



National Audit Office

**CABINET OFFICE**

# Assessment of the Capability Review programme

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# SUMMARY

**1** Launched in 2005, the Capability Review programme is the first to assess systematically the organisational capabilities of individual departments and to publish results that can be compared across departments. Its objective is to create a step change in central government's capability to meet current and future delivery challenges. In response to weaknesses identified in its review, each department must draw up and follow an action plan to ensure that it can meet the challenges to its current and future delivery.

**2** The Cabinet Office directs and manages the programme, and the Cabinet Secretary, as head of the civil service, is closely involved in it. Senior civil servants and external experts helped to design a model that focuses on ten elements of capability, grouped

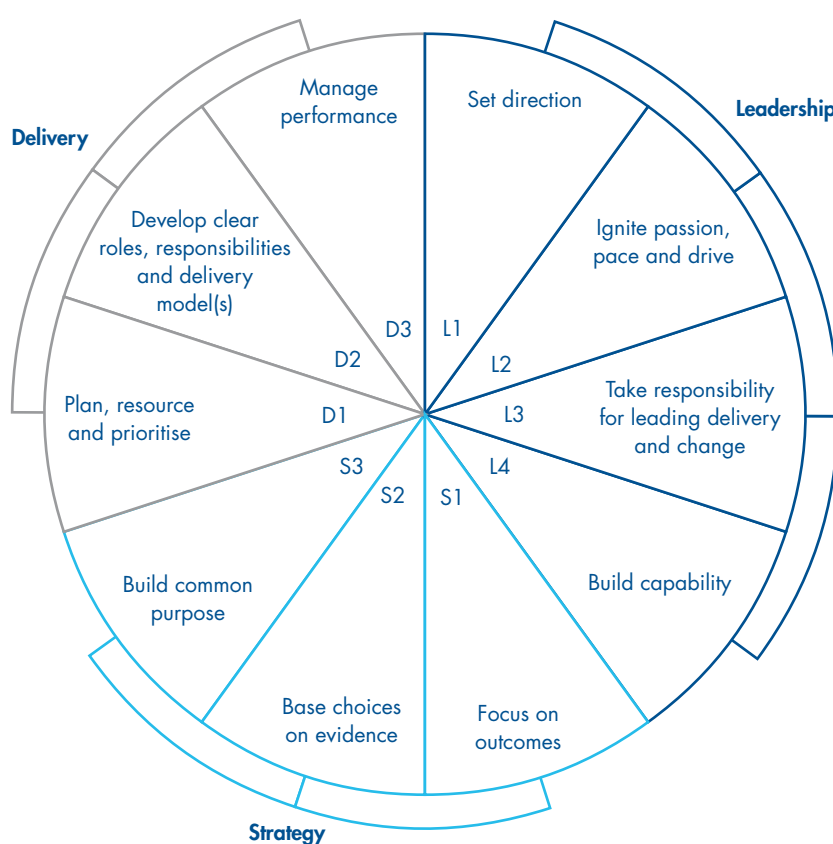
around the three areas of leadership, strategy and delivery, that applies to all UK government departments (**Figure 1**). Only four other countries in the Organisation for Economic Co-operation and Development have initiatives comparable to the Capability Reviews, in terms of scope, coverage and approach. The Cabinet Office decided to run the Capability Review programme from within government but to inject a level of independence and insight by recruiting senior external experts to the review teams, with each five-member review team including typically two members from the private sector and one from local government.

**3** The first-round of reviews followed a cycle shown in **Figure 2 overleaf**. All 17 major government departments were reviewed in five tranches between July 2006 and December 2007 (Appendix 4). For the first-round reviews, the Cabinet Office has carried out progress stocktakes at three-month, six-month and 12-month intervals, followed by second-round reviews after 24 months. It completed the first six of its second-round reviews in July and December 2008 and will complete the remaining second-round reviews in tranches finishing in July 2009.

