



# Improving decision making in Whitehall: effective use of management information

*Julian McCrae, Justine Stephen, Theresa Guermellou and Reema Mehta*

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## About the authors

**Julian McCrae** is the Director of Research at the **Institute for Government** and has worked there since July 2009. Prior to this, he was one of the Deputy Directors at the Prime Minister's Strategy Unit. His other experience in government includes two spells in the Treasury, and at the Department for Work and Pensions. Julian started his career at the Institute for Fiscal Studies, where he spent eight years.

**Justine Stephen** is a Senior Researcher at the **Institute for Government**. Prior to joining the Institute she worked as a consultant with Deloitte on projects across the public and private sector. Justine has a strong interest in transparency in the public sector and leads the Institute's work on Whitehall Monitor which collates and analyses government data.

**Reema Mehta** joined the **Institute for Government** in September 2011, where she has been working on the More Effective Whitehall programme. As well as looking at how to improve management information in government, she has been conducting research and analysis on civil service head counts and departmental Structural Reform Plans for the Institute's Whitehall Monitor. Reema holds a Master's in Gender and Social Policy from the London School of Economics and Political Science.

**Theresa Guermellou** is a Senior Manager in the **Deloitte Consulting practice**. Her work concentrates on delivering improvement in finance and management information. She has worked at Deloitte from July 2011 and previously from 1998 to 2008, working with a range of clients in the public and private sectors. Prior to returning to Deloitte, Theresa worked for three years at the UK Border Agency.

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## Executive Summary

Following the financial crisis, the Government faces increasingly stark choices on how to best manage its resources. It needs to tackle the deficit, promote growth and deliver public services on a much tighter budget. To make informed decisions on how it should deal with these challenges, Whitehall needs accurate and timely information and analysis about all the activities on which it spends money.

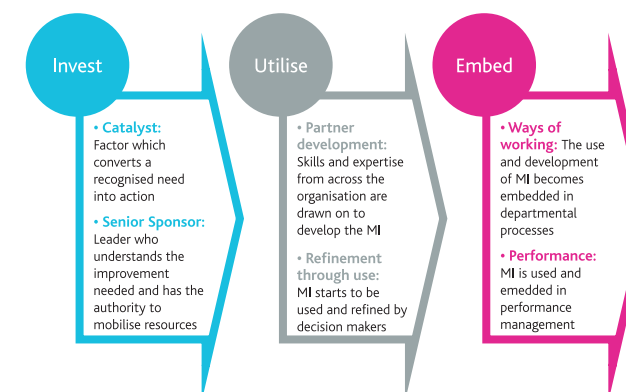
However, the historic weakness of Whitehall in producing and using such management information (MI) remains a focus of concern for bodies like the National Audit Office (NAO). The absence of such information and analysis is particularly striking to those from a commercial background, such as the new non-executives on departmental boards.

The Institute, in partnership with CIMA and Deloitte, looked in depth at a number of areas within Whitehall where the use of management information is being improved. The research aimed to provide a clearer understanding of the common factors underpinning improvement, and to make suggestions about how to drive systemic improvement across government.

Our case studies cover a range of different types of departments – from those with big in-house delivery arms to those which deliver policies via arm's-length bodies or through market mechanisms. These initiatives were at different stages of maturity, ranging from processes that have been evolving over decades to projects that were in their initial start-up phase. This diversity offered insights on how improvements can be achieved across Whitehall.

From the case studies, a number of key enablers of improvement were identified, highlighting best practice in the development of MI. The enablers are summarised in Figure 1. Overall, the cases show that Whitehall is perfectly capable of developing and using complex information relating far beyond just financial measurements. Furthermore, the processes by which management information is being developed and embedded in decision making are very similar to standard best practice techniques used by private sector organisations.

**Figure 1: Enablers of improvement**



So why aren't we seeing more rapid, systematic improvement in management information across the board? The answer may lie in the nature of improvement processes observed, which tended to be ad-hoc rather than systemic. More specifically:

- there was often nobody formally responsible for driving improvements in management information, leading to limited improvement in supply
- this lack of supply appeared to be related to the initially low levels of demand for management information from decision makers
- this lack of demand in turn is probably related to the low priority that is afforded to the continuous improvement in value for money, relative to the formation of new policy.

To unlock more systemic improvement, these issues need to be addressed. There should be clear responsibilities and accountabilities for improving the use of management information, as well as a clear focus on improving value for money.

- **Clarify the responsibility for developing management information.** finance directors general should be responsible for developing management information, which their permanent secretary can use to hold the departmental top team and arm's-length bodies to account for their performance.
- **Use non-executives to help create demand for improvement in management information.** Collectively the government's non-executives have stated that they expect weaknesses in management information to be successfully addressed within the next financial year.<sup>i</sup> As part of their next review, we would hope to see a transparent assessment establishing that this has happened.
- **Create a new priority on continuously improving value for money.** Such a priority means making permanent secretaries more transparently responsible. Their performance assessments should systematically cover how well departments are equipped to, and succeeding in, raising value for money.

These assessments of permanent secretaries will themselves require meaningful management information, benchmarking performance either with similar operations across the civil service or within the private sector. Developing this cross-departmental information will be a difficult task, requiring a leader on the official side with the experience to know what good management information would look like, the authority to mobilise resources to develop such management information, and crucially with the clear backing of the civil service leadership to make this happen. A key test of how seriously the Government is taking this agenda will be whether somebody with the necessary expertise is given the authority to develop cross-departmental management information.

Given the challenges ahead, not least of which is another very tight spending review, Whitehall urgently needs a greater focus on continuously improving value for money. This should be at the heart of the Government's forthcoming civil service reform plan.

