



House of Commons
Public Accounts Committee

Assessment of the Capability Review programme

Forty–fifth Report of Session 2008–09

*Report, together with formal minutes, oral and
written evidence*

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The Public Accounts Committee

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Summary

In 2005, the Cabinet Secretary launched a programme of two-yearly Capability Reviews. They involve published external assessments of departments with the aim of achieving a major improvement in civil service capability. The programme is a significant step forward in how government departments are assessed. To have publicly available commentary, sometimes critical, of important aspects of departments' capability is an initiative of great value, with real potential as a driver for improvement. It is vital that the programme becomes permanently embedded and is developed in line with this report's recommendations. We intend to return to this subject after two years to review progress.

The first-round reviews, in 2006–07, showed that departments had a long way to go. Overall, departments were rated as less than 'well placed' in two-thirds of the assessed elements of capability. In response, departments have made changes in the way they are run, particularly in terms of board and senior executive team visibility and leadership. The 11 departments that have had second-round reviews have achieved significantly higher assessments. However, the recession and a tighter budgetary context will increase future challenges by requiring departments to achieve more with less.

The link between Capability Review scores and delivery performance is not clear because assessments are based largely on qualitative and subjective evidence. The close involvement of the Cabinet Secretary has provided a valuable challenge and check of reasonableness. But it will be essential, in order to achieve sustained improvements in departments' ultimate delivery, for there to be more objective and quantified metrics to link assessments to demonstrable improvements in performance. It will also be necessary to introduce a strong element of external benchmarking to drive greater improvement.

The second-round Capability Reviews show that staff confidence in senior management is improving but is still too poor. Alongside the need for further improvements to senior leadership, Capability Reviews do not yet give sufficient attention to middle management, front-line staff and departments' delivery partners and agencies. And unlike local government assessment, which includes political leadership, Capability Reviews do not consider how well Ministers and senior management work together to achieve desired outcomes.

The Cabinet Secretary intends to use Capability Reviews as a catalyst to change civil service culture so that it is more collaborative, dynamic, customer focused and innovative. We applaud this aim but note that there is a long way to go. Departments need much more robust staff performance management, better insight into their customers' needs and preferences and greater use of innovation.

On the basis of a report by the Comptroller and Auditor General,¹ we took evidence from the Cabinet Office on taking forward Capability Reviews to link more clearly with demonstrable improvements in performance, improving leadership and management throughout the delivery chain, and changing the culture of the civil service.

1 C&AG's Report, *Assessment of the Capability Review programme*, HC (2008–2009) 123

Conclusions and recommendations

1. **The introduction of Capability Reviews by the current Cabinet Secretary is a significant advance in bringing transparency and comparability to how government departments are assessed.** Public, and sometimes critical, commentary on important aspects of departments' capability is an innovation with the potential to drive real improvement. It is vital that the Cabinet Office permanently entrenches the Capability Review programme, enhanced and improved in line with recommendations in this report.
2. **If Capability Reviews are to secure sustainable improvements in departments' performance, rising to the challenge of delivering public services at a time of great pressure on public expenditure, three systemic improvements are essential:**
 - **There need to be improved metrics to establish a clear link between departments' capability and performance.** Capability is not an end in itself. The purpose of enhanced capability is to raise departments' performance in delivering public services. A convincing demonstration of improvements in departments' capability and performance requires a much wider range of objective quantitative measures than Capability Reviews currently use and publish;
 - **There need to be quantitative external benchmarks against which departments' capability and performance are assessed.** Benchmarking against the best private and public sector organisations is a key driver of improvement. There are many areas open to comparison, including the use of innovation, the handling of customer complaints, staff confidence in senior leadership and the management of finances, human resources, projects, estates, procurement and information and communication technology. Our report on *Learning and Innovation in Government* makes recommendations about metrics for innovation, while there is already a wide range of metrics available for the other areas highlighted, and
 - **There needs to be a much stronger culture of individual performance management, clearly linked to departments' overall delivery metrics.** Incentives and sanctions to reflect success and tackle failure are weaker in the civil service than in the private sector and in senior levels of local government. Good performance needs to be recognised and suitably rewarded. Similarly, problems with individual staff at all levels must be identified and addressed vigorously through training, development and disciplinary measures, including dismissal where this is clearly required. Capability Reviews should benchmark the effectiveness of departments' performance management arrangements against external best practice.

The Cabinet Office should draw on the expertise of the National Audit Office in developing metrics to show that improvements identified by Capability Reviews are based on objective and quantified evidence and feed through to higher levels of performance.

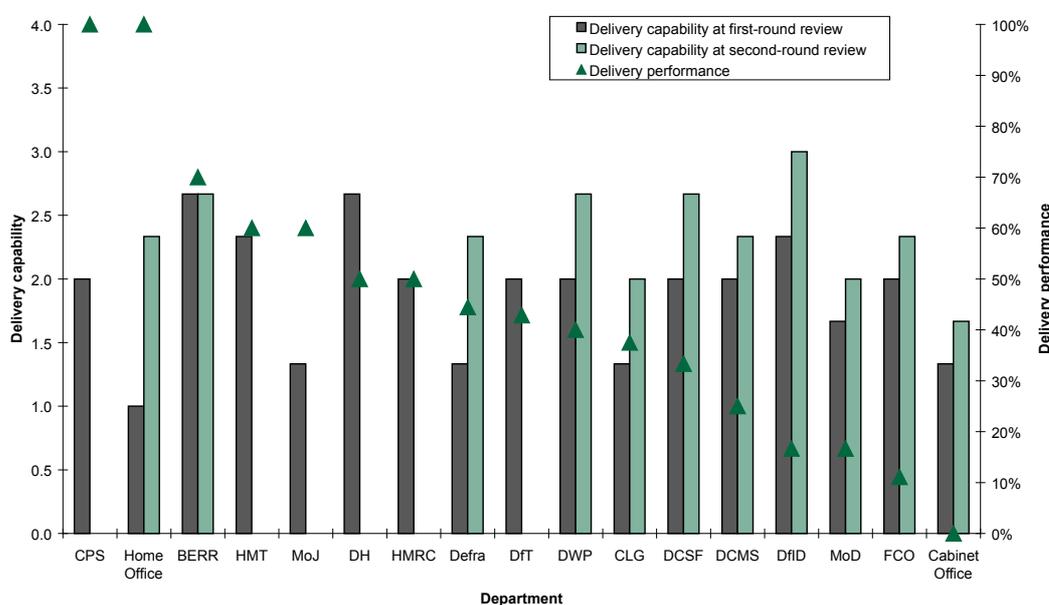
- 3. The confidence reported by staff in departments' boards and senior leadership has been improving but is still low.** The third-round of Capability Reviews should assess critically the adequacy of departments' responses to poor confidence levels, including through external benchmarking and incorporating good practice from other organisations. We expect to see changes in senior leadership teams where staff confidence levels remain consistently poor.
- 4. The early focus of Capability Reviews has been on securing strong, strategically focused senior management teams as a first step to transforming performance.** With the second-round of Capability Reviews indicating improvements at senior levels, the Cabinet Office should focus the third-round more strongly on middle-management and front-line staff, and at key bodies like executive agencies at the end of the delivery chain. The third-round of Capability Reviews should also assess the quality of collaboration between senior officials and Ministers, which is critical to the success of any department.
- 5. Departments have poorer insight into the needs of their delivery partners and customers than do many private sector organisations.** It is inconceivable that departments can significantly improve their capability to deliver without a much improved understanding of what their customers want. Capability Reviews should assess more thoroughly how well departments obtain feedback from delivery partners and customers, and how they learn and implement lessons from that feedback.

1 Taking forward Capability Reviews to link more clearly with demonstrable improvements in performance

1. Capability Reviews assess departments using a bespoke model covering leadership, strategy and delivery. The Cabinet Office developed the model with the close involvement of Permanent Secretaries to encourage support and engagement among departments' boards and senior leadership teams.² The Capability Review approach is innovative: only four other countries in the Organisation for Economic Co operation and Development have initiatives with some comparability.³ We welcome the programme and intend to return to it after two years to review progress.

2. The Capability Review programme has encouraged changes in the way departments operate, but there has not yet been a demonstrable link to delivery performance (**Figure 1**).⁴ We are pleased that the Cabinet Office is working to improve the link to results and delivery by developing the Capability Review model with Sir Michael Bichard, and we expect it to draw on expert input from the National Audit Office.⁵

Figure 1: Delivery capability scores and reported performance delivery performance



Source: C&AG's Report, Figure 10, updated to include the delivery capability assessments for the five departments which had second-round reviews in March 2009

2 Qq 2, 75

3 Q 3; C&AG's Report, paras 2, 1.4

4 Qq 9–12, 44–45; C&AG's Report, para 1.19, Figure 10

5 Qq 4–5, 101

3. Capability Reviews currently base assessments on measures that are largely qualitative and subjective.⁶ To demonstrate real improvements convincingly, and to compare assessments over time and across departments and beyond, requires a wide range of objective quantitative measures. All departments have so far achieved significantly higher second-round assessments (**Figure 2**). There is evidence of some real improvement, for example, in financial management at the Home Office.⁷ But departments may score more highly partly because they are managing their reviews better or because their responsibilities have been simplified by machinery of government changes.⁸

Figure 2: Changes in scores from the first round for the 11 departments which have had second round reviews

ASSESSMENT CATEGORY	NUMBER OF ELEMENTS ASSESSED AT THIS SCORE	
	FIRST ROUND (JULY AND DECEMBER 2006 AND MARCH 2009)	SECOND ROUND (JULY AND DECEMBER 2008 AND MARCH 2009)
STRONG	5	13
WELL PLACED	33	44
DEVELOPMENT AREA	43	50
URGENT DEVELOPMENT AREA	27	3
SERIOUS CONCERNS	2	0

Source: C&AG's Report, Figure 3, updated to include the capability assessments for the five departments which had second-round reviews in March 2009

4. The importance of objective, quantified metrics will increase as the Capability Review programme moves forward and the process becomes more streamlined. The Cabinet Secretary has spent considerable time with review teams and boards to check the reasonableness of assessments, but this time is set to reduce as the programme matures. Review teams have also become smaller.⁹ Departments have been struggling to develop objective, quantified metrics to assess their capability and performance.¹⁰ We therefore welcome the Cabinet Secretary's recognition of a role for the National Audit Office, drawing on its expertise in performance measurement and corporate service metrics.¹¹

5. External benchmarking against the best is a key driver of corporate improvement. Capability Reviews are enabling similar functions across central government departments to be compared, despite differences in size and responsibilities. However, the Cabinet Office and departments have not made wider comparisons with private and other public sector organisations.¹² Suitable areas for quantitative comparison include the use of

6 Qq 5, 71

7 Qq 44, 46; C&AG's Report, *Financial Management in the Home Office*, HC (2008–09) 299

8 Qq 46, 48, 92

9 Qq 46, 93, 97; C&AG's Report, paras 1.11, 1.13

10 C&AG's Report, paras 2.17, 3.17

11 Q 101; *Measuring service*, A. Likierman (Business Strategy Review, Summer 2006, pp 75–78)

12 Q 71; C&AG's Report, para 1.24

innovation, the handling of customer complaints, staff confidence in senior leadership and the management of finances, human resources, projects, estates, procurement and information and communication technology. Work commissioned by the Department for Business, Innovation and Skills and the National Endowment for Science, Technology and the Arts, on which we comment in our report on *Learning and Innovation in Government*, aims to identify performance measures for innovation, while a range of metrics already exists for the other areas listed. The National Audit Office is well placed to assist the Cabinet Office in identifying organisations and metrics that can be used in external benchmarking.