**4** With first-round reviews now completed on all departments, and many departments fully through or well through their responses to these reviews, we evaluate in this report what the Capability Review programme has achieved so far and suggest how it can be developed and improved as it enters its next phase. We examine:

- the Capability Review model and process (Part 1);
- how departments have responded to their Capability Reviews (Part 2); and
- what has been the impact on departments of actions they have taken (Part 3).

## 1 The Cabinet Office's model of capability

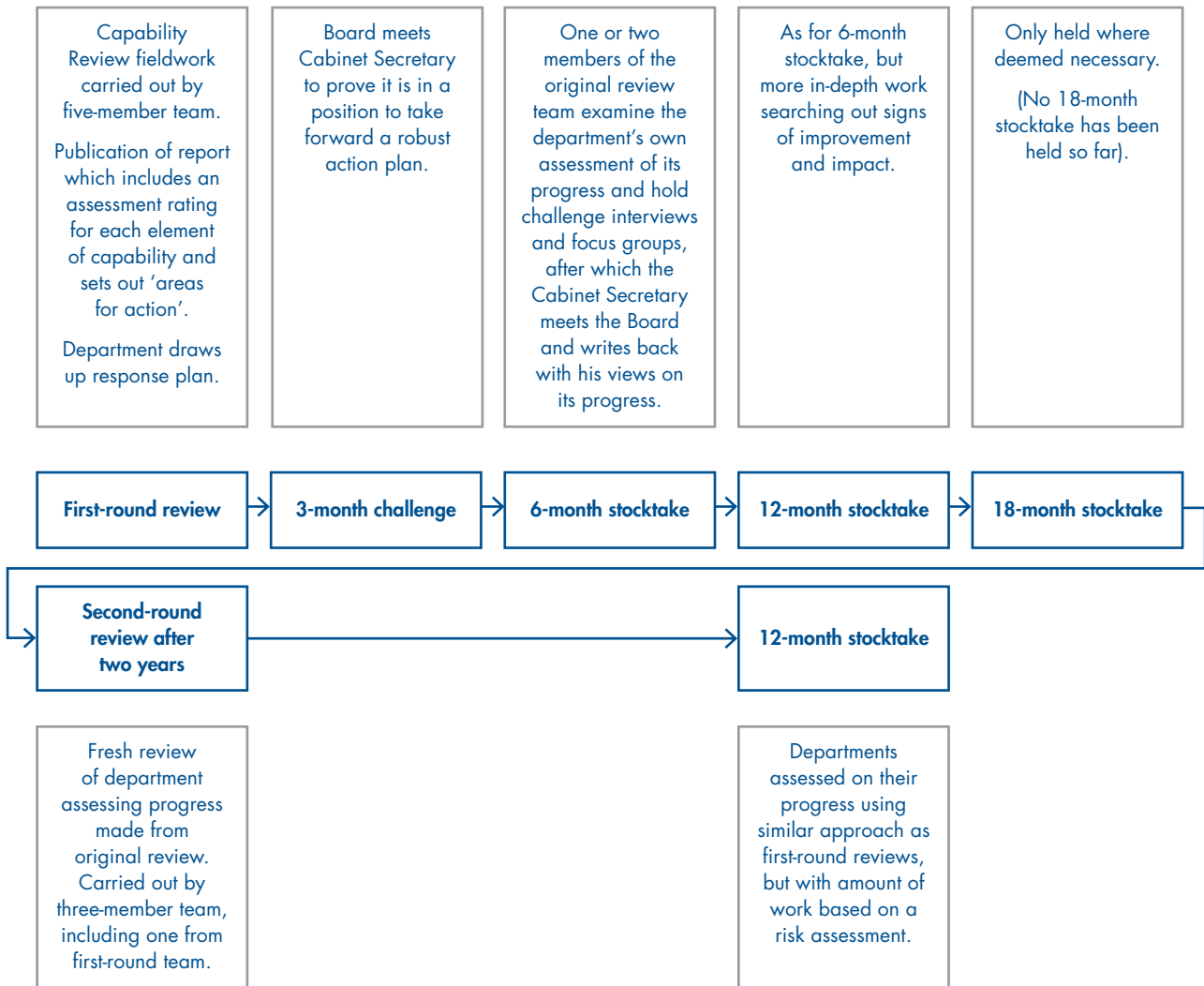


### Assessment categories:

- Strong (4) – good capability for future delivery in place.
- Well placed (3) – well placed to address any gaps in capability for future delivery through practical actions that are planned or already underway.
- Development area (2) – the department should be capable of addressing some significant weaknesses in capability for future delivery by taking remedial action.
- Urgent development area (1) – significant weaknesses in capability for future delivery that require urgent action.
- Serious concerns (0) – serious concerns about current capability.

Source: Cabinet Office

## 2 The Capability Review cycle



Source: National Audit Office analysis of Cabinet Office documents on the Capability Review process

**5** The report covers all departments which have had reviews and includes in-depth work on three 'case study' departments drawn from the first and third tranches: the Department for Environment, Food and Rural Affairs; the Foreign & Commonwealth Office; and the Home Office. We examined reviews and stocktakes up to July 2008 and also report here the results of the December 2008 stocktakes and second-round reviews. Outside our scope were the Permanent Secretary stocktakes commissioned by the Scottish Government and Welsh Assembly Government using the Capability Review model.

**6** Alongside this report, we commissioned research (published separately) which found that the United Kingdom's public administration stands up well when benchmarked against countries such as Canada, New Zealand and Sweden, which have public administrations seen as being the most advanced in the world. The research also found a discrepancy between how well UK public administration functions and actual results as citizens perceive them.

## Key findings

What has the Capability Review programme cost?