# 1. Introduction

## The need for informed decisions

Government has always had an obligation to ensure that its spending provides value for money for the taxpayer. This is a challenge at the best of times. Following the financial crisis, the Government faces increasingly stark choices on how to best manage its resources. It needs to tackle the deficit, promote growth and deliver public services on a much tighter budget. The Government's Spending Review in 2010 committed it to major reforms in how government operates. Budget 2012 made clear that the next Spending Review will be just as tough. As the National Audit Office (NAO) puts it, "the scale of cost reduction means that departments need to look beyond short-term cost-cutting measures and make major organisational changes".<sup>1</sup>

To make informed decisions on how it should deal with these challenges, Whitehall needs accurate and timely information and analysis about all the activities on which it spends money. Policy and operational decisions need to be underpinned by management information that gives an understanding of how value for money is being achieved, where money is being spent, and how risks can be effectively managed. This is what is meant when referring to management information (MI) throughout this report.

### Box 1: Examples of management information

#### *Showing the relationship between value and costs*

When considering the right level of expenditure in maintaining an asset, it is very useful to have data showing how quickly the asset deteriorates for given levels of maintenance. Too little expenditure on maintenance can be a false economy if it leads to the asset rapidly deteriorating, necessitating more expensive repairs in the future.

#### *Benchmarking performance to reveal opportunities for improvement*

A classic case is considering the relative performance of similar operations. In a simple setting, like a transactional business running multiple call centres, this might involve examining how the average number of calls per worker varied across different centres. This information allows decision makers to focus on what is happening in lower performing centres to see if changes need to be made. But it also allows them to examine what is happening in higher performing centres, so good practice can be spread.

<sup>i</sup> Government Lead Non-Executive Annual Report, 2011/12, Cabinet Office (2012)

<sup>1</sup> NAO Cost reduction in central government: summary of progress, 2012

### Allowing better management of risk

Declines in overall performance are often preceded by falls in other measurable indicators, such as staff morale. Information on these indicators can therefore allow decision makers to intervene earlier, heading off drops in performance. Enhanced computer analytics are allowing the relationships between more and more data to be examined. This potentially allows managers to increasingly focus their efforts on the most important areas.

There is a large body of work on how government fails to produce or use MI effectively.<sup>2</sup> This is a historic weakness of Whitehall, and remains a focus of concern. The NAO summarised the position when revisiting their assessment of financial capability in the Civil Service:

*“We do not feel that the culture of the Civil Service has yet taken information-led management, and financial management in particular, to its heart”<sup>3</sup>*

The absence of MI is particularly striking to those from a commercial background, such as the new non-executives on departmental boards. Lord Browne, the Government’s lead non-executive, has observed:

*“The financial flow information, which is to say how much money has come in and how much money has gone out, is pretty good. Because people have to land their budget exactly. What is lacking is the much deeper understanding of how you can use numbers and information to understand where you really are. It is to do with efficiency. For example: how well are you doing against all the other departments or commercial organisations? Where might you be on a project, beyond the Budget period? What are you doing in terms of using the right skills for a project?”<sup>4</sup>*

The Institute, in partnership with CIMA and Deloitte, looked in depth at a number of areas within Whitehall where MI is being improved to see what lessons could be learned. This report starts by briefly setting out the approach used and provides outlines of the case studies. Chapter 3 draws out some insights on how to improve MI. Chapter 4 examines how to unlock systemic improvement across Whitehall.

## 2. Approach and case studies

### Project approach

The research aimed to provide a clearer understanding of the common factors underpinning improvement in the use of MI, and to make suggestions about how to drive systemic improvement across government. The research was focused on six departmental case studies of initiatives to improve the use of MI in decision making.<sup>5</sup> These case studies are summarised below. The project also looked at the process of improving the use of MI in the private sector to identify differences and similarities in the approaches used.

Throughout the project, we used workshops and meetings with key stakeholder groups, including ex-ministers, finance directors in the public and private sectors, parliamentarians, and non-executives, to test our project findings and recommendations. We received ongoing support and advice from our partners, Chartered Institute for Management Accountants (CIMA) and Deloitte.

The project drew on an advisory group, which provided valuable advice and challenge on our research, findings and recommendations. This group was comprised of senior civil servants, government non-executives, high-level executives from business, and representatives from the NAO.

### Six case studies of improvement

Our case studies cover a range of different types of departments – from those with big in-house delivery arms to those which delivered policies via arm’s-length bodies or through market mechanisms. The case studies focus on specific initiatives to improve the use of MI. These initiatives were at different stages of maturity, ranging from processes that have been evolving over decades to projects that were in their initial start-up phase. This variety offered insights on how improvements can be driven across Whitehall.

- The first two cases look at improving basic MI. In the first instance, the improvements were very mature allowing the project to look back across the whole change process. In the second instance the improvements were at their early stages, which allowed the project to focus in on the steps involved in getting change off the ground.
- The next two cases were focused on combining financial, operational and other information to provide insight for decision makers. They applied to well understood situations – benchmarking performance and investment appraisal respectively.
- The final two cases were focused less on the MI itself, and more on the creation of the relationships through which MI can be successfully developed and used. In both of these cases, the change was still in train, allowing the project a real-time look at what was happening.

<sup>2</sup> See, for example, Performance Frameworks and Board Reporting, NAO (2009) on the poor integration of financial and other information; Sir Philip Green (2010) *Efficiency Review*, Cabinet Office on the poor state of procurement data; Lord Levene (2011) *Defence Reform*, Ministry of Defence on weaknesses in management information across the department.

<sup>3</sup> NAO Progress in improving financial management in government 2011.

<sup>4</sup> Lord Browne, the Government’s lead non-executive, giving evidence to the PAC June 2011.