6. We welcome the Cabinet Secretary's personal commitment to continuing and developing this important programme but are concerned that departments may lose focus without a clear message about the long-term future of Capability Reviews.¹³ In taking forward the programme, the Cabinet Office recognises that it may need to raise the assessment bar to increase the challenge faced by departments.¹⁴ It will be important that the element of external challenge in Capability Reviews remains strong and that assessments are based on hard evidence from objective measures.

13 Qq 4, 78, 102; C&AG's Report, para 1.17

14 Qq 77, 78

2 Improving leadership and management throughout the delivery chain

7. The first round of Capability Reviews found weak leadership capability in many departments, and there have been changes to boards and senior management in response.¹⁵ Staff surveys in 2008 showed increasing confidence in leadership since the first reviews, but even now typically only two-fifths of staff considered their departments to be well managed and only a half of staff had confidence in their senior managers.¹⁶ Following several decades of public management reform initiatives and investment in senior leadership training, this is disappointing.¹⁷ Leadership that is more representative of staff and the public they serve would inspire greater confidence from both.¹⁸ We are pleased to hear from the Cabinet Secretary that the ‘Top 200’ senior civil servants are increasingly drawn from beyond the ‘fast stream’, Oxbridge and public schools, and are obtaining prior experience in managing projects and people in a range of positions, including those outside the civil service.¹⁹

8. With improvements in senior leadership beginning to be reported, though at differing paces across departments, the Cabinet Office can now pay more attention to middle-management and front-line staff. Such staff are often the ‘people face’ of departments, interacting directly with the public and crucial in shaping citizens’ experience of services.²⁰ There is some evidence that senior leaders have received good Capability Review scores partly as a result of the support they receive from middle-management. The Cabinet Secretary told us that the Department for International Development and the Department for Children, Schools and Families both attract highly motivated staff because of the appeal of the departments’ activities.²¹ However, middle-management and front-line staff are generally much less engaged with the Capability Review programme than are their more senior colleagues.²²

9. Capability Reviews currently obtain little direct evidence from departments’ agencies and partners, in whose hands ultimate service delivery lies.²³ These organisations often have more direct hands-on experience of the project and programme management that is critical to departments’ success. The Cabinet Secretary told us that departments that manage major projects well also have strong capability more generally.²⁴ The quality of communication and learning between departments and their delivery bodies is a vital element in improving the overall capability of departments.

15 Q 6; C&AG’s Report, para. 2.11

16 Q 7; C&AG’s Report, Figure 16

17 Qq 19, 21

18 Qq 49, 64

19 Qq 19, 55, 69, 70

20 Qq 89, 90

21 Qq 15–17

22 Q 38; C&AG’s Report, para 2.4, Figure 11

23 Q 100; C&AG’s Report, para. 1.21

24 Qq 8, 17–19

10. Capability Reviews also do not assess the very top end of the delivery chain: how well Ministers and senior management work together to achieve desired outcomes.²⁵ In contrast, the assessment regime for local authorities does include political leadership. The Cabinet Secretary told us that Ministers can have a significant positive impact on departments when they set clear strategic objectives, agree the resources and changes needed to achieve those objectives, and then hold Permanent Secretaries to account for delivery.²⁶ He noted that a lower turnover of Minister would also be a significant help.

25 Qq 25–26, 81, 98

26 Qq 80, 82

3 Changing the culture of the civil service

11. The Cabinet Secretary sees Capability Reviews as a catalyst for changing civil service culture to create a public service environment in which providers are flexible, adaptable and responsive to customers' needs.²⁷ This is part of a wider set of initiatives to promote a more 'collegiate' culture across the civil service. In particular, the '100:0:0' challenge urges senior civil servants to think beyond the demands of their individual roles and to contribute to the broader work of their departments and of the wider civil service.²⁸ In addition, the Cabinet Secretary has created the 'Top 200' group of senior civil servants to lead the civil service, share best practice and find solutions to cross-cutting issues.²⁹ We applaud these initiatives but note that there are still significant challenges to changing civil service culture, as we describe here.

12. Even at senior levels in the civil service, incentives to perform better, and sanctions to tackle failure, are far weaker than those in the private sector and in senior levels of local government.³⁰ Individual performance management, where problems are identified and addressed promptly, is insufficiently embedded in the civil service.³¹ While the use of incentives is increasing, with new arrangements introduced in 2007–08 to assess the leadership capabilities of senior civil servants and a small proportion of senior staff pay being performance-related, sanctions are still too weak.³² We see no evidence that senior leaders in poorly performing departments are likely to lose their jobs in the way that has become established in local government. The Cabinet Secretary told us the high cost of severance payments can be a barrier to dismissing staff who are not discharging their responsibilities.³³

13. The Cabinet Secretary acknowledged that departments are much weaker than private sector organisations at securing insight into their customers' needs and preferences.³⁴ We agree. The key aim of improvement in any service organisation is to serve customers better and more efficiently. It is inconceivable that departments can significantly improve their capability to deliver without a much improved understanding of what their customers want. This in turn requires a culture that focuses consistently on the user rather than the provider.³⁵

14. Innovation will be key over the next few years in maintaining and improving service delivery in an environment of severely constrained budgets. Our report on *Learning and Innovation in Government* points out the pressing need to raise the level of innovation across government. Innovation requires a culture of open communication. Despite

27 C&AG's Report, para. 1.3

28 Q 14

29 Qq 13, 21; C&AG's Report, para. 3.9

30 Qq 23, 27, 28

31 Q 29

32 C&AG's Report, para 2.8, Case Example 2

33 Q 29

34 Qq 22, 89

35 C&AG's Report, para 1.26

instances of good practice, for example, where senior managers in the Department for Work and Pensions routinely spend time with front line staff, more needs to be done to improve communication within departments.³⁶ For example, only half of departments consulted staff at levels below Grade 7 when developing their Capability Review response.³⁷ We welcome the initiative of the Cabinet Office to develop the Capability Reviews, with Sir Michael Bichard, so that they give a greater focus to innovation.³⁸

15. Capability Reviews have been instrumental in bringing departments closer together to look for solutions to common challenges.³⁹ Barriers remain to greater collaboration, both in working to deliver cross-cutting objectives, such as on climate change, and in releasing key staff to other departments to assist in areas of weak capability.⁴⁰ Barriers are partly technical, related to differences in terms and conditions, but they are mainly cultural, with departments trying to solve problems alone and defensively retaining their best people.⁴¹

36 Q 89

37 Q 38; C&AG's Report, para. 2.4, Figure 11

38 Q 4

39 C&AG's Report, paras 2.1, 3.9

40 Qq 13, 78; C&AG's Report, para 1.22

41 Q 14

Formal Minutes

Wednesday 8 July 2009

Members present:

Mr Edward Leigh, in the Chair

Mr Paul Burstow

Mr Hon David Curry

Nigel Griffiths

Mr Austin Mitchell

Dr John Pugh

Geraldine Smith

Mr Don Touhig

Mr Alan Williams

Draft Report (*Assessment of the Capability Review programme*), proposed by the Chairman, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 15 read and agreed to.

Conclusions and recommendations read and agreed to.

Summary read and agreed to.

Resolved, That the Report be the Forty-fifth Report of the Committee to the House.

Ordered, That the Chairman make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Wednesday 15 July at 11.00 am

Witnesses

Wednesday 3 June 2009

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Sir Gus O'Donnell KCB, Cabinet Secretary and Head of the Home Civil Service
and **Mr Brian Etheridge**, Director, Civil Service Performance and Review, Cabinet
Office

Ev 1

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- 1 National Audit Office
- 2 Cabinet Office

Ev 14

Ev 16

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Thirty-first Report	The Nationalisation of Northern Rock	HC 394
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Thirty-fourth Report	DEFRA: Natural England's Role in Improving Sites of Special Scientific Interest	HC 244
Thirty-fifth Report	The administration of the Crown Court	HC 357
Thirty-sixth Report	The health of livestock and honeybees in England	HC 366
Thirty-seventh Report	Building the Capacity of the Third Sector	HC 436
Thirty-eighth Report	HMRC: The Control and Facilitation of Imports	HC 336
Thirty-ninth Report	The Warm Front Scheme	HC 350
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Forty-third Report	Learning and Innovation in Government	HC 562
Forty-fifth Report	Assessment of the Capability Review programme	HC 618
Forty-seventh Report	Reducing Alcohol Harm: health services in England for alcohol misuse	HC 925
Forty-eighth Report	Renewing the physical infrastructure of English further education colleges	HC 924

Oral evidence

Taken before the Committee of Public Accounts on Wednesday 3 June 2009

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon
Mr Ian Davidson

Keith Hill
Mr Austin Mitchell

Mr Amyas Morse, Comptroller and Auditor General, **Mr Michael Whitehouse**, Assistant Auditor General and **Mr Keith Davis**, Director National Audit Office, gave evidence.

Ms Paula Diggle, Treasury Officer of Accounts, HM Treasury, was in attendance.

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL ASSESSMENT OF THE CAPABILITY REVIEW PROGRAMME (HC 123)

Witnesses: **Sir Gus O'Donnell KCB**, Cabinet Secretary and Head of the Home Civil Service and **Mr Brian Etheridge**, Director, Civil Service Performance and Review, Cabinet Office, gave evidence.

Q1 Chairman: Good afternoon and welcome to the Committee of Public Accounts where today we are considering the Comptroller and Auditor General's Report on the *Assessment of the Capability Review programme*. We welcome the Cabinet Secretary, Sir Gus O'Donnell, and we also welcome delegations from the public accounts committees of Sierra Leone and The Gambia; you are all very welcome. Sir Gus, I understand that you wish to say something at the beginning of our hearing?

Sir Gus O'Donnell: Thank you very much, Chairman. I would just like to start by saying that I very much welcome the Committee's interest in this subject and I am delighted about the Report, but on a separate issue just to say I am really pleased about what I regard as the quite important constitutional changes that you have implemented with respect to the way the National Audit Office is organised and chosen, and the whole process by which you have selected and moved to a board with a new Chairman. I take this opportunity to welcome the new Comptroller and Auditor General. Just to say that this is quite a significant change and quite an interesting example of Parliament working in an interesting way. Given the interest there is now in moves towards an independent regulatory body, it could give some very interesting signals in terms of what kind of process might work for selecting people for such a body.

