maximised. It will give the Treasury a new structure and dialogue for engaging with departments, shifting attention from solely focusing on inputs towards optimising the chances of maximising public value. The reviews will not simply be a Treasury tick box exercise forced on departments by their spending teams. They will strengthen ongoing conversations by creating a shared evidence base from which to jointly diagnose challenges and agree solutions. Over time, the knowledge acquired within the Treasury through repeated assessments across a range of services will allow better identification of opportunities for such collaboration, particularly on cross-cutting issues such as improving mental health outcomes or managing the criminal justice system. This should also improve learning and understanding across government of best practice and how to deliver more for less.

To enhance the effectiveness of the Framework some basic building blocks need to be in place. This review therefore makes further recommendations to support its delivery and encourage better dialogue between the Treasury and departments.

First, for every major area of public expenditure it should be customary that good data is gathered and analysed in a timely manner to allow informed decisions to be made by those responsible for blocks of expenditure. In the second decade of the 21st century there is no excuse for not having this data available, both to departments and the centre of government. Where possible, this data should also be open, accessible, and comprehensible to the public, consistent with the government's commitment at the last election. The report therefore recommends that government raises the profile of existing data initiatives across government, and that the Treasury acts as a catalyst for this by demanding transparent, better quality, more consistent, and more timely data from departments.

Second, the report recommends that public bodies should be consistently using this data to deliver marginal performance gains at no extra cost to the taxpayer. For example, any good data system should allow benchmarking to compare the performance of different units within a system. Those responsible for schools, hospitals and so on should be routinely challenged to compare themselves to the top performers in their sector. The Treasury and departments should apply this pressure to identify and seize marginal gains, from which service users will benefit.

Third, alongside marginal gains, increasing productivity also requires disruptive innovation: radically new ways of doing things that deliver much better outcomes for reduced costs. In recent years, the government has encouraged this through numerous innovation funds, some of which have resulted in bold and valuable ventures. However, the drawback of such funds is the risk of characterising innovation as an optional extra, separate from the business-as-usual operation of the department. The next step is to encourage departments and agencies to develop radical innovations that both improve outcomes and reduce costs across their whole organisation, and the Treasury has a role in encouraging this.

Many of the recommendations of the report have been developed through extensive consultation with Permanent Secretaries, relevant sections of the Cabinet Office and other departments across Whitehall. These have been positive and constructive, with widespread recognition of the challenges and enthusiasm for the proposed solutions. However, the solutions proposed here are by no means the finished product. The next step should be to pilot the Framework collaboratively with some departments and agencies in the first half of 2018. This will provide a practical opportunity to test the approach and refine as necessary. Many departments have already expressed interest in being involved in these pilots.

Improving public sector productivity is key to meeting the twin challenges of controlling public expenditure and meeting growing demand for high quality public services. There is a unique opportunity now to implement a tool for measuring, tracking and delivering these improvements while permanently embedding a new dialogue around public expenditure. Treasury ministers and officials are open to altering the way they operate and collaborate; the Cabinet Office and the Treasury have a strong, collaborative relationship on efficiency to build from; and Permanent Secretaries are ready to work with the Treasury to maximise the public value they deliver. If this opportunity is taken there is every reason to believe that Britain can lead the world in controlling expenditure while delivering world-class public services, and significantly improve the lives of its citizens in the process.

1 Why is public sector productivity important?

"…it is the mark of a chicken-hearted Chancellor when he shrinks from upholding economy in detail, when because it is a question of only two or three thousand pounds, he says it is no matter. He is ridiculed, no doubt, for what is called candle-ends and cheese-parings, but he is not worth his salt if he is not ready to save what are meant by candle-ends and cheese-parings in the cause of the country."[1]

William Ewart Gladstone (1879)

1.1 Ever since Gladstone's 1866 Exchequer and Audit Departments Act established the position of Comptroller and Auditor General to approve the government's allocations and audit its accounts, successive Chancellors have sought to maximise what is delivered from public spending. While perhaps not all have gone to the lengths advocated by Gladstone, delivering more for less has been a core Treasury interest for well over a century. So why is it so important?

1.2 The economic benefits of productivity are well understood. Productivity underpins economic growth: the more output produced per unit of input, the more there is to consume. Higher productivity typically supports real wage growth (thereby raising household incomes) and is the single most important determinant of average living standards. UK productivity has increased more than eight-fold over the past 100 years, expanding the range of goods and services people can enjoy and ensuring they have more money in their pocket to access them. In short, higher productivity improves people's lives.

1.3 Public sector productivity is important for two reasons. First, the public sector is a significant component of the UK economy. In the period since the Second World War, public spending has, on average, been roughly 40% of Gross Domestic Product (GDP).[2] The public sector employs 5.4 million people and constitutes around 17% of the workforce.[3] Public sector productivity is therefore a key component of overall UK productivity. Second, higher productivity is central to maximising what people get from their government. Most people directly interact with the government in two ways: they pay taxes and they consume services. If asked what they prefer from these interactions, most people would probably state lower taxes and better services. Since the government uses tax receipts to fund the bulk of public services, the only sustainable way to deliver both these outcomes and avoid accruing crippling debts is to improve productivity.

1.4 As highlighted by the Office for Budget Responsibility (OBR) in their *Fiscal Risks Report,* the fiscal challenges over the coming Parliament are likely to remain significant.[4] The government has made good progress in reducing the deficit (from 9.9% in 2009-10 to 2.3% in 2016-17); however, the fiscal position remains tight. Public sector borrowing for 2017-18 is forecast to remain at 2.9% of GDP while public sector net debt is set to peak at nearly 88.8% of GDP. At the same time expectations from and demand for public services are increasing. The UK is becoming more populous and, on average, older, thereby increasing the strain on services. The only way to successfully and sustainably manage these pressures is to improve public sector

[1] 'Speech in Edinburgh, 29 November, 1879', as quoted in 'Gladstone as Financier and Economist', F.W. Hirst, 1931

[2] 'Public finances databank', OBR, October 2017 (available at: http://budgetresponsibility.org.uk/data/)

[3] 'Summary of labour market statistics', ONS, September 2017, (available at: https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/summaryoflabourmarketstatistics)

[4] 'Fiscal Risks Report', OBR, July 2017 (available at: http://cdn.budgetresponsibility.org.uk/July_2017_Fiscal_risks.pdf)

productivity. This can't be achieved by either borrowing to pour money into public services, or cutting services altogether. It can only be achieved by closely examining what is spent, where it is spent, why it is being spent, how it is spent, and above all, what value it generates.

Box 1.A: Consistent definitions

Clear and consistent use of terms will be essential in fostering an ongoing, constructive dialogue across the public sector around efficiency, productivity, outputs, outcomes and public value. This report aims to set an example: Annex B contains a glossary of terms.

2 Has the government not looked at this before?

2.1 If the Treasury has had such a long-standing interest in improving public sector productivity, it is reasonable to ask why it has not come up with a system to do so. The answer is, in part, it has. It allocates budgets across departments at Spending Reviews, sets the spending rules for departments to follow, maintains in-year spending control, and publishes and upholds standards around value for money and spending appraisals. By extension, it has the ability to allocate resource away from unproductive and inefficient areas of spend, set spending rules that reward efficient departments and penalise those who fail to deliver value for money. At which point it is reasonable to ask: why are we looking at this question again?

2.2 While the Treasury does have levers to influence public spending, in practice there are often constraints on using them. Certain public services for instance will continue to require funding regardless of how productively or efficiently they operate. And given the fiscal challenge outlined in Chapter 1, now is a good time to explore whether there is more the Treasury can do. Before doing so, however, it seems sensible to look at how previous governments have tackled this issue.

Recent history

2.3 Many of the antecedents of the current efficiency landscape can be traced to the early 1980s and the work of Sir Derek Rayner. In 1979 Rayner was asked by the then Prime Minister Margaret Thatcher to head an Efficiency Unit to investigate waste in the public sector. Rayner's unit undertook 'scrutinies' into public sector processes and made recommendations for improving their efficiency. With the direct interest and support of the Prime Minister, Rayner was able to investigate a broad array of areas ranging from the regulation of radio frequencies (Home Office), procurement of non-warlike stores (Ministry of Defence), and the Treasury's own typing pool. Although following Rayner's departure in 1983 the National Audit Office (NAO) contested the savings Rayner's team had delivered (estimating that of the £421 million in savings identified by 1983, only £171 million had actually been achieved), they accepted that the scrutiny process had helped to improve efficiency within government.[1]

2.4 The Efficiency Unit continued its work through the rest of the 1980s. By the end of the decade though, the focus had shifted towards delivery as the key to efficiency improvements. The *Next Steps* report in 1987 was central to this shift in focus, arguing for agencies to be created with a sole focus on implementation (the report set a target of turning 75% of Whitehall into executive agencies by 1994).[2] As smaller, more agile entities, it was assumed these new agencies would be able to pioneer good management and better use of resources. These conclusions were supported by the then Cabinet Secretary and Sir Peter Kemp – another Permanent Secretary – was tasked with implementing the recommendations.

[1] 'Reforming the Civil Service: The Efficiency Unit in the early 1980s and the 1987 Next Steps Report', Institute for Government, 18 May 2012 (available at: https://www.instituteforgovernment.org.uk/sites/default/files/publications/Efficiency%20Unit%20and%20Next%20Steps.pdf)
[2] 'The Next Steps Initiative', Institute for Government, 1987 (available at: https://www.instituteforgovernment.org.uk/sites/default/files/case%20study%20next%20steps.pdf)

2.5 Implementation was impressive: by 1997 78% of civil servants worked in agencies.[3] This contributed to some significant performance improvements: for example, when the UK Passport Agency was created in 1991 the average time taken to produce a passport was over three months. By 2002 this had fallen to ten days.[4] There remains a debate over how effective the changes were, but the experience undoubtedly demonstrated two points: structural reorganisation of the civil service was possible; and the support of senior officials and ministers was critical to achieving this progress.[5]

2.6 The election of the New Labour Government in 1997 provided the catalyst for the next evolution in thinking about public sector productivity. The Blair Government was elected with a clear mandate to invest in public services: between 1996 to 1997 and 2000 to 2001, total government expenditure rose nearly 16.7% in nominal terms.[6] In part to agree with departments what they would deliver for this extra funding, the Comprehensive Spending Review in 1998 introduced the concept of Public Service Agreements (PSAs).

2.7 PSAs contained detailed delivery targets for each department and metrics by which success would be judged. The system was supported by a change to the Spending Review process, whereby spending was allocated for a three-year period but reviews conducted every two years. This meant that each Spending Review refined the last year of the previous review and allocated funding for the further two. These innovations provided a major step towards both transparency and accountability for what was being delivered. It also allowed for regular opportunities to reallocate resources accordingly.[7]

2.8 PSAs took time to fully embed within the system. Early iterations included too many targets, some of which were poorly designed and others unmeasurable. These were refined through successive Spending Reviews, and began to gather momentum with the creation of the Prime Minister's Delivery Unit (PMDU) in 2001. The PMDU was created to support delivery of the public service reform agenda on which the government had been re-elected. It highlighted a subset of key PSAs (in education, health, transport, and home affairs) and focused relentlessly on ensuring government delivered against them. The routines of the PMDU brought together senior figures from across government in regular stocktakes chaired by the Prime Minister, providing an opportunity for a factual discussion in which problems or challenges could be resolved and practical next steps agreed.

2.9 There were no material sanctions for failing to deliver on targets but, as with Rayner's 'scrutinies', the Prime Minister's presence proved a powerful impetus for ministers and officials to focus their efforts. This approach was complemented by the NAO's report in 2001 on *Choosing the Right FABRIC*[8] (produced jointly with HM Treasury, the Office for National Statistics, the Audit Commission and the Cabinet Office), which stressed the importance of an

[3] 'Better government services: Executive agencies in the 21st century', HM Government, July 2002 (available at: http://webarchive.nationalarchives.gov.uk/20060715135335/http://www.number-10.gov.uk/files/PDF/opsr-agenciesm.pdf)

[4] 'Public service productivity estimates: total public service, UK: 2014', ONS, 2015 (available at: https://www.ons.gov.uk/economy/economicoutputandproductivity/publicservicesproductivity/articles/publicservicesproductivityestimatestotalpublicservices/2014)

[5] 'The Next Steps Initiative,' Institute for Government, 1987 (available at: (https://www.instituteforgovernment.org.uk/sites/default/files/case%20study%20next%20steps.pdf)

[6] 'Public finances databank', OBR, 11th October 2017 (available at: http://budgetresponsibility.org.uk/data/)

[7] 'Public Service Agreements and the Prime Minister's Delivery Unit,' Institute for Government, 2006 (available at: https://www.instituteforgovernment.org.uk/sites/default/files/case%20study%20psas.pdf)

[8] 'Choosing the Right FABRIC', National Audit Office; Audit Commission; HM Treasury; Office for National Statistics, 2001 (available at: https://www.nao.org.uk/report/choosing-the-right-fabric-3/)

agreed performance assessment framework and the benefits of high-quality targets to shift focus towards both desired results and the processes necessary to deliver them.[9]

2.10 Over the course of the government's second term, the combination of PSAs and the PMDU delivered tangible results. By July 2005 the targets on burglary, car crime, railway punctuality and reducing cancer mortality were all on track, while those for A&E waiting times and routine operations had been achieved.[10]

2.11 Nonetheless the government did not escape criticism. Ministers were accused of devoting too much time and attention to delivering outcomes and too little time to controlling inputs: of throwing money at targets rather than focusing on whether that money was being well-spent. This criticism was not totally unfounded: ONS data shows public service productivity in 2005 was 2% lower than it had been in 2001.[11]

2.12 Partly in response to these criticisms, the government commissioned two reviews towards the end of its second term. The first – an independent review of public sector efficiency undertaken by Sir Peter Gershon – was published alongside the 2004 Spending Review.[12] This identified £20 billion of efficiency savings across government and made a series of recommendations for efficiency improvements. These included improving financial management (specifically mandating that all departments appoint a professional finance director with a seat on the departmental board), better cross-departmental working, and rewarding key individuals for helping to embed continuous efficiency improvements. Many of Gershon's recommendations were adopted and, while the NAO again disputed the total savings, the report continues to be seen as highly influential.[13]

2.13 The second review was released in January 2005 and examined the measurement of government output, input, and productivity.[14] Led by Sir Tony Atkinson and supported by a team drawn from the Treasury, ONS and Department of Health, the report concluded that the ONS had been right to move towards direct measurement of public service outputs, but that several defects in implementation ought to be addressed with an explicit framework. Critically, Atkinson argued that such output measures should be quality adjusted.[15] This was pioneering, and prompted a re-evaluation of how efficiency was conceived by official bodies. Building on these insights the ONS became an international leader in the developing field of measuring public sector productivity, a position that it continues to occupy today.

2.14 If the attention had been on outcomes under Blair and Brown, the financial crisis in 2008 brought controlling inputs sharply back into focus. In the subsequent two years, the deficit grew to nearly 10% and following the 2010 election, a new coalition government took office with a specific mandate to deliver a budget surplus by 2015. With the economy slowly emerging from recession and tax receipts suppressed, delivering this commitment required reducing the rate of public spending growth. A Spending Review was launched in 2010 to identify spending reductions across all unprotected areas of spend (protected areas included health, school education, international development and defence), alongside which the Treasury imposed

9 'Memorandum by the Government (PST 60)', select committee on Public Administration, May 2003 (available at: https://www.publications.parliament.uk/pa/cm200203/cmselect/cmpubadm/62-x/3032406.htm)

10 'Instruction to Deliver: Fighting to Transform Britain's Public Services', Michael Barber, 2007

11 'Public service productivity estimates: total public service, UK: 2014', ONS, 2015 (available at: https://www.ons.gov.uk/economy/economicoutputandproductivity/publicservicesproductivity/articles/publicservicesproductivityestimatestotalpublicservices/2014)

12 'Releasing resources to the front line', Independent Review of Public Sector Efficiency, Sir Peter Gershon, July 2004 (available at: http://webarchive.nationalarchives.gov.uk/+/http:/www.hm-treasury.gov.uk/media/C/A/efficiency_review120704.pdf)

13 'The Efficiency Programme: A Second Review of Progress', NAO, February 2007, HC 156 (available at: https://www.nao.org.uk/wp-content/uploads/2007/02/0607156i.pdf)

14 'The Atkinson Review: final report. Measurement of government output and productivity for the national accounts', Anthony B. Atkinson, 2005

15 Quality adjustment is used in the public sector because outputs are adjusted for quality in the absence of consumer prices

spending controls to manage expenditure and ensure departments remained within their allocated budgets. The challenge for the government was to reduce spending without damaging economic performance, something which it has generally been recognised as having successfully achieved.[16]

Recent efficiency initiatives

2.15 The focus since 2010 on reducing the deficit while maintaining public service quality has led to renewed emphasis on public sector efficiency and a proliferation of activity looking at achieving more with less.