<sup>5</sup> For further details see Annex 1: Project approach.



### **Case study 1. Rebuilding financial control systems**

**Context:** Following complications arising from the introduction of a new accounting system, the department was unable to provide an adequate audit trail to support accounting entries. This led to the department being unable to produce auditable financial statements and the NAO subsequently disclaimed the accounts.

**Improvement initiative:** Under the direction of the incoming director general for finance, the department began a programme of reform in response to recommendations in the Public Accounts Committee (PAC) report. This involved rebuilding the department's financial control capability, initially with the help of external consultants. The department improved the accuracy of financial information reported internally and externally. Alongside this, the department raised the profile of good financial management across its business. All staff with budget responsibility were encouraged to include specific financial objectives in performance agreements, with line managers evaluating financial management as part of regular reviews. Senior staff were unable to gain the highest performance ratings unless they performed strongly on financial management as well as policy skills.

**Initiative maturity:** These changes have occurred over the last five years. The NAO has reported substantial improvement to departments' financial management, including arrangements to support financial decision making.

### **Case study 2. Creating a single authoritative source**

**Context:** The department had long-standing financial issues with spiralling programme costs and a lack of coherence between the figures used in different operational arms. Within the department, this lack of coherence meant that attention was diverted onto arguing about what figures were right rather than the insight they brought to addressing the underlying problems.

**Improvement initiative:** The single authoritative source initiative aimed to tackle the lack of coherence in the department's figures by creating agreement over which numbers would be accepted as 'true'. It formed part of a broader programme of reform underway in the department based on a wide-ranging external review. The department's financial issues, a new ministerial team and recommendations from the external review, combined to provide the push which focused the department on addressing the problems caused by a lack of coherent numbers.

The initiative was not just focused on providing a purely technical solution or simply imposing common reporting methods. Instead, in line with the broader departmental reforms, it was also looking at how operational leaders in each area of the department should take responsibility for ensuring they are providing correct numbers. In turn, these numbers had to feed into MI that is accepted by the other parts of the department.

**Initiative maturity:** At the time of research, this initiative was at a very early stage. Though most people had a clear idea of the problem they would like to see resolved (i.e. moving the leadership from arguing over the veracity of numbers to addressing the underlying issues), it was not yet clear to those beyond the finance function how an authoritative source might be achieved in practice.

This case study allowed the project to observe all the different factors which needed to come together for this improvement initiative to get off the ground.

### **Case study 3. Driving up productivity**

**Context:** This case study looked at an operational area of the overall department. The operational area involved a large transactional business, split into a number of similar business units. This area had a strong performance culture, and faced sustained financial pressures from reducing budgets.

**Improvement initiative:** There was a long-standing interest in bringing together financial and performance information to gain insights into the relative productivity of the different business units. However, for a variety of reasons this had not been achieved until a new non-executive chairman was appointed. Working with the finance director, who himself had a private sector background, new measures of productivity were developed. While the development was based in finance, it involved very close working with the rest of the organisation. The resulting MI proved useful to the operational side of the business, and was eventually used in the performance assessments of individual managers. The information also prompted further work, including an examination of the corporate overheads which were identified as the data was refined.

**Initiative maturity:** This is a relatively mature example, with the initial development work beginning around five years ago. More recent changes in the departmental structure have seen similar approaches adopted across the rest of the department's businesses.

### **Case study 4. Enabling structured decision making**

**Context:** This case study looked at how information on capital spending decisions had developed over a period of decades. Here, the push to develop robust information to underpin spending decisions was the direct result of the department facing persistent challenge during the statutory planning process. More recently the pressure for improvement has been more political, the result of a growing need to justify decisions in the face of organised public challenge.

**Improvement initiative:** Over a number of years the department has refined a framework which allows it to make decisions in a balanced and evidence-driven way. The current model is closely based on the Office of Government Commerce (OGC)/Treasury Five Case model.<sup>6</sup> This framework enables decision makers to consider the investment decision from a number of different perspectives, from whether it makes sense in financial terms, to the expected economic impact or fit with the department's strategic objectives. The framework allows different options to be assessed in a comparable format and helps to provide

assurance that the department is delivering value for money in its spending choices. However, it does not replace the discretion of political decision makers to make their own choices. Ministers are able to decide how much weight they choose to give one case over another and the final decision is theirs.

**Initiative maturity:** Though it is still being actively refined and improved, this is a very mature initiative. The use of this evidenced-based decision making is fully embedded in the department for all capital spending decisions.

### **Case study 5. Building partnerships**

**Context:** In this department, the siloed policy areas and large network of arm's-length bodies made it difficult to have a consistent view of performance across the organisational group. Because the finance function was located in the corporate centre, it was effectively working in isolation from the rest of the group.

**Improvement initiative:** We looked at two different initiatives which were designed to improve the way that finance worked with the rest of the organisation, enabling them to bring their expertise to bear in improving MI.

In the first initiative, the finance function had started to embed dedicated finance professionals within the different areas of the department. The idea was to provide a personal link between the different areas of the organisation and the central finance function. That way these professionals could proactively engage with the business areas, while enabling the central group finance function to gain much greater insights into critical issues. This provided them with the contextual information to support the financial data in their reporting.

The second initiative was focused on how to supply the departmental board with reports which were engaging and comparable across the different organisational areas. In addition to introducing a standard reporting framework across all the organisational areas, the new reports were also used as the basis of 'deep dive' sessions. In these sessions, the board members would interact directly with the teams responsible for work in each area, enabling them to understand the context and to probe into specific areas flagged up in the reports.