Q2 Chairman: Thank you very much for that. We very much hope that it might be possible to have the legislation that we need to form and institutionalise these changes of governance so anything, Sir Gus, that you could do within the machinery of government to get that legislation through, or the part of it that affects us, we would be very grateful for. Anyway, thank you for that. I think this is going to be an important hearing. Obviously you have been at the heart of these Capability Reviews from the start. I hope that our hearing into this

comparatively new initiative by government will be not just challenging but also constructive. I hope that our PAC Report, in the way that some PAC Reports in the past have, will provide some benchmark for government in terms of efficiency. I hope that this can also be an on-going progress, Sir Gus, with us coming back to it, with the help of the National Audit Office, perhaps every other year or something so that we can keep an eye on what is going on. Just by way of introduction, can I ask you what led you to set up this programme? What would you regard as its successes so far?

Sir Gus O'Donnell: Certainly. The vision that led me to developing them was essentially that I wanted to find a way as Cabinet Secretary to be very closely involved in the strengths and weaknesses of departments, and to understand where we needed to improve to enhance our capability. We had for a long time been recommending transparency and external audit to other bodies, for example local authorities, and we had not, as it were, imposed those disciplines on ourselves. I wanted to bring in and shine the light of day and to actually have a process that used external reviewers who came in, a process that would be co-invented with permanent secretaries so that they would feel ownership of it and they would not "game" the system, because I think that is one of the problems we sometimes have, and that would really identify to us with a very tough bar what were our successes and what were the areas where we needed to do better, and to have, again, a very transparent process that we would go back to in two years' time, and actually publish results about whether there have been improvements or not, and to make that comprehensive across all departments. I have to say that when I was at the Treasury as Permanent Secretary there I tried to persuade the OECD to do some work on comparing the same departments across different countries and they said that it was too complicated to do with ministries of finance. They actually do it in one specific area which is

development ministries. I am pleased to say that the findings of our Capability Review fit in very closely with the DAC report, the Development Committee of the OECD's comparison of DFID compared to other development ministries. In an ideal world we would have that as a benchmark so that we could see. In the absence of anything like that we needed to find a way of comparing very different kinds of departments like the Ministry of Defence versus the Cabinet Office. It is not obvious how you would compare them. We went for this process which looks at leadership strategy and delivery capabilities and capability to meet future challenges.

Q3 Chairman: Okay, so we are trying to delve a bit deeper into some of these issues but by way of introduction again what difficulties have you encountered as you have tried to set up these reviews?

Sir Gus O'Donnell: There was a lot of nervousness at the start because it was innovative, it was new, it was risky. Some ministers felt that this would be used as something to attack them for failings in departments and that they would be blamed for them. There were difficulties in doing anything that is innovative. We looked to see if someone had done this before, could we copy it—I am all for stealing with pride—and there is nothing quite like it. The Canadians do something where they use about 400 people to our 20, and I did not want it to be too heavy-handed, so I think we are pioneering here. We have got lots of interest from the rest of the world in terms of how we do this. Other countries have come to visit us to talk about it and I think it is something that will be followed elsewhere quite a lot. We have managed to get it through all departments. One of the things I was worried about is that we would get part of the way and people would get nervous and say, "Thank you very much but it is not for me." We have covered all departments, we have published, we thought people might balk at publishing, we have published the re-reviews, and we are now into the stage where we are thinking about tweaking the process to improve it for the next round of Capability Reviews.

Q4 Chairman: How are you going to drive this forward for the future, in any difficulties you have encountered, how are you going to tackle this, are you going to change it as you go along?

Sir Gus O'Donnell: We will change it as we go along. In terms of improving the Capability Review model, again, I have adopted the approach of let us always have an external element to this, so Sir Michael Bichard and I are looking at it and we will come up with some proposals about how we improve it in three areas in which I am interested: how it picks up on innovation; how it picks up on collaboration; and how it relates Capability Reviews to results and delivery, which I think is an issue that comes up very much. All of these issues are actually touched on in the NAO Report.

Q5 Chairman: Obviously the NAO will be vital to this whole process and I would like to ask how the Comptroller and Auditor General sees this impacting on your work?

Mr Morse: I see this as a very positive exercise and we are keen to support it and see that it really does drive permanent change and is sustained over the long term. I think that is important. And to do this, we believe that the programme needs to be linked directly to deliverables; that is in our Report, and I was very pleased to hear you acknowledge it. These outputs need to be as far as possible measurable. "Objective" and "measurable" are terms that tend to get ducked in life, I find. I say this because our work needs to deal not only with the internal working of the Civil Service but with being able to demonstrate to the general public that we are driving improvement in value for money and efficiency. In the current economic circumstances I would guess that is particularly true. We would like to help in the area of evaluation. I think the Committee of Public Accounts has a lot to contribute in helping to move this forward vigorously in the current climate, and especially in evaluating how we are doing: holding feet to the fire to some extent to see that progress is being made. So overall the Capability Review programme is a positive contribution to balanced reporting. We have things that we would like to see done better but we are positive in supporting it.

Q6 Chairman: I am now going to ask you one or two sharper questions, Sir Gus, because that is what we are about. Have a look at figure 16, which I found rather worrying. Only half of department staff have confidence in their senior managers. That is pretty grim, is it not?

Sir Gus O'Donnell: It is certainly the case that one of the inputs we use is the staff attitude surveys, and staff attitude surveys through time in the Civil Service have tended to have a rather harsh view of their senior managers, let us put it that way, and that is precisely why one of the aspects of Capability Reviews is leadership. I am very aware that we need to improve the quality of leadership in the Civil Service. One of the first things I did as Cabinet Secretary was to implement Capability Reviews and bring together the top 200 of the Civil Service who now meet regularly as the leadership of the whole of the Civil Service, and they meet every six months. When somebody comes into the Senior Civil Service we have a thing that we call "base camp" where we actually talk to them about their responsibilities as leaders managing the work and doing it better. I think the results are disappointing. We absolutely need to improve them and we have in hand a set of measures to improve the leadership.

Q7 Chairman: It is pretty worrying in an organisation that just two-fifths consider that their departments are well-managed. What I put to you, Sir Gus—and we have had this conversation before—is that I do not think that top civil servants are very good at managing people. I do not think they are very good at motivating the thousands of people for instance who work in the Department for

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Work and Pensions. It was quite significant, was it not, that the Department for International Development seemed to perform very well under all these reviews. They have highly motivated people, it is the most difficult department to get into, but you are just not very good at managing and motivating your staff. You are very good at providing brilliant advice to Ministers (whether they take it or not is for them). Is that a fair criticism that traditionally that is your problem as head of the home Civil Service?

Sir Gus O'Donnell: You mentioned DWP and if you asked what has been the biggest delivery challenge for the Civil Service in the last six to nine months, it has been the massive increase in unemployment that we have seen and the big increase in demand on Jobcentre Plus to pay those benefits and to get people back into jobs. I think the way they have responded to that has been a success and any private sector company would have been delighted to have been able to handle the really unfortunate and regrettable increase in the number of benefit claims there have been, but they have, very efficiently, and we are finding that they are doing very well in very difficult labour market circumstances at getting people matched into jobs. I think there are delivery gains. It is important that we improve our delivery outcome, which is why in the Capability Reviews quite often we are using local authority chief executives who have very strong affiliation with delivering for customers. I think this is something we recognise we have to improve and it is something where we are putting a lot of effort into improving our delivery.

Q8 Chairman: And you are going to deliver to us in this Committee, permanent secretaries who have actually run projects in the future, are you? You are going to promote people who actually know how to run projects?

Sir Gus O'Donnell: The skill set for permanent secretaries is very broad. They need to be able to do a very wide range of things, including projects. One of the interesting things about Capability Reviews and projects—and we are at an early stage of doing this analysis now—there is a very strong positive correlation between high Capability Review scores and high scores on the major projects findings from OGC. That is something that we need to get to the bottom of and analyse further.

Q9 Chairman: Would you like to look at figure 10. I find that rather worrying. When you are looking at Capability Reviews, there appears to be rather a divergence between their views on departments' delivery capability and the actual delivery. That leads me to wonder whether this is not rather a subjective process. Have you seen figure 10? You see how there is this divergence that takes place between people's views and what they actually do do.

Sir Gus O'Donnell: This is why I say in Capability Reviews it is a question of how you measure delivery. If you go back to one of the first and most difficult Capability Reviews we did, which was the Home Office, at that time the Capability Review gave the Home Office some pretty negative scores.

Q10 Chairman: But actually they seemed to deliver much better.

Sir Gus O'Donnell: They were at that time meeting all of their PSA targets. That is why I say I think there are some issues here about there being more to a department being capable than just meeting its PSA targets, there is a lot more, and that is why I think we need to think very carefully about how we measure delivery, for example, financial management.

Q11 Chairman: Have you seen your own department here, by the way, the Cabinet Office?

Sir Gus O'Donnell: I am very aware of my own department.

Q12 Chairman: Their delivery capability appears to be zero but your assessment seems to have been pretty good. People perhaps in glass houses should not be throwing stones.

Sir Gus O'Donnell: This shows you that the Permanent Secretary of the Cabinet Office is pretty poor at fixing the results of this process, that is all I would say! The answer is what do you want of the Cabinet Office, which is 1,000 staff dealing with policy analysis, mostly. I want my best delivery people in big delivery departments, I want them in HMRC, I want them in DWP, I want them in the Ministry of Defence, and I want them in the Ministry of Justice. Of course it is important that we know about delivery and understand it, but I think we are pretty hard on ourselves. If somebody said to me get the Cabinet Office to deliver a big project, I would say that is the wrong idea; you should get other departments to do that.

Chairman: Keith Hill?

Q13 Keith Hill: Just on that, Sir Gus, if you look at paragraph 3.10 of the NAO Report it does reveal that departments simply are not releasing their better staff to other departments which could benefit from their skills and experience in areas where their capability is weak. Why are departments not doing it? You are obviously thinking about the possibility of that kind of release and transfer; why is it not happening?

Sir Gus O'Donnell: I think it is not happening because if you look back to the way the Civil Service is structured by department, there is a great tendency for departments to try and, as it were, solve their own problems, to think about retaining their best people to deliver for their secretary of state and their permanent secretary, and what I am trying to do is encourage the Civil Service to think of itself as delivering for the government as a whole. I am encouraging that sort of collegiate behaviour that says actually we have a real problem here, there is a recession going on, so we would like some staff transferred across to the key areas that matter now—the Treasury on the banking issues and DWP for Jobcentre Plus—and I think that collegiate atmosphere is starting to come through. I have worked very hard from day one to get the permanent secretaries to operate as a collegiate group who see themselves as working for the whole of the Civil

Service and the whole of the government, so being prepared to share and learn from each other. I think that is the way that we will make real progress. That is what the top 200 is about.

Q14 Keith Hill: So the problem is about transfer being cultural problems, that is to say that kind of departmental commitment rather than technical difficulties of officials moving from department to department?