2.16 The coalition government signalled its intent in this direction in 2010 by appointing Sir Philip Green to lead a review into government procurement and property management. The review concluded that the government often failed to leverage its reputation, brand, and credit rating when engaging in commercial transactions. Inconsistent commercial skills across government and no centralised procurement office also meant there was an enormous disparity in the prices departments were paying for similar products and services.

2.17 The report recommended mandating centralised procurement for common categories of spend to leverage the government's buying power and deliver better value for money.[17] This led to the creation in 2014 of the Crown Commercial Service (CCS), a trading fund sponsored by the Cabinet Office with responsibility for procuring common goods and services on behalf of departments.

2.18 Green's report also informed the work of the Cabinet Office's Efficiency and Reform Group and the creation of the Cabinet Office functional agenda. This was designed to create consistent standards and generate efficiencies within common functions (such as property, commercial and digital). This work generated some notable successes. The Government Property Unit (GPU) has helped to reduce estate costs by over £1 billion and overseen the collection of over £3 billion of capital receipts since 2010.[18] GOV.UK, implemented by the Government Digital Service (GDS), has created a single point of access for government services and made it easier for citizens to find out what is happening within government. The creation of the Infrastructure and Projects Authority (a merger of Infrastructure UK and the Major Projects Authority) has brought together project management expertise within government to strengthen delivery capability within major projects. The functions are now embedded in the public spending landscape and are integral to identifying and delivering cross-departmental savings.

2.19 In 2015 the Cabinet Office and the Treasury introduced Single Departmental Plans (SDPs). These were designed to articulate departmental performance objectives, encourage prioritisation, provide clear accountability and improve the way government monitors performance. Since their introduction, departments have been encouraged to reflect the activity they are undertaking to promote efficiency savings and use the planning process to understand the options available to deliver savings. The public summary of SDPs allows the public to track progress against key outcomes.

2.20 Within finance, the Treasury has sought to improve professional capability and ensure finance is integrated into departmental decision-making. This process started in 2013 with its report on *Strengthening financial management capability in government*, which looked at the

[16] Speaking in 2015, the head of the IMF Christine Lagarde stated "it's obvious that what's happening in the UK [with regard to the government's economic strategy] has actually worked". (available at http://www.bbc.co.uk/news/business-32346214 (accessed 6 September 2017))

[17] 'Efficiency Review by Sir Philip Green: Key Findings and Recommendations', 2010 (available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/61014/sirphilipgreenreview.pdf)

[18] 'State of the estate report: 2015 to 2016'. Cabinet Office, February 2017 (available at: https://www.gov.uk/government/publications/state-of-the-estate-report-2015-to-2016)

evolution of the Treasury's role in spending control against the backdrop of increasing accountability for how taxpayers' money is spent.[19] In response to its recommendations the government launched the Financial Management Review (FMR) programme. 'Value Maps', jointly commissioned by the heads of government finance and the Government Economic Service (GES), were part of this programme. These were visual summaries of departmental spending, divided into logically defined spending areas and rated according to how well the department understood how this money was spent and the prospects for efficiencies. They were then discussed in peer review panel sessions with colleagues from across government. The process was praised by the Institute for Government (IfG) and the Chartered Institute of Management Accountants (CIMA), both of which recognised how the exercise had encouraged better joint working across government (due to the joint commission) and within departments (through joint working between finance, economist, and policy professionals).[20]

2.21 The cross-departmental Public Sector Efficiency Group (PSEG), convened by the GES to inform the 2015 Spending Review, has also provided valuable insights on the trends and drivers in efficiency and recommendations for improvements. The group continues to meet regularly with departments, academics, local governments, and the private sector and is a valuable forum for sharing intelligence and best practice. Their five drivers of efficiency have become influential in identifying prospective savings and informing policy development. Examples of their five drivers in practice are provided in Box 2.A.

Box 2.A: Drivers of efficiency in practice

Markets and competition

Birmingham City Council's Step Down programme was launched in November 2014, with the purpose of increasing the stability of fostering. The service delivery is funded using a Social Impact Bond issued by Bridges Venture, a social capital investment fund which receives payment from Birmingham City Council if a placement remains stable after 52 weeks. The contract only pays the service provider once outcomes are achieved, rather than for the provision of services. Birmingham City Council report £880,000 savings during the programme's first two years (verified by independent evaluation by Oxford University).[21] Alongside these savings, 70% of the placements made to date remain stable and the majority of participants feel more secure. Average school attendance was higher than a baseline of foster children in residential care, and reduced levels of self-harm alongside improved behaviour was also recorded.

Service redesign and alternative delivery mechanisms

Leeds City Council's Care Record programme, rolled out city-wide by the end of 2015, was set up to collect patient information held by the city's health and social care providers in a single integrated database, and to ensure the most up-to-date information is available to NHS and social care professionals.

[19] 'Strengthening financial management capability in government', HM Treasury, 2013 (available at: https://www.gov.uk/government/publications/strengthening-financial-management-capability-in-government)

[20] 'Getting to the heart of decision making', Institute for Government, December 2016 (available at: https://www.instituteforgovernment.org.uk/sites/default/files/publications/IfG_FMR_Cima_briefing_paper_WEB_2.pdf)

[21] 'Evaluation of Birmingham City Council's Step Down Programme: Report of the Preliminary Findings January 2017', Gilian Plumridge and Judy Sebba, January 2017 (available at: http://reescentre.education.ox.ac.uk/wordpress/wp-content/uploads/2017/04/StepDownBirmingham_Prelim-Findings_ReesCentreApr2017.pdf)

Box 2.B: Drivers of efficiency in practice (Continued)

The medical information collected by NHS Trusts, GPs and Leeds City Council Adult Social Care providers is entered into a single, unified electronic integrated care record that health and social care professionals can access easily. The Care Record streamlines the information sharing process, allowing care professionals across the Leeds region to view the most current information for each patient and has helped to eliminate divisions between care settings. The programme led to estimated savings of £912,000 in 2015 to 2016.[22]

Organisation and workforce

Hampshire Constabulary's Forensic Innovation Centre[23] opened in 2015 to address the shortage of digital forensic skills in the police through drawing on expertise from the academic sector. Demands for digital forensics have created backlogs in cases that are frequently between 9 and 12 months long, but can sometimes reach up to 18 months. The Constabulary has collaborated with Portsmouth University to develop the Forensic Innovation Centre through which it provides its digital forensic services, gaining a purpose-built infrastructure where they can relocate their day to day business, as well as access to an academic partnership which brings new opportunities for innovation.

Technology and targeting

Newham Council's Data Warehouse and Business Intelligence Programme has assimilated key data from over 20 separate systems to produce single records for people and properties. The data warehouse holds linked records from council and external systems, which enables better predictive analysis and business intelligence. Children's services data, for instance, showed a growing number of level 2 and 3 referrals into the triage system with no clear reason as to why this is happening. Data scientists were able to use the data to identify the characteristics of children needing triage and who was referring them. This analysis led to a change in the allocation of funding towards early intervention programmes to target the children at risk of level 2 and 3 referrals. This has led to a reduction in looked-after children of 19% and a reduction of children in need of 17% while achieving a £500,000 saving.

2.22 Alongside government-wide reviews, there have been numerous investigations into specific sectors. The Carter Review of 2015,[24] for instance, examined productivity and efficiency in English non-specialist acute hospitals. The review found significant cost variation across the NHS and estimated tackling this would save up to £5 billion per year. It is not possible to summarise all the further reviews here, however similar investigations have been conducted into areas as diverse as criminal justice and higher education.

Summary

2.23 Two themes emerge from this brief examination of efficiency initiatives and their outcomes over the past four decades. The first is that genuine progress has been made. The work of the PMDU pushed the frontier of delivery methodology, breaking down the old stereotype of governments pulling on the levers of power and nothing happening. The current system of Spending Reviews and spending control is internationally recognised as world-leading. This progress has been made through evolution: the ideas behind the PMDU can be found in part in

[22] available at: http://www.leedsth.nhs.uk/a-z-of-services/leeds-care-record/

[23] available at: http://www.port.ac.uk/institute-of-criminal-justice-studies/research/strategic-projects/forensic-innovation-centre/

[24] 'Productivity in NHS hospitals', Department of Health, February 2016 (available at: https://www.gov.uk/government/publications/productivity-in-nhs-hospitals)

both the *Next Steps*[5] report (the focus on delivery) and Derek Rayner's Efficiency Unit (the system of 'scrutinies'); the focus on financial capability within the Financial Management Review programme picks up many themes identified by Gershon in 2004. These are positives that should not be ignored.

2.24 The second – and the challenge for both the Treasury and departments in future – is the absence to date of any embedded strategy for continuously improving efficiency and productivity. As we have seen there have been numerous, often very influential, reports and units aiming to deliver improvements. However, in the absence of a coherent overall framework for improved efficiency and productivity, these have all too often been separate episodes that have lacked follow through and fallen short of fulfilling their potential. Nowhere is it set out what a public sector body needs to be doing as part of its core business, day-to-day, to improve its efficiency and productivity. It should be possible to define what needs to be done by combining a focus on simultaneously delivering outcomes and managing inputs, and embedding both in daily practice around Whitehall. This is the challenge to which the rest of this report is addressed.

Box 2.C: Other ways the government seeks to promote value for money

National Audit Office (NAO): The NAO is independent of government and is responsible for exploring the value for money (VFM) of government spending and informing parliamentary scrutiny through the Public Accounts Committee (PAC). Every year the NAO develops a two-year forward programme of potential VFM studies, around three quarters of which are examined by the PAC after publication. Around 60 VFM reports are conducted every year, on topics agreed with departments. While short and crowded PAC sessions are not always conducive to in-depth scrutiny, the overall process is critical for ensuring accounting officers are held accountable to Parliament for their department's performance and can help to prompt improvements.

Managing Public Money:[25] MPM sets out the main principles for dealing with resources in UK public sector organisations. It explains how to handle public funds with probity and in the public interest. While much of what the document prescribes is sound financial management, it also contains some specific rules and conventions about how certain activities should be performed. These range from the fiduciary duties of those handling public resources, to the need for the public sector to work transparently with Parliament. In outlining its invariable principles of transparency, integrity and value for money, the publication explicitly states that public services should account for their stewardship of public resources 'in ways appropriate to their duties and context and conducive to efficiency'.

The Green Book:[26] This is the Treasury's technical guidance on providing evidence-based decision support information for optimum use of public resources. It applies to policies, programmes and projects and is based upon the principles and methods of microeconomics, public accounting and statistics. It provides the Treasury with an objective basis for the comparison of spending proposals.

[25] 'Managing public money', HM Treasury, May 2012 (available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/454191/Managing_Public_Money_AA_v2_-jan15.pdf)
[26] 'The Green Book: appraisal and evaluation in central government', HM Treasury, April 2013, (available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/220541/green_book_complete.pdf)

Box 2.D: Other ways the government seeks to promote value for money (continued)

The Green Book is widely referred to outside Government and is highly regarded internationally by public finance professionals and academics. It is also seen as a gold standard for the appraisal of public spending by international organisations such as the World Bank, Organisation for Economic Co-operation and Development (OECD) and International Monetary Fund (IMF). It is supported by the Magenta Book, which sets out the recommended central government guidance on evaluation.

Consolidated Budgeting Guidance:[27] The Consolidated Budgeting Guidance sets out the rules to be followed in the management of departmental budgets. At the heart of this are the fixed annual spending limits, set at Spending Reviews, that departments are not allowed to exceed. Savings generated through efficiencies in one area may be recycled in-year and used to increase spending on other priority areas. The CBG also offers departments flexibility to move forecast underspends into the following year, to remove any incentive to take a wasteful 'use it or lose it' approach to spending.

[27] 'Consolidated budgeting guidance 2016 to 2017, HM Treasury, 25 February 2016 (available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/503365/Consolidated_budgeting_guidance_2016-17.pdf)

3 What can we learn from the academic community?

3.1 It is not just within government that the challenge of improving public sector efficiency and productivity has attracted attention. It has been a major theme in the academic community as well. Since the literature on the subject is extensive, this chapter does not seek to be comprehensive. Instead, it highlights the themes in the literature which are most clearly relevant to this Review.

Methodology

3.2 The central difficulty in improving public sector productivity is measuring it. In the private sector inputs cost money and outputs typically raise it. Profit is therefore a proxy for productivity and firms are incentivised to maximise profits to maximise shareholder value. This kind of data allows precise metrics such as output per worker hour to be calculated. Profitable firms, with high productivity, tend to attract investment, providing the opportunity to grow and generate further profits. This creates a virtuous circle of economic good. Unprofitable firms by contrast get locked in a vicious cycle that eventually leads to insolvency. Raising productivity is therefore key to long-term business survival (or so the theory goes).

3.3 The situation is different for public services. It is theoretically still possible to quantify inputs. The ONS publishes regular statistics on total public expenditure; the Treasury publishes the Public Expenditure Statistical Analyses (PESA); departments, agencies, local authorities, NHS Trusts and other similar bodies publish annual accounts which are then amalgamated into the annual Whole of Government Accounts (WGA). These show how much is spent and by whom.

3.4 The challenge is in quantifying what is generated in return for this money. Many public services are not market goods (and deliberately so), and therefore lack a commensurate scale on which to measure output, a problem compounded by the significant potential variation in the quality of outputs. Quantifying the difference between lessons taught by teachers of different levels of competence, or the quality of care provided by different doctors, is an infinitely complex task.

3.5 Faced with such a daunting assignment, it is a testament to human perseverance that so many have tried. As mentioned in the previous chapter, the ONS are world-leaders in this space. They publish a time series of public service productivity back to 1997, based on methodology pioneered following the Atkinson Review in 2005.[1]

3.6 More recently, in February 2017 the IfG and the Chartered Institute of Public Finance and Accountancy (CIPFA) published their inaugural Performance Tracker, designed to assess the performance of public services in the context of the government's ambition to simultaneously maintain service quality and control spending.[2] The tracker initially examined five key policy areas – hospitals, adult social care, schools, policy and prisons – and shows that from 2010 the government was initially successful at enhancing the performance of services while either cutting or controlling expenditure. The report flagged the challenges of maintaining this, however, with

[1] 'Public service productivity estimates: total public service, UK: 2014', ONS, 2014 (available at: https://www.ons.gov.uk/economy/economicoutputandproductivity/publicservicesproductivity/articles/publicservicesproductivityestimatestotalpublicservices/2014)

[2] 'Performance Tracker: a data driven analysis of the performance of government', Institute for Government, 2017 (available at: https://www.instituteforgovernment.org.uk/publications/performance-tracker-spring-2017)

several of their indicators showing growing pressure on services. These conclusions were reiterated in the second edition of the Tracker, published in October 2017 and expanded to include a broader range of services, including Local Neighbourhood and UK Visas and Immigration.

3.7 In April 2017, the McKinsey Centre for Government published an international study of public sector productivity across seven sectors in 42 countries.[3] Countries' success at converting inputs into outputs across these sectors are benchmarked against each other. While some of the outcome metrics used by the report deployed are familiar, such as Healthy Life Expectancy as a measure of health outcomes, in other sectors, such as public order, McKinsey developed complex composite metrics.

Box 3.A: Quantifying the impact of public services on human capital

Another strand of work has sought to explore the value of public services by assessing their impact on the value of human capital. As the OECD points out, the value of investing in human capital brings returns to the nation in the simplest terms by raising higher tax revenues from skilled individuals with higher qualifications or training.[4] In 2015 an individual with a degree had an average human capital stock value of £628,000, compared with a person with no qualifications at £274,000.[3] In addition to this, public expenditure can be reduced by investing in human capital. Individuals with low skills or levels of education are more likely to be unemployed and face social exclusion, which in turn cause increased problems through issues such as poor health and increased crime, which then require public expenditure to tackle.

3.8 These three examples of the efforts to quantify public sector outputs and devise productivity metrics, together illustrate an important point. Due largely to its complexity, there is no single agreed methodology for measuring productivity. This is problematic in its own right, however it additionally means methodologies can be vulnerable to being subverted to show particular trends. This is something noted by Christopher Hood and Ruth Dixon in *A Government that Worked Better and Cost Less?*.[5] Hood and Dixon evaluate public sector reform in the UK between 1980 and 2010 to assess the impact on service quality and public expenditure. They note how governments over that period have frequently altered the measures of government performance, such that data breaks regularly inhibit any attempt to assess performance over time and prevent reliable comparison of the performance of different governments.

