Managing resources to deliver better public services




REPORT BY THE COMPTROLLER AND AUDITOR GENERAL
HC 61-I Session 2003-2004: 12 December 2003

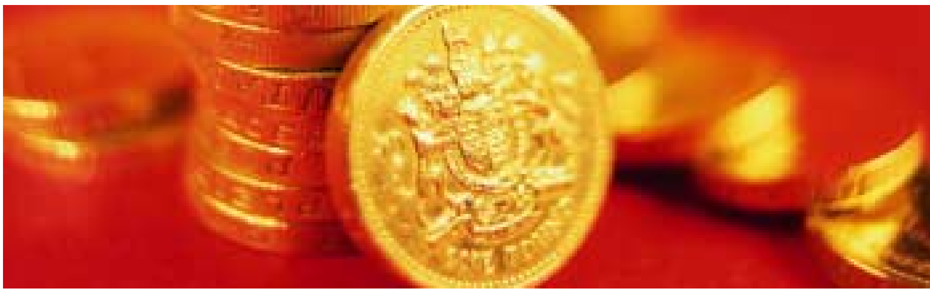
LONDON: The Stationery Office
£13.75
Two volumes not to be sold separately

Ordered by the
House of Commons
to be printed on 8 December 2003

executive summary

1 Departments and their agencies currently spend around £421 billion[1] annually and are responsible for assets and liabilities[2] of some £334 billion and £112 billion respectively. How well these resources are managed to convert them into staff with appropriate skills, infrastructure and equipment, and IT has a significant influence on the delivery of better public services **(Figure 1 and 2)**.

2 From 1998 a number of fundamental changes in how resources are allocated and should be managed have been introduced. These changes include Public Service Agreements to concentrate departments' efforts on achieving sustainable improvements in services; a public spending and control regime which allocates resources to departments over a three year period and gives more flexibility to carry forward unspent resources; and in keeping with generally accepted accounting practice in the private sector subject to adaptation, full resource accounting and budgeting which came into effect for departments from 2001-02.



3 The developments underpinning each of these changes, as well the practical guidance on their implementation has been led by HM Treasury. The changes were intended to address some long standing inherent weaknesses in the way resources in the public sector were managed in the past. Departments tended to focus more on the management of inputs - staff and goods and services - than on the benefits to people which inputs are intended to deliver. Funding departments on an annual cash basis with any unspent money usually having to be given back at the year end provided little incentive to plan for the longer term and invest in capabilities to deliver better services. With cash accounting assets such as equipment were usually treated as free goods by departments and limited account was made for the consumption of assets in delivering services and that they would eventually have to be replaced. This meant that there was little incentive to use resources efficiently.

1 HM Treasury estimate for aggregate outturn in 2002-03.

2 Liabilities typically include amounts owed for goods and services provided but not yet paid for by departments (creditors).

4 Using the new tools and in particular accounting for the use of resources on an accruals[3] basis is requiring departments to make a step change. To do so they are investing in new IT systems and training to equip staff with more advanced financial accounting and management skills. While the costs are likely to be significant, we found that departments do not have precise information on the cost of IT investments specifically in relation to resource accounting and budgeting since they are being phased over a number of years as part of the normal replacement cycle for IT systems in departments. Implementing changes of this scale and complexity will take some time.

5 The need for reliable resource management is brought into sharp focus by the allocation of an additional £61 billion over the next three years to deliver better public services particularly in the key areas of health, education, transport and criminal justice. Without careful planning and management there is a risk that resources are not all used as intended or efficiently with the result that the full potential to improve services is not realised. In a separate report[4] we have assessed the arrangements which the relevant departments have in place to ensure that these additional resources are used to deliver improved services.