Sir Gus O'Donnell: It is mostly cultural. There are some small technical difficulties to do with the fact that terms and conditions are slightly different in different departments, particularly at more junior levels, but I think the main problem is cultural, that people are seeing themselves within one area, and what I am trying to do is encourage people. I have a phrase called "hundred zero zero". If you spend 100% of your time just on your day job that is wrong. The next zero is how much do you spend working for your department? The next part is how much do you spend working for the Civil Service as a whole? I am trying to move people to the right on that spectrum.

Q15 Keith Hill: Back to the first round Capability Reviews, why were DFID and the Department for Children, Schools and Families strong departments?

Sir Gus O'Donnell: If you take DFID for example, as the Chairman mentioned, it is very passionate. If you look at fast streamers, where do they want to go, what is the number one choice of department—it is DFID because it is about, again referring to something you said and something I care a lot about, passion, actually this is saving the world, this is working on reducing world poverty. If you cannot get passionate about that.

Q16 Keith Hill: Does that apply to the Education Department as well?

Sir Gus O'Donnell: The education department is about improving education. People are very clear about that relationship between improving people's welfare and outcomes, so I think they are both relatively small departments, with a high policy focus that are very clear about quite objective measurable outcomes, so I think in both cases you will find very motivated staff.

Q17 Keith Hill: Historically of course DFID officials have probably had experience in managing programmes in the various developing countries in which they have operated, so to that extent you might say that they have had hands-on experience. It always seems to me that the Education Department is a bit like the Soviet Empire. It deals directly with all the 25,000 schools, it intervenes directly. Is there in any sense a case for saying that the strong departments have got people who might be said to have had hands-on experience in management in the way that maybe in the weaker departments, for example the Home Office, Health and Revenue and Customs, they have not?

Sir Gus O'Donnell: Revenue and Customs is a classic front-line delivery department. I would argue with you about DFID. The way in which we deliver aid these days—

Q18 Keith Hill: Now, but historically?

Sir Gus O'Donnell: It used to be about project delivery. It is now very much more about managing through governments to increase their capability and capacity. There is some hands-on advice there, although again there is the use of lots of external experts in DFID who have that specific advice. I am basically very strongly with you and what the Chairman was about, and this was raised by Andrew Turnbull about Professional Skills for Government. Ideally, we would be giving civil servants as they come through their career some real hands-on experience of managing project delivery. I am very strongly in favour of that and I have pushed all the time for us to get civil servants to get out. One of my phrases is "if you want to get on, get out", get some front-line experience, get seconded out, work in an area, do policy delivery, understand about project management, all of those things are very, very important.

Q19 Keith Hill: Does that mean you have some scepticism about the traditional way in which you have done leadership training in the Civil Service? Millions of pounds have been spent on it and on the whole the NAO Report kind of suggests that it has not necessarily been phenomenally successful.

Sir Gus O'Donnell: We are in the process of, and have been since the start, changing the way we do leadership training. Like I say, we have concentrated it on the top 200 now and the intervention at the start, and for our high potential scheme, for example, we are now much more aware of the need for them to understand how to manage projects and have real understanding of delivery skills. Quite often, as you rightly say, it is delivering through others; it is not doing it directly yourself. Some of our best new managers are people who have had lots of policy experience and then gone off—for example a Home Office official went off to be Governor of Wandsworth Prison—and then come back into the system. I think that is a brilliant example.

Mr Etheridge: We do think that we are beginning to see the results of that coming through the capability scores. The rereview scores are showing the biggest impact in the leadership element of the model. That is the fastest improving part of the model against the other two.

Q20 Keith Hill: That is where people have been out and got some kind of hands-on experience?

Mr Etheridge: I think it is a combination of that and the initiatives that have been talked about about improving leadership in the Civil Service.

Q21 Keith Hill: What about this National School of Government? Has that been the classic way in which leadership training has been delivered?

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Sir Gus O'Donnell: I think in the past, if you take my career, the Top Management Programme was a very important part of it which was a joint public/private sector group, a six-week part, and I do not think there was the focus in the past, certainly as I came through, in terms of understanding real delivery. For example, I take permanent secretaries every year around the country and we meet with local authority chief executives and we go out and we look at things like neighbourhood policing or the delivery of childcare services. If we do that from the top we are creating a great example. One of the things we did with the top 200 was to say to them, "Here are four areas—economic development and various other ones—where we want you to look at how these are delivered in four different parts of the country," so they went to those areas and we came back and we looked at the different subjects and how government was delivering through the different bodies, so sometimes it was through local authorities, sometimes through the third sector, sometimes direct central government, and brought them all back together to learn the lessons. It is a very different culture now. I tell you the biggest thing on culture, I asked of the top 200 what proportion of them thought that mostly their job was about operational delivery rather than policy delivery. I think in the old days you would have had the majority saying, "I am a policy delivery person." The majority of the top 200 said they were on operational delivery. Whether they were or not, the interesting thing is they thought the right answer was to say that they were mostly involved in operational delivery, so that is good.

Q22 Keith Hill: That is very interesting and it kind of relates to my next question, which I confess is a rather general one: how do you think the management experience of a top civil servant compares to the management experience of a leading figure in the private sector?

Sir Gus O'Donnell: If you take Richard Baker, who was head of Boots and then Virgin Active, he came and did the Cabinet Office Capability Review, I had that discussion with him, and he said that private sector people are better at delivering within a narrower context, so the point being obviously they do not deal with ministers at all. If you are in the private sector and you are delivering a project, you are going to choose who you deliver it to, only profitable customers, so it is much harder. If I gave Richard the task of delivering something where I said, "By the way, you cannot charge, by the way, you have got to deliver it to everybody, irrespective of the fact that it is going to cost you an absolute fortune to get to one customer base, sorry, it is totally unprofitable, but you have got to deliver to all of them, and you will have very little information because you have not got any prices so there is no feedback, there is no loyalty card, they are got giving you all this consumer data that you are getting," so it is a more complex need that we are trying to get at which means that we need to have a wider set of skills, but I think where we are not there is that

private sector ability to do customer insight to actually understand. That is partly about the lack of information we have.

Q23 Keith Hill: What is the incentive for an official to do better? Presumably the incentive for somebody who operates and delivers in the private sector is actually the bottom line, but what is the incentive for the official to do better?

Sir Gus O'Donnell: I say this because I genuinely believe it—the public sector ethos is quite strong in our top civil servants. Our top civil servants could earn a lot more money elsewhere. It used to be the days that you would have to go to the private sector for this but actually, what I am worried about is the change now where you can go out into the wider public sector and earn a lot more money. Our permanent secretary in charge of DIUS will earn a lot less than a vice chancellor.

Q24 Keith Hill: Or presumably the Chief Executive of the Football League?

Sir Gus O'Donnell: Or indeed the Chief Executive of the Football League, absolutely.

Q25 Keith Hill: Can I ask one last question: what difference do ministers make in delivery?

Sir Gus O'Donnell: It varies of course and it depends how hands-on they want to be. At best a minister that gives you absolutely clear strategic objectives and then holds you to account for delivery and says to you, "This is what I am out for, this is what I want to achieve," and you have a conversation with them about the resources that will be required and the things that would have to happen for that to be the case, and how you would think about doing it, and then they say, "Go on, go ahead, and I will make sure and monitor constructively how you are doing it," I think is the best possible relationship. If someone says, "Right, here is the objective," and you say, "I want these resources," and you get slightly less than that and then they say, "But I do not want you to deliver it that way, I would like you to do it some other way because that is politically better but it may be operationally much more difficult," or you get someone who changes the desired outcomes frequently, those are all the things that could go wrong.

Q26 Chairman: This is very interesting. Without naming names, could you from your lifetime experience give us an example of where a minister has done things wrong or right, without naming names or particular programmes, a general approach? It is very interesting for us.

Sir Gus O'Donnell: I think when DWP went to payments modernisation there was a very clear strategy, "Just do this: be able to pay people through their bank accounts". That was a very clear strategic objective. DWP got on and did it with a very, very successful IT project with very clear outcomes. The other one I would say was the whole business of car tax and getting car tax delivered efficiently on-line. That is a more complex case in that it was an IT project of great complexity because what we had to

do for you to be able to pick up the phone or go on-line and get car tax delivered (which you can) and renew it, we had to have all the garages, when they did their MOT, put that on-line, we had to have all the private sector insurance companies have databases that we can access so when somebody phones we can check that they have got private sector insurance and we can check they have got their MOT, we can check that they are actually the registered owner of the vehicle and we have got a way of handling payment, so we have got a financial part, and identity; all of that. I think that delivery took some time because it was a complex IT project requiring a vast number of changes, and I think along the way there were some wobbles about was this going to work or not. Sometimes it is a question of being patient. If you want really good IT projects, sometimes you will go through the periods when people say it is all failing, it is not going to happen, and actually a bit of patience is necessary.

Q27 Chairman: I would like you to expand on another question which Mr Hill asked you about the rewards of civil servants. This is very important because we see this all the time and your whole approach and tenor this afternoon has been about the collegiate approach and persuasion. Surely your responsibility is to drive change? Is there enough ruthlessness in the Civil Service in terms of rewarding performance and punishing failure? We tend to see quite a lot of failure in this Committee because of the way we are set up. We never seem to see civil servants punished. Is that an unfair criticism?

Sir Gus O'Donnell: What you will never see is civil servants getting £8.1 million bonuses.

Q28 Chairman: We do not want that either.

Sir Gus O'Donnell: Good, nor do I; I do not think the taxpayer could afford it. I think that is the structure that we have got. We are not setting up situations where if we make huge successes there will be huge benefits to people. Bonuses are really quite small and this year, as you know, permanent secretaries waived all of their bonuses. I think that was the right thing for us to do in the circumstances. However, I do believe that a small element of performance pay is quite important to the system. It is never going to be as big as the private sector, quite rightly, but I think actually assessing people and making sure that we have an objective assessment system which says, okay, these are the objectives, this person has done well, therefore they will get a modest bonus is a really important part of the system.

Q29 Chairman: And on the other side of the coin?

Sir Gus O'Donnell: On the other side of the coin I think on failure we do need performance management systems which are robust which say if somebody is failing then we should look at why. If it is not working, we should let them go. One of the issues that the Prime Minister signalled at the time of the pay issues for the public sector was that we were looking at the cost of severance payments, and I think this to me is an important problem for us at the

moment. It is very expensive in terms of going down that route and I think it is something we are currently negotiating with the unions on.

Chairman: Thank you very much. Ian Davidson?

Q30 Mr Davidson: Could I ask just about the Sunningdale Institute and its review when they said I think in paragraph 2.3 that only one or two departments had fully bought in and two or three were "going through the motions". Which ones were going through the motions?

Sir Gus O'Donnell: They did not tell us which ones were going through the motions. I think that was very early on in the stages.

Q31 Mr Davidson: So you do not know? Something like that saying that somebody is just going through the motions, did you not feel motivated to find out?

Sir Gus O'Donnell: Can I explain how the process works. When there is a Capability Review published, I see the Capability Review team, just personally, so they can tell me the strengths and weaknesses and they can tell me about individuals that they think are not working. I go back into that department after three months with the whole board. Then I go back in after six months with the whole board and after a year and, if necessary, after 18 months and then I meet with the whole board and go through the whole thing again at two years. I am all over these departments, so I know precisely how much attention they are paying to them. The best measure of who has done well and who has paid most attention to it is the increase in their scores between their first Capability Review and their second, which is a very objective measure.