**7 The first-round of Capability Reviews cost the Cabinet Office £5.5 million, equivalent to £324,000 for each department covered. The expected cost of second-round reviews has reduced to £4.3 million, equivalent to £226,000 for each department covered.**

The quoted costs, expressed in 2007-08 prices, are for reviews and stocktake assurance work. The Cabinet Office spent a further £0.9 million developing the Capability Review methodology and process, and it has increased its activities in supporting departments to act on the results of Capability Reviews from £0.2 million a year to £0.8 million a year. Appendix 3 gives further details of all these calculations.

**8 Departments are unable to provide full estimates of their Capability Review related costs.**

We asked departments to estimate how much they spent during reviews and stocktakes and in implementing their post-review action plans (Appendix 3). Thirteen departments provided information on how much they spent during reviews and seven on implementation costs for their action plan. The information they provided ranged widely and was not a reliable measure of full expenditure because departments found it difficult to isolate expenditure related to their Capability Review from expenditure on wider change and improvement programmes or consider opportunity costs.

What have the first Capability Reviews revealed?

**9 Two-thirds of the 170 capability assessments in the first-round (10 elements were assessed in each of the 17 departments) rated a department less than 'well placed'.**

A quarter of the assessments revealed 'urgent development areas'. Two departments – the Home Office and the Department of Health – raised 'serious concerns' about their capability in one or two elements (Appendix 4). Overall, the picture was mixed, but only one department, the Department for International Development, was assessed as 'strong' or 'well placed' in more than half of its ratings. Common areas of weakness were leadership from departments' boards, understanding and using different delivery models, and a range of issues around the delivery of services and the skills of staff at all levels. This overall impression confirms conclusions from our work over recent years and that of the Public Accounts Committee.

**10 Capability Reviews do not cover four key areas.**

These areas could be covered in future Capability Reviews without changing the underlying model.