1 **Resource management can improve both public service delivery and efficiency**

Resource Management Requirement	Benefits	
	Service delivery	*Efficiency*
Targets and objectives are clearly defined and underpin the way resources are allocated.	Resource can be directed at achieving key outcomes such as raising educational standards rather than simply putting money into an activity.	Non core activities can be identified providing opportunities to shift unproductive resources to front line delivery.
Resources can be used flexibly and expenditure is not constrained by short term annual cycles.	Expenditure can be better matched to service needs ensuring more consistent delivery throughout the year. Unspent resources are not lost but available to redeploy to other priorities.	Risks associated with the rush to spend all money at the year end are reduced such as nugatory expenditure and poor value for money because of limited time to confirm that expenditure is justified and to determine the most cost effective procurement approach.
Full cost information on an accruals basis is available and used to monitor and review performance and influence the allocation of resources.	The full cost of delivering a service is known including its consumption of assets. Costs can be assessed to determine whether they are reasonable for the level and quality of outputs delivered. Information on the consumption of assets can inform future investment.	■ Inefficient use of assets can be more easily identified and remedied. ■ High cost, inefficient processes and working practices can be eliminated. ■ Resources tied up in unproductive and inefficient activities can be more easily identified and redeployed.
Resource allocation and management are aligned throughout the service delivery chain.	If all the key organisations contributing to a service have targets which are mutually supportive and underpinned by resources that are allocated on a consistent basis the potential to deliver higher quality services is increased.	Supporting activities which involve duplication or are delivered out of sequence or late or are over or under resourced can be identified and addressed.
Performance and resource utilisation is regularly reviewed at a senior level and informs future resource allocation.	Reliable performance information allows shortfalls in service quality to be identified sufficiently early for remedial action to be taken.	Trends in the unit costs and the overheads of delivering services can be monitored and where practicable benchmarked to identify poor use of resources.

Source: NAO identification of good practice

3 Accruals accounting shows departments' expenditure and income as it is incurred or earned rather than when amounts are paid or received (as was the case with cash accounting). This provides an appreciation of the real costs involved in providing a service rather than what is simply paid out in cash. Financial statements as in the private sector now show departments assets and liabilities as well as the effect of depreciation and a capital charge.

4 'Departments' preparations to use increased resources to improve public services,' to be published in 2004.

2 Responsibilities for resource management

Parliament - Votes (approves) public expenditure

Treasury - approves the allocation to specific programmes at departmental level and delegates flexibilities to departments for resource allocation within and between programmes. Treasury provides advice on the way departments should manage their resources and those managed by agencies. It has over riding responsibility for expenditure control.

Departments - allocate resources to meet their strategic priorities and are responsible for day to day control of expenditure. Departments may allocate resources to a range of public, private and voluntary organisations in what is effectively a "delivery chain". Our examination covered this level of responsibility.

Source: Treasury and NAO

6 This report assesses the progress which departments have made in improving their resource management. The report is intended to be constructive by highlighting good practice drawn from the Highways Agency, the Teacher Training Agency, the Housing Corporation and the Serious Fraud Office and from the private sector and internationally which other organisations can learn from.

Resource management has a number of features

7 Sound resource management requires:

- **Planning and decision making** which allocates resources to achieve clearly defined outputs and outcomes and minimises unproductive effort; it takes a longer term view so as to invest in enhancing and sustaining capability to deliver high quality public services; reviews performance and learns from it.
- **Reliable and complete information** routinely available on performance and the consumption of resources used in delivering services. This should cover not only cash expenditure but how the investment in assets and work in progress is used to provide assurance that resources are not deployed inefficiently or on unproductive activities.
- **A clearly demonstratable impact**. Resource management should achieve improvements in the way resources are used to deliver better public services. Such improvements should be clearly visible so that public confidence is increased.

Findings

8 **On planning and decision making.** Public Service Agreements are ensuring that resources are better allocated to key priorities and aligned to targets to improve public services. More could be done, however, to ensure that these targets are used to influence resource allocation at lower operational levels in departments and in other organisations on which departments depend to deliver public services. Eight of the 46[5] departments and agencies which we examined did this in full. Just under half of departments still allocated resources to programmes on a cash basis and by omitting non cash costs such as depreciation the full cost of a programme or service is understated. This increases the risk that poor value for money may go undetected or future investment needed for services or key delivery capabilities may be underestimated. More generally departments have been more successful making small year on year incremental changes in resource allocations than major changes. Larger shifts of resources from one set of priorities to another or from support functions such as corporate overheads to front line service delivery may therefore, be difficult to achieve without other incentives or mechanisms. Around half of the departments and agencies examined consider that for smaller organisations the arrangements under resource accounting and budgeting for requesting resources has created a level of administrative effort disproportionate to their size and the focus of their work.