Q32 Mr Davidson: Maybe yes, maybe no. I will come on to that in a second. Somebody external, the Sunningdale Institute, came back and said that two or three were only going through the motions and you did not feel motivated to clarify which departments those were?

Sir Gus O'Donnell: I know exactly what departments were doing.

Q33 Mr Davidson: So that is a No then? So you did know? So which departments were they?

Sir Gus O'Donnell: There were some of the ones that were finding it difficult at first to get going.

Q34 Mr Davidson: And which were they?

Sir Gus O'Donnell: I think the Ministry of Defence, DCMS and the Department of Health were ones that had not done so well at the start.

Q35 Mr Davidson: But finding it difficult to cope with in the initial stages is somewhat different from going through the motions, is it not?

Sir Gus O'Donnell: Yes.

Q36 Mr Davidson: And I asked you if you had clarified with the Sunningdale Institute which ones were only going through the motions. Can you just

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clarify for me not the question of who was finding it difficult but which ones were deemed to be just going through the motions?

Sir Gus O'Donnell: I did not ask the Sunningdale Institute.

Q37 Mr Davidson: You did not ask? I would have thought that that was a clear indication as to whether or not people were buying into this. If somebody reports that somebody is just playing about, I would have thought you would at least have felt motivated to ask who they were.

Sir Gus O'Donnell: I was very strongly of the view that I knew precisely how departments were doing.

Q38 Mr Davidson: Okay, you are obviously not going to answer that then. Can I just clarify the point in 2.4 where it is talking about a finding in a survey that half the departments did not consult staff at levels below Grade 7 and so on and so forth. The question for me partly comes down to the question of culture, but is this something that only applies to the higher reaches of the Civil Service or to what extent does it actually go through the whole structure?

Sir Gus O'Donnell: When you are doing a Capability Review, obviously one of the big sections is leadership, so you are interested in how well this department is led, because without good leadership we know from all of the research that you will not get the department operating effectively. One of the inputs to a Capability Review, though, will be evidence from the whole of the staff, so classically a Capability Review team would look at staff attitude surveys covering all the staff. They would go in and they would do surgeries, so they would bring together people from all different grades. They would ask them, "What do you think about the department? What do you think about the management?" and get a view across the different grade structures.

Q39 Mr Davidson: Why then in that case does the Report tell us that half of departments did not consult staff at levels below Grade 7 and says that support and engagement falls sharply at staff levels below the senior Civil Service?

Mr Etheridge: My honest view about that is that the Sunningdale Institute had misunderstood the difference between focusing on the top level of the organisation, which is where the Capability Reviews set out their stall, and consulting with the whole organisation. I think they have confused those two points. Yes, there is an emphasis on the capability of the top team but the process goes through consulting everyone. I do not recognise that we do not consult.

Q40 Mr Davidson: And you have discussed this with them?

Mr Etheridge: Yes we have.

Q41 Mr Davidson: And they accept your criticism, do they?

Mr Etheridge: I do not know. I think there is a misunderstanding about the process.

Q42 Mr Davidson: If you have asked them about it and you have got a criticism, presumably they either accept it or they do not?

Mr Etheridge: What I can tell you is that I know that all Capability Reviews consult all staff in two ways, very personally through workshops, and engagement—

Q43 Mr Davidson: What I am confused about then in that case, if you do do all these things, why then did the Institute believe that you did not? If you have discussed with them the error of their ways, I was just seeking to clarify whether or not they accepted that they were in error, and you indicated that you did not know.

Mr Etheridge: The point that I think they were trying to get across there is that Capability Reviews should worry about the capability of the whole department, not just the leadership teams. We would accept that point. What we have done in looking at the model is we have tried to strengthen the element which is how do departments develop the whole of their staff. That is a very key and important part of the Capability Review model for us and it is something that we look at very closely. As I say, I think they have misunderstood the difference between consulting staff and worrying about their capability, but, yes, absolutely we are worried about the capability of the whole department.

Q44 Mr Davidson: Okay. Could I just look at chart 10 and ask about the divergence between delivery capability and performance. This slightly confused me because I would have thought that there would be some sort of correlation between capability scores and reported delivery performance yet there seems not to be. How can that be?

Sir Gus O'Donnell: I think I have already answered that, that there are various aspects to delivery, there are PSA targets, that is one thing, but the departments are delivering a lot more than that. Let me give you one example at the Home Office, one of the big issues for the Home Office to sort out was its financial management, as you on this Committee will know better than anybody, a future NAO Report (I am not sure if it has come out yet) shows that there have been significant improvements in financial management in the Home Office. That shows up, to my mind, as a really important improvement in capability. It will not show up in those delivery elements that you have seen there—yet.

Q45 Mr Davidson: Yet, but you would expect then over time to see some sort of correlation between how well people can play this game and how well they actually deliver services?

Sir Gus O'Donnell: Yes, but, remember, there are lots of other things, the delivery of a specific service will be affected by all sorts of general economic factors and other things thus partialling out the impact.

Q46 Mr Davidson: That makes the whole thing very difficult to evaluate altogether, but I will come on to that later on. Can I look at chart 15 which is

improved scores in second-round Capability Reviews. It looks from this as if almost all the children got prizes and there is an improvement of everybody in everything. To what extent is this just a case of people playing the game better and learning the jargon? I remember when I used to be in local authorities that you used to have Urban Aid and then it changed to something else and all that you needed to do was ask for the same things but in a completely different fashion using different buzz words. To what extent have they just learned to jump through the hoops better?

Sir Gus O'Donnell: I really do not think that, partly because I have sat through the process and I have seen the departments. Again, going back to the Home Office and financial management, that has clearly got a lot better. We can point to things where departments have significantly improved.

Q47 Mr Davidson: I can see that there will clearly be improvements in some areas.

Sir Gus O'Donnell: The degree of improvement does vary across departments and there are some scores in specific areas in some departments that have gone backwards, including, I am embarrassed to say, the Cabinet Office. That happens, and that is because all the time we are trying to say has that capability increased or not. It could be that your score goes down because your capability is exactly the same but the need, the future challenge, has increased quite dramatically, so that department needs to be much more capable in that respect, and therefore just staying the same is not good enough.

Q48 Mr Davidson: Looking at these departments, for example the Home Office, to what extent is some of its improved figures because things like prisons and asylum got transferred elsewhere?

Sir Gus O'Donnell: That is exactly right. It is one of those areas where it is a big machinery of government change and it is very difficult to compare. We have done a baseline assessment for the Ministry of Justice, so you can see that, but I absolutely accept that.

Q49 Mr Davidson: Okay. Cultural issues and your top 200 and so on—to what extent is it the fault of the Civil Service for having people drawn from the same culture? In particular, how many of the 200 are public school boys and girls who could be seen to share a culture which is not the culture of the country?

Sir Gus O'Donnell: Not me!

Q50 Mr Davidson: I did not ask about you, I have checked that, but could I just ask about the others?

Sir Gus O'Donnell: I think it is really important that we increase the diversity of the whole of the Civil Service.

Q51 Mr Davidson: So do I which is why I am asking specifically about the top 200. How many of them are public school?

Sir Gus O'Donnell: I have honestly no idea. It is not an element I look at in diversity, I am afraid.

Q52 Mr Davidson: That is interesting. It is not an element that you think of when you are considering diversity. I would have thought it was actually because if you find that your top 200 are coming disproportionately from a very narrow segment of society that does have implications surely for diversity?

Sir Gus O'Donnell: It might but there are all sorts of other dimensions that we could look at. I am really interested in those dimensions of whether people come with a diverse set of experiences who reflect our society.

Q53 Mr Davidson: That is right and public school would be one of them, would it not really?

Sir Gus O'Donnell: Certainly in terms of the range of universities that people come from—

Q54 Mr Davidson: Well, how many of them came from Oxbridge then?

Sir Gus O'Donnell: It is a diminishing number, I do not know.

Q55 Mr Davidson: How diminished is it?

Sir Gus O'Donnell: The proportion of fast streamers coming from Oxbridge has declined quite significantly.

Q56 Mr Davidson: How much has it declined to?

Sir Gus O'Donnell: I cannot give you the numbers but I think it is something like 28% now.

Q57 Mr Davidson: I will tell you what would be helpful, the top 200, give us figures on how many are public school.

Sir Gus O'Donnell: No, I do not think so.

Q58 Mr Davidson: Sorry, the way this works is that we ask you questions and you give us answers; this is not a negotiating procedure.

Sir Gus O'Donnell: Right!

Q59 Mr Davidson: Maybe I have misunderstood that, Chairman. I am asking as it seems to me to be relevant and it is really not up to you to decide what is relevant.

Sir Gus O'Donnell: I will look into that.

Q60 Mr Davidson: No, I think looking into it is not quite what I am looking for. What I am looking for is an answer. What I would like is an answer. Am I getting an answer on that?¹

Sir Gus O'Donnell: I am hearing that you want an answer and I will see whether within our procedures it is appropriate for me to answer that question.

Q61 Mr Davidson: In what circumstances might it not be appropriate to answer?

Sir Gus O'Donnell: We need to think about whether it would impinge on individual privacy, that is all.

¹ Ev 16

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Q62 Mr Davidson: Surely you can do better than that? Even I could do better than that if I wanted to refuse to provide information in these circumstances.

Sir Gus O'Donnell: I am not saying I am refusing, I am just saying I want to as far as possible provide this Committee with all the information you want.²

Q63 Mr Davidson: Individual top civil servants can give us it, so for example the Ministry of Defence can tell us how many of the top generals went to public school but you might not be able to tell me for the top 200?

Sir Gus O'Donnell: No, no, I am just saying that I will take it away.

Chairman: I think we have done that. Richard Bacon?

Q64 Mr Bacon: It is not often that I find myself in agreement with Comrade Davidson here but I read recently that 65% of people who go to an independent school get into a Russell Group university, the top 20. If you go to a state school there is a 13% chance. You are five times more likely to go to a Russell Group university if you have been to an independent school than you are if you have been to a state school, even though state schools account for 93% of those educated and independent schools for only 7%. I think it would be very interesting to know both how many of the top 200 have been to independent schools and to state schools and then which universities they went to and how many of them were in the Russell Group and how many of them are Oxbridge and so on. That cannot be uninteresting information to you as a manager.

Sir Gus O'Donnell: What it would tell you about, sure, is the entry criteria there were when they joined the Civil Service, which is pretty historical information, and the fact that they had gone through the scheme. It might be interesting as well to look at the composition of what is coming in.

Q65 Mr Bacon: Absolutely, and I think it would be only fair if you were to send us both. Perhaps you could consider doing that?³

Sir Gus O'Donnell: Sure.

Q66 Chairman: Hang on, what is he going to send us about the people coming in? Is he going to send us the fast streamers or what? I think he should know what he is actually going to be asked to do.