3.9 The methodological challenge is perhaps best illustrated by how few countries devote public resource to estimating their whole public sector productivity. At the time of writing there are seven: the UK, Australia, New Zealand, the Netherlands, South Africa, Denmark, and Portugal.[6] Most other countries simply assume that public sector outputs are equal to inputs, meaning the only way to improve public services is to inject more money into the system. This assumption is often shared by commentators in the public debate too: in the absence of any other information, the only observable cause of public sector output is input.

[3] 'The opportunity in government productivity', Mckinsey & Company, April 2017 (available at: http://www.mckinsey.com/industries/public-sector/our-insights/the-opportunity-in-government-productivity)
[4] 'Human Capital Estimates 2015', ONS, 2016 (available at: https://www.ons.gov.uk/peoplepopulationandcommunity/wellbeing/articles/humancapitalestimates/2015)
[5] 'A Government that Worked Better and Cost Less? Evaluating Three Decades of Reform and Change in UK Central Government', Christopher Hood & Ruth Dixon, 2015
[6] 'Challenges in the Measurement of Public Sector Productivity in OECD Countries', Edwin Lau et al, 2017

3.10 Unfortunately, attractive as such a world might be in theory it is not the one we live in. Money provided at one end of the system flows through a chain of complex interactions to create outcomes for citizens at the other: the chain has to be observed as a whole before it can be effectively optimised. This is also a point stressed by Hood and Dixon, who point out that in pursuing headcount reductions between 1980 and 2010 (ostensibly to reduce costs), successive governments were distracted from focusing on reducing other costs such as IT contracts, consultants, and advertising. Over the period civil servant numbers were cut by a third but overall running costs continued to rise.[7]

Data

3.11 The second theme from the literature relates to the availability and quality of data. Any analysis is necessarily going to be bound by the constraints of the source data; without this, no inferences or conclusions can be drawn. Picking up on the theme in Hood and Dixon, the IfG argues that embedding efficiency in the public sector can only be enabled through good quality, comparable data that allows for both the analysis and tracking of performance over time. Noting that both the NAO and PAC have highlighted the absence of a consistent planning and performance framework over time, they argue for the development of a performance-tracking mechanism that would allow best practice to be identified.[8]

3.12 This is far from a forlorn hope: the example of Mitch Daniels provides a clear illustration of what can be achieved given the right circumstances. Upon taking office as Governor of Indiana in 2005, Daniels ensured that budget allocations for state departments and agencies were linked to their willingness to establish data systems that would allow for progress on outcomes to be monitored. Analysis of this data and subsequent actions led to significant service improvements, such that by 2012 the average waiting time for a driver's licence was under nine minutes (down from over 40 minutes).[9] Meanwhile by controlling costs, Daniels left office after two terms with the state in healthy surplus, in spite of the financial crisis which had adversely affected revenues.

3.13 Equally important is transparency and the open availability of data, as argued for by the inventor of the World Wide Web, Sir Tim Berners-Lee, and many others. There are numerous examples of the benefits of open data. For example, in the US, Steve Ballmer (former Microsoft CEO) has sponsored USAFacts, which collates and displays the US government's revenue, expenditure, and metrics data.[10] Spending is grouped into four 'missions' derived from the US Constitution: (1) establishing justice and ensuring domestic tranquillity; (2) provide for the common defense; (3) promoting the general welfare; and (4) securing the blessings of liberty to ourselves and our posterity. Relying exclusively on publicly-available government data sources, it presents this information simply, intuitively, and freely, making taxation, spending, and outcomes transparent and comprehensible for citizens. Closer to home freely available public transport data from Transport for London has been used to come up with innovative ways of analysing and presenting travel information. This has fostered the growth of tech companies such as Citymapper, launched in 2011 and now a global company providing services in 39 cities.

Budgeting

3.14 The third theme emerging from the literature is the importance of budgeting. One of the first actions Mitch Daniels took in Indiana was to establish a new Central Budget Office and give

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[7] 'A Government that Worked Better and Cost Less? Evaluating Three Decades of Reform and Change in UK Central Government', Christopher Hood & Ruth Dixon, 2015

[8] 'Performance Tracker: A data-driven analysis of the performance of government,' Institute for Government: 2017 (available at: https://www.instituteforgovernment.org.uk/sites/default/files/publications/Performance%20Tracker%20final%20web.pdf.)

[9] 'How to Run a Government: So that Citizens Benefit and Taxpayers Don't Go Crazy', Michael Barber, 2016

[10] available at: https://www.usafacts.org/

its leader a place in the Cabinet. The importance of good budgeting is picked up by Peter Hutchinson and David Osborne's *The Price of Government: Getting the Results We Need in an Age of Permanent Fiscal Crisis*. They advocate a 'backwards' approach to budgeting: rather than deciding how much to spend and then allocating it, they argue that governments should look first at what outcomes they want to deliver.[11] With those established, and prioritised, they can then allocate spending in line with what citizens are prepared to pay. They structure this process around what they describe as five challenges for government:

1 Get a grip on the fiscal problem: looking at the problem in what they describe as a 'clear-headed' way. Is it about income, borrowing, or spending, or a combination of all three?

2 Set the price of government: how much in total would the government like to spend and how much are the citizens willing to pay?

3 Set the priorities of government: among the many possible priorities, where should the government focus its energy and investment?

4 Allocate available resources across the priorities: at this point, hard choices have to be made because the overall total has already been set. The priorities guide the choices, but that doesn't make the choices easy.

5 Develop a purchasing plan for each result: this is the most radical part of the model. Once the allocations are decided, instead of simply passing the funding on to the relevant existing services, Osborne and Hutchinson propose the development of a purchasing plan by a Results Team for each priority area. This could involve quite radical reform. The Results Teams then produce a Delivery Plan for each major outcome. Because the assumptions of the status quo have been directly challenged, the result can be an outbreak of creativity.[10]

3.15 Such an approach is very similar to the UK Spending Review process. It focuses attention on priority outcomes, and then works backwards to allocate the resources necessary to deliver these in the most effective and efficient way. Within the UK, however, the degree of creativity at step 5 has often been limited.

3.16 The budget setting process is only one half of the story. The other half is the incentives and accountability within the system, and whether they encourage productivity and efficiency improvements. As outlined above, private sector firms are incentivised to create the virtuous circle and avoid the vicious circle. These incentives do not exist in the same way in the public sector. In most jurisdictions, a manager or minister gains status according to how large his or her budget is.

3.17 These traditional incentives run directly counter to what Osborne and Hutchinson advocate and what efficiency demands: deciding priorities, allocating available resources, and then working to deliver in the most efficient way. Similarly, the absence of good data and metrics makes it difficult to hold managers accountable for their efficiency or productivity performance. Even where under performance can be demonstrated, it is not always possible to simply stop providing a service. This is particularly the case for those services that the government knows it must provide, come what may: health, education, defence and so on. The result is that there are few incentives for stopping unproductive and inefficient programmes and reallocating resources towards productive and efficient ones. Indeed, it is not uncommon for public servants to argue that poor performance is a justification for spending even more. Whenever this argument is

[11] 'The Price of Government: Getting the Results We Need in an Age of Permanent Fiscal Crisis', David Osborne and Peter Hutchinson, 2006

accepted, perverse consequences are inevitable and any hope of an efficiency culture undermined.

Balanced Scorecard

3.18 Nonetheless there is hope. One important section of the academic literature suggests that we might be looking at the problem in the wrong way. To continue the private sector analogy, while a company's profits will tell you its performance last year, they give you no indication of its performance next year. Many factors determine the overall health of a business: leadership, workforce, financial management capabilities, strategic vision, the popularity of its products, and so on.

3.19 Many businesses and analysts use the 'balanced scorecard' developed by Robert S. Kaplan and David Norton to survey a range of factors as indicators of future performance.[12] They suggest analysing customer perspectives, internal processes, organisational capacity, and financial metrics to assess a firm's true performance. The public sector is in a similar position. It too is interested in future performance; past performance is useful only to the extent to which it can inform future improvements. The balanced scorecard approach does not necessarily involve quantifying outputs and inputs along a commensurate scale. It should therefore be possible to apply many of the principles of the private sector approach to the public sector and indeed many public sector organisations have attempted to do so.

3.20 One of the luminaries in the field of improving public sector outcomes is Mark Moore, a professor at the Harvard Kennedy School of Government. Building on this kind of thinking, Moore is perhaps best known for defining 'public value' in his 1995 book *Creating Public Value.*[13] One of Moore's central points is that while private executives benefit from comparatively tight remits and easily measurable objectives, public sector executives often do not. He illustrates this point through the figure of a town librarian whose library is swarmed with children from the local primary school between the hours of 3pm and 5pm. After initially being concerned that their presence is a distraction from her official duties, she comes to regard looking after them as an exercise in providing fulfilment to the children. In doing so the town librarian ends up providing two public services – library services and informal childcare – with the same inputs, thereby increasing the public value of the library and the impact of the service on users.[14]

3.21 Moore builds on this idea in his later book *Recognising Public Value*,[15] to describe how public managers can translate the idea of public value into a tangible system of managing resources for better outcomes. He develops a 'strategic triangle' to show that public value is created when a given strategy or action has democratic legitimacy (e.g. the community supports it), the support of the authorising environment (e.g. a governing board), and when the government has the operational capacity to implement the strategy or action effectively. At the centre of Moore's approach is what he calls the 'public value account'. Use of collectively owned assets and financial costs are shown on the left, with items that go toward achieving valuable outcomes on the right. Moore develops similar accounts for the other two corners of the strategic triangle which, when all combined together, produce a 'public value scorecard'. In Moore's thinking, public value is maximised when:

- outcomes are clearly defined and being delivered;

12 'The Balanced Scorecard: Translating Strategy into Action', Robert S. Kaplan, David Norton, 1996

13 'Creating Public Value: Strategic Management in Government', Mark Moore, 1995

14 Ibid, Moore, 1995

15 'Recognising Public Value', Mark Moore, 2013

- the resources allocated to it are being used efficiently in pursuit of the authorised goals;
- the beneficiaries of the service and the citizens/taxpayers perceive it to be effective and run broadly in accordance with society's values; and
- the institution or service concerned is well-managed, resilient and capable of delivering in the long-run as well as in the short-run.

3.22 The idea of public value has not escaped criticism. Rhodes and Wanna argue that Moore's approach has the effect of elevating public managers to become 'Platonic Guardians' of the public good, providing intellectual and rhetorical cover for the encroachment of civil servants into territory properly occupied by elected representatives.[16] Others have criticised the lack of specificity around the term itself, believing it is used to denote so many different practices within public management to be rendered meaningless.

3.23 Nevertheless, Moore's work has become increasingly influential. For example, the Boston Consulting Group's not-for-profit arm, the Centre for Public Impact (CPI), has shown how it can shape policy-making. CPI's publication, Public Impact Fundamentals,[17] suggests policy-makers can enhance the chances of success by examining the themes of legitimacy, policy and action before proceeding, then periodically reviewing them as they proceed. Previous governments have also explored how it might be applied to UK public sector reform.[18]

3.24 Furthermore, Moore's criteria listed above provides a theoretical framework which can be developed into a fuller account of what needs to be done to deliver public value. This idea was picked up in *How to Run a Government,*[19] which suggested governments could undertake periodic 'productivity reviews' based on Moore's four criteria. It was argued that such a framework could fill the void identified in the previous chapter, helping public managers, officials, and government ministers to systematically think through what it takes to maximise public value. It could also offer a means of overcoming the disconnect between political ideals and reality by guiding the translation of policy into outcomes.

3.25 This examination of the literature, and the review of government experience in the previous chapter, provide the foundation for what follows in the rest of this report. The next chapter makes the case for a Public Value Framework. This would provide a comprehensive and practical means of ensuring that departments and agencies think systematically about inputs, outputs, and outcomes, both short and long-term, as they manage their budgets. More importantly, the Framework would provide a platform to radically alter the public spending dialogue between the departments and agencies and the Treasury.

[16] 'The Limits to Public Value, or Rescuing Responsible Government from the Platonic Guardians', Rhodes and Wanna, 2007

[17] 'The Public Impact Fundamentals', BCG Centre for Public Impact, 2016 (available at: https://publicimpact.blob.core.windows.net/production/2016/10/CPI-FUNDAMENTALS-REPORT.pdf)

[18] 'Creating Public Value: An analytical framework for public service reform', Cabinet Office Strategy Unit, 2002

[19] 'How to run a government: So that citizens benefit and taxpayers don't go crazy', Michael Barber, 2016

4 Introducing the Public Value Framework

Introduction

4.1 The Framework establishes a set of relevant criteria that, if fulfilled, would mean the chances of optimal public value being delivered from a particular area of spending were maximised. Public bodies would then be able to assess their performance against these criteria, thereby identifying where they can make improvements to the value they deliver.

4.2 There is nothing conceptually complex about the Framework. Rather, its intention is to provide a thorough list of questions organised systematically, to ensure that those responsible for spending public money do so with a better understanding of how to maximise its impact. As Atul Gawande argues in *The Checklist Manifesto*, such checklists are often highly effective in improving performance and avoiding error by minimising the risk of important steps being missed or loopholes left in analysis.[1]

Evolution of the Public Value Framework

4.3 The Framework published in this report builds on the work of Mark Moore, described in the previous chapter, and Chapter 8 of *How to Run a Government*.[2] It has been developed through consultation and testing across Whitehall. This has refined the concept and ensured it is practical. It has been tailored specifically for use across the UK public sector.

4.4 The version published here is by no means the 'final' version. Chapter 7 sets out the next steps more fully. It is anticipated that the Framework will need further refinement through voluntary piloting with departments prior to being adopted more widely in 2018.

4.5 If ultimately adopted, the Framework would have two major practical applications:

- It would form the basis for the ongoing dialogue across the public sector on public value, thereby creating a common language on how to improve it. This includes dialogue between the Treasury and spending departments (both at ministerial and official level) and within departments. Since the same Framework would be used across all areas of spending, it will increasingly enable benchmarking, and therefore learning, across areas of expenditure which are quite different in nature. Defence could learn from health and vice versa; and both could learn from work and pensions and transport, for example. Similarly, the Framework could be used within government departments to compare the public value generated by different programmes across the department. This new dialogue should enable improved learning about, and management of, the growing array of cross-departmental issues which often form the major challenges any modern government faces (such as countering extremism, tackling mental health or protecting the environment).
- It would form the agenda for periodic Public Value Reviews through which the Treasury, in collaboration with departments, would examine in depth major areas of public expenditure. These could be within or across departmental boundaries, and/or where complexity and challenge are substantial and there is significant

[1] 'The Checklist Manifesto: How to Get Things Right', Atul Gawande, 2009

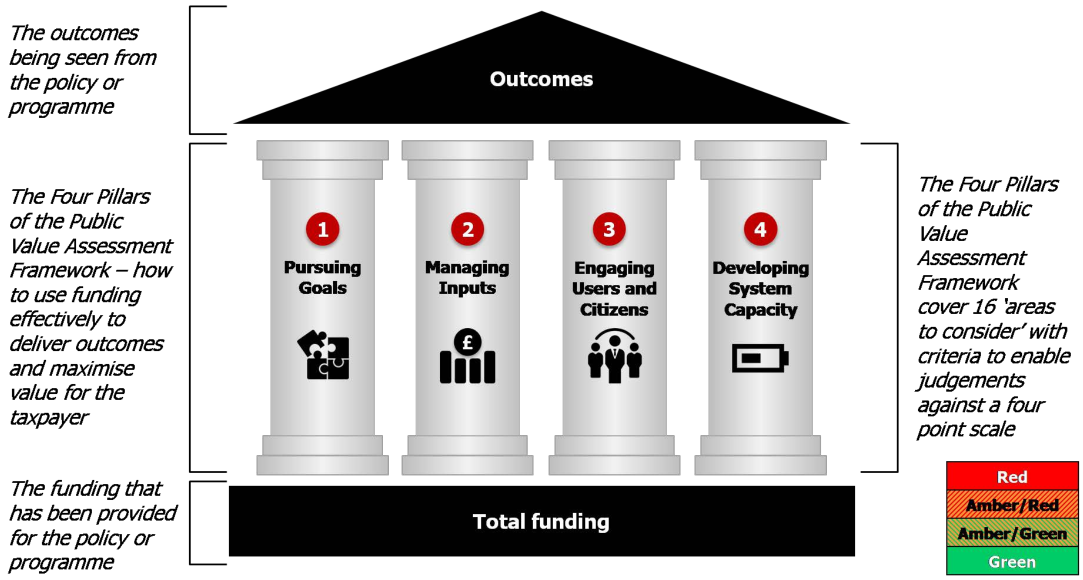
[2] 'How to Run a Government: So that Citizens Benefit and Taxpayers Don't Go Crazy', Michael Barber, 2016

potential for public value improvement. Chapter 5 describes how such a formal review might be undertaken. The key would be for them to be simultaneously deep and rapid, so that review teams can get to the root of the issues and apply any lessons learned as soon as possible. As the outcomes of these reviews accumulate, they should provide an unrivalled source of knowledge on how to improve outcomes while controlling costs.