**Initiative maturity:** These initiatives were still in train. The finance business partners had been introduced to the areas with the greatest financial risks and the new board reporting format and deep dives had been used a few times. However, there were already indications that those outside of finance were seeing the benefits of these initiatives. Subsequently the finance function has collected further feedback to try and understand and develop its partnership with the rest of the organisation.

### **Case study 6. Working across functions**

**Context:** This case study was less focused on the development of MI itself, and more on the creation of the relationships through which MI can be successfully developed and used. The department was developing ideas on how it might deliver services through results-based contracts. The team had moved rapidly from initial policy thinking to delivering pilots.

**Improvement initiative:** The development of payment by results mechanisms was a major policy priority for ministers. This required the department to move rapidly from initial policy thinking to delivering properly managed pilots. This would have been difficult with the department's historic way of working, in which policy and operations were heavily siloed from each other. In order to deliver the initiative, the department brought together the policy and delivery sides into a single team. In addition, the team proactively adopted a multi-disciplinary approach, with close involvement from other skill sets, including finance, legal and procurement. This team reported to a group of directors from the policy, operational, analytical and (latterly) finance functions. This group had itself emerged from conscious efforts by the department to establish a guiding coalition across its top team to drive change across its areas of operation.

**Initiative maturity:** A number of pilots are now up and running, with responsibility for the pilots falling back to the operational side. From having no history delivering services through payment by results mechanisms, the department is now recognised by colleagues in the rest of Whitehall as having one of the most advanced approaches to developing payment by results delivery models.

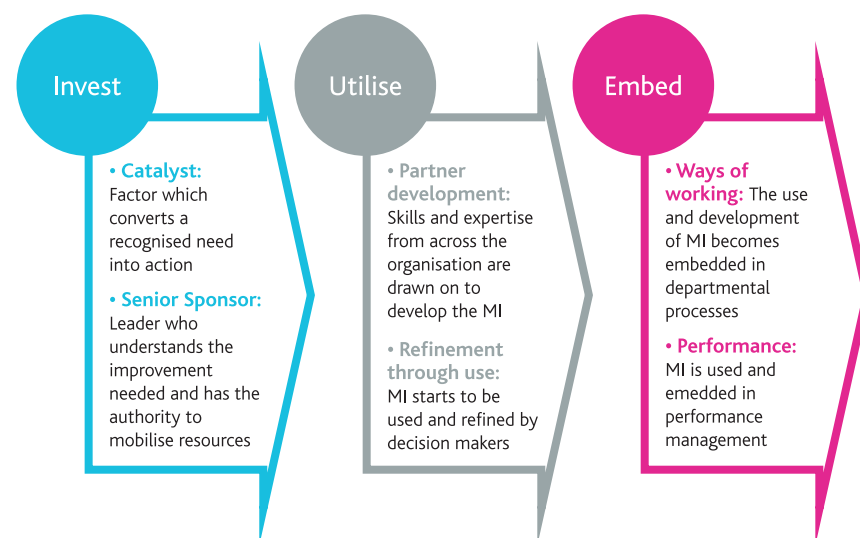
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<sup>6</sup> The five case model aims to provide a balanced set of information to enable business case decisions. The five case areas are: strategic, economic, commercial, financial and management. The five case model was originally developed by the OGC and forms part of [HMT Green Book guidance](#).

# 3. Insights into improvement

In analysing the case studies, the project developed a framework of the various stages of maturity in the improvement process.<sup>7</sup> Within this framework, the project then identified the key enablers that underpinned departments' ability to improve their use of MI.<sup>8</sup> Figure 2 sets out the key enablers within the framework.

Figure 2: Enablers of improvement



## Invest

In the initial stage of the improvement process, where the decision is taken to invest in the change, two enablers were crucial. First, there had to be a **catalyst**, something which triggered the decision to start the improvement process. Second, the decision to invest needed the support and backing of a senior sponsor with sufficient insight to focus the investment in the right way. It takes a relatively long time to develop MI to a point where it is robust enough to aid decision making.<sup>9</sup> The **senior sponsor** therefore also had to have the authority to mobilise and sustain the resources necessary to improve MI.

## Utilise

The distinguishing feature of MI is that senior leaders use it to inform decision making. The process of getting the raw data into a state where it can be easily used by decision makers takes expertise. In our cases, there was a focus on **partnership development**, drawing on skills and knowledge from across the organisation to ensure that the MI is tailored to the actual needs of decision makers.<sup>10</sup> In addition, the MI was **refined through use**, with decision makers starting to use MI while it was still being developed. This set up powerful feedback loops, creating champions across the top team who found the emerging insights useful. It also created incentives across the organisation to improve the quality of the MI.

## Embed

The final stage of the improvement process is when the use of MI is embedded in the processes and culture of the organisation. This can be enabled through new **ways of working**. The examples in our case studies included formal structures, with the use of information embedded in standard decision making processes,<sup>11</sup> and new working practices with different functions working together towards shared corporate aims. The use of MI in both organisational and personal **performance systems** locks the use of quality MI into all aspects of the organisation.

Nothing in these enablers is specific to Whitehall. All of these factors came up when we looked at similar processes in the private sector. In our workshops, there was general agreement from those with experience of both the public and private sectors that the way to go about improving MI was the same in both environments.

## The enablers of improvement

These six enablers emerged from the analysis of the case studies. This section looks at each of these enablers in turn, exploring the reasons why each is important in practice.

### Catalyst

In each of our case studies, something triggered the initial decision to start the improvement initiative. In two of our cases strong, structural accountability mechanisms provided this catalyst.

- In the *rebuilding financial control systems* case improvement was driven by well understood accountabilities embedded in the structure of Whitehall, including the audit role of the NAO and the oversight of the PAC. The key players undertaking the corrective action were clear that success or failure would have a consequence for their careers.