Sir Gus O'Donnell: I think fast stream was what I was meaning.⁴

Q67 Mr Bacon: Another interesting question actually is how many of the top 200 were fast stream because Lesley Strathie was not fast stream. When we looked at the delivery of Jobcentre Plus, of the three witnesses in front of us, none of them was fast stream. Lesley Strathie started as a clerical assistant in 1974, I seem to remember, and I think most of us

on this Committee regard it as very welcome that people can start at the very bottom and get to the very top.

Sir Gus O'Donnell: And I did not come in through the fast stream so they would have missed me.

Q68 Mr Bacon: It would be an interesting thing to know that as well.

Sir Gus O'Donnell: To know?

Q69 Mr Bacon: To know what proportion of the top 200 came through the fast stream.

Sir Gus O'Donnell: Sure, what you will also find of the top 200 quite is that a high proportion were not recruited into the Civil Service from university but came in much later so they have got prior experience.

Q70 Mr Bacon: I must say in my experience of this Committee looking at CVs, which I do, it is increasingly common that people have experience outside, which I think is something we welcome again.

Sir Gus O'Donnell: It is something like 28% again.

Q71 Mr Bacon: Can I ask about something you said at the very beginning. I was rather surprised, in a way, when you said that there was a difficulty, it is not obvious, I think you said, how you compare the Ministry of Defence with the Finance Ministry or the Department of Culture, Media and Sport, to which my first thought was, "Oh yes it is," and in fact there is an excellence model produced by the European Foundation for Quality Management which is widely used in the public sector and the private sector which you could have lifted and used and it would have been a reasonably good fit. Instead of which you have developed a bespoke model and you have got things in it—and I am all for passion as well—that you are measuring such as "ignite passion, pace and drive" and "build common purpose", which it is actually much more difficult to turn into numerically valid measures, when you have got a model available that is much more widespread, that allows comparison much more easily with other organisations in both the private and public sector. One of the criticisms of this Report is that there is not much benchmarking beyond the Civil Service for certain areas. Just to take an example, apart from business planning, performance management and board effectiveness, which the Report says you do not benchmark outside the Civil Service, there are a lot of other really obvious things that apply to any organisation such as human capital, human resources, competitive sourcing, financial performance, e-government, e-performance or e-delivery, budget and performance integration, the use of property real estate, which we have looked at a lot in this Committee. Most of those come straight from the Office of Management and Budget list, which is how they do it. You seem to have created a more complicated process that makes it more difficult to do comparisons across different organisations.

Sir Gus O'Donnell: Just look at your list and say how many of them apply to the Cabinet Office.

² Ev 16

³ Ev 16

⁴ Ev 16

Q72 Mr Bacon: I would have thought probably most of them apply to the Cabinet Office: Human capital, human resources, financial management.

Sir Gus O'Donnell: It is a very small part of the function.

Mr Bacon: I have a confession to make, by the way, because the C&AG's immediate predecessor and I had a conversation 18 months ago and I said, "How come in seven years on this Committee I have never seen the Cabinet Secretary, because he is a very important fellow, the head of the Civil Service?" and he said, "Well, of course the Cabinet Office is a small department." He said, "I'll go away and have a think." He came back a couple of weeks later with a gleam in his eye and he said, "Capability Reviews—the Cabinet Secretary is the accounting officer for them."

Mr Mitchell: That is why we are here.

Mr Bacon: So that is why you are here, I am very pleased to say.

Q73 Chairman: And of course you are absolutely delighted to be here, obviously.

Sir Gus O'Donnell: I am absolutely delighted to be here.

Q74 Mr Bacon: And of course it is true that compared with the Department for Work and Pensions with 100,000 workers, the Cabinet Office with 1,000 is small. The Foreign Office has got 16,000 employees in 240 offices in 100 countries. It is very small compared with lots of much bigger organisations but there are, nonetheless, enormously important management challenges there. My point is that there is an awful lot that is common and you have created a model that makes it more difficult to do comparisons with the private sector or other organisations.

Sir Gus O'Donnell: I think what they have in common is that they are all central government departments. They have ministers, they have that board structure, they have a varying degree of policy and delivery but they are all within a Westminster model of democracy, and I think that is more important. I would have loved, as I said before, to have taken something off the shelf that I thought would fit, but actually I do not think if we had done any of those things—

Q75 Mr Bacon: You would not have got it past the other permanent secretaries?

Sir Gus O'Donnell: People have done quality studies and all the rest of it but they have never had the purchase. We have tried lots of different ways of doing this. This is the first time that we have had permanent secretaries so heavily engaged. It is the first time the Cabinet Secretary has been so heavily engaged. It is the first time we have ever managed to get published results out and we have been doing things similar to the things you have been suggesting for a while, but it is the first time we have ever had the Committee of Public Accounts look at this sort of thing, so I think it is great. I think that is one of the pluses I give the Capability Reviews.

Q76 Mr Bacon: I think it is a terrific process and I am glad that you are doing it. The fact that it shows that there is a lot more to do is a good reason for having done it, rather than why you should not, although I have to say that the results are quite shocking. If you look at the spread on pages 22 and 23, you have 4 as "strong", 3 as "well-placed", 2 as "development area", 1 as "urgent development area" and 0 as "serious concerns". When you look across that spread, you are looking for a 3 at the beginning and there are some, for example in the strategy column there are some, but there are precious few. And if you look at page 49, you see in the extreme right-hand corner, the average is 2.1, and this is after 30 years or more of attempts to reform how government does things, from the Financial Management Initiative, Next Steps, tendering, market testing, public service agreements. The plethora of initiatives has been enormous and it makes me wonder if it is not the same, I do not know if you have read *The Leopard* by di Lampedusa—

Sir Gus O'Donnell: It is my favourite book.

Q77 Mr Bacon: There is a conversation between Tancredi and the uncle, the duke. Tancredi, the nephew, is very taken with Garibaldi and he says to the old duke, who is very much *ancien regime* (I cannot say *ancien regime* in Italian!) "Uncle, Uncle . . ." and he is trying to explain why he is attracted to Garibaldi and he says, "Don't you understand, if you want things to stay the same around here, things are going to have to change." Is that not essentially what has been going on in terms of Civil Service reform for the last 30 years?

Sir Gus O'Donnell: The interesting thing is if someone 30 years ago had done some Capability Reviews we would actually have a score from 30 years back and we could assess then versus now. As long as we carry on with this process we will be able to start doing this, so we have now got two pieces of data, the first reviews and the rereviews. The precise numbers, as you will know because you know about these kinds of systems, obviously it is for us to say what is the benchmark we set, so 2.1, is that low or high? Obviously, we could have put the bar in a different place and come up with a different number but I wanted them to be rigorous and wanted them to be tough. I did not want to come out with, I think the phrase was, everybody getting prizes. I actually wanted to differentiate and be clear what the strengths and weaknesses are.

Q78 Mr Bacon: You said something extremely interesting there which was "if we carry on with this". It is very clear in the Report that not only is there not yet a link to delivery proper, that is paragraph 10, and in paragraph 11, that there is no clear way forward from here. Also in paragraph 1.17: "Without a clear message about the future, there is the risk that departments may develop different approaches to assuring capability improvement or lose focus on capability." Despite the fact that it also says that departments want more

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support from the centre, although it has got some traction, it is not actually clear whether it is embedded or where it is going from here, is it?

Sir Gus O'Donnell: As long as I am Cabinet Secretary we will carry on doing this, I can tell you that, and I think it is embedded in that the way that we formulated the model and worked on co-invention with permanent secretaries, the way that actually ministers now, when it comes to a topical issue like reshuffles, when a minister comes to be thinking about going into a new department, one of the conversations I have had with them is, "Well, I have looked at their Capability Review and they do not look to be very good in this area; talk me through it." They are there and I am absolutely determined that they will carry on. Of course we will improve them and we will learn the lessons of the first round and the rereviews. Having gone through the process once, we want to, as I said, tweak the system, and picking up what your own NAO Report says about the link with delivery, that I think is something that we need to improve. I also want to pick up, as I said, the point about collaboration. One of the things about Capability Reviews is of course they are department by department. If you think about the things that governments are trying to deliver now, take climate change, it is not specific to one department, and I think that is going to be one of the challenges for us: how do we pick up our ability to deliver things which are very cross-departmental in a process which actually looks at the capability department by department.

Q79 Mr Bacon: Indeed the Report does refer to that.

Sir Gus O'Donnell: Absolutely.

Q80 Mr Bacon: One more question and it is really about ministers. I do not want to talk about specific ministers or specific policies, but a key factor in all of this, plainly, is when a new minister comes into a department. Ian Watmore was talking about how closely and how well he worked with John Denham just a couple of weeks ago, and although you may be able to give advice to the Prime Minister of the day on which ministers might fit where, nonetheless, to a very large extent, first of all, you have a limited pool to choose from and, secondly, departments to some extent get what they are given. Then a very big factor in not just the formulation of policy (if it is an area that is hot and needs policy development or if it is not hot in that sense but there is implementation to do) the success of the implementation is going to depend to a large extent on how the minister interacts with the department. An obvious question would be: what formal work do you do to increase the quality of the collaboration between the minister and officials at the very top level, and throughout, to try and get the outcomes that you want? Because I reckon the answer is probably not a lot, is it? Obviously it is a politically hot topic and probably steered away from, but one of the things Ian Watmore was talking about was the way in which Lord Drayson started hot-desking and that changed the attitude of others, although he is probably an unusual and exceptional person. Generally you have

this enormous factor where it is plonked in the middle of the equation and it kind of sits there like a rock, and it may help and it may not help, but surely you ought to be (tackling is the wrong word, that is tendentious) addressing that as an issue and how you help integrate it into everything else so that it works as well as possible. What do you do to do that?

Sir Gus O'Donnell: The number one thing that would help most in all of this would be a reduced turnover of ministers because then we can work together. When we are working together, I think the best practice for boards is when they have a session jointly with their ministers for going through the strategic objectives of the department so that everybody is aligned on what you are trying to achieve, and then the board can explain to the minister how they are going to try and do that and some reporting arrangements.

Q81 Mr Bacon: Which begs an immediate other short question, as the Chairman has just given me a time fault: would it not therefore be obvious that the senior minister in a department should chair the management board and not the permanent secretary? He would then be like a chairman or a non-executive chairman and the permanent secretary would be the chief executive. That would be the obvious model, would it not? The minister provides strategy.

Sir Gus O'Donnell: Absolutely.

Q82 Mr Bacon: And the chief executive does it.

Sir Gus O'Donnell: If you get to that world, that is great. We would love it if it was very clear. If the minister was talking about strategic outcomes fine, but if the minister starts chairing the board and saying, "By the way, I want to rearrange the widgets," then we are doomed, I think, because one minister will want to do it one way and someone else will want to do it some other way. What we want from our political masters is clarity and clear strategic objectives and then let us get on with it. That would be great.

Q83 Chairman: You probably do not want to answer this but I will still ask it: when there is a reshuffle coming up, do permanent secretaries review the performance of junior ministers and pass that back to 10 Downing Street?