Overview of the Public Value Framework

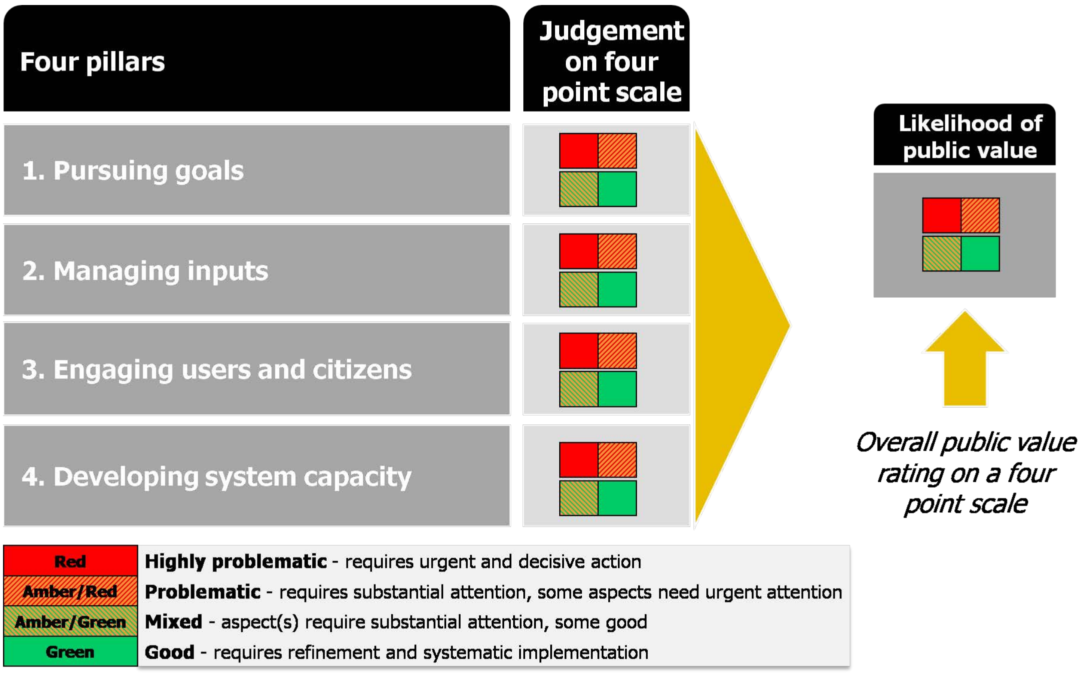
4.6 The chart below sets out an overview of the Public Value Framework. The overall task is clear – to turn total funding (the foot of the temple) into outcomes that citizens want (the roof). Optimising performance within each of the four pillars strengthens the process of spending money and improves the chances of maximising public value.

Chart 4.A: Public Value Framework



4.7 The Reviews will make judgements on a department's progress within each pillar using a four-point scale (shown on the bottom right of the chart). Finally, a combined judgement, again on the four-point scale, can be reached on the extent to which overall public value is being delivered. The chart below shows how judgements on the four areas can be combined to reach an overall judgement.

Chart 4.B: Framework assessment



4.8 These judgements will provide a broad overview. However, the real value of the Framework will lie in going deeper. To enable sound judgements and help uncover practical insights, the four pillars are broken down into 16 further 'areas to consider'. These are set out in the chart below.

Chart 4.C: Areas to consider

Four Pillars	16 areas to consider
1. Pursuing Goals	i. Understanding goals and indicators ii. Degree of ambition iii. Progress towards indicators and goals
2. Managing Inputs	i. Processes to manage resources ii. Quality of data and forecasts iii. Benchmarking and cost control iv. Cost shifting
3. Engaging Users and Citizens	i. Public and taxpayer legitimacy ii. User/client experience and participation iii. Key stakeholder engagement
4. Developing System Capacity	i. Capacity to innovate and learn from innovation ii. Capacity to plan and deliver iii. Capacity to engage with the delivery chain iv. Capacity to work across organisational boundaries v. Capacity of the workforce vi. Capacity to review performance data and evaluate impact

4.9 Each of these 'areas' are then broken down further into specific points, each of which prompts questions that can be explored by the review team. The Framework sets out best-case and worst-case scenarios for each point. With this precision and granularity, the Framework should uncover any lack of clarity or consistency in the approach being taken and identify clear steps to resolve problems.

Box 4.A: Department of Health

Some departments are already pursuing approaches that are similar to the Public Value Framework. For example, the Department of Health has used public value principles to support the Secretary of State for Health to achieve his ambition of making the NHS the safest healthcare system in the world. In 2013, England became the first country to introduce the Ofsted system to healthcare, giving independent ratings to every hospital, care home and GP surgery; while one of the five key domains in the new Care Quality Commission inspection regime is safety. The impact of this greater focus on safety is illustrated by an increasingly open reporting culture and should lead to reductions in measurable harm over time. It is also reflected in specific indicators such as the 'safety thermometer' data,[3] where estimates show 86,000 fewer patients have suffered harm, while incidence rates in the four key harms have fallen from 7.2% of patients in 2013 to 5.8% in 2016. The Department recognises there is still more to do in this area and published the draft Health Service Safety Investigations Bill in September 2017 for consultation. This would establish for the first time a fully independent investigations body responsible for investigating complex or systemic errors in healthcare, and recommending new practices for the NHS to embed.

Rationale for each element of the Framework

The Base: Funding

4.10 Public spending in the UK currently totals approximately £800 billion per annum, including funding for the wide range of services that citizens expect – from defence and security to health, education, and benefits.[4] The decision on how much to spend in total each year depends on a range of macro-economic factors, such as prospects for growth in the economy, the size of the deficit, interest rates, and degrees of risk in the global and British economies. This entire report is about how to maximise the chances of delivering the best possible outcomes for the money government spends each year on behalf of taxpayers.

4.11 Responsibility for these vital decisions rests squarely with the Chancellor of the Exchequer, the Chief Secretary to the Treasury and the Treasury itself. It is their task not just to set the overall total expenditure envelope but also to assess the numerous, often plausible, pressures from spending departments for additions to the total. Nothing in this report suggests any loosening in the way public expenditure is controlled: maintaining a tight grip on public expenditure is fundamental to Britain's economic prospects, and the existing UK spending rules are internationally recognised as world-leading.

4.12 Once funding allocations are made at a Spending Review, the department's basic tasks become two-fold: first, to ensure it spends no more than the amount allocated; and second, to ensure the money is spent for the purposes intended in pursuit of the desired outcomes.

[3] 'Safety Thermometer', NHS Improvement, launched in 2013 (available at: http://www.safetythermometer.nhs.uk/)

[4] 'Economic and fiscal outlook', Office for Budget Responsibility, 2017 (available at: http://budgetresponsibility.org.uk/efo/economic-fiscal-outlook-march-2017/)

The Roof: Outcomes

4.13 While successive British governments have experimented with how best to specify the outcomes intended from public expenditure, the underlying requirement to publicly justify how much is spent and what it is intended to deliver endures. This means they need to define (to use the jargon) 'what success will look like'; or in non-jargon terms, how the money spent will improve people's lives.

4.14 This holds true across all public expenditure. It is reasonable to conclude that if there is no compelling answer to this question, then the case for spending the money is doubtful. In such cases a government's credibility is usually fatally undermined.[5]

4.15 Outcomes are not just about delivering short-term targets. Decisions about how to spend money should be made in ways that are legitimate and acceptable with the rule of law: this is a vital element of democratic government. The institutions that deliver services – the military, the NHS or Highways England, for example – should be run efficiently and well, building long-term capability and resilience such that they are passed on to future governments in better shape than that in which they were found. This is stewardship, an often neglected but nevertheless fundamental function of public governance and management.

4.16 These elements of public value explain why there are four pillars in the temple, not just one or two. Each of these pillars are explored further below.

Pillar 1: Pursuing Goals

4.17 As noted above, for any chunk of public expenditure it should be clear what improvements to people's lives that money is intended to deliver. Pillar 1 breaks this theme down in to three 'areas to consider'.

Understanding goals and indicators

4.18 This tests the degree of understanding that exists in relation to the goals or intended outcomes from the expenditure in question, and how progress will be tracked. Without this understanding, successful pursuit of goals is unlikely.

4.19 The Framework tests this by looking for outcome-focused and measurable goals and a clear understanding of the improvements to people's lives they are intended to deliver. It also looks for a grasp of historical data and the impact of past activities along with Key Performance Indicators (KPIs) to track and manage progress. Evidence for this area could be provided by a department's SDP, and supplemented, where necessary, by internal performance management systems. Departments should also understand the links between KPIs, goals, and outcomes.

Degree of ambition

4.20 This area explores the ambition of the goals in question. An appropriate degree of ambition is vital for achieving goals and maximising public value. Goals that are either 'wildly ambitious' or 'lacking ambition' are both questioned by the Framework, although the possibility of setting 'impossible goals' is accommodated. Many great achievements fall into this category (perhaps most famously President John F. Kennedy's promise in 1961 to put a man on the moon by the end of the 1960s).

4.21 Ambition is a function of numerous factors, including the extent of organisational change, and the political, technical, or other constraints it might face. It is important to understand how

[5] As noted in 'Managing Public Money', HM Treasury, 2017 (available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/454191/Managing_Public_Money_AA_v2_-jan15.pdf)

the degree of ambition meets the aspirations and needs of the system and citizens, and how challenging the goals might be to achieve when compared with appropriate benchmarks.

4.22 The Framework requires public bodies to provide evidence of the ambition of their goals (potentially with reference to global best practice in similar sectors). It also requires them to effectively manage organisational change along the delivery chain. It assesses whether public bodies have the strategies in place to manage interdependencies with other programmes, are working to generate the necessary support from other public bodies to achieve the required output, and are monitoring the constraints – timescales, resources, technical, political – that may make the target particularly difficult to achieve, in order that they might adapt accordingly.

Progress towards indicators and goals

4.23 The final area looks at how progress towards goals is tracked and what that data shows. Successful delivery depends on a nuanced understanding of historical performance and future trajectories, and requires good data and performance analysis to identify whether further action needs to be taken.

4.24 This is examined by looking at the extent to which bodies understand their historical performance, and whether delivering a given goal requires an incremental improvement or a step-change in performance. The Framework asks for evidence of recent performance and effective measures for assessing progress, as well as regular reviews of those measures to determine their continued suitability. It also requires evidence of information on trajectories, including the expected outturn at each point between the baseline and target year, and systems capable of breaking down data for comparison, where appropriate.

Pillar 2: Managing Inputs

4.25 The second pillar of the Public Value Framework covers what might be described as the Treasury's traditional core business. Any credible finance ministry needs to be effective in checking that money is being spent in the right quantities in the right ways at the right time in pursuit of agreed goals. Departments ought to have the necessary processes in place to track this expenditure effectively. This Pillar is likely to require the least innovation within departments or the Treasury, since both have been interacting on this well-trodden landscape for decades.

4.26 Nevertheless, numerous NAO reports and books such as *The Blunders of our Governments*[6] reveal that, in spite of long experience, this is not always done well. It is therefore essential to take this pillar seriously. Unless inputs are well-managed, it is impossible to deliver optimal public value. The pillar is split into four 'areas to consider'.

Processes to manage resources

4.27 Effective financial planning and management processes are critical for responsible administration of resources. Without them resources are unlikely to be allocated effectively and deployed efficiently, thereby undermining public value.

4.28 This area explores how well public bodies understand the total resources available and the sources of their funding. It also seeks evidence that the risks or volatility of that funding are understood and anticipated, and what contingency plans exist to address funding pressures. The area covers financial planning processes by seeking evidence of integrated performance and financial plans (possibly integrated in to SDPs), the processes to regularly review the use of resources, and the criteria by which to justify allocations. Finally, this area assesses the quality of

[6] 'The Blunders of our Governments', Anthony King & Ivor Crewe, 2013

management information and the extent to which it is used to explore what works and inform key decisions across the organisation.

Quality of data and forecasts

4.29 This area sets the expectation that public bodies will be able to track resource as it is spent throughout the entire delivery chain, and that it can accurately forecast the level of spending. It also looks at forecasting: for instance, whether overspends in the current year could create pressures in future years. Both are crucial to the efficient deployment of funds.

4.30 The Framework tests this by seeking evidence of how spending is split by programme and economic category and whether public bodies can track how much has been spent, where, and on what. It explores the quality of centrally-held departmental spending data and whether in-year spending forecasts are timely and accurate. It also seeks evidence linking the purchase of inputs to the delivery of outputs, and the processes in place to use this information to inform future decisions on the purchase of inputs.

Benchmarking and cost control

4.31 Benchmarking is a key tool for improving performance, particularly in common areas of spend. For instance, if all departments can match the performance of the top 20% in (say) travel costs per person then this could deliver significant savings to government. Similarly, it can provide valuable insights into organisational structure (e.g. the split between front- and back-office) and reward.

4.32 The Framework examines this area by seeking evidence of relevant benchmarking being undertaken and explanations for any discrepancies. It asks whether the public body has processes in place to use this data to improve efficiency performance. It also assesses whether systems are in place to monitor and control costs in real-time, alongside reliable and well-understood processes for passing information on escalating costs to senior decision-makers.

Cost-shifting

4.33 Cost-shifting can either be across departments (the Home Office, for instance, could increase costs for the Ministry of Justice by focusing policing activity on crimes where the trials are longer and more expensive) or across time periods (a department creating costs tomorrow through activity today). Failing to understand these interdependencies leads to narrow thinking and cost pressures across government.

4.34 The Framework tests this by requiring public bodies to have an effective strategy for managing the risk of reliance on other public bodies for funding, and understand the magnitude of risks posed to other parts of the public sector and end-users by delivery failure. Public bodies should have the systems in place to monitor and mitigate this risks, and avoid deferring spending to realise savings.

Pillar 3: Engaging Users and Citizens

4.35 Pillar 3 is in some ways the most challenging of the pillars to define and apply. However, it is of such importance that it cannot be left out.

4.36 To start, it may be worth saying what it is not. It is not a matter of using public satisfaction polls as an indicator of success. Public satisfaction will rise and fall for a range of reasons, some of them completely irrelevant to the quality of services being provided. Moreover, necessary reforms are often controversial and sometimes lead to a temporary fall in satisfaction indicators: to allow that to divert reform would be a counter-productive failure of nerve.

4.37 Instead this section of the Framework aims to ensure that citizen perspectives are incorporated into policy and delivery without encouraging dependence on superficial indicators of satisfaction. It does so because public value is in part self-fulfilling: a public service is genuinely more valuable (and taxpayers more likely to be willing to fund it) if citizens believe in its value and commit to it.

4.38 Public service providers therefore need legitimacy: that citizens and taxpayers believe the services being provided are worthwhile, well-managed and worth spending public money on. For this reason, governments and leaders of public services need to be in continuous dialogue with citizens, both about the services being provided and how they might be reformed. This is not a question of party politics; it is one of determining value.

4.39 There are then a subset of taxpayers and citizens who are the actual users of any given service. Here too engagement is vital. Every taxpayer contributes to our schools but only children and their parents are direct users of them. If the children and their parents are engaged not just in general but specifically – reading at bedtime to a young child or ensuring homework is done well – then the service and its outcomes will be significantly better at no extra cost. Children will learn to read sooner and more fluently, and be more likely to succeed in future. Similarly, in healthcare, recovery from accident or illness is likely to be faster and better if the patient is engaged and an active participant in their recovery - exercising a recovering broken limb, for example.

4.40 This question of user engagement applies to more aspects of public service and expenditure than is apparent at first glance. The security of cities or public transport, for instance, clearly depends on not only the police, intelligence agencies and so on, but also the vigilance of citizens. The overall health of the population depends both on citizen choices (stopping smoking, reducing drinking, eating healthily, exercising regularly) and on the quality of hospitals. In short, good outcomes often depend as much on public engagement as they do on public expenditure.

4.41 There is always a risk for governments in drawing attention to the value of citizen engagement; namely that when they do so, it is all too likely that they will be accused of making that case in order to cut funding for public services. This is unfortunate and misleading, and based on a false dichotomy – that either government picks up the tab or it asks citizens to act on their behalf. The argument here is that both matter. Effective public services combined with judicious user and citizen engagement will deliver the best public value.

4.42 User and citizen engagement is therefore a central part of the Framework. These themes are picked up in three areas.