9 **On using better information to manage resources.** Just over a quarter of the 46 departments and agencies we examined had made good progress in implementing accruals based accounting and were using it effectively to manage resources. Benefits included identifying inefficient assets, better scheduling of expenditure to match service needs and more reliable data on the value of assets and their contribution to service delivery. Just over a third of departments (37 per cent) examined are progressing towards accruals reporting but management information on this basis is produced only periodically and budgetary control is based on a hybrid of cash and accruals. Around 16 departments and agencies (35 per cent) still rely mainly on cash based management information and the preparation of accruals financial statements was a separate one-off exercise at the year end to meet external reporting requirements. These departments have so far derived limited benefit from the new information. They attributed slower progress to insufficient financial expertise; operational staffs' lack of understanding and financial awareness; and old or incompatible IT systems.

5 Our examination covered 30 of the 56 central government departments, including all of the major departments and the majority of government spending; plus 16 executive agencies and non-departmental public bodies.

10 **Impact.** Seventeen of the departments (37 per cent) examined had made use of the new flexibilities and secured Treasury approval to carry forward underspends. Seventeen had given similar end of year flexibilities to their partner organisations. This had helped in ensuring that expenditure met clear service delivery needs. There was, however, little change in the profile of annual expenditure with a continuing bias to a higher proportion of both revenue and capital spending in the last two months of the year. Some departments lacked sufficiently complete information to ensure that expenditure was spent in a measured way throughout the year.

11 In contrast in 2001-02 four departments overspent their cash, resource and administrative budgets by £1.5 billion. Departments considered that their capability to manage resources and avoid either significant over or underspends was influenced by a number of factors. These included not enough senior management responsibility for the delivery of programmes made more difficult by poor monitoring and the need for greater accountability to Departmental Management Boards; a record of not sufficiently reliable expenditure forecasting possibly made worse by inexperience in forecasting on a resource accounting basis and unrealistic budget assumptions; and not enough understanding of the capacity of partner organisations to deliver services and manage resources competently. In addition departments considered that the multiplicity of budgets and programmes each with its own rules for redeploying resources, a significant amount of ring fencing, and current year end flexibility arrangements not being sufficiently developed made it more difficult to get the best out of resources.

12 **Managing assets and liabilities.** Under resource accounting there is a requirement for departments to prepare an annual balance sheet, identifying a body's assets and liabilities and their associated value. This provides a wealth of information to departments, providing them with the means to make better use of their existing resources and also to identify and manage important risks to service delivery. In particular it imposes a discipline on departments to make sure that assets are properly identified and accounted for, that the cost of holding assets is fully understood and that, as a consequence, there is an incentive to make sure they are put to good use. Similarly, a balance sheet requires that departments identify and manage their liabilities. These are obligations arising out of a transaction or other event that has already occurred and for which departments will have to make a payment or payments at some point in the future. If these liabilities are not identified and anticipated, with adequate provision made in advance for their settlement, they will arise unexpectedly, reduce available resources and have an adverse affect on service delivery.

13 While there is progress in improving resource management particularly in setting strategic targets, developing departmental investment strategies and using more complete cost information progress is not consistent. This may in part be explained by departments and their staff not as yet being sufficiently skilled or experienced in the new approaches. However, the good practice which we found in the four organisations which we examined in more detail **(Figure 3)** and in the private sector and internationally suggests there are four aspects of resource management which departments need to develop further.

14 **Adopt a more strategic approach.** This requires simplifying planning and monitoring to focus on key service delivery priorities and the resources needed to achieve them. A critical consideration should be down grading those activities that are peripheral to core services. Better communication between departments, their agencies and other partner organisations is needed so that there is a greater alignment of key targets, and greater consistency in investment strategies that are sufficiently long term to develop the capability of infrastructure, equipment and staff to deliver and sustain good quality services. Departmental Boards need also to consider their longer term liabilities and be sure that where appropriate they have contingency arrangements to maintain services.

15 **Have a well developed capability to convert resources into services that meet people's needs.** Our examination suggested three aspects which require further progress **(i)** While departments are concentrating more on identifying the key organisations which are critical to service delivery the extent to which all are consulted and contribute to key decisions which could influence service quality is more limited. **(ii)** One of the most significant risks to improving public services is the capability of all organisations involved in the delivery of a service. If just one underperforms or encounters difficulties a whole service may be put at risk. Departments need to seek regular assurance about their delivery partners' resource management and other capabilities and where necessary seek to strengthen them. **(iii)** Initiatives to strengthen resource management skills will take time to have an effect. Departments need, therefore, to find other ways, possibly through partnering with other organisations, of strengthening their operational teams involved in designing and delivering services so that they have access to sufficient financial and resource management expertise.