Sir Gus O'Donnell: There are always conversations about those sorts of things that go on, but they are just that; conversations.

Q84 Chairman: You talked about turnover and you seemed to suggest that you would like there to be a slower turnover of ministers. Is there not too high a turnover of senior civil servants? We see constantly, particularly with regard to projects, that project managers turn over too quickly.

Sir Gus O'Donnell: I think that is true. One of the things we are trying to do, and I instituted this in the Treasury, is a four-year rule, where people should stay in post for four years, and you would discuss with them as they approach that four-year point what the next stage was. We are trying to slow down

turnover so that we do keep people more in post, particularly for projects. I think that a good example would be the Olympics where we would want to see people stay in post in that area.

Chairman: Thank you. Austin Mitchell?

Q85 Mr Mitchell: I thought you were going leave me out on the grounds of incapability! I grew up on Ivor Jennings and that theory of the constitution where you have these mandarins formulating policy, and it is disappointing to find that this Capability Review is mainly concerned with the thing that the Government has been obsessed with for a long time, which is delivery rather than policy. We seem to have come to the days when the mandarins are no longer concerned with policy. That comes either from sofas somewhere in Downing Street or by hiring in consultants. Why do you not look at capability of formulating policy?

Sir Gus O'Donnell: We do look at capability of formulating policy, and you will see in there that analytical input is a very strong part of this, use of evidence for example. You are absolutely right, I think there is a question of balance here. Traditionally, when I joined the Civil Service back in 1979, dare I say it, the policy people were kings and delivery people were definitely below the salt.

Q86 Mr Mitchell: Have we gone too far the other way?

Sir Gus O'Donnell: I think there is a good balance now. I think we have tried to readdress the balance, that is certainly the case, but when you get to having some of the people come through to permanent secretary who started life as operational deliverers, possibly not through the fast stream, I think that is great, but we do need people who can also combine those skills with policy skills. I think the balance is much better than it was. I still think that in departments, particularly small central policy departments like the Treasury and Cabinet Office, the ability to marshal evidence and analysis is hugely important.

Q87 Mr Mitchell: Okay, thank you. In these days of spin and presentation, why did you not look at presentation? It is true to say that the popular image of departments in the Civil Service which was formulated in the 1960s and was the basis of *Yes, Minister* and Tony Jay's description, which came from Sampson of course, which has now become in the loop and it is all about presentation and spin rather than the actual substance of the policy. You did not look at that?

Sir Gus O'Donnell: About the presentation?

Q88 Mr Mitchell: Departments' capability in presenting the policy of their departments.

Sir Gus O'Donnell: Sure, I am not spin obsessed. I think if we get the policies right and we get the delivery right then the presentation will look after itself. I think presentation is an important aspect of it but it follows from the other elements. I think the area of communications is important and where I think we are lacking is our ability to understand

whether we are delivering well for customers, for the public, and knowing that. That is the hard part and that is where I think we need some more of the techniques of the communications industry.

Q89 Mr Mitchell: I am glad to hear that, you get the policy right and the delivery right and the presentation looks after itself. I wish governments took that position. You did not look at the people-face. With a body like, for instance, HMRC, the problems I find in Grimsby are all at the people-face. It is not the people at the top, it is officials giving advice which turns out not to be correct and then the customer, the consumer, gets themselves into a mess because they have gone down the wrong track or taken the wrong advice, and it is then subject to quite expensive review, sometimes to tribunals at the top. Why did you not go down to the people-face? That is a crucial part of the whole thing.

Sir Gus O'Donnell: It is an absolutely crucial part and it is not just about Capability Reviews, which do try and look at that, but about the whole individual aspect. I encourage all staff to spend time going out to the front-line to look at it. Last Friday I was in Plymouth going to an office of the Child Support Agency. I went to the business insolvency department down there to see what actually happens in the front-line because you learn a lot, I think, about improving our services by getting people out there. Leigh Lewis has introduced Back to the Front-Line where all of his senior staff go out doing precisely that, interfacing with customers, working out whether the advice they are giving is good. Of course one of the things you can do is if you can enable your services so that they are on-line, then they are more available to individuals and they can find ways of getting better advice. It is much easier to interact in some ways through on-line services.

Q90 Mr Mitchell: But you rely on departments to do that, to send people down to look at the people-face rather than looking at it through the Capability Reviews. The Sunningdale Institute seems to think that you did not do enough at the people-face.

Mr Etheridge: Just to be absolutely clear, because I do think it is a misunderstanding, the Capability Reviews are absolutely about the extent to which departments are developing the skills and experiences that they need to deliver their challenges. That is an absolute and key part.

Q91 Mr Mitchell: At the top or at the bottom?

Mr Etheridge: No, throughout the organisation. I think the misunderstanding is that there is a focus within the Capability Review methodology on the top team, and that is positioning ourselves exactly where we wanted to be at that time because we believed that leadership of these things, including leadership of developing the skills that you need further down the line, was a good place to start for the first round of Capability Reviews. It would be a very wrong impression to say, and I think it is a

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misunderstanding by the Sunningdale Institute that we do not consider that. We absolutely consider that as a key part of the model.

Q92 Mr Mitchell: It is good to hear that. Similarly, the question of agencies, looking at the improvement in the case of the Home Office, which John Reid said was unfit for purpose, which is a fairly damning criticism by a minister in the department, you say it is improving. Is that dependent on the fact that it shed so many functions to prisons and homeland and constitutional affairs?

Sir Gus O'Donnell: It is very difficult for us to say. Certainly when we rescored the Home Office it was a different Home Office; it had lost prisons and, as you say, some other elements, to the Ministry of Justice, but some of the core things in the Home Office had clearly got better than had been there before and were still there. I again point to financial management as a clear example and their ability to work as a team at the top. There were very big changes in the senior membership in the Home Office during the period between the Capability Review and the rereview and I think that really made a huge difference. It is a department that I think has improved very considerably.

Q93 Mr Mitchell: The second round showed improvements, it is nice to hear that, but is that due to the fact that the second round was conducted with a lighter touch or the fact that the departments have learned to jump through a new set of hoops and were just getting better at it?

Sir Gus O'Donnell: I think it was very much that they were getting better. I know that because I personally was engaged in the process all the way through, so I saw what they were doing, I saw the strengths and weaknesses of them, and I went back in at three months, at six months, after a year, and basically looked at those problems to see if they were actually making real progress with them.

Q94 Mr Mitchell: So it was a hard look?

Sir Gus O'Donnell: It was a hard look and it was a hard look that basically ended up with a really objective scoring mechanism and in some areas some departments went down as a result of that hard look.

Q95 Mr Mitchell: I was just a bit concerned when I saw that note by the National Audit Office on development since the assessment that in February 2009 Liam Byrne announced that he has asked you to re-think how performance management and accountability can better promote value for money. Value for money is going to be the obsession of the next few years, is it not, and yet it is something that cuts across a lot of the other aspects that you are looking at. If you are going to be looking at candle ends and penny pinching and how they grind down the amount of money they are allowed, that can often be a severe disadvantage to improving performance. Is there not a tension there? Should value for money be part of your prescription?

Sir Gus O'Donnell: If a department is delivering well they will be doing it with high value for money. We all know that the context in which we will be operating in the next five years will be one in which it is even more important, let us put it that way, so I think we will need to make sure that we incorporate within Capability Reviews their ability to operate. Like I say, it is the capability delivered for future challenges. The future challenge will be operating in a world where the public expenditure situation is, as we know, going to be much tighter.

Q96 Mr Mitchell: We have seen that some departments have had to shed staff and then suddenly an urgent task has come along and they are not capable of coping with it. That kind of continuous efficiency review, grinding down numbers, can be the enemy of capability.

Sir Gus O'Donnell: Indeed, and I think what we have got to do is make sure that we have the capability in departments to achieve more with less but also the capability to prioritise. If we are going to say to ministers actually you want us to achieve this and you want an x% reduction in resources, then we can improve efficiency in these ways, and we have proved that we can do it because we have got £26.5 billion of Gershon savings, not £21 million, which was our target, so we can do that sort of thing, but actually it may be best to also stop doing some things. I think we are going to have that prioritisation discussion and one of the key elements of the Capability Review model is to prioritise. I think that would be a big part of it.

Mr Mitchell: Thank you.

Q97 Chairman: Just a follow-up from what Mr Mitchell said. There are 17 departments so did you go into each review three times then, personally?

Sir Gus O'Donnell: Personally, yes. I have a session with the team when the scores are first done. The review team goes in and they report back to me personally on the things they have found and whether there are any issues, individual people issues for example, and then I see the board when the review team talk to them. That is at the first scoring time. I go back at three months, I go back at six months and I go back at a year and, yes, it is a big time commitment for me.

Q98 Chairman: And do these Capability Reviews look into the relationship between ministers and officials and how well they work?

Sir Gus O'Donnell: No, that is the area where it differs most from the local authority model.

Q99 Chairman: You do not think it should?

Sir Gus O'Donnell: I thought at least in the first round it was right that we concentrated in this area.

Q100 Chairman: Why do you just deal with departments, why not executive agencies that actually deal with people on the front-line? Is it

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because you are only looking at the Westminster model, relationships with ministers, and that sort of thing?

Sir Gus O'Donnell: What we want, exactly, is to look at the top of departments and how good departments are at managing their agencies so that is why the top gives you a good way into this.

Q101 Chairman: Do you think, Sir Gus, that this experience this afternoon has been useful to you? Do you think that, working with the NAO, we should come back in a couple of years' time and see how much better it is?

Sir Gus O'Donnell: I think it has been incredibly valuable for us. One of the things I have wanted to do with Capability Reviews is make them very open, externally focused, to publish everything, have the Sunningdale Institute, they have reviewed it, as you rightly said, and they found some criticisms. Great, an independent report, and for the NAO to look at it, from my point of view, is excellent. We want to work with the NAO in terms of when we find areas where we are worried, can we work together in terms of sorting out improvements? Can the NAO suggest

to us ways in which we can improve our model? I think there is a real synergy between our work, so I would be very happy to come back.

Chairman: That is very important and I wanted to have that positive note at the end of the hearing, so I hope Mr Bacon is not going to be ruining it by being negative now.

Q102 Mr Bacon: Not at all. I just wanted to know, you said, "so long as I am Cabinet Secretary"; will one criterion for the appointment of your successor be an explicit commitment to the continuation of this process and its development?

Sir Gus O'Donnell: I would love to make it such but it is not for me to lay down commitments for my successor. The Prime Minister chooses the Cabinet Secretary.

Q103 Mr Bacon: But you can give advice.

Sir Gus O'Donnell: Indeed, and you could as well!

Mr Bacon: Thank you, I will.

Chairman: Mr Etheridge, I am sorry that you have not been allowed to say a great deal but we are very grateful for you being here and, Sir Gus, we are very grateful to you.