<sup>10</sup> In our cases, MI was always developed within the finance function, but the decision makers were operational in one case, ministers in two cases, and the whole departmental top team in the remaining cases.

<sup>11</sup> This can involve formal decision making forums, which was a central part of the enabling structured decision making case. But it also involves more lightweight interventions, such as the repeated questioning of non-executives which featured in the driving up productivity case.

<sup>7</sup> The initial analysis of change was based on the methodology developed for the Institute's departmental transformational evaluations. For further details see Gash, McCrae, and McClory (2010) *Live Evaluation Methodology*, Institute for Government. This is itself based on John Kotter's seminal work on organisational change (see Kotter, J. (1996), *Leading Change* Harvard Business School Press)."

<sup>8</sup> In each case, the enabler was mentioned multiple times within the case studies, was validated through the workshops and referenced within our private sector comparators.

<sup>9</sup> In our case studies, 6-12 months was the minimum timeline cited. This was within the driving up productivity case where substantial investment had already occurred in IT systems. In cases where the change was accompanied by major investment in systems or skills (such as the rebuilding financial control case), the timeline was greater, running to years.



- In the second case, *enabling structured decision making*, the pressure to improve came from beyond Whitehall through the persistent risk of formal challenge to the department's decisions. The department needed to present clear evidence, and to justify the processes by which that evidence was produced. This had generated an approach to decision making on which the department subsequently built.

In the rest of our case studies, the catalyst for improvement was much more personalised, driven by specific individuals acting above and beyond the norms of their role. Box 2 explains the roles played by different types of individuals.

### Box 2: Individuals acting as catalysts

**Ministers:** Ministerial demand can act as a catalyst to drive improvement in MI and their level of interest can shape how high a priority this becomes in the department. This was clearly evident in one of the case studies. Here an embryonic improvement initiative was turned into a departmental priority due to the minister taking a personal and sustained interest in the improvement being made. This is consistent with the role of Lord Heseltine when he introduced management information into the various departments in the 1980s.<sup>12</sup>

**Non-executives:** The role of non-executives was key in the *driving up productivity* case study. In this case, the non-executive involved consistently pushed at board meetings for information which combined financial and performance data. This revealed the relative productivity of similar parts of the department's operations. In a number of other case studies there were indications that newer non-executives were starting to play similar roles.

**Civil Service:** Finally civil servants themselves personally taking the lead was the dominant element in two of the case studies, in one case coming from the finance side and in the other from the policy side. In each case, the role they played went above and beyond the normal remit of their job.

### Senior sponsor

In all five cases looking specifically at the development of MI,<sup>13</sup> there was at least one senior sponsor from the start. This was someone with the expertise to know what better MI would look like and who had the authority to commit the resources necessary to drive its improvement over a sustained period. In common with the private sector, the senior sponsor was generally part of the finance community in the department, either the finance director general or the finance director. These sponsors were usually financially qualified, and many had both public and private sector experience.

While maintaining certain minimum standards (e.g. auditable accounts) was viewed as the job of the finance function, driving organisational performance and developing MI was not generally accepted as part of the job of finance or embedded in formal accountability structures. So in the rebuilding financial control systems case study there were clear, pre-existing responsibilities for the finance director general to provide financial MI for the purposes of financial control and audit. In contrast, the building partnerships improvement initiative was driven by finance, demonstrating the wider remit and more strategic role that they were capable of playing in the department.

### Box 3: Financially literate leadership

In the past few years there has been a strong focus on professionalising the finance skills in government. In 2011, the Government Finance Profession launched the Finance Transformation Programme (FTP)<sup>14</sup>, the latest in a series of concerted measures aiming to increase professional standards across government. FTP aims both to strengthen the professional finance function, and to make all civil servants more financially aware.<sup>15</sup>

The NAO have pointed to increases in financial management maturity in departments<sup>16</sup> and all now have qualified finance professionals on their departmental boards. However, in its most recent cross-government review it noted that "*financial matters still do not have sufficient influence over strategic departmental decision making*".<sup>17</sup>

### Partnership development

Supplying the figures and raw data is not the same as producing useful management information. MI needs to be developed in partnership between those who own or produce the data and those who will use it in decisions. Those supplying or producing the data must be involved as they have the best understanding of what measures are the most relevant to their business area and what the data can actually tell you. Similarly, there needs to be input from those who have to use the information. How are they hoping to use the information supplied? What are their priorities? What form of presentation do they find the easiest to work with? In our case studies the decision makers varied – from ministers to operational managers – and the types of decisions that they were using MI for also covered a wide span – from examining the day-to-day performance to look for weaknesses and opportunities, to major investment decisions or managing risks in arm's-length bodies.

<sup>14</sup> The FTP was launched in January 2011 with the publication of its 'foundation' document *Managing Taxpayers' Money Wisely*. HM Treasury (2011)

<sup>15</sup> This is in line with developments in the private sector, with increasing demand from CEO's for people who understand how the different parts of a business need to come together to create value. See *Rebooting Business: valuing the human dimension*, CGMA (2012) for further discussion.

<sup>16</sup> *NAO, Reports on financial management in central departments*.

<sup>17</sup> *Progress in improving financial management in government*, NAO 2011.

<sup>12</sup> See Heseltine, M., (2001) *Life in the Jungle: My Autobiography*, Hodder & Stoughton

<sup>13</sup> In the working across functions case study, which focused on the creation of the relationships, there was also a group of senior sponsors, with members coming from across operational, policy and analytical functions.