16 **Allow appropriate flexibility to encourage innovation.** How resources are allocated can significantly influence how willing organisations are to be innovative. For example, greater certainty over future funding is more likely to encourage investment and sensible well managed risk taking to develop key service delivery capabilities. Unnecessarily prescribed and rigid regulatory regimes with harsh penalties for underperformance can have the opposite effect to that intended and contribute to poor performance and stifle innovation.

17 **Use management information to make better use of resources and improve efficiency.** Departments are investing in new IT systems which should provide information on a full resource basis. The potential of such information to help improve efficiency and performance has however yet to be fully realised. This is particularly the case in ensuring that public assets are utilised to their full extent in contributing to services; the full cost of programmes is known and justified in terms of the level and quality of the contribution they make to public services; ensuring that activities which do not directly contribute to services are kept to a minimum; and managing expenditure, so that it better meets service needs. In the private sector there is a greater expectation that management information will be reliable, provided quickly and assist decision making. A key focus of departments' resource management should be delivering better services but it can also help to identify and realise opportunities to improve efficiency - just a one per cent efficiency improvement in the utilisation of the £1,447 billion of resources allocated to departments over the next three years would release just under £14.5 billion to redeploy to front line services.

3 **The four case study bodies examined in this report have responsibilities for managing resources in transport, education, social housing and criminal justice and demonstrate good practice in resource management**

HIGHWAYS AGENCY

The Highways Agency

Annual expenditure: £5,082 million (including £3.7 billion cost of capital)
Value of assets: £63.6 billion

An executive agency of the Department of Transport managing the second largest asset base of any Government body, while delivering a programme of strategic road building and developing a wider role as traffic manager, at a time when there has been a loss of capacity in the civil engineering industry.

Key lessons include:

- Using longer term planning and budgeting to improve the allocation and management of resources.
- A strategic planning process designed to ensure resources are allocated to achieve targets throughout the whole organisation.
- Implementing new procurement and project management practices to encourage greater partnership and innovation with delivery partners such as construction firms.
- Implementing an integrated financial and management information system to improve monitoring and decision making on resources.
- Using accruals based management information to better match expenditure to need and reduce costs.

teacher training agency

The Teacher Training Agency

Annual expenditure: £417 million. Value of assets: £2.2 million

A non-departmental public body sponsored by the Department for Education and Skills, responsible for recruiting and training new teachers (one of the largest recruitment and training programmes in the UK). It has tackled under-performance in the supply of good quality newly qualified school teachers, a major risk to improved educational standards, by developing partnerships to create the right conditions for effective use of resources and successful delivery.

Key lessons include:

- Implementing clear and effective board planning and monitoring arrangements that focus on core priorities and targets and involve those in the delivery chain.
- Collaborating with the sponsoring department to inform decisions on methods of delivery, allocation of resources and targets, to ensure targets are likely to be achievable by those in the wider delivery chain.
- The value of market research, including drawing on best practice in private sector recruitment, in understanding the needs of potential trainees and implementing innovative publicity and recruitment campaigns and new training 'products'.
- Implementing arrangements to understand and develop the capabilities and capacity of training providers and promote partnership.
- Incentives to achieve targets and quality standards, such as greater certainty over funding, used to encourage innovation and improved performance.

3 **The four case study bodies examined in this report have responsibilities for managing resources in transport, education, social housing and criminal justice and demonstrate good practice in resource management**

HOUSING CORPORATION

The Housing Corporation

Annual expenditure: £1,749 million. Value of assets: £11 million

A non-departmental public body sponsored by the Office of the Deputy Prime Minister, responsible for ensuring the supply of affordable social housing. It is working with partners to build affordable homes to address the overheated property market in the south-east and the abandonment of northern cities, while meeting the wider demands of economic development and the creation of sustainable communities.