- In the 'delivery' category, Capability Reviews are not linked to departments' reported performance. The Cabinet Office defines capability in terms of a department's ability to deal with future challenges. This implies that in future it will be possible to explain current delivery in terms of earlier capability, as time series of data build up. For the moment, our analysis of departments' performance data for 2005-06 to 2007-08 shows a divergence between reported delivery performance and the review teams' assessments of each department's delivery capability during the same period.
- The reviews' coverage of complex delivery arrangements, including delivery shared with other departments and delivery by executive agencies and executive Non-Departmental Public Bodies, is limited. The quality of such arrangements is central to citizens' experience of government.
- The reviews do not benchmark departments' capabilities against organisations outside the civil service in areas such as the effectiveness of the management board, business planning, customer satisfaction and management of performance.
- The reviews focus on departments' senior leadership and do not directly assess the capabilities of departments' middle management and front-line staff who occupy key positions on the delivery chain.

**11 The Cabinet Office developed the Capability Review model and process iteratively and has not set out a clear forward plan beyond the second-round reviews.** There is now some uncertainty in departments about whether or how the programme will continue, risking a loss of momentum. This is despite the fact that departments tell us they believe the programme is improving their capability, and they respect and value the review teams' experience and insights.

What actions have departments taken in responses to Capability Reviews?

**12 Action to tackle weaknesses in capability is now a prominent feature of board business.** Every department has a designated board member leading the response to its Capability Review and has designated as ‘change director’ a senior manager to coordinate the department’s response to its review. In four departments, the change director is also the designated board member while in the others the change director reports to the designated board member. Half of departments (nine) have given non-executive directors more influence and greater responsibility for challenging managerial decisions and performance and five have streamlined their boards. For example, the Home Office has made new appointments to its board, including a new non-executive director, and given it a stronger focus on defined outcomes and risks, with a quarterly review of performance and delivery. The Foreign & Commonwealth Office consulted a non-executive director when developing its strategic workforce plan. Non-executive directors in each of our case study departments consider that board meetings have become more focused and strategic since their first-round review.

**13 Over half of departments (10) are satisfied about changes made to their senior leadership.** Most departments (14) have made changes to their programme and project management, including using professional skills better. Two-thirds (12), including all three of our case study departments, have moved senior staff so that priority projects are led by those considered to have the most appropriate skills. Almost all (16) are satisfied that they have the people and skills to bring their capability up to strength.

**14 Problems persist in organisational culture.** Two-thirds of departments (11) are tackling problems in their organisational culture, including insularity, the need for staff to feel able to ‘speak up and challenge’, and diversity issues. Two-thirds of departments (12) have put rewards and sanctions in place to motivate senior staff to act on their Capability Reviews. However, a quarter of departments (four) are dissatisfied with progress they are making in changing their organisational culture.

**15 Departments would like more support from the centre of government.** Two-thirds of departments (11) consulted the Cabinet Office when developing responses to Capability Reviews. Ten found the help useful, but seven departments found gaps in the Cabinet Office’s ability to identify and communicate good practice. Just under half of departments (eight) also sought help from the National School of Government. Overall, departments would like more clarity about how these two bodies at the centre of government can provide practical help in developing solutions to common problems that Capability Reviews identify.

What impact are Capability Reviews having on capability and performance?

**16 Departments cannot yet show any clear impact on outcomes as a result of their responses to Capability Reviews.** They found it difficult to separate the impact of Capability Reviews from other programmes and from events that also stimulate change, such as the arrival of a new Permanent Secretary or Secretary of State, external media criticism or an increase in budget. Moreover, it will remain difficult to demonstrate cause and effect while the roughly 270 executive agencies and executive Non-Departmental Public Bodies that deliver many central government services are covered only indirectly by Capability Reviews.

**17 Capability Reviews are beginning to provide evidence of improvement in capability, if not in actual delivery.** Six departments from the first two tranches of Capability Reviews in July and December 2006 had a second-round of reviews completed in July and December 2008 and all achieved better overall results (**Figure 3**). For example, the Home Office moved up two assessment categories in four elements of capability and up one in three. It developed a strong and collective leadership, clarified its strategic direction and delivery model and improved its business planning and corporate services.