Public and taxpayer legitimacy

4.43 As noted above, a clear understanding of taxpayer perceptions of legitimacy and their drivers is essential to maximising public value. A public service is more valuable if taxpayers and citizens believe in it, are willing to fund it, and commit to supporting its outcomes more widely.

4.44 The Framework explores this by asking that public bodies have an awareness of what taxpayers think about the policy or programme, what influences these perceptions, and have an effective strategy for enhancing taxpayer understanding of the policy aims. It further seeks evidence of a successful track record of influencing public and taxpayer perceptions, and that the public body has devised measures to ensure key players in the delivery chain understand their role in improving taxpayer and public perceptions.

User and client experience and participation

4.45 This area explores the extent to which users of the service are engaged. Actively engaging service users can often improve service outcomes without significantly increasing inputs, thereby increasing public value.

4.46 Here the Framework seeks evidence of understanding of user and client experience and what shapes this, together with an effective strategy for influencing that experience. It also looks for comprehension of why there is demand for its services, and a strategy to manage increases in demand when they arise. Understanding the cumulative impact of different programmes on users and clients – seeing the bigger picture – is crucial to this. The public body should understand how engagement compares to benchmarks, and what the drivers of participation are.

Key stakeholder engagement

4.47 In addition to citizen, taxpayer and user engagement, many services rely on active engagement with often influential stakeholders. This can be difficult to get right, but there is little doubting the value of doing so. Success should not be measured by whether at any given moment, stakeholders support government policy; indeed, sometimes success will depend on not making concessions to win over the recalcitrant. What matters is whether stakeholders understand the approach and can, over time, increasingly be brought on board.

4.48 The Framework tests this by examining the extent to which the identity and interest of key interest or stakeholder groups are understood. It also explores whether the public body understands how to influence the perceptions of these groups, and has an effective strategy to manage their support for a policy or programme.

Pillar 4: Developing System Capacity

4.49 Pillar 4 is important because it is about the underlying quality and resilience of a service. It would be perfectly possible to achieve short and medium-term outcomes (Pillar 1), to control costs (Pillar 2), and generate short-term citizen/user satisfaction and engagement (Pillar 3), while neglecting the long-term capacity of the system (Pillar 4).

4.50 Pillar 4 is therefore about stewardship – leaving a given service or institution in better shape than you found it. Governments are often accused of being 'short-termist' or 'only interested in the next election'. Often such criticism is unfounded, but the concept of stewardship is critical to managing any such tendency that does arise.

4.51 To provide an illustration – the government recently announced that it would fund 500 additional places for the training of doctors in medical schools. It is doing so because it predicts demand for them some years hence. Given that it takes a minimum of six years to train a doctor, that investment will not deliver improved outcomes in the current Parliament, yet it will have a significant immediate cost. In effect, it is an act of stewardship.

4.52 Similarly, the impending introduction of a National Funding Formula for the school system is unlikely to affect outcomes in the short term. It should help to manage inputs more transparently and may improve the quality of the dialogue about school funding between government and parents or taxpayers. Mainly though it is an act of stewardship, an underlying reform of what we might think of as the plumbing of the school system designed to make it stronger, fairer and more resilient in the long term.

4.53 Pillar 4 aims to ensure that such acts of stewardship are recognised and valued. A service that neglects stewardship is likely to cost more and deliver less in future, therefore it is critical to recognise such acts now to ensure they continue. This pillar breaks down into six areas.

Capacity to innovate and learn from innovation

4.54 Continuous innovation (either marginal or disruptive) is key to improving outcomes while reducing costs. This area explores the extent to which organisations are innovating, how they are doing so, and whether the processes are in place to share best practice across the organisation.

4.55 The Framework therefore seeks evidence of innovation being promoted within the public body's performance culture, the development and adoption of new technologies to either reduce costs or improve outcomes (or both), and the use of behavioural insights to reduce demand or improve performance. It also assesses whether past learning and examples of effective performance are transmitted throughout the organisation and utilised effectively.

Capacity to plan and deliver

4.56 To maximise value, public bodies often need to prioritise outcomes and activities, making tough choices where necessary. This area explores whether departments have robust planning processes to deliver defined outcomes, alongside effective accountability processes that make clear who is supposed to be delivering what, how and by when.

4.57 The Framework looks for evidence of a rationalised plan, with correct actions identified to implement the overall strategy and meaningful milestones set, and named people throughout the delivery chain, whose roles and responsibilities are clearly defined and who are held to account with effective mechanisms. It also requires departments to prioritise outcomes where necessary. This is evidence that could be found, for example, in a department's SDP.

Capacity to engage with delivery chain

4.58 However determined the minister or government department might be to make change – to cut crime, for example – in the end they depend on frontline staff, to actually make it happen. The delivery chain is the set of relationships between the minister at one end and the frontline workforce at the other, and is often highly complex. Understanding how delivery chains are structured, including weak points in the system, is essential to the effective management of public services. This includes developing strategies to manage and influence the chain and ensuring policy or programme owners have the necessary levers to influence it.

4.59 This is examined by looking at understanding of the delivery chain (i.e. the key people, stakeholders, customers etc. within it), its weaknesses, and the strategies in place for strengthening them. It also looks at accountability throughout the chain. The Framework also examines staff engagement strategies to help staff to understand their role in the chain, and provides a mechanism for feedback on the service. Exit mechanisms should also exist when services or activities are no longer providing value, potentially to be replaced by new providers.

Capacity to work across organisational boundaries

4.60 Effective collaboration across departmental or agency boundaries is fundamental to maximising public value, especially on intractable, cross-cutting issues like mental health. There are numerous examples where this has not always succeeded: often these can be traced to poor interpersonal or interorganisational relationships. However, as the case study in Box 4.B shows, there are practical steps which, if taken, can make a significant positive difference.

Box 4.B: The Better Public Services Results Programme in New Zealand[7]

New Zealand's Better Public Services (BPS) Results programme was structured around a system of interagency performance targets, to provide a framework for collaboration on ten intractable cross-cutting problems that were important to New Zealanders. Five-year targets were set for each problem, with six-monthly reports to the public and Parliament instituted to keep work on each issue high profile. Collective accountability was instituted for agency heads, with all individuals held responsible for progress towards results. However, the main levers were less about accountability and more about public service motivation, generating cultural impetus across the public sector to improve people's lives, and connecting public servants' work to that overarching goal. The BPS Results were few and specific, meaning that every public servant involved in delivering them could remember all ten, while the scope of each remained manageable and enabled 'small wins' to be achieved regularly. The Results also focused on improvement rather than minimum standards; as opposed to putting New Zealand's 20 Health Boards in competition with each other to improve immunisation rates, for instance, the health sector as a whole was put in charge of improving the national immunisation rate above its historic levels. The Results focused on intermediate outcomes, which helped support the intrinsic motivation of public servants, and the programme took care to highlight positive stories of innovative practice. Targets are all about quantitative success, but ministers, the public, and public servants relate more to narratives. These individualised stories made the changes more relatable, but were also seen as a reward for innovation.

4.61 The Framework assesses the extent of collaborative working with other public bodies, considering evidence of new relationships being forged and developed and examples of effective collaboration being promoted and celebrated. It also looks for evidence of teams working across functional boundaries within public bodies, and understanding across the organisation of the benefits of collaboration, along with incentives to encourage this.

Capacity of the workforce

4.62 Delivering public value requires the right number of people, with the right mix of skills, in the right environment. A good workforce strategy, including anticipating future requirements, is therefore essential in building the capacity of the public body to deliver desired outcomes in the long term.

4.63 The Framework explores the quality of a public body's workforce strategy, specifically looking at its links to wider service delivery goals, identification of workforce issues (such as recruitment and retention, skills gaps) and strategies to address these, and definition of future requirements. It also examines whether public bodies are using data and indicators to monitor the implementation of the strategy, and whether processes exist to manage challenges as they arise. There should also be evidence that the public body is developing its capacity to manage change – including political and organisational changes – and unexpected pressures such as sudden increases in demand.

Capacity to review performance data and evaluate impact

4.64 Delivering public value across large systems is impossible without good data. This section of the Framework examines whether public bodies have the systems in place at all levels to

[7] 'Interagency Performance Targets: A Case Study of New Zealand's Results Programme', IBM Center for The Business of Government, 2017 (available at: https://www.ssc.govt.nz/sites/all/files/Case-Study-Interagency-Performance-Targets-IBMCCAG-2017.pdf)

gather and evaluate accurate, timely performance data. Effective systems allow public bodies to take swift remedial action when problems arise, and to understand whether actions are having the intended impact. It also assesses whether this data is being used to analyse the relative effectiveness of various policy interventions and why the chosen policy (or combination of policies) is optimal.

4.65 The Framework requires that appropriate analysis of performance information is undertaken at appropriate intervals, and that the public body has sufficient data on local and regional performance by category. It also seeks evidence of how data is disaggregated in other ways to drive improvements, and evidence of timely, effective interventions when issues arise.

Conclusion

4.66 Defining the ingredients of public value in depth, and specifying them in detail in the Framework, would change the nature of the dialogue between the Treasury and departments as well as inside and among departments. It would create a common language across the public sector about public value. And it would facilitate shared learning not just within a given department or system but across all areas of public expenditure. It should enable continuous improvement and, as a result, increase the public value delivered to taxpayers.

5 Using the Public Value Framework

Introduction

5.1 The Framework outlined in Chapter 4 provides an opportunity to take a substantial step forward in measuring and improving public sector productivity and public value. However to be effective, it will need to become embedded as an essential part of routine departmental business and fully integrated into the Treasury’s public spending processes and routines. Given the immediate everyday challenges of government this is unlikely to be easy or straightforward.

Principles

5.2 Nor is it something the Treasury is likely to manage alone. Active collaboration with the Cabinet Office (a key ingredient of success in recent years) and all Whitehall departments will be essential. In the preparation of this report, a good deal of time has been invested in constructive consultation with the Cabinet Office and major spending departments to understand both what should be in the Framework and how it might be used. The result of these conversations has been a set of principles on which to base the next phase of its development. These are set out below.

5.3 It is important to emphasise, however, that creating an effective dialogue between the Treasury and departments about public value will require changes to how both parties interact. Treasury ministers have made it clear that they want to see a change in the nature of the dialogue between Treasury officials and spending departments. They also want the rules of the game to be established and maintained rather than altered part way through. Treasury officials themselves are also determined to bring this about. This change of culture should not in any way reduce the Treasury's tight grip on expenditure control, which remains vital to the country's economic prospects. Changes can be made in departments too – particularly in moving beyond their zero-sum approach to negotiating. Good faith will be required on both sides if the impasse is to be broken. There are those who argue that the nature of this longstanding relationship will never change. However, experience elsewhere – such as in Indiana under Mitch Daniels – suggests a more productive way is possible and the taxpayer has every right to expect it can be found.

Constructive

5.4 Occasionally relationships between the Treasury and departments have become challenging. The Treasury has been seen as not just interested in controlling expenditure (which people recognise it has to do), but taking a negative standpoint in case a new idea might lead to new costs. It can also be seen as stifling departmental performance through restrictive budgeting rules and layers of process, and then conducting the occasional shakedown when the coffers run low. Meanwhile departments can be seen from the Treasury perspective as the covetous children, unconcerned by the family’s financial situation and keen to spend every penny they have however they choose. What can be lost when tensions are high is the common ground shared by both. Both are interested in improving the quality of public services. Both also believe these services should be delivered cost effectively. Both are interested in exploring the best way to achieve these aims. And, of course, both serve the government of the day.

5.5 These tensions are, to an extent, inherent between service providers and finance departments; certainly they are found in many parts of the world. Similar dynamics can also be found at different levels in the delivery chain. It is precisely this culture of suspicion that will need to be overcome if the Framework is to be successful and contribute to changing cultures. The Treasury and departments will need to focus on areas of common ground and resolve disagreements through discussion of the evidence. Furthermore, to become properly embedded, this attitude will need to be underpinned, not by fear of the consequences of being unconstructive, but by a mutual recognition of what can be achieved through constructive collaboration. The Framework and the public value agenda it sets will be successful to the extent to which all key players are willing to engage with it: the more that is invested in it, the more it will return, the more the culture will change and the more public value will be delivered.

Credible

5.6 One of the strengths of the Framework is its ability to both measure performance and diagnose how that performance could be improved. For these judgements to be effective, though, they must be credible. They must be made by well-informed professionals, based on the most relevant, up-to-date and accurate information available. This will mean drawing on the best expertise available across government. On commercial matters, for instance, the judgement of the experts within the Government Commercial Function will be more informed and professional than that of the Treasury. In assessing a body's commercial capability within the Framework, it therefore seems sensible to draw on the judgements made by the function on commercial standards (if available) rather than attempt to do so independently. Similarly, the deep knowledge within frontline services could be used to support judgements, either through individuals joining review teams or fieldwork being undertaken to explore aspects of the system.

Thorough

5.7 As noted above, credible judgements require relevant, up-to-date and accurate information. To achieve this, assessments will need to be appropriately thorough in gathering data and evidence. Clearly this will require a trade-off. It would be virtually impossible to gather and assess all the data and evidence produced by any department on a single day, much less over an extended period. Equally a Review team could spend months or years attempting to gather evidence in some of the more qualitative areas of the Framework without making much progress. However, since quality evidence is a precursor to effective decisions, rigorous evidence-gathering will improve the effectiveness of the Framework.

5.8 This should not necessarily lead to additional work for departments. As a rule of thumb, the Framework should not require a department to collect data that it does not need for itself. Reviews should (in theory) only involve evidence that either already exists or would be of additional value to the department concerned. Manufacturing evidence for the purposes of performing well at assessment is counter-productive to all parties and is something that should be actively discouraged. Without honest evidence (whatever picture it paints) it is difficult to make progress.

Impartial

5.9 Impartiality is important for two reasons. First, given the possibility of mutual suspicion between the Treasury and departments, so far as is possible, it is vital that the reviews are seen as impartial. There will inevitably be instances of disagreement over either a judgement or a recommendation. In these cases it will be important that Reviews have a clear, simple process for resolving this that both sides can trust. However, disagreement itself should not necessarily be seen as a failure: it is precisely through vigorous, plain-speaking discussion that the best solutions are likely to be found. Second, just as it is difficult to make progress without honest evidence, so it is without honest judgement. Judgements designed to serve an agenda other than identifying the best route to improvement are likely to be destructive. To be seen as fair and objective, judgements need to be owned and understood both by the Treasury and departments. Generally speaking, a department will be more knowledgeable about the services it is responsible for while the Treasury will know more about how that department compares to others.

Complementary

5.10 As noted in Chapter 2, there is plenty of work underway across government and within departments exploring various aspects of public sector productivity and public value. Much of this is already coordinated from the centre with mature processes for engagement with departments, such as SDPs (run jointly by the Cabinet Office and the Treasury) and various projects across the functional agenda (led by the Cabinet Office). Adding another process with another set of timescales and standards to an already crowded space risks creating confusion and unnecessary additional work.

5.11 For the Framework to be effective, Reviews will therefore need to align with and complement existing processes both across government and within departments. SDPs, for instance, are the government's planning and performance framework. Where the Framework seeks evidence that a department or programme has a clearly defined set of objectives, spending and implementation plans for how to achieve them, and indicators and KPIs to monitor performance, evidence for this will often be found in the SDP. When assessments are made on quality of this evidence, those running the SDP process are likely to be best placed to make them.

Appropriately incentivised

5.12 In the conversations with departments and finance ministries about this report – both in the UK and overseas – it was repeatedly emphasised that for Reviews to be taken seriously they had to matter. There had to be either a carrot or a stick, otherwise the activity was unlikely to be given much attention. Equally important, though, is that the incentives are appropriate. Incentives that are too onerous are likely to encourage either attempts to circumvent or undermine the credibility of the exercise; those that are not onerous enough are unlikely to be effective. Reviews will, therefore, need to have consequences; but these should be finely tuned to incentivise an honest, plain-speaking conversation.

Accessible

5.13 Well-presented information is key to effective communication. If the Framework is to be successful at fostering a new, more constructive dialogue on public spending, clear presentation of assessment outcomes to officials and ministers will be critical. This will require presenting information in a way that is intuitive while remaining informative, and capable of being understood by somebody unfamiliar with the specifics of the department or programme in question. The design of the Framework should help. The Reviews will also need to be clear on what needs to improve and how this can be achieved, identifying actions with responsibilities, timescales and accountability.

Using the Framework

5.14 These principles will be invaluable in exploring the series of practical questions necessary to undertake effective Public Value Reviews. These questions broadly cover five areas.

Who?