Key lessons include:

- Working with stakeholders to develop a strategic planning and resource allocation process to reconcile national and regional priorities.
- Developing a better understanding of the capacity of registered social landlords to deliver the required level and quality of investment, and targeting its investment accordingly.
- Creating a supportive regulatory regime and incentives to encourage growth in priority areas and the use of innovative construction methods.
- Developing management information systems with delivery partners to actively monitor performance and support a flexible and transparent approach to the use of resources.

Serious Fraud Office

The Serious Fraud Office

Annual expenditure: £23 million. Value of assets: £1.2 million

A small department that helps maintain confidence in UK business and financial institutions by investigating and prosecuting serious fraud. It is taking action to tackle improved performance and resource management, including completing more cases in a shorter average time despite the withdrawal of police support.

Key lessons include:

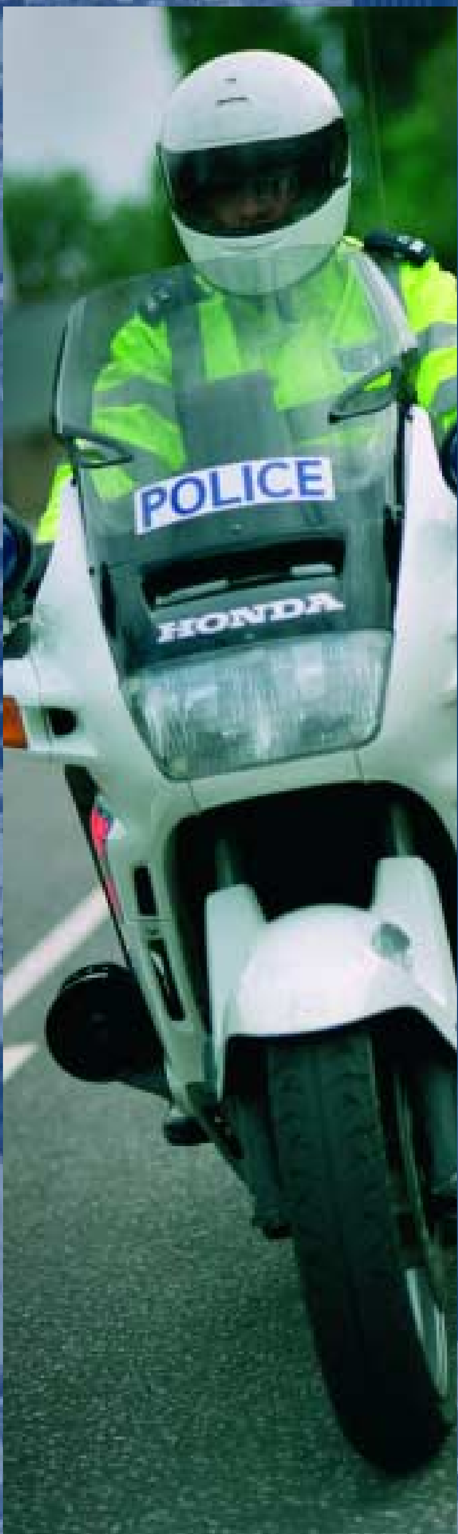
- Setting up multi-disciplinary review groups to identify ways of improving efficiency.
- Seeking to control administrative support costs, for example by reducing the number of non-operational staff as a proportion of total staff.
- Working within wider public and private sector networks to generate early intelligence on likely workload and decide on which organisation is best placed to investigate any individual fraud case.
- Using technology to improve efficiency and support partner organisations within the criminal justice system.

NOTE

Detailed findings are set out in case studies 1-4 in seperate associated volume.

Source: National Audit Office case studies

Recommendations



18 To assist departments in their drive to improve resource management we make the following recommendations:

1 **More focused leadership is needed to ensure that reliable resource management exists at all levels in departments.** If Departmental Boards do not clearly demonstrate the importance they attach to better resource management and actively use the improved information and flexibilities to help deliver better services staff throughout the organisation will not be encouraged to do the same.

2 **All departments need to have in place strategies for developing integrated accounting and management information systems supported by finance staff with appropriate professional training and expertise.** Progress in improving resource management is constrained in some departments by insufficient IT system capability and not enough financial expertise. These constraints need to be addressed.