The development of MI therefore involved partnership working across the organisation, with the leadership and analytical capability coming from the finance function. This required finance to play a more strategic role than had been the norm in Whitehall, where the focus has been on cost control. Finance needed to move to a role more common in the private sector, where its responsibility is to provide insight to the organisation on how to generate value.<sup>18</sup> This involves understanding and joining up insights about the business with financial information, analysing and presenting this information in a way that is accessible to decision makers.

#### **Box 4: Finance working in partnership**

In the *driving up productivity* case, the fundamental partnership was between finance in developing MI that provided insights into variation in productivity, and the operational side of the business which needed to use this information to enhance value for money. Interviewees stressed the close working and communication between these parts of the organisation throughout the development process. This was aided at the start by having the development of the MI within finance led by someone who had an operational background. The ability of finance to understand the functioning of the business has since been enhanced through a deliberate policy of employing people with a range of professional backgrounds (operational, economics, etc) within the finance teams.

Partnership working also extended across the different organisations within departmental groups. The nature of governance relationships meant that many of these organisations were relatively independent of the central department. In a number of our case studies, there were clear strategies to use the finance community as a 'glue', bringing greater coherence and understanding to the relationships between organisations. The state of development varied depending on the maturity of the change being examined, but in the most developed case the close working of the wider finance group was highlighted as a key channel through which better working relationships, beyond the development of MI, were being achieved.

#### **Box 5: Finance engaging the rest of the department**

In the *building partnerships* case study, the finance function was playing a leading role in engaging with the rest of the business. One initiative was to place dedicated finance professionals in key business areas. This was not about enforcing compliance with what the finance group centre demanded. Instead, they were conceived as finance providing skills and expertise to help support each business area. The finance professionals could then get involved earlier in policy making in a constructive fashion. This meant financial concerns could be proactively addressed rather than finance being viewed as a veto point at the end of the process.

Embedding the right people with the right skills was viewed as crucial to the success of the initiative and the finance function deliberately tried to place their best people in business areas carrying the greatest financial risks. These people also needed to be comfortable operating with dual reporting lines to their business area and to group finance – balancing support for their business area with being part of a community of finance professionals.

#### **Refinement through use**

For management information, there is a natural link between its development and its use.<sup>19</sup> The case studies demonstrated how initial discussions of relatively raw MI by decision makers were very valuable in highlighting its current limitations. So for example, in one case the operations director could quickly point out that variation in the data between similar units' performance was largely reflecting the different composition of their workloads. The important point was that this contextual information was not taken as a reason to abandon the development of MI, but as a guide to the next steps in refining it. In addition, involving the decision makers in the development of MI allowed them to understand its value, and become themselves champions for its greater use.

For this refinement through use to occur, decision makers need to have experience of using MI. Many interviewees stressed that it often took several iterations of the MI before it was starting to provide genuine insights. It was therefore important that decision makers did not "jump the gun", drawing conclusions about the performance of units or individuals that may be more about the data than the reality. Within board settings, the non-executives helped generate such constructive discussion, reflecting their greater experience of using MI in decision making.

#### **Box 6: The iterative development of MI**

As the MI is refined through use, it automatically prompts new questions and insights into the performance of the business. So in *driving up productivity* case, the costs of business units were divided into those within the unit managers' control and those outside it. The initial intention was to use the resulting MI to examine variation in performance that was within managers' control.

As the MI was used, it began to prompt questions about the proportion of costs outside managers control – what was this overhead, what value was it adding and how could effectiveness be improved. This led managers to examine the other parts of the organisation that were responsible for the costs.

<sup>18</sup> See, for example, Strategy Execution: Linking Value, Metrics, and Rewards, CFO Research Services (2007) for a discussion of the changing demands on the finance function in the private sector.

<sup>19</sup> For some forms of data, such as statistical data, the investment in developing the data and its utilisation are relatively distinct. The data requirements can be specified, gathered and quality assured, and only then published for use.

The final, but crucially important, reason for refining MI through use is that the quality of data improves rapidly as it is used. As with all data, there is a danger of “junk in / junk out”. Those developing and processing MI frequently have little or no contact with those maintaining the underlying data, which is often collected through administrative reporting systems. If those providing the data have no visibility of how, or indeed if, the data is being used, maintaining it tends to be seen as an administrative overhead. This can lead to potential quality issues.

It is therefore important that those maintaining the data see how it is used in decisions that affect them and their work. In the case studies, refinement through use facilitated this process. It was common for initial cuts of MI to suffer serious data quality issues. Again the key here was that poor quality is not seen as a reason to abandon the development of MI, but as a normal issue that will be overcome as the data was used.

### Ways of working

Incorporating the use of management information into the standard ways of working of the organisation can help it to become embedded within the organisation. One of our cases, *enabling structured decision making*, was chosen specifically to look at this and is discussed in Box 6. However, other factors that were embedding the use of MI were very simple. For example, the persistent questioning by non-executives in board settings was starting to generate a culture where it was not acceptable to bring issues for decision without providing supporting MI.

#### Box 7: Embedding MI within the department

In the *enabling structured decision making* case study, the process for creating information to support capital investment decisions had been maturing over decades. The need for comparable information to choose between investment options and the added external pressure that this information must be robust enough to face external challenge led to a standard process being adopted for all investment cases, with all partner organisations using the same format.

Over time, this process has now become core to the department’s way of working. Decision makers now expect to see consistent and comparable information for each capital investment option under consideration. The standard format of this information allows decision makers to have a clear framework through which options can be debated. It also provides assurance that ministers are made fully aware of the risks and benefits of the different options that they are considering.

The second element in embedding the use of MI was having default ways of working that effectively utilised the different skill sets within the organisation. This is not a strength within Whitehall, where there can be strong demarcation between different professions.<sup>20</sup> Establishing proper, trusting relationships is a long-term endeavour, as the *working across functions* case discussed in Box 8, shows.