5.15 Reviews will work best as joint enterprises between the assessors and the assessed. In each instance the composition of this project team will need to be determined. The Framework has a broad scope, and is therefore likely to require input from across different business areas within a department (rather than just a single function e.g. finance). Activity within the assessed entity will need to be coordinated, while the assessing team will need to ensure it has the necessary skills, expertise and capacity to undertake the exercise. The Review team will need to be small enough to be agile, but also large enough to involve people from the Treasury and departments as well as the services affected. The team will also need strong statistical and analytical capabilities. This could mean around 6-10 people for no more than a month, each giving the review their priority attention.

What?

5.16 The scope of the Review will need to be clear from the outset. This could be determined by looking at either: (1) a particular budget or public service; or (2) a particular outcome, then working backwards through outputs to establish the resources available to deliver those outputs (recognising these may cross departmental boundaries).

When?

5.17 The aspiration is for Reviews to become embedded in routines and processes across the public sector. Assessments are therefore likely to be regular exercises, though how regularly they recur and the timing of these recurrences will need to be established. They will also need to be coordinated with the timescales of existing central processes, such as those for SDPs.

How?

5.18 While assessments across different public services and at different stages of the delivery chain are unlikely to be identical, there will need to be a consistent set of methodological questions to consider in each case. These will include the process of gathering evidence, making judgements and resolving disputes. Reviews need to be swift and not get mired in bureaucracy and meetings.

5.19 The completed Reviews would result in a searchable database which would, as it became more extensive, have tremendous value as a source of insight into how to maximise public value.

Incentives

5.20 As noted above, reviews using the Framework need appropriate incentives to gain traction. What these are will depend on the specifics of each case. The way in which reviews are conducted by the assessing entity will determine which incentives are appropriate.

Interdependence

5.21 The questions above are interdependent: certain answers will affect the choices available within others. The resource available to the review team may affect the scope and regularity of the reviews, while also affecting the expertise and subsequent credibility of the recommendations. If Reviews are less frequent, they may need greater scope and rigour to become effectively embedded. Scope may restrict what incentives are available: it may not be appropriate to put a blunt incentive around a Review with a narrowly defined scope. Methodology will affect both timing (assessments that require more evidence-gathering are likely to take longer) and resource (will likely require more people). To maximise effectiveness the whole system will need to align. There will therefore need to be consideration of the best review pattern ahead of conducting any particular assessment. Either way, a Review should always be a collaborative exercise, with the parameters of the Review agreed to achieve the common objective of better understanding the process of delivering public value, and of what can be done to add further value.

Treasury implementation

5.22 The set of questions and considerations outlined above are designed to support Reviews throughout the delivery chain. Each entity within that chain would have to consider how best to use the Framework. From the Treasury's perspective, this is likely to involve applying the Framework to large areas of spend such as whole departments, large programmes, or high-level outcomes. This could be achieved through:

- Light-touch roll-out through HMT Spending Teams: undertake an initial assessment of either a whole department or its major programmes over a two-month period, roughly broken down in to four phases (scoping, evidence gathering, assessment, recommendations). This is an opportunity for the Treasury and departments to become accustomed to using the Framework to assess spending, performance and capacity. It is likely to use existing data and evidence where available and develop joint judgements. The final output may be discussed at a ministerial bilateral between the relevant Secretary of State and the Chief Secretary.
- Intensive exploration of specific areas of spend: following the same timescales and process as above, except focused on specific areas of spend that are either complex, contentious or at risk. These are likely to involve gathering new evidence (e.g. through focus groups, engagement with key stakeholders etc.) as well as more rigorous examination of existing evidence.

5.23 A number of departments have volunteered to take part in an initial phase of Reviews between November 2017 and mid-2018. It should therefore be possible to test a variety of approaches and then refine them.

Summary

5.24 To be effective, the Framework needs to become embedded in the routines and processes of government. Achieving this is unlikely to be straightforward; cultural change is inherently challenging. Nor is it likely to happen overnight. Reviews will need to improve over time with better methodology, stronger incentives, and experienced assessors. The principles in this chapter provide the foundation for the development of this important work on productivity and public value.

6 Key building blocks of the Framework

Introduction

6.1 The Public Value Framework provides a tool for measuring the likelihood that an organisation or programme is maximising the public value it delivers from the funding allocated to it. The Framework though, is only as powerful as the data and information available to make the judgements required. Likewise, the remedy proposed will only be effective if the system is ready and willing to innovate and change as necessary following the outcome of a review.

6.2 This brings us to the final focus of the review. We have considered not only what processes are relevant to maximising public value and measuring the likelihood of it being delivered (the pillars and areas to consider in the Framework), but also the key drivers of improved outcomes. This chapter examines the role of two powerful drivers in delivering public value: comprehensive, accurate and timely data; and innovation (both incremental and disruptive, to use the terms made familiar by Clayton Christensen and Joseph Bower).[1] These are both areas where the Treasury could and should make sharper demands of departments and agencies.

The central importance of data

Background

6.3 As Chapter 4 makes clear, the Public Value Framework is dependent on data: without good evidence, no reliable judgements can be made. The data requirements of the Framework are substantial. In Pillars 1 and 2, data underpins judgements such as whether historic performance is understood and reflected in new policy making or whether comprehensive management information is available to decision makers. Without data, it will not be possible to determine within Pillar 3 whether the strategy employed to influence the experience of users and clients is proving successful. And likewise, for Pillar 4; how could the Treasury or the leaders of a public body tell whether they are strengthening the long-term health or resilience of an organisation without data and evidence?

6.4 As far as possible, this data needs to be accurate, impartial and timely. Should the outcome of a review point to the need, for example, to reassess the governance of a project, it would be vital that that judgement is accepted and acted upon rather than endlessly disputed. This is far more likely if all parties trust the evidence on which the assessment has been made.

6.5 The importance of good data and analysis is not a new conclusion; the benefits have been well recognised in government. Data is an essential tool for maximising public value, as it allows those responsible to:

- understand the problems faced by government and how public money can be best spent to resolve them;
- provide evidence of the effectiveness of interventions, leading to stronger policy decisions that reflect what works;

[1] 'Technologies: Catching the Wave', Joseph L. Bower & Clayton M. Christensen, 1995

- inform and challenge policy decisions, recognising failure and sharing knowledge; and
- bolster accountability by ensuring the public and Parliament have the information they need to hold budget holders to account.

Existing data initiatives

6.6 The government is already taking a range of steps to improve the quality and analysis of, and access to, its data. As part of the Financial Management Review, a team of analysts, accountants, economists, and strategy leads has been built in the Treasury to work with departments on understanding the inputs, outputs and cost drivers of large, cross-cutting areas of spending. These Costing Projects are taken forward in collaboration with departments and allow both parties to better understand cost drivers, and often identify improvements to reduce those costs and boost productivity.

6.7 The Treasury is also working with departments to improve the quality and consistency of financial data through cross-government data sprints. These examine how the financial data held in departments can be mapped more effectively to facilitate easier analysis and use across multiple user groups. When implemented, the improvements made through these data sprints could allow government to better understand, for example, what it spends on commonly-procured items like IT and, over time, improve its ability to benchmark effectively.

6.8 Beyond the Treasury, work is also underway across central and local government on improving data quality and use:

- The Government Transformation Strategy 2017, published by the Government Digital Service (GDS), recognises the complexities of developing relevant and timely data and analysis for government activity, and the challenge of securing access to data held outside of individual organisations in order to drive better outcomes and decisions.
- The Data Leaders Network is making progress in understanding how to share data outside of traditional departmental and organisation boundaries.
- The Office for National Statistics launched their Data Science Campus and Economic Statistics Centre of Excellence in March 2017, bringing economists together with the technology and digital skills needed to support government information infrastructure and decision-making.
- Within the HM Prisons and Probation Service, part of the Ministry of Justice, a performance hub has been set up to consolidate data from a number of products and sources and allowing over 3,000 users to interact with it directly, uploading new data and carrying out benchmarking analysis.
- New devolution deals are starting to build on progress in London and Greater Manchester by considering the impact that improved data analytics can have on service delivery.

6.9 These are just a fraction of the welcome and important data-related initiatives ongoing across government. However, given the era we live in, the opportunities and challenges in this area are likely to increase. Continued focus therefore on improving the quality, analysis and use of data will be imperative to maximising public value in the coming years.

Recommendations

6.10 The Treasury can and should use the Framework and the proposed Public Value Reviews to raise the profile of existing data initiatives across government, support those leading this work and demand more from departments to maximise their use of data.

6.11 The Treasury has many levers by which it can achieve this, particularly as it allocates budgets to departments. Mitch Daniels in Indiana again provides an instructive example here. His Central Budget Office took the view that large budgets could not be justified without data systems being in place to measure their impact. It made this point explicit by linking budget allocations to departmental willingness to set up the data systems that would enable them to track progress against outcomes. The Treasury should look to follow this example. This could be done on an *ad hoc* basis as business cases are approved; it could be a requirement of the Spending Review process; or it could be in return for the delegated authority it provides departments to spend public money. In the era of 'big data' and ubiquitous technology, it is hard to justify not doing so.

Using data to deliver marginal gains and incentivise innovation

Background

6.12 If the government is to achieve the sought after culture change, it needs to exploit effectively the data available to it: that much is indisputable. In improving the delivery of services, it specifically needs to understand what the data says about what does and does not work. If the Framework helps to deliver this, then government will be able to unlock ongoing marginal improvements to public services.

6.13 The concept of marginal gains is based on Kaizen, the Japanese business philosophy of continuous improvement, involving all employees in the search for solutions. The 2015 Public Sector Efficiency Challenge was arguably an attempt at employing Kaizen by the UK government, engaging directly with those in the know to improve service delivery. More famously, the theory was applied by Sir Dave Brailsford, who harnessed the approach to develop the British cycling team, from a single gold medal win in 76 years to winning eight out of ten gold medals at the Beijing Olympics in 2008 and a further eight at the London Olympics in 2012.[2] He has since adopted a similar approach at Team Sky, which has won five of the last six Tours de France. Box 6.A provides examples of this theory being applied in public sector organisations, both in the UK and internationally.

Box 6.A: Examples of Kaizen in public sector organisations

Virginia Mason, Seattle

At Virginia Mason, a hospital in Seattle, staff were encouraged to file reports about anything that went wrong. Consequently, the hospital was able to analyse the data gathered and implement a number of small improvements. These included improved patient wristbands, ergonomic design of surgical equipment, and operating theatre checklists. The overall improvement achieved by these changes contributed to a 74% reduction in liability insurance premiums for the hospital.[3]

[2] available at: https://www.britishcycling.org.uk/gbcyclingteam/article/Gbrst_gb-cyclingteam-GB-Cycling-Team-Medal-History--0?c=EN

[3] 'Transforming Health Care: Virginia Mason Medical Center's Pursuit of the Perfect Patient Experience', Charles Kennedy, 2010

Box 6.B: Examples of Kaizen in public sector organisations (Continued)

Western Sussex Trust

Western Sussex Hospital's *Patient First* programme[4] uses the *Kaizen* approach to improve hospital performance, patient experience and staff engagement, creating better public value in every strand of the trust's activities. Staff training by the in-house Kaizen team combined with organisation-wide shared purpose enables staff to take ownership of their own performance and independently drive improvements where they work. Their *Patient First Improvement System* makes continuous improvement part of everyone's day-to-day role. For example, at daily huddles staff suggest improvements and agree solutions. Many may seem relatively minor but the hundreds of solutions enacted every day create a momentum of positive change, improving patient experience as well as public value. Colleagues use lean problem-solving to tackle more entrenched problems too. For example, the organisation has reduced the average time for delivery of take home medications from three hours to ten minutes; improved delayed discharges from critical care by 90%; and has reduced inpatient falls trust-wide by 30%.

6.14 The Harvard Business Review says that to deliver marginal gains, an organisation must focus on 'progression, and compound the improvements'.[5] The search for marginal gains should be continuous and integral to the ways officials and departments across Whitehall work. The (justly) renowned Nudge Unit (otherwise known as the Behavioural Insights Team) has been a pioneer within government for this way of working. In collaboration with departments, their experimental approach, drawing always on good timely data, has enabled numerous departments and agencies to make small, often low- to zero-cost, changes that have significantly improved outcomes. The Cabinet Office and the Treasury are now championing this approach through the broader "What Works" initiative (see box 6.C). This kind of thinking should become part of the way things are always done across the public sector.

6.15 As well as effective data analysis, it is vital that government has effective knowledge management to ensure successful innovations are diffused across the public sector. Exchanging information effectively allows government to share knowledge, build corporate memory, and understand the influence of the past on current and future events. Exploiting the experience, knowledge, expertise and information that individuals create or acquire during their work is the key to achieving this and should be an integral part of working in government. It will also help minimise the unjustifiable discrepancies in performance and share best practice, compounding marginal improvements across the whole system and leading to greater gains in productivity and performance. The Cabinet Office's Better Information for Better Government programme is an excellent start, however more can still be done.

4 available at: http://www.westernsussexhospitals.nhs.uk/your-trust/performance/patient-first/

5 'How 1% Performance Improvements led to Olympic Gold', Eben Harrell, 2015

Box 6.C: What Works Initiative

"What Works" is an initiative launched by HMT and the Cabinet Office in 2013 to ensure that the best available evidence informs spending decisions. It brings together a network of 10 independent What Works Centres that assess the existing evidence base in specific policy areas and issue guidance on cost effective practice. Where evidence is weak or unavailable, these organisations help decision-makers in government and frontline services by commissioning trials to test what works. The Education Endowment Foundation, for instance, has more than doubled the amount of evidence available from education trials in this country, transforming our understanding of how to improve attainment in the classroom. The network is coordinated by the Cabinet Office What Works Team, which operates across government both to share findings from the centres and support civil servants in generating evidence through high quality experimental methods. They run an innovative Trial Advice Panel with experts from government and academia that has now supported 18 departments and agencies in testing whether their policies and programmes are working.

Recommendation

6.16 As the government continues to seek opportunities to harness data and share its knowledge, there is every reason to believe that year-on-year, nudge-by-nudge, there should be improvements in performance across the board as a matter of course and without extra cost. The Framework makes this expectation clear: Pillar 4 explores the extent to which the organisation's performance culture encourages innovation. This should be reinforced by a clear expectation from the Treasury that public services will deliver marginal improvements year-on-year at no extra cost.

The need for disruption

Background

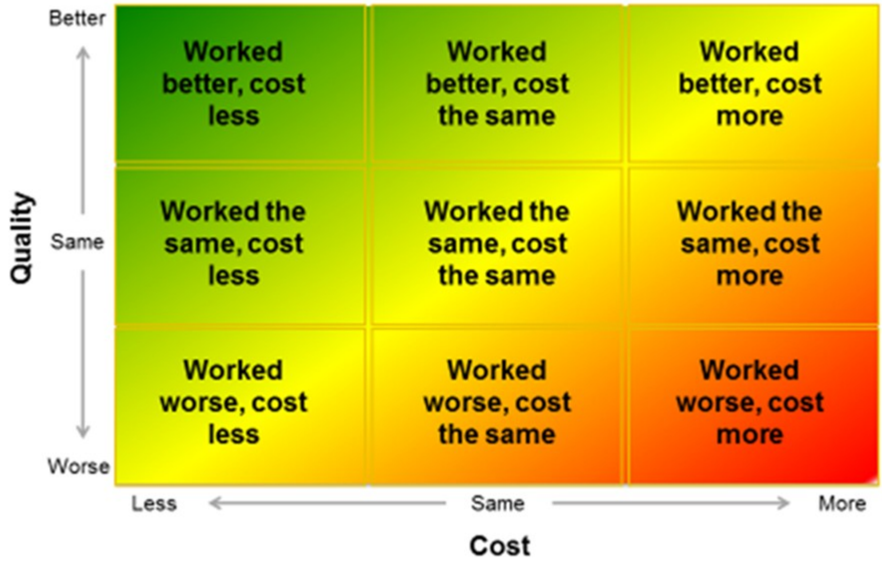
6.17 However, ongoing marginal improvements alone are insufficient. Periodically, disruptive innovation is also required, particularly from those organisations pushing the boundaries. The term 'disruptive innovation'[6] describes a practice where established processes are displaced by a completely novel and often lower cost way of achieving the same or better outcomes. The impact of mobile phones on fixed line telephony, the rise of online shopping, or the impact of the gig economy on holiday accommodation or taxi services are all examples of this type of change.

6.18 Disruptive innovation should also become part of the new normal for government and the public sector. Across the public sector, there should be a constant search for new ways of achieving the same or better outcomes at lower cost.

6.19 The map below, explicitly derived from the work of Hood and Dixon, illustrates how policies and innovations could be mapped, with the marginal gains spread through the yellow/green swathe of the chart and the disruptive innovations in the top left hand (green) corner.