3 **Greater alignment of the targets and resource allocations of key organisations involved in delivering specific services is needed to ensure that they are mutually supportive in working to a common good.** Most departments depend on a number of organisations in a delivery chain to provide public services. Delivery is put at risk however if the targets and underlying resource allocations of organisations providing complementary or supporting elements of a public service are not comparable or consistent.

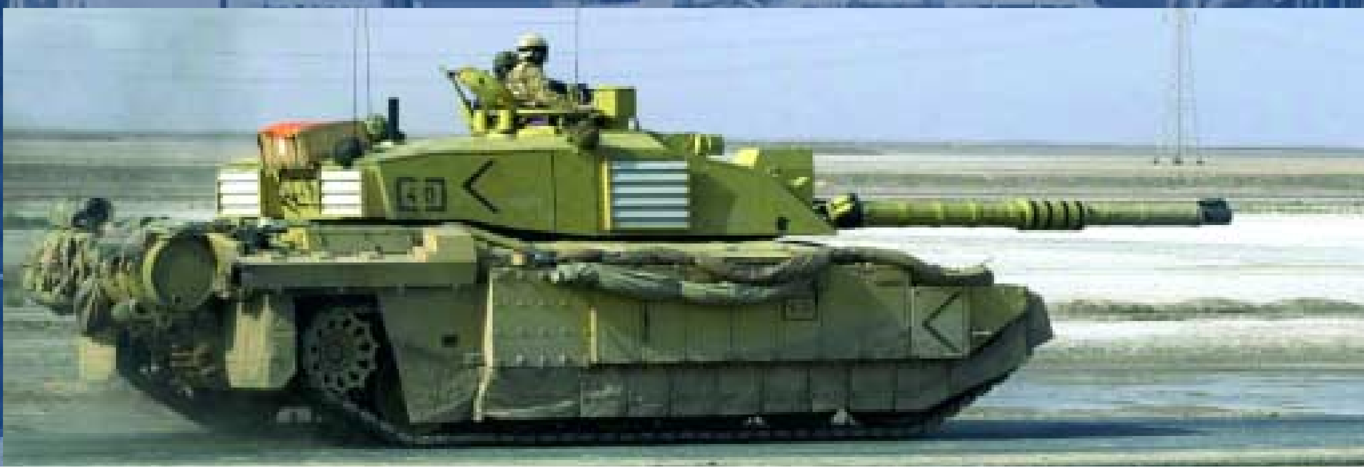
4 **Departments need to recognise and actively manage their assets and liabilities, including contingent liabilities.** The inefficient use of resources or the emergence of unforeseen liabilities can have serious consequences for service delivery. Departments need to make sure that these are properly recorded in their balance sheets, and that, in the case of liabilities in particular, there is adequate provision to meet these when they occur.

5 **Drawing on the better resource information and the greater flexibilities departments should do more to invest in longer term capacity building.** Better information on how assets such as infrastructure, equipment and IT are consumed to deliver services should be used to influence longer term capacity building so that improvements in service delivery can be sustained.

6 **Departments should seek regular assurance about the capability, including competence in resource and project management, of the public and private sector organisations on which they rely to deliver services.** Failure or under performance by any one organisation involved in delivering a service can put the whole service at risk or seriously effect its quality. Departments need to engage regularly with the organisations on which they rely to ensure they have appropriate delivery capabilities and where these are deficient seek to strengthen them.

7 **Greater use should be made of resource based information to improve efficiency to release resources for front line service delivery.** Accruals based information in providing more comprehensive and complete cost and performance information is a powerful tool to identify scope to improve efficiency and make better use of resources. As yet it is not widely used in this way by departments but it is important that they draw on the more comprehensive information to help make the best use of taxpayers' money. A relatively small improvement in efficiency would release significant resources to deploy on front line service delivery. In part 3 we highlight six indicators of efficiency which Management Boards should routinely monitor.

19 To support the implementation and use of the new arrangements for public spending planning and control HM Treasury have produced various technical and general guides on resource management, including the 'rainbow guides' in the Managing Resources series, setting out how departments can make best use of the information contained in resource accounts (available at www.hm-treasury.gov.uk). In the Annex to this summary we set out a self assessment questionnaire which departmental boards might use to assess the reliability of their resource management.