#### Box 8: Successfully utilising multiple skills sets

The establishment of markets based on payment by results is a major challenge. It requires a range of skills, drawn from various departmental functions including policy, operations, finance, legal and procurement. The *working across functions* case study provided an interesting example of how these various skills could be brought together. At its most immediate, the case involved the central policy official deliberately building an effective team and ways of working that involved a range of players from across the department, including operations and finance. While this was a personal approach adopted by a particular individual, it was only possible because wider changes within the department over the previous few years had succeeded in breaking down long-standing divisions which prevented joint team working, particularly between policy and operations.

### Performance systems

One of the most effective ways of utilising MI is to bring it into the performance management systems of the organisation. This was happening to varying extents across the cases, though it was still in the early stages. So for example in one setting, the establishment of MI underpinning clear performance management was seen as part of the changes necessary to be able to devolve control to operational units. In another, the work was viewed as generating a systematic view of the whole organisation for the first time, which had the potential to create much clearer accountabilities for how the organisation was performing.

It is also important to link these organisational performance measures to individual performance measures. This was rare in the cases, with only one example where this link had been made. This was in a department which already had a strong performance-orientated culture. Including MI directly in performance management needs to be done with care, as discussed in Box 9.

<sup>20</sup> Indeed, the minister for the civil service has recently highlighted the need for parity of esteem across the different professions.

### **Box 9: A balanced view of performance**

The gaming of targets is a constant fact of life. So for example in one case, improving performance based on particular, benchmarkable MI was built into individual objectives. When this was done, the director involved stressed the need to introduce quality criteria alongside this. Without it, reducing quality was one way to boost the particular MI measure.

Such 'perverse incentives' are not a reason to hold back from using MI in performance systems. Rather it stresses the need for the decision maker to be close enough to the actual performance to be able to distinguish between those genuinely driving improvement and those gaming the system.

### **Overall view**

Our cases show that Whitehall is perfectly capable of developing and using complex information relating far beyond just financial measurements. Furthermore, the processes by which MI is being developed and embedded in decision making are very similar to standard best practice techniques used by private sector organisations.

## **4. Unlocking systemic change**

As noted in chapter 1, there is a lot of pre-existing evidence that the use of MI in decision making is relatively weak. So, if our conclusion in chapter 3 is that the Civil Service is perfectly capable of improving, why aren't we seeing more rapid, systematic enhancement across the board?

The answer may lie in the nature of improvement processes observed in chapter 3, which tended to be ad-hoc rather than systemic. More specifically:

- there was often nobody formally responsible for driving improvements in MI, leading to limited improvement in supply.
- this lack of supply appeared to be related to the initially low levels of demand for MI from decision makers
- this lack of demand in turn is probably related to the low priority that is afforded to the continuous improvement in value for money, relative to the formation of new policy.

### ***Few formal responsibilities to improve MI***

In our cases, the underlying issues with MI tended to exist for considerable periods of time without being systematically addressed. Indeed, in some cases these issues were not unknown to the departments, but actually widely acknowledged across the organisation. Similarly even where we saw improvements in one area of a department, these improvements tended to happen in isolation. They were not necessarily replicated in the rest of the organisation, let alone across similar functions in other areas of Whitehall.

This appeared to be related to the fact that often nobody was formally responsible for driving improvement in MI beyond mandated minimums. This played out in the case studies, where many of the improvements were down to personally-driven interventions and there was little evidence of systemic incentives on individuals to drive continuous improvement. Of the senior sponsors and champions identified in the case studies, only a small minority started with clear personal responsibilities for leading improvement. Instead in the majority of cases, improvements were being led by individuals on their own initiative, outside their normal job requirements.

### ***Little demand for MI from decision makers***

In virtually all cases, the decision makers interviewed viewed their pre-existing MI as poor. Despite this, the permanent secretaries and policy leaders did little to drive improvement. The permanent secretary did not play a senior sponsor role in any of our cases and rarely provided active support at any stage of the process. The case studies showed a particular lack of demand from the policy side for MI. Indeed, the cases as a whole continued to



highlight the key cultural distinction across Whitehall as being between the policy function and the other professional groupings.<sup>21</sup>

The overall lack of demand may therefore be related to the composition of top teams themselves. The types of skills that help a civil servant rise to the top tend not to be about the relatively mundane tasks involved in continuously raising value for money, or indeed of making functional improvements like developing better management information. Around half of the directors general in the main departments have roles primarily concerned with policy formation. Similarly the careers of permanent secretaries are heavily biased towards experience in policy making rather than in financial or commercial backgrounds.<sup>23</sup>

### **Low priority for improving value for money**

Government in the UK appears to lack focused, executive accountability mechanisms.<sup>24</sup> To hold departmental leaders to account for improving value for money. For example, there is no equivalent of New Zealand's State Services Commission, which draws up performance agreements with New Zealand's equivalents of the UK's permanent secretaries.<sup>25</sup> The Treasury does not play this role. Indeed, in the case studies the Treasury was never mentioned as either demanding or proactively helping to bring about improvements in the use of MI. While there have been some recent innovations – the Efficiency and Reform Group in Cabinet Office has taken steps to try and ensure value for money in major programmes and items of cross-government spend – they do not apply across the board.

The focus of the civil service remains on formulating and implementing policy changes rather than on continuous improvement in its existing business. This is evident in other areas beyond the poor use of MI, such as the undemanding performance management of ALBs.<sup>26</sup> In our discussions with former ministers with a business background, they stressed that this bias reflected the natural preoccupation of ministers with policy. If the civil service is to change its priorities, to focus more on value for money in existing operations as well as on new policy development, ministers will need to show that they support this move.