**18** In between Capability Reviews, the Cabinet Office stocktake teams assess progress by considering metrics and other information supplied by each department and by holding interviews with the department's leaders and focus groups of a range of staff. These stocktakes show all departments making progress with their areas for action (Figure 4).

**19** Departments have struggled to develop reliable metrics that would indicate their progress from improved capability to improved outcomes. To date they have relied mainly on surveys of their staff and key stakeholders. This method has some limitations both because surveys are inconsistent across departments and because responses from staff and stakeholders can be influenced by many factors, such as media coverage or pay disputes, that are unrelated to capability. Comparing previous and more recent surveys for the three departments in the second tranche of reviews and on which second-round reviews were later completed in December 2008, we found some improvement in staff and stakeholder confidence in the department. Departments that have had the most time to respond to Capability Reviews are showing consistent improvement.

### 3 Changes in scores from the first-round for the six departments which have had second-round Capability Reviews

Score	Number of elements assessed at this score	
	First-round (July and December 2006)	Second-round (July and December 2008)
Strong	2	7
Well placed	16	24
Development area	26	28
Urgent development area	14	1
Serious concerns	2	0

Source: National Audit Office analysis of Cabinet Office first-round and second-round reviews

#### NOTE

The table summarises scores from the first tranche for the Department for Work and Pensions, the Home Office and the Department for Children, Schools and Families (compared in 2008 against the Department for Education and Skills in 2006) and from the second tranche for the Cabinet Office, the Department for Communities and Local Government and the Department for Business, Enterprise & Regulatory Reform (compared in 2008 against the Department of Trade and Industry in 2006).

### 4 National Audit Office analysis of the Cabinet Office's 12-month progress stocktakes for departments awaiting their second-round review

Description of progress	Departments assessed <sup>1</sup>	Capability rating at first-round review <sup>2</sup>	Date of stocktake
Good progress	Culture, Media and Sport	1.9	April 2008
	Foreign & Commonwealth Office	2.2	May 2008
	International Development	2.7	May 2008
Some progress – good progress on some areas for action, but with challenges remaining on others	Crown Prosecution Service	2.2	July 2008
	Environment, Food and Rural Affairs	1.9	April 2008
	Health	1.7	July 2008
	HM Revenue & Customs	1.8	December 2008
	HM Treasury	2.3	December 2008
	Ministry of Defence	2.3	April 2008
Transport	2.3	July 2008	

Source: National Audit Office analysis of Cabinet Office progress stocktakes. Cabinet Office stocktake teams do not use a consistent set of descriptors, so the description in the first column is based on our own reading of the stocktake reports.

#### NOTES

1 The Ministry of Justice replaced the Department for Constitutional Affairs in May 2007. It received a baseline assessment, equivalent to a first-round review, in April 2008, because changes in responsibilities meant it had not been practicable to take over the review of the Department for Constitutional Affairs. A baseline assessment for the Department for Innovation, Universities and Skills, created in June 2007, was published in December 2008. There has not been a baseline assessment yet for the Department of Energy and Climate Change, created in October 2008.

2 See Appendix 4.

**20 Capability Reviews are encouraging departments to work together while at the same time sharpening their focus on comparative performance.**

Every department has shared knowledge with other departments about how to tackle common weaknesses in capability. Departments with shared operational interests are holding joint board meetings. The Cabinet Secretary is using the evidence from Capability Reviews to assess the performance of Permanent Secretaries, with implications for salary decisions. Non-executive directors in our case study departments found their departments becoming more willing to look to other departments and private organisations for examples of best practice.