Annex

Self assessment questionnaire for departments to use to gauge the reliability of their resource management

High level self assessment questions to assist departments and agencies in developing effective arrangements for using resources to deliver better public services:

Characteristic	Question
1 Developing a strategic approach to resource management	
Boards resource allocation decisions are based on the achievement of key targets and objectives to deliver better public services	Are all resource decisions considered in terms of the contribution they will make to achieving key targets to improve service delivery?
Boards have the appropriate skills and experience	Do boards have the appropriate skills, expertise and experience or access to them in finance, IT, human resources as well as project implementation and management?
Management Boards are sufficiently focused on core activities	Does the Board regularly review activities to determine those that are peripheral to core services and down grade them or ensure that only resources appropriate to their status are allocated to them?
Boards take a sufficiently long term perspective to develop service delivery capabilities	Does the Board identify and keep under regular review long term requirements (skills and infrastructure) to maintain and enhance service delivery capabilities?
Boards consider wider issues of policy, priorities and opportunity costs when considering how to deploy resources	Do Boards fully consider the full resource allocation implications of policy decisions both in the short and longer term?
The effects of new programmes or activities on existing services are assessed before their implementation	Does the department assess the potential impact of new programmes or initiatives on existing services, and have appropriate strategies to manage the risks associated with their implementation?
Resource allocation takes account of the priorities and capabilities of partners and other organisations essential to delivering a service	Does board membership reflect, where appropriate, the department's partners and other stakeholders, or have they been offered observer status? Has the department established appropriate arrangements to allow delivery partners and other stakeholders to contribute to the development of the basis and priorities for resource allocation?
The basis or criteria for allocating resources is transparent to the wider delivery chain and other stakeholders	Has the department ensured that its partners in the wider delivery chain understand its targets and priorities and how resource allocation is designed to meet these?
Appropriate contingency arrangements are in place to maintain services in the event of the unexpected	Has the department established contingency arrangements appropriate to its circumstances and the risks associated with its activities?

Characteristic	Question
2 Ensuring that the department and its partners are capable of converting resources into services	
Programmes and activities, and the allocation of resources, are based on a good understanding of customers' needs	Has the department taken adequate steps, including surveys and market research, to understand their customers' needs and used this information to inform the design of services and the allocation of resources?
The delivery capability of departments and their partner organisations is reliable and kept under review	Has the department identified the key skills and capabilities needed to deliver its core activities and services and where these are insufficient has a strategy to improve them? Are key organisations involved in delivery chain consulted to determine their capabilities including the strength of their resource management? Does the department provide support to develop partner organisations' delivery capabilities which need strengthening? Does the department promote effective partnerships throughout the delivery chain both directly and by identifying and promoting good practice?
Resource management skills are reliable and available in sufficient quantities	Has the department determined the level of resource management skills required for the effective delivery of its core services and to ensure that resources are used efficiently? Is remedial action being taken where these skills are deficient?
3 Providing flexibility to those responsible for service delivery to encourage innovation	
Resource allocation encourages risk taking and innovation within the organisation and by delivery partners	Does the department's methods for allocating resources promote innovation and well managed risk?
Regulatory frameworks are flexible and do not unduly stifle risk taking and innovation	Has the department ensured that its regulatory frameworks reward performance and encourage innovation?
Effective incentives exist for delivery and achievement	Does the department's resource allocation system provide incentives for improved performance and the delivery of targets?
Appropriate authority and flexibilities have been devolved internally and to delivery partners.	Has the department delegated appropriate flexibility to plan and utilise resources (including end of year flexibility to carry forward funds) both internally and to delivery partners? Are appropriate arrangements in place to manage risks associated with greater delegation of responsibility?

Characteristic	Question
4 Using financial and management information to make better use of resources	
Management information is complete, timely and reflects the full use of the department's resources	Does the department use accruals based management information that enables timely monitoring of resource consumption linked to performance and service delivery? Is information required to produce annual resource statements and for internal resource management generated from the same system?
Information produced by all key organisations in a service delivery train should be compatible and consistently reliable	Does the department obtain and provide regular and timely information from, and to, delivery partners on performance and resources consumption?
Management information is used to monitor and improve both service delivery and the efficiency with which resources are used	Does the Board use information to monitor routinely: ■ asset utilisation ■ work in progress ■ the full cost of programmes ■ productivity ■ the balance between direct work and overheads ■ staff productivity