## **Ways forward**

The Government is facing many challenges. It needs accurate and timely information to inform its decisions. This report has already set out the key enablers, which should allow departments to successfully improve their use of MI. We also recommend some further changes, which could make the improvement more widespread.

- **Clarify the responsibility for developing MI.** From the case studies, it is clear that previous reforms that increased the number of properly qualified finance professionals have increased the pool of potential senior sponsors. Building on this, the government should make the finance director general<sup>27</sup> responsible for developing MI that their permanent secretary uses to hold the top team and arm's-length bodies to account for their performance. This will enhance the role of the finance function, increasing their ability to act as the catalyst for change. We hope these responsibilities will be confirmed in the forthcoming civil service reform plan.
- **Use non-executives to help create demand for improvement in MI.** The case studies show that departmental non-executives are performing a series of important roles. This includes acting as a catalyst for change, providing intelligent customers for MI, and, through repeated questioning in a board setting, locking the use of MI into departmental ways of working. Collectively the government's non-executives have stated that they expect weaknesses in management information to be successfully addressed within the next financial year. A part of their next review, we would hope to see a transparent assessment establishing that this has happened.
- **Create a new priority on continuously improving value for money.** The Institute has previously argued for a new priority on continuously improving value for money across all departmental spending.<sup>28</sup> Establishing such a priority means making permanent secretaries more transparently responsible. Their assessments should cover how far departments have succeeded in raising value for money and how well equipped they are to drive further improvement.<sup>29</sup> We hope that this commitment will be included in the civil service reform plan, due to be published before the summer.<sup>30</sup>

These assessments of permanent secretaries will themselves require meaningful management information, benchmarking performance either with similar operations across the civil service or within the private sector. Developing this information will be a difficult task, requiring a leader on the official side with the experience to know what good management information would look like, the authority to mobilise resources to develop such management information, and crucially with the clear backing of the civil service leadership to make this happen. A key test of how seriously the Government is taking this agenda will be whether somebody with the necessary expertise is given the authority to develop insightful cross-departmental management information.

Given the challenges ahead, not least of which is another very tight spending review, Whitehall urgently needs a greater focus on continuously improving value for money. This should be at the heart of the Government's forthcoming civil service reform plan.

21 This echoes similar findings in other Institute work e.g. Gash T., McCrae J., (2010) *Transformation in the Ministry of Justice*.

22 Authors' calculations based on departmental organogram data as at end 2011.

23 Rutter, J., (2009) *How permanent secretaries reach the top*. This is in stark contrast to the private sector where in the US and UK the most common background for CEOs is finance. See *From CFO to CEO: Route to the top*, Gedeon et al. Spencer Stuart Consulting, 2009.

24 As opposed to the audit-based mechanisms embodied in the NAO and PAC.

25 Similarly we lack an institution that signs off implementation plans like Canada's Treasury Board Secretariat, the oversight role played by the Office of Budget and Management in the US or the inspectorate systems common in countries like France.

26 See Jenkins (2011) *Unfinished Business: Where next for Executive Agencies*, Institute for Government

27 Or finance director for departments, such as DfE, where there is no financially qualified director general.

28 Riddell, R., (2012) *An open letter: two challenges and an opportunity*.

29 The performance assessments of permanent secretaries in major spending departments are conducted by the Head of the Civil Service, Sir Bob Kerslake.

30 Francis Maude, the minister in charge of civil service reform, has already endorsed this proposal when *speaking at the launch of the Institute's Open Letter*



# Annex 1: Project approach

The research for this paper aimed to provide a clearer understanding of the common factors underpinning improvement in management information (MI) and its use in decision making in government, and to make suggestions about how to drive systemic improvement across government. The term 'management information' includes financial and operational information, as well as information on performance, productivity and risks.

To understand what makes decision makers use and demand improvements in MI, we deliberately selected cases where there was general consensus that improvements in the use of MI had either occurred or were underway. These cases of improvement were generally occurring within specific business areas of departments, and so do not always cover the department as a whole.

Our research comprised semi-structured, qualitative interviews with a range of people involved in the cases. The selection of interviewees was suggested to us by the senior sponsors of the improvements. They included senior leaders within departments, managers within particular business areas, and working-level implementers of change. All of our interviews were conducted on condition of anonymity.

From these case studies we were able to pull out common factors which supported improvements in MI and form recommendations on how these factors could best be replicated and supported across government. We were then able to further test out our insights and recommendations with workshops, stakeholders and sponsors. Finally to provide context, the project examined the process of improving the use of MI in the private sector, both through reviewing the literature and interviewing a number of people who had actually led such change in the major companies.

The project drew on an Advisory Group, which provided valuable advice and challenge on our research, findings and recommendations. This group was comprised of senior civil servants, government NEDs, high-level executives from business, and representatives from the NAO.

Throughout the project, we also met with key stakeholder groups, including ex-ministers, finance directors, parliamentarians, and non-executives, to test our project findings and recommendations. Finally, we received ongoing support and advice from our partners, CIMA and Deloitte.

The nature of this work was mainly qualitative. We have not attempted to place numerical bounds on the potential value of better use of MI in decision making. There are examples of the savings flowing from particular decisions within the individual case studies. However it is a virtually impossible task to isolate the role of more informed decisions from other factors feeding into outcomes.

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2 Carlton Gardens  
London  
SW1Y 5AA

Tel: +44 (0) 20 7747 0400

Fax: +44 (0) 20 7766 0700

Email: [enquiries@instituteforgovernment.org.uk](mailto:enquiries@instituteforgovernment.org.uk)

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