## Conclusion on value for money

**21** The Cabinet Office has delivered the first-round of its Capability Review programme to schedule at an overall cost of £5.5 million (in 2007-08 prices). This is equivalent to £324,000 for each of the 17 departments covered, which have a combined annual budget of £470 billion. The Cabinet Office is delivering the second-round of Capability Reviews at lower cost, having identified ways to make its approach more efficient. There is evidence that departments have made improvements since their Capability Reviews: in better scores at second-round reviews, improved staff and stakeholder survey results, and non-executive directors' views about greater board effectiveness. It is not yet possible to say whether Capability Reviews represent good value for money because the information currently gathered does not prove a clear link between departments' actions and improved performance. There is a divergence between assessments of delivery capability and departments' delivery performance as measured by achievement of Public Service Agreements (Figure 10 on page 26). It will be possible to determine value for money only when departments demonstrate that specific improved outcomes, including better public services, are linked to actions taken in response to Capability Reviews.

## Recommendations

**a** There is a lack of clarity about where the programme is going after the second set of Capability Reviews, which could slow the pace of change.

The Cabinet Office should publish a forward strategy setting out how it plans to develop the programme over the next five years. The strategy should include expected costs to departments and to the Cabinet Office. (Paragraph 1.17)

**b** It is unusual to examine an organisation's leadership, strategy and processes in isolation from its operational results. The lack of a link between Capability Review scores and reported performance will appear increasingly anomalous and could undermine the credibility of both.

Departments should determine how and after what time lag they expect action taken in response to Capability Reviews to lead to improved performance. They should explain the links between actions and outcomes as part of their evidence for future Capability Reviews, and provide data demonstrating improved performance. This learning about cause and effect should be published in Capability Review reports for the benefit of other departments and to enable value for money to be determined. (Paragraphs 1.19, 1.20 and 3.2)

**c** Capability Reviews do not directly assess the capability of most executive agencies and executive Non Departmental Public Bodies that are involved in front line delivery. There are some exceptions, for example the Home Office review covered its two largest executive agencies.

The Cabinet Office should agree with departments an initial number of executive agencies and executive Non-Departmental Public Bodies to be assessed using an approach informed by Capability Reviews. The relevant departments should develop the approach with the support and agreement of the Cabinet Office, identifying external reviewers with appropriate experience, and overseeing the assessments. (Paragraphs 1.21 and 1.22)



**d Citizens' experience of public services is often determined by how well departments use complex delivery arrangements that are not examined in Capability Reviews.** The reviews should include assessments of departments' effectiveness in: working with other departments; commissioning work from delivery agents; holding delivery agents to account for the quality of their work, including citizens' experience of it; and developing influential relationships with organisations over which they have no direct control but which are crucial to successful delivery of their objectives. (Paragraphs 1.21 and 1.26)

**e Departments are struggling to identify metrics that will give assurance that their actions in response to Capability Reviews are on course to generate the desired outcomes.** Departments, with help from the Cabinet Office, should work together to identify suitable metrics. These should measure, as well as staff and stakeholder perceptions, aspects of delivery such as project performance and customer complaints, and the skills and commitment of staff. (Paragraphs 1.24, 2.17 and 3.17)

**f Capability Reviews are missing opportunities to drive improvement further by not comparing performance with organisations outside the civil service.** In overseeing the development of metrics in the previous recommendation, the Cabinet Office should encourage departments to move wherever possible to metrics that are standard across departments and in common use by other organisations outside central government to aid comparison of performance. As well as driving higher performance, such benchmarking will help maintain momentum for continuous improvement because departments will have to do better simply to maintain scores relative to other improving organisations. (Paragraphs 1.24 and 3.17)

**g Individual departments find it hard to identify the best sources of good practice.** The Cabinet Office and National School of Government should clarify how they will work with departments by drawing up an agreement with the rest of central government. This agreement should cover: how the Cabinet Office will analyse and disseminate findings from all Capability Reviews; how findings will drive the work of the Cabinet Office and the National School of Government; a website for departments to share good practice and discuss common issues; and a communications strategy to publicise the agreement. (Paragraphs 2.15 and 2.17 to 2.20)