Memorandum from the National Audit Office (NAO) on developments since *Assessment of the Capability Review* programme was published

FEBRUARY 2009

On 5 February 2009, Cabinet Office Minister Liam Byrne announced that he had asked Sir Michael Bichard, Executive Director of the Institute for Government, and Sir Gus O'Donnell, to rethink how the performance management and accountability of civil servants can better promote value for money, learning from the frontline, more innovation and better corporate work, and to advise him on the implications for the next phase of Capability Reviews, taking account of the NAO report. This review will inform the Cabinet Office's development of a revised model and approach for Capability Reviews post-2010.

MARCH 2009

The Cabinet Office published:

- *Working together: public services on your side*, describing how the government's three principles for public service reform—citizen empowerment; a new professionalism; and strategic leadership—will be translated into practice for the coming years.
- *Civil Service Reform: a working paper*, which was informed by findings from Capability Reviews.
- Reports on the second-round Capability Reviews carried out on the five departments in Tranche 3: the Department for Culture, Media and Sport; the Department for Environment, Food and Rural Affairs; the Department for International Development; the Foreign & Commonwealth Office; and the Ministry of Defence.

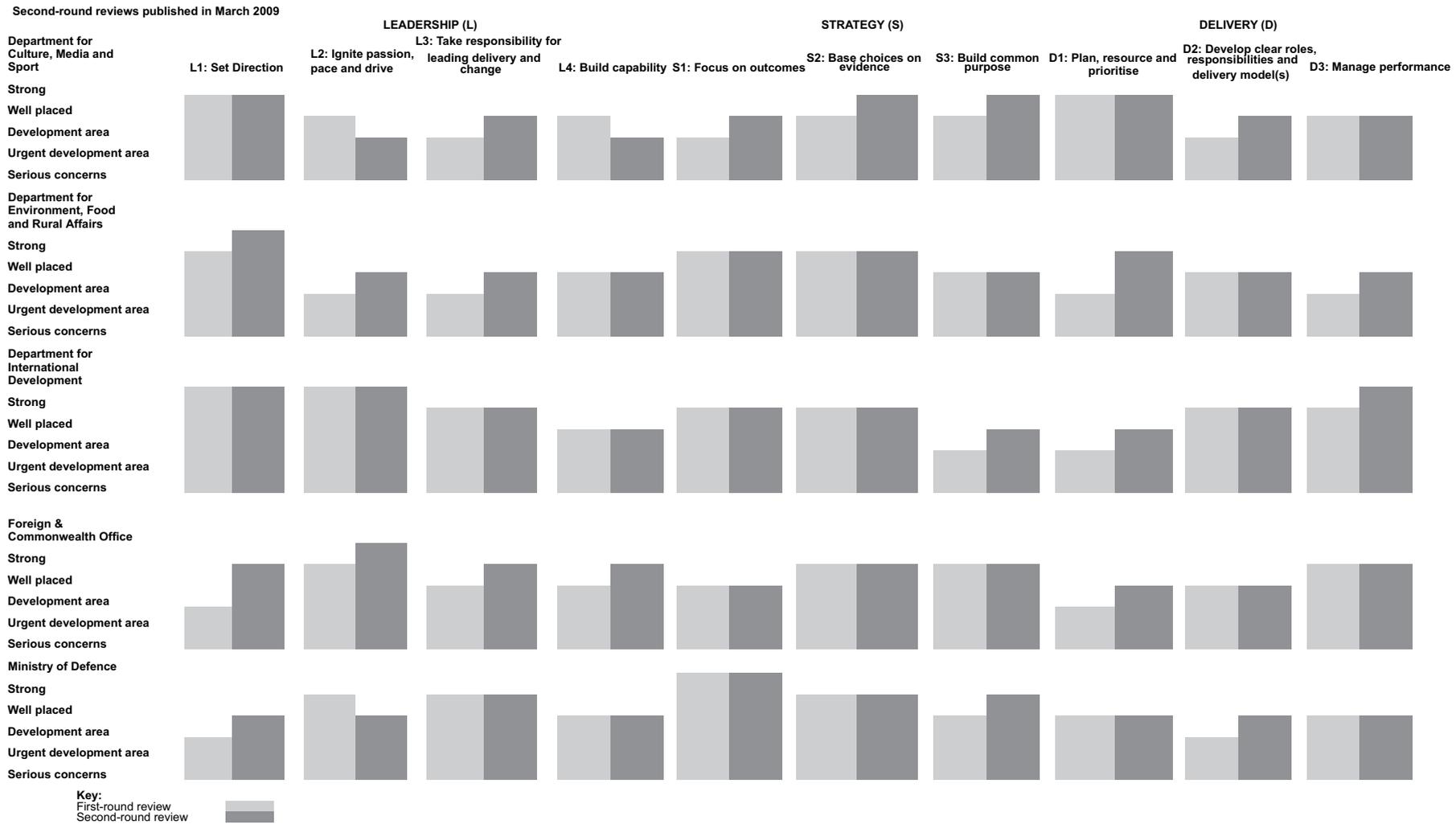
In common with the earlier results from the departments in Tranches 1 and 2, the five departments in Tranche 3 all secured improved capability ratings. Greatest progress was achieved by the Department for Environment, Food and Rural Affairs and the Foreign & Commonwealth Office.

The extent of progress in each department is summarised below and in **Figure 1**:

- The **Department for Environment, Food and Rural Affairs** moved up two assessment categories in one element of capability and up one category in four elements, raising its overall capability score from 1.9 in March 2007 to 2.5.
- The **Foreign & Commonwealth Office** moved up two assessment categories in one element of capability and up one category in four elements, raising its overall capability score from 2.2 in March 2007 to 2.8.

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- The **Department for International Development** moved up one assessment category in three elements of capability, raising its overall capability score from 2.7 in March 2007 to 3.0.
 - The **Department for Culture, Media and Sport** moved down one assessment category in two elements of capability and up one category in five elements, raising its overall capability score from 1.9 in March 2007 to 2.2.
 - The **Ministry of Defence** moved down one assessment category in one element of capability and up one category in three elements, raising its overall capability score from 2.3 in March 2007 to 2.5.

SECOND-ROUND CAPABILITY REVIEW SCORES FOR DEPARTMENTS IN TRANCHE 3 **Figure 1**



Memorandum from Sir Gus O'Donnell KCB, Cabinet Office

PAC HEARING: ASSESSMENT OF THE CAPABILITY REVIEW

I am delighted that the Committee will be hearing evidence on the Capability Review programme and writing to you in advance of Wednesday's session to provide you with a brief update on the developments within the programme since the publication of the NAO report in February 2009.

At the time of the report's publication, we had completed two tranches of the re-reviews. The re-reviews for FCO, MoD, DfID, Defra and DCMS were published just before Easter this year, bringing the number of departments reassessed so far to 11. A further three reviews, of DH, DfT and CPS, are currently under way and we will publish their findings before the summer. All completed re-reviews, along with the assessments, can be found on the Civil Service website: www.civilservice.gov.uk.

Some clear themes are emerging from the re-reviews:

- I am seeing significant improvements in leadership at the top of departments. Re-reviews have found Permanent Secretaries and boards are much better at setting a clear direction, operating more effectively as corporate leadership teams and proactively seeking challenge from non-executives, staff and stakeholders.
- Departments are getting better at planning, resourcing and prioritising. Getting this right is particularly crucial in the current economic climate.
- Departments are also improving in their ability to use evidence and analysis to develop the right strategies and policy responses.

I have agreed with Permanent Secretary colleagues that a third round of Capability Reviews will take place. Reviews will be a permanent part of the new performance assessment framework—as set out in the Government's recent *Working Together Public Services on Your Side* document. It will be important that they remain proportionate and properly targeted.

I am working with Sir Michael Bichard, from the Institute for Government, to examine ways to refresh the Capability Review model, for the third round, in a way that will maintain its focus on the challenges set out above but also bring into sharper relief specific aspects of capability. These will include departments' abilities to innovate, collaborate, learn from the front line and deliver value for money.

I am grateful to the NAO for its report and look forward to the opportunity to give evidence on Wednesday.

1 June 2009

Supplementary memorandum from Sir Gus O'Donnell KCB, Cabinet Office

PAC HEARING: ASSESSMENT OF THE CAPABILITY REVIEW PROGRAMME

Thank you again for inviting me to give evidence to the Committee on the Capability Review programme. I am very proud of the programme which has led to significant improvements in capability across the Civil Service. My permanent secretary colleagues and I are committed to building on this success so that we are ready to meet the challenges of the future. This includes continuing to improve the diversity of the workforce which, in turn, will lead to a stronger Civil Service and better delivery of public services. The Civil Service is committed to being a meritocratic employer and attracting the best talent from the widest possible pool of candidates. And to ensure, that once they have joined us that their aspirations are high and that they are able to reach positions of influence.

At the evidence session, we discussed whether and how the Civil Service monitors the schooling and socio-economic backgrounds of those in the most senior roles. We have been considering this following the hearing but also needed to await the publication of the final report of the Panel for Fair Access to the Professions, led by Alan Milburn, on which Gill Rider, Director General of the Civil Service Capability Group at the Cabinet Office, represented the Civil Service.

The report recommended that: "The Government should collect and publish data on the socio-economic backgrounds of applicants and entrants to the senior civil service, drawing on the lessons that have been learned from collecting and publishing data on gender, race and disability".

We are now actively considering how we do this, not just for new entrants to the Senior Civil Service, as recommended in the report, but also for the current 'Top 200' civil servants which will include looking at their entry routes into the Civil Service.

I will keep the Committee informed as we develop this work further and consider how we ensure we reach and attract the best talent, regardless of background.

I would like to take this opportunity to set out the broader work we are doing on Civil Service workforce diversity. We have made considerable progress in recent years in all aspects of diversity and in widening the pool from which we recruit.

It is important to remember that the present cadre of most senior officials reflects, in the main, people who began their careers in the 1970s and 1980s. By extension therefore, it reflects the recruitment trends in the Civil Service and many of the broader features of employment in society representative of many decades ago.

Reports of the Civil Service Commissioners in the 1970s show that in the early part of that decade over 50% of Fast Stream entrants were from Oxbridge. In fact, in 1971 and 1972 almost half of these entrants were from one degree discipline—History.

In contrast, I thought it might be helpful to reflect on the diverse mix of entrants to the Fast Stream in 2008:

- Successful applicants came from 63 universities and from a range of disciplines.
- Over 70% of successful applicants completed first degrees at non-Oxbridge universities
- 48% of successful applicants were women (38.7% in 1998)
- 9.3% of successful applicants were from ethnic minorities (almost 3 fold increase since 1998)
- 12.6% of successful applicants were disabled (5.1 % in 1998)

Moreover, increases in Fast Stream diversity in all of these groups demonstrate a positive trend—and one which suggests that the Top 200 is likely to be even more diverse in terms of its richness of experience and background in the years to come.

I should also add that the Civil Service makes a deliberate effort to recruit talented individuals from outside the Service into the Top 200, to broaden the range of experiences and backgrounds which we are able to access. Again, our achievements to diversify in this way are matched by results that indicate that 40% of the Top 200 were external recruits to the Senior Civil Service.

We will continue to consider how we improve the diversity of the Civil Service and I would like to thank the Committee for its interest in this area.

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