[6] 'Technologies: Catching the Wave', Joseph L. Bower & Clayton M. Christensen, 1995

Chart 6.A: Mapping the impact of new policies[7]



Existing work

6.20 Policy innovation at the centre of government is supported through the Policy Lab, a part of Cabinet Office. Funded by departments, the Policy Lab focuses on supporting departments in designing and implementing new policy solutions. They have an international reputation for excellence, inspiring new thinking through delivering practical policy projects, building the skills and knowledge of the policy profession. Recent projects have explored the private rental sector (CLG), digital forensics (Home Office) and digital record keeping (The National Archive).

6.21 Harnessing the latest technologies offers tremendous opportunities to support and accelerate the delivery of government efficiency and transformation programmes. To better understand these opportunities, the Government Digital Service (GDS) has recently researched the cross-government landscape of technology innovation including the use of emerging technologies such as machine learning, blockchain and advanced biometrics in both internal government and citizen-facing public services.

6.22 Some departments have created innovation funds. There are a wide range of such funds across government, aimed at tackling challenges ranging from social issues to exploiting new technologies.

6.23 Notable examples of such funds include the following.

- The Department of Health's Global Digital Exemplar programme is a £385 million fund from which digitally advanced hospitals can bid for additional funding to deliver innovative practices. Digital exemplar hospitals then share their learning and experiences to enable other trusts adopt successful innovations as quickly and effectively as possible.
- The Ministry of Defence's Defence Innovation Initiative helps industry develop game-changing technologies and encourage greater efficiency in the innovation process. This initiative encompasses both an £800 million Innovation Fund (from which industry bids for grants to develop innovative technologies) and a horizon

[7] 'A Government that worked better and cost less', Christopher Hood & Ruth Dixon, 2015

scanning function to inform MoD on emerging technologies which could be applicable to its activities.

- The Department for Education's Teaching and Leadership Innovation Fund, designed to support high-quality professional development for teachers and school leaders. The three-year, £75 million fund aims to contribute towards tackling social mobility by improving the educational outcomes of children and young people.

6.24 Such funds are also popular internationally. The UK, USA, Australia and Sweden recently launched a joint global innovation fund totalling $200 million. This fund provides grants, loans and equity investments to the developing world for social innovations that improve the lives of people living on less than $5 a day.[8]

6.25 The 'Race to the Top' Fund, launched in 2009 by President Obama and his Secretary of Education, Arne Duncan, exemplifies the benefits that can be achieved by such funds. The programme required US States to compete for a $4 billion federal fund established to drive coherent whole system school reform and transform teaching and learning in schools. The initiative empowered states to develop reforms that met certain requirements, ranging from the introduction of new data systems to turning around poor performing schools. Many states changed their legislation in order to enter the competition, thereby delivering worthwhile reforms even if they were not ultimately successful in their bids. As a result the benefits of the competition extended far beyond the winning States and at no cost to the Federal Government. The competition was also run transparently, allowing States to learn from each other during the process (further underlining the importance of effective knowledge sharing).[9]

Recommendation

6.26 It is important to note that innovation funds cannot, by themselves, foster disruptive innovation within the government. The aspiration should be to make innovation part of the day-to-day working of government which can only be realised by embedding the necessary behavioural and cultural changes. The expectation should be that departments come forward with bold ideas about doing more with less without requiring separate innovation funds.

6.27 The Framework emphasises innovation – both marginal and disruptive – but the Treasury can do more to promote innovation. It could demand that disruptive social or technological innovations, which radically improve outcomes and dramatically lower costs, are routinely presented by departments in business cases and Spending Review submissions. This would have the potential to deliver such change. The Treasury should actively pursue this approach in dialogue with the Cabinet Office and major spending departments. Ministers and officials from the latter should gain recognition for their courage and determination in innovating rather than for the size of their budget.

[8] available at: https://globalinnovation.fund/who-we-are/about-us/

[9] 'Race To The Top', U.S. Department of Education, 2009 (available at: https://www2.ed.gov/programs/racetothetop/factsheet.html)

7 Next steps

7.1 The previous three chapters have set out an ambitious agenda to improve UK public sector productivity and public value. If successfully implemented, this programme could significantly improve performance across central government departments, as well as agencies, local authorities, front-line service providers and beyond. However, this will not happen without coordinated, collaborative action across the public sector. This chapter sets out the next steps for how this work could be advanced.

Public Value Framework

7.2 The immediate priorities for the Public Value Framework are threefold.

- Further testing with departments: as identified in Chapter 5 the Framework should be further refined and developed through piloting it with departments that have already volunteered to do so. The purpose of this activity would be to both test the content, structure and utility of the Framework, and explore the most effective means of using it to reach judgements. This work should begin before the end of 2017 and continue through the first half of 2018.
- Consultation: this report (and the publication of the Framework with it) will no doubt generate a rich dialogue with interested parties outside the public sector. These responses would help further strengthen this thinking.
- Publishing a revised Framework and guidance: the initial pilot phase could culminate in a revised version of the Framework being published in mid-2018. This would set out a definitive version of the Framework that can be used across the public sector. The publication could also provide guidance on how to use the Framework to reach judgements, including thoughts on methodology and the type of evidence required to make these effective. The Treasury could also take this opportunity to provide further clarity on its plans to integrate the Framework into its own processes.

7.3 As noted in Chapter 5 the Treasury, in dialogue with colleagues across government, should look over time to strengthen the incentives relating to Public Value Reviews to ensure they gain the traction necessary to improve performance. This is not the moment to lay down a timetable on this point but as ever, given the fiscal position, time is of the essence. The Treasury should, therefore, move as promptly as possible.

Innovation and data

7.4 The recommendations in Chapter 6 are broad and ambitious. The Treasury will need to embed attitudes about the availability and use of data across the department to ensure this message is consistently communicated to spending departments. Similarly, with marginal gains and behavioural insights: if this kind of thinking is to become a clear expectation it will need to be consistently communicated to all spending departments. Within both marginal and disruptive innovation, the Treasury should explore how it can best support and incentivise this activity through the way it manages public expenditure and its relations with departments and agencies. It should do so collaboratively with departments to ensure solutions are jointly agreed and (where relevant) implemented.

The Public Value Framework

Pillar 1 – Pursuing Goals

Areas to consider	Example questions	Best case	Worst case
1. Understanding goals and indicators – *do you have clearly defined goals and indicators?*			
Understanding of goals	*Is the overall vision clear? Have clear goals been developed? Are they measurable? Is there a sound understanding of the degree of challenge, based on historical performance? Is the challenge understood in terms of real-world outcomes, impact on human capital, changing perceptions, as well as meeting the goal?*	Vision has been translated into challenging, outcome-focused and measurable goals that reflect underlying real-world improvements sought. Understanding of degree of change required based on historic data including impacts of past activities/external influences.	Significant ambiguity/evidence that goal and policy are in conflict. Lack of appreciation of urgency and scale of change required, as indicated by lack of evaluation of historical performance.
Key performance indicators	*Have effective Key Performance Indicators (KPIs) been developed to track and manage performance? How well is the link between KPIs, goals and outcomes understood? Have measurable and SMART objectives been set?*	Clear KPIs have been set and are being used to track performance. Good understanding about how the KPIs relate to goals and outcomes.	Little evidence of KPIs being used to track performance. Confusion about the relationship between KPIs, goals and outcomes.
2. Degree of ambition – *how ambitious are your goals?*			
Ambition	*How ambitious is the goal? How does it compare with global leading delivery and outcomes in similar sectors? How are short-term and long-term goals being balanced?*	Goal is ambitious and compares positively with global examples of similar policies or programmes.	Goal is not supported by evidence, and is wildly ambitious or below what similar systems have achieved.
Organisational change	*Is any major organisational change required along the delivery chain to achieve delivery (e.g. cultural, behavioural, structural)?*	Any organisational change is well understood and planned for or no *major* organisational change required.	Major organisational change required with significant barriers to success or confusion about how changes should work.
Interdependencies and constraints	*How dependent is this goal on the delivery of other programmes and support from other public bodies? How manageable are these interdependencies? Are there any constraints that make the target particularly difficult to achieve (e.g. timescales, resources, technical, political)?*	Interdependencies well understood, manageable and being managed. No constraints or only a few constraints that can be worked around.	Several major and critical interdependencies which are either not understood or not addressed. Major constraints exist that will be difficult to work around.
3. Progress towards indicators and goals – *how are you able to track progress against delivering your goals?*			
Historic performance	*Is a demanding step change or reversal in performance required? Has recent performance been on track? How well are the challenges involved understood? Is there a good understanding of what is not working or is ineffective?*	Continuation of trend could achieve target or there is clear rationale to justify step-change. Department/public body has history of achieving its targets, and a clear understanding of the drivers of recent performance.	A major reversal in performance trend is needed within short timescales with no clear rationale. No clear understanding of challenges involved in achieving implied performance.
Measures (or indicators)	*Are current proxy measures or lead indicators suitable? Will measures quickly show whether actions are working?*	Measures selected that will enable monitoring at frequent enough intervals and drive the right behaviours. Public and stakeholder perceptions are also tracked.	No measures or proxy indicators identified, or timelags too great to inform delivery, or measures distort priorities or drive the wrong behaviours.
Trajectories	*Are there trajectories showing the expected outturn at each intermediate point between the baseline and the target year? Can the data be broken down for comparisons (e.g. by unit or region)?*	Each measure has a trajectory clearly linked to key activities and milestones and sound progress-tracking processes.	No trajectories or trajectories not based on any analysis.

Pillar 2 – Managing Inputs

Areas to consider	Example questions	Best case	Worst case
1. Processes to manage resources – *do you have effective financial management processes?*			
Understanding of total resources	*Does the public body understand the quantity of total financial resources available and its sources of funding? Does it understand the risks around that funding?*	Public body is aware of financial resources available to it and produces its spending plans accordingly. Income assumptions are taut and realistic.	Public body displays no understanding of resources available to it. Plans are based on over-optimistic or untested income assumptions.
Financial planning	*Does the public body have a clear plan about how to live within financial resources available whilst still delivering outcomes? Does it have contingency plans in case funding pressures emerge or there are increases in demand? Is there a medium-term financial plan?*	Public body has detailed plans showing how it intends to meet its objectives with its allocated budget. Strong reprioritisation and contingency mechanisms are in place to deal with significant unforeseen pressures.	Public body begins the year with budgets significantly over-programmed. Is reliant on receipt of additional resources to meet any unforeseen pressures.
Financial processes	*Does the public body have processes to regularly review the use of resources? How early is it likely to anticipate a budget pressure emerging? Does it have effective channels through which the emerging pressure can be escalated?*	Public body systematically reviews use of resources and conducts evidence based assessment of likelihood and scale of risks. Assessments are shared with parent body/HMT on monthly basis and mitigating actions agreed as necessary.	No evidence that financial position, use of resources and assessments of emerging pressures are reviewed or escalated.
Management information	*Does the public body have a process by which relevant, up-to-date and comprehensible management information is regularly provided to key decision-makers? How effective is the quality of the management information provided?*	Public body has systems in place to allow it to produce relevant, timely and consistent management information, which it shares with key decision makers including HMT.	Public body does not gather relevant management information or does not share information with parent department or HMT.
2. Quality of data and forecasts – *do you have the requisite data to break down, track and forecast spending over the Spending Review period?*			
Spending breakdown	*Can the public body produce a detailed breakdown of spending by programme and economic category for the whole of the Spending Review period? Is this reflected in the medium-term financial plan?*	Detailed spending plans, covering both programme and economic category, are in place for the whole of the Spending Review period. These are loaded onto the Online System for Central Accounting and Reporting (OSCAR).	Detailed plans setting out how the public body intends to deploy its resources do not exist.
Tracking spending	*Is the public body capable of tracking how much has been spent through the delivery chain, from central government to the front line? Does the entity record this data on OSCAR in-line with best practice guidance? Does the public body have a comprehensive understanding of the analytical evidence base in their area? Does this evidence inform economic appraisal of delivery options?*	Public body produces reliable, consistent and timely data on amount spent, destination of spend and what has been purchased. Data shared with parent organisation/HMT at regular intervals.	Public body is unable to identify destination of spend or what has been purchased. Any data held is not shared with key stakeholders.
Forecast accuracy	*Are the public body's in-year spending forecasts accurate to within 1% of the outturn figure? Did it produce the forecast on time? Is there a good understanding of the in-year forecast impact on the following year?*	Detailed forecasts are produced each month and are shared with parent organisation/HMT. Forecasts at mid-year point are within 1% of actual outturn.	Forecasts bear little or no resemblance to outturn and are updated infrequently.
Evidence of inputs linked to outputs	*Does the public body have evidence linking the purchase of inputs to the delivery of outputs? Are there processes in place to use this information to inform future decisions on the purchase of inputs?*	Public body is able to produce evidence linking expenditure to specific outputs. This information is used to inform future spending decisions.	No evidence exists to show link between expenditure and specific outputs. Spending decisions are not linked to past performance.
3. Benchmarking and cost control – *how are you benchmarking your spending data and using this to control costs?*			
Front-line and back-office	*Does the public body understand the split of its resources between front-line and back-office services? How does this compare against other similar organisations? Does the public body have evidence to explain the differences?*	Public body distinguishes between front-line and back-office spending and understands how this compares with similar organisations. Keeps back-office costs under review to maximise resources devoted to the front-line.	The public body is unable to distinguish between front-line and back-office functions and does not benchmark spending against similar organisations.

Pillar 2 – Managing Inputs (Continued)

Unit costs	*Does the public body have data on resources expended per input purchased and per unit of output delivered? Does it have data on unit costs in functional areas of spend (e.g. property or IT)? Does it have processes to use this data to improve efficiency performance?*	Accurate, timely and consistent data on unit costs are produced and used at management level to inform future spending decisions and to drive improved efficiency.	Data on unit costs are not produced. No attempt is made to use information on unit costs to improve efficiency.
Domestic and international comparison	*Does the public body undertake internal and external (including international) comparison of cost data (including unit costs)? Does it identify, understand and (where appropriate) implement best practice?*	Reviews of internal and external cost data are undertaken at regular intervals. The information gathered is used to inform changes in practices aimed at reducing costs.	Public body conducts no comparisons of cost data and displays no awareness of best practice.
Cost control	*Are there systems in place to monitor and control costs in real-time? How quickly does information on escalating costs get passed to senior decision makers? Is the process for doing so well understood and reliable?*	Costs are monitored in real time. Systems are in place to provide this information to management at regular intervals to inform in-year decision making.	No systems are in place to monitor and control costs. Spending decisions are not informed by unit cost information.

4. Cost shifting – *do you have a controlled approach to cost shifting?*

Source of Funding	*Does the public body know its ultimate source of funding (i.e. central funding or charging end users)? Are there alternative funding models and, if so, can the public body demonstrate its funding mix is optimal?*	Public body is fully aware of existing funding sources. Detailed review of all potential funding models has been carried out. Public body is able to demonstrate that existing funding mix is optimal.	Public body demonstrates poor awareness of its funding streams and factors that may affect them. Hasn't analysed alternative funding models and is unable to demonstrate that service is being funded optimally.
Reliance on others	*Is the public body reliant on others to provide funding to meet costs? Does the public body have a strategy to manage this risk? Is this strategy effective? Are there suitable contingency plans?*	Public body has identified where it is reliant on other bodies for funding. Strategy is in place to monitor and mitigate risks and where risks do materialise to manage within existing budgets.	Public body is heavily reliant on funding from external bodies, but has no processes in place to monitor and mitigate risks to this.
Cost shifting on others	*If the public body fails to deliver, does it shift costs on to other public sector entities and end-users? Does the public body understand the magnitude of this risk? Are there processes to minimise the probability of this happening? Does the public body maximise the benefits for others, and are there incentives to save costs for others?*	Public body understands the risks posed to other parts of the public sector and end-users by delivery failure. Systems are in place to monitor and mitigate the risks and information is shared with concerned parties.	Programme failure leads to increased costs for other public sector entities and end-users. Magnitude of this risk is not understood and no strategy is in place to monitor and mitigate the risks.
Temporal cost shifting	*Is the public body making savings through shifting costs to future periods (e.g. through deferring investment or purchasing lower specification inputs)?*	Public body does not rely on deferring spending to realise savings. Where investment is deferred this is a result of genuine value for money reasons and programme delivery is not delayed.	Savings made are purely the result of deferring investment or delaying programme implementation. Public body has no plan to deal with pressures deferred to later years.

Pillar 3 – Engaging users and citizens

Areas to consider	Example questions	Best case	Worst case
1. Public and taxpayer legitimacy – *do you understand public perceptions of the policy or programme and are you responsive to this?*			
Understanding public/ taxpayer perceptions	*How well does the public body understand what taxpayers think about the policy or programme? How well does the public body understand the drivers of taxpayers' perceptions?*	Public body deeply understands the drivers of public perceptions and the fluctuations of public support. Public understand the aims and role of the programme or service, and are satisfied with the quality.	Public bodies are unaware of public opinion or do not understand reason for public dissatisfaction. Public are, or are expected to be, hostile to this policy or programme or do not understand aims.
Responding to public/ taxpayer perceptions	*How well does the public body influence public and taxpayer perceptions? How is taxpayers' understanding of the policy or programme aims being developed, and how successful is the strategy? How well do key players in the delivery chain understand their role in improving the understanding and perception of taxpayers?*	Public body has a track record of successful influencing of public and taxpayer understanding and perceptions. Where the gap is challenging, there is a plan for improving public perceptions.	No track record of successful influencing of public and taxpayer understanding or perceptions. No strategy, or strategy is low priority, for tackling them in the future.
2. User and client experience and participation – *do users and clients have an improved experience and better outcomes due to increased participation?*			
Understanding experience	*How well understood is the relationship between the experience of users and clients and achieving better outcomes? Does the public body understand the drivers of improving the experience of users and clients?*	Relationship between user and client experience and better outcomes is well understood. Drivers of improving user and client experience are understood.	No clear understanding of how user and client experience and better outcomes are related, or of how to improve user and client experience.
Improving experience	*How effective is the strategy to influence the experience of users and clients? How does the public body expect its activity to lead to an improved experience? How well does the public body understand the reasons for demand for its services? How will it be able to manage increases in demand? How well understood is the cumulative impact of different programmes on users and clients?*	Clear, effective strategy is being implemented to influence user and client experience with consideration given to impact of multiple programmes.	No clear strategy to influence user and client experience. Lack of understanding of impact of multiple programmes.
Participation in policy action	*Where relevant, to what extent are the public and users engaged with the government funded and directed policy or programme action? How does this compare with benchmarks? How well understood are the drivers of participation levels? Do the public and users understand their own roles in improving outcomes?*	Level of public participation is equivalent or better than benchmarks. Public body understands the drivers and level of public participation.	Participation by public is worse than benchmarks. Public body unaware of participation rates or does not understand why it is worse than benchmarks.
3. Key stakeholder engagement – *are you aware of your key interest or stakeholder groups and do you have a constructive relationship with them?*			
Key stakeholder groups	*Does the public body understand who are its key interest or stakeholder groups (groups that have a strong interest in the outcomes of the policy) and what they want from the policy or programme? Does the public body know how to influence perceptions of these groups? How effective is the implementation of the strategy in improving the support from key interest groups for the policy or programme?*	Public body has a clear understanding of its key stakeholder groups and how to influence them. Public body has a track record in engaging and building support from these groups.	Public body unclear of key interest groups and of how to influence them. Public body has no track record in building alliances among these groups.

Pillar 4 - Developing System Capacity

Areas to consider	Example questions	Best case	Worst case
1. Capacity to innovate and learn from innovation - *how do innovations drive improved outcomes and reduced costs?*			
Innovation environment	*How far does the performance culture encourage innovation to drive improvements? How are new or different ways of doing things promoted to reduce costs or transform outcomes? How are improvements promoted through both 'marginal gains' and 'disruptive innovation'?*	Innovation is promoted to develop more effective service delivery and reduce costs. Examples of both marginal gains and disruptive innovation leading to improved outcomes.	Innovation is stifled or not seen as a way to improve performance. Few examples of successful innovations.
Use of technology	*How is new technology being developed and deployed to reduce costs and improve outcomes?*	Strong evidence of new technologies being utilised to improve service delivery, reduce costs, or improve outcomes.	Few examples of new technologies being used. Developing technological solutions not seen as a priority within the programme or policy.
Changes in behaviours	*How are changes in the behaviours of users or clients being promoted to improve the quality of service provision or reduce demand?*	Behavioural insights and other evidence about behavioural changes being utilised to analyse and review the effectiveness of programmes and delivery.	Little evidence of learning about changes in behaviours being employed.
System learning and what works	*How is learning from past performance and examples of effective practice being utilised? How swiftly are these learnings cascaded throughout the system to enable the system to respond?*	Responsive, reflective culture in which innovation is encouraged, learnings are quickly identified and systematically rolled out to all parts of the delivery chain.	Few attempts to distil best practice. Learning, if any, remains at the centre.
2. Capacity to plan and deliver – *how do your strategy, plans and systems of accountability lead to improved delivery?*			
Business strategy	*Is there clarity about what success looks like at milestone points? Have the desired outcomes and activities been prioritised – where necessary, have tough choices been made? Is there a clear 'blueprint' which defines success in terms of: changed business processes, people, or tools? How is the business strategy linked to the medium-term financial plan?*	Leaders throughout the delivery chain are clear about the priority activities and what the benefits of the outcomes are. They refer to shared definitions of success which are translated into tangible outcomes.	Activities are planned without a common understanding of what they will deliver and/or why those outcomes are important. No prioritisation of activities. Success is not defined, or defined in terms of vision statements which are not translated into meaningful outcomes.
Implementation planning, milestones	*Has the strategy been turned into a rationalised plan? Have the right actions been identified to implement the strategy? Have meaningful milestones been set at sufficiently frequent intervals to focus progress assessment? How robust is the financial plan?*	Stretching and credible plan is being used that identifies the right resources, activities and milestones. Plan is clearly related to business strategy, with systematic monitoring, and solid financials (no use of central reserve, no over/underspend).	No plan, or inadequate plan which does not identify or is unrealistic about required resources and activities (e.g. under/overspends continuing, drawing down of reserves). Infrequently monitored and/or insufficiently challenging.
Accountability	*How far are named people held accountable throughout the delivery chain and how effective is the accountability? What are the mechanisms for holding people to account? How clear are key deliverers' roles and responsibilities? How effective are the senior officials in using their powers to make as much change as they can? How far do they prioritise delivering improvements? How far are people accountable for outcomes and influencing others?*	All the key people in the delivery chain have clear responsibilities and power to make changes. Key deliverers see themselves as accountable for influencing others and for outcomes/progress towards targets.	Single named official has nominal responsibility (but no ownership), with multiple objectives, no tradition of power to make changes and an expectation of moving on quickly. Focus of accountability is processes and activities, not outcomes.
3. Capacity to engage with the delivery chain – *how are you ensuring that delivery chains are understood, influenced and engaged?*			
Understanding the delivery chain	*Has the structure of the delivery chain been identified? Are roles and responsibilities clear? Are the interests and influences of key stakeholders understood? How does the public body understand and manage the financial weak points in the system? How does the public body understand workforce and industrial relations issues?*	Key people, stakeholders and target customers have been mapped and cascaded. There is a strategy for strengthening the chain (where appropriate). Clear methods exist to spot and engage financial concerns in the delivery chain.	Functions of the delivery chain are opaque. Lack of clarity about who the main deliverers are. No mechanisms to manage financial weak points in the system.

Pillar 4 – Developing System Capacity (Continued)

Influencing the delivery chain	*How much influence do the policy or programme owners have with the accountable people in the rest of the delivery chain? How far do leaders engage the chain without giving up 'non-negotiables'? Do processes strengthen areas of weakness (internally and in the rest of the chain)? Do relevant parts of the centre provide adequate challenge to strengthen accountability throughout the chain?*	Policy or programme owners are able to influence key elements in the delivery chain, leading to change in people, tools, processes or culture within their own department and the rest of the chain. Deliverers throughout chain are supported by constructive challenge from the centre.	Policy or programme owners have no influence, or do not use it, over the rest of the delivery chain. Tendency to give in on key areas of policy or process in order to get support. Areas of weakness are left unchallenged. Challenge from the centre is inadequate or fails to strengthen accountability.
Communication & engagement	*Is there a communications strategy and a strategy for staff engagement? Are the right communications channels being used for stakeholder and staff communication? Is there a focus on staff along the chain understanding what they are trying to achieve and why? Is there a mechanism for regular feedback on key delivery issues? Do staff act as advocates of the service?*	Policy or programme owners can demonstrate that the right communications channels are being used. Key people in the chain 'own' delivery messages and cascade clarity on contribution of targets to delivery. Department listens to these people and acts on feedback.	No clarity on who the key stakeholders are. Conflicting messages pervade the delivery chain, large sections are not covered by the communications strategy. Department not receiving, or ignoring, feedback.
Service commissioning and intervention	*How effective are service commissioning arrangements? What mechanisms exist for de-commissioning services or activities that no longer add value? How easily can users exit, or new providers replace, poorly performing services?*	Services are commissioned effectively. Commissioning arrangements are responsive to performance outcomes and costs. Appropriate intervention methods exist to address poor performance. New providers are encouraged.	Commissioning arrangements are weak, inflexible, or insufficiently focussed on costs and outcomes. Poor performance is not tackled and intervention is limited or too late. Users are unable to move from failing services.
4. Capacity to work across organisational boundaries – *have you forged effective inter-departmental and inter-organisational relationships?*			
Relationships	*How do staff model effective collaborative working with other public bodies? How are effective inter-departmental working relationships forged and then developed? Do the policy or programme owners promote and celebrate examples of effective practice? How effectively do teams work across functional boundaries within public bodies to achieve outcomes?*	Staff are viewed as a model of how to collaborate with other public bodies. Relationships are fostered and developed through effective practice.	Staff are known for collaborating ineffectively with other public bodies. Few role models of effective practice and practice not shared.
Principles and incentives	*Do the policy or programme owners see the purpose and benefits of collaborating with other public bodies? Are the benefits clear to staff? Are there incentives to encourage collaboration?*	Policy or programme owners understand the purpose of inter-departmental collaboration and ensure staff see this as a preferred way of working. Results are achieved through collaboration and this is celebrated.	Policy or programme owners fail to understand what can be gained from collaborating with other public bodies. Results are sought at the expense of others and the ability to fight their corner is prized.
5. Capacity of the workforce – *have you invested in developing a workforce strategy, building skills and fostering a positive culture amongst your staff?*			
Workforce strategy	*Is there an effective workforce strategy that is linked to wider service delivery goals, identifies workforce issues, and defines future workforce requirements? Are data and indicators used to monitor whether the strategy is being implemented successfully?*	Clear forward-looking workforce strategy, aligned with wider delivery objectives, identifies and addresses workforce issues, with clear, regular metrics for monitoring performance.	No workforce strategy exists, lack of fit between wider objectives and existing and future workforce, existing issues not addressed due to lack of information or capability.
Leadership	*How much time are leaders dedicating to achieving outcomes? How far are leaders engaging partners and stakeholders? How far are leaders' personal development plans linked to leadership assessments? How far are key risks (e.g. effective leaders moving on) actively managed?*	Leaders at all levels set clear expectations and own targets and delivery plan. Staff know that they will be regularly challenged on performance. Leaders are committed to growing leadership capacity in the wider organisation.	Leaders pay lip-service to delivery and lack determination or understanding of what is needed. Focused on problems not solutions. Conflicting agendas at different levels, leaders in the delivery chain are isolated.

Pillar 4 – Developing System Capacity (Continued)

Skills and capacity	*How far do people (in the public body) have the necessary skills? Is there a clear process for identifying skills gaps? How does the public body attract and develop appropriate procurement, commercial, accounting, contract management, policy and digital transformation skills? How do different skills sets work together?*	Teams critical to achieving outcomes exhibit full range of 'core' skills. Senior managers take immediate action to fill skills gaps. Focus on developing contract and procurement skills with a shared vision of what good looks like.	Teams lack core skills critical to outcomes. No process in place for assessing skills means that skills gaps are not being identified. No evidence that contract management or procurement skills are sought after and developed.
System capacity development	*How do public bodies build the long-term health and resilience (including financial health) of the system? How focussed are they on developing the ability to cope with and manage change, including machinery of government and political changes? How does the public body recruit and retain talented staff? How does the public body develop the capacity to both manage short-term pressures (including unexpected pressures such as increases in demand for services) and develop long-term capacity?*	The policy owners build system capacity at the same time as delivering short-term results. Clear resilience strategies enable the department to cope with and manage future changes. They consciously plan to improve the well-being of the future system. Clear plans to recruit and retain talent.	The policy owners show no evidence of building long-term sustainable capacity. No planning to develop future system capacity or well-being of the future system. Little evidence of talent management.

6. Capacity to review performance data and evaluate impact – *do you have systems in place to gather and evaluate performance data?*

Performance data use	*How appropriate is the content and analysis of performance information? Is it reviewed frequently enough to drive swift action? Is there sufficient data on local and regional performance and on contribution by category (e.g. segmented group)? How is the data disaggregated in other ways to drive improvements?*	Systems efficient and reviewed regularly. Good quality performance reports being used by senior managers to drive timely action.	Poor quality or no performance reporting means problems are not identified or tackled urgently. No/inadequate analysis of local/regional performance.
Feedback speed	*Where problems arise, how promptly is remedial action taken? How sufficient and appropriate is the support and/or intervention? Are there dialogues about performance all the way down the chain?*	Appropriate support or intervention at the right time. Discussions about performance take place at many tiers of the organisation.	Support or intervention too little, too late. No dialogue follows from circulation of performance information.
Evaluating actions	*How appropriate are the evaluations undertaken to understand whether the actions are having the intended effect? Does this happen at all tiers of the organisation, including the front-line? How are evaluations planned from the outset of new programmes?*	Well designed evaluations providing clear assessment of what is working. Front-line participates in evaluation. Good use of inspection or other data.	Little evaluation taking place or planned, or conducted only by the higher levels in the organisation.

B Glossary of Terms

Glossary of terms

Allocative Efficiency	The effectiveness of achieving the agreed government objectives.
Economy	How cheaply inputs are purchased.
Effectiveness	The impact outputs have on desired outcomes. **Cost effectiveness** is where resources are used in the optimal way to achieve outcomes.
Efficiency	A key feature in the process of turning public money into desired outcomes; i.e. to improve efficiency is to improve economy and/or productivity and/ or effectiveness.
Funding	The financial resource available.[1]
Inputs	The resources that are purchased using public money.
Outputs	The goods or services produced from inputs (activities may be substituted where outputs are difficult to measure).
Outcomes	The intended impact of spending public money, i.e. the objectives sought by government. They can be either direct (usually measurable and timely – e.g. NHS waiting times) or indirect (causality usually difficult to determine, and may have a time lag).
Productivity	The productivity of public services is measured by comparing growth in total output with growth in total inputs used. Productivity will increase when more output is being produced for each unit of input.
Public Value	The value created when public money is translated into outputs and outcomes which improve people's lives and economic wellbeing.[2]

[1] Resource can also include relevant legislation/ legislative powers required to implement a policy

[2] Developed further in 'Creating Public Value: Strategic Management in Government', Mark H. Moore, 1995

Technical Efficiency	Reducing expenditure while maintaining the same quality of output, or improving output while expenditure stays constant.
Value for Money	The optimal use of resources to achieve intended outcomes. Measured against three criteria: Economy, Efficiency and Effectiveness.
Source: These definitions are based on a model produced by the Public Sector Efficiency Group.[3]	

[3] available at: https://quarterly.blog.gov.uk/2016/01/25/improving-public-sector-efficiency-to-deliver-a-smarter-state/

C List of acknowledgements

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- McKinsey & Company
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- Delivery Associates
- The Institute for Government
- Reform
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D List of abbreviations

BEIS	Department for Business, Energy and Industrial Strategy
BPS	Better Public Services
CCS	Crown Commercial Service
CIMA	Chartered Institute of Management Accountants
CIPFA	Chartered Institute of Public Finance and Accountancy
CPI	Centre for Public Impact
DCLG	Department for Communities and Local Government
DEFRA	Department for Environment, Food and Rural Affairs
DfE	Department for Education
DH	Department of Health
DSC	Data Science Campus (ONS)
DWP	Department for Work and Pensions
FMR	Financial Management Reform
GDS	Government Digital Service
GES	Government Economic Service
GPU	Government Property Unit
HMRC	Her Majesty's Revenue and Customs
HO	Home Office
IfG	Institute for Government
IMF	International Monetary Fund
KPI	Key Performance Indicator
MOD	Ministry of Defence
NAO	National Audit Office
OBR	Office of Budget Responsibility
OECD	Organisation for Economic Co-operation and Development
ONS	Office for National Statistics
PAC	Public Accounts Committee
PESA	Public Expenditure Statistical Analyses
PMDU	Prime Minister's Delivery Unit
PSA	Public Service Agreement
PSEG	Public Sector Efficiency Group
SDP	Single Departmental Plan
VFM	Value for Money
WGA	Whole of Government Accounts

HM Treasury contacts

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If you require this information in an alternative format or have general enquiries about HM Treasury and its work, contact:

Correspondence Team
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Tel: 020 7270 5000

E-mail: public.enquiries@hm-treasury.gov.uk