



National Audit Office

**INFORMED GOVERNMENT  
SURVEY REPORT**

**27 MAY 2010**

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# Non-Departmental Public Bodies Performance Reporting to Departments

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The National Audit Office scrutinises public spending on behalf of Parliament. The Comptroller and Auditor General, Amyas Morse, is an Officer of the House of Commons. He is the head of the National Audit Office which employs some 900 staff. He and the National Audit Office are totally independent of Government. He certifies the accounts of all Government departments and a wide range of other public sector bodies; and he has statutory authority to report to Parliament on the economy, efficiency and effectiveness with which departments and other bodies have used their resources. Our work leads to savings and other efficiency gains worth many millions of pounds: £890 million in 2009-10.



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# Summary

**1** Much of Government's work is delivered through Agencies and Executive Non-Departmental Public Bodies (NDPBs). Agencies such as Jobcentre Plus carry out functions which are sufficiently close to Government's central direction that it is appropriate for a Government Minister to answer for its business in Parliament directly. By comparison, NDPBs operate in areas which Government has an interest but where the function, such as regulation or funding decisions, needs to be carried out at arm's length from Ministers. Examples include the Arts Council England, the Criminal Injuries Compensation Authority and the Medical Research Council.

**2** Although NDPBs operate at some distance from Central Government, Ministers in sponsor departments are ultimately accountable to Parliament for their efficiency and effectiveness. To fulfil this function effectively, Departments must have sufficient information to assess cost effectiveness and make evidence-based decisions when allocating and prioritising resources to NDPBs. Departments also need reliable and timely data on performance where NDPBs are the main vehicle for delivering departmental objectives and make a significant contribution to Public Service Agreement targets.

**3** In reporting to Parliament on the economy, efficiency and effectiveness of public spending, the National Audit Office has a particular interest in the quality of information Government uses to make decisions and to monitor and assess performance. As part of our wider programme of work in this area, we assessed the adequacy of the reporting relationships between 41 higher-spending NDPBs (annual expenditure of at least £60 million) and their sponsor departments to establish current practice and identify common areas which may warrant further work. These findings will be of interest to staff managing the relationship between departments and NDPBs, and people with a general interest in public sector performance management. Specifically, we considered:

- NDPB performance frameworks (Part One);
- recent NDPB performance (Part Two);
- monitoring performance and risk (Part Three); and
- Departmental/NDPB relationships (Part Four).

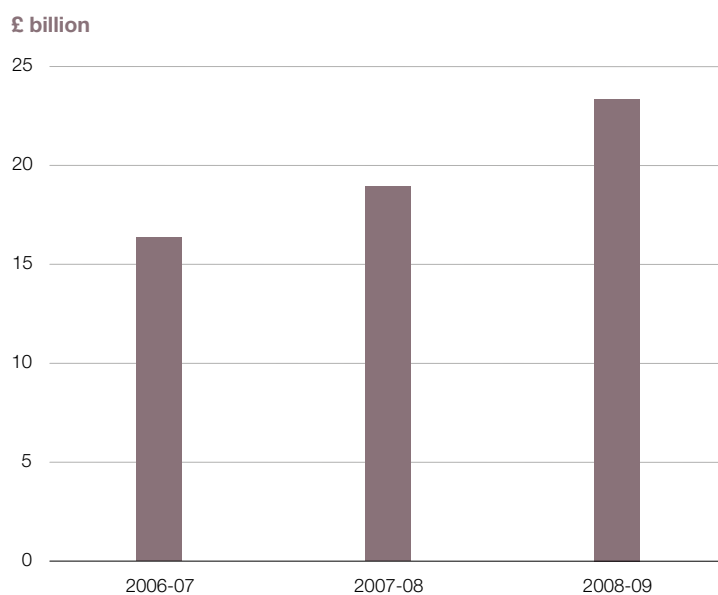
4 The main findings are that the NDPB framework documents are usually sensibly aligned with Government objectives, and there is an increasing focus on NDPB results in performance monitoring. But the information available under these arrangements rarely yields an overview of NDPB value for money or cost-effectiveness, or promotes improvements in performance as vigorously as it might. Key areas for attention include:

- **Increasing the focus on results in performance frameworks, as opposed to measures of process, and reducing the level of churn of indicators in the frameworks.** While many frameworks have a good balance between results and process indicators, a significant minority are dominated by process indicators. Even where results indicators feature, the set of indicators changes rapidly between periods, hindering strategic monitoring of performance trends.
- **Improving the links between performance and resources.** Very few indicators address efficiency or cost-effectiveness. Reporting of performance rarely aligns outcome, output or process information with costs. And deeper evaluations of NDPBs did not always yield hard evidence on cost-effectiveness.
- **Better use of targets and objectives to drive performance improvement.** On average, the performance targets we examined were set at a level lower than the prior year's performance. Some departments gave a more active challenge to NDPB-proposed targets and objectives, and there is scope to build on the use of more analytical techniques, such as modelling and benchmarking, used in a few cases to set targets that are stretching but achievable.
- **A clear focus on data quality.** Many NDPBs and/or their Chief Executives had incentive arrangements for better performance against framework measures. But clear definitions of success or failure were not always evident and arrangements to define data quality, or secure assurance over information reported by NDPBs were often underdeveloped.

5 In carrying out this work, we interviewed key staff in the sponsor department and NDPB and reviewed various documents including corporate plans, framework documents and performance reports. See the Methodology at Appendix One.

6 The 41 NDPBs received around £23.4 billion in Grant-in-Aid in 2008-09. This was an increase of about 23 per cent over 2006-07, largely due to the creation of one NDPB in 2008-09 which received £3.9 billion in Grant-in-Aid (**Figure 1**).

**Figure 1**  
Total Grant-in-Aid of NDPB sample



Source: National Audit Office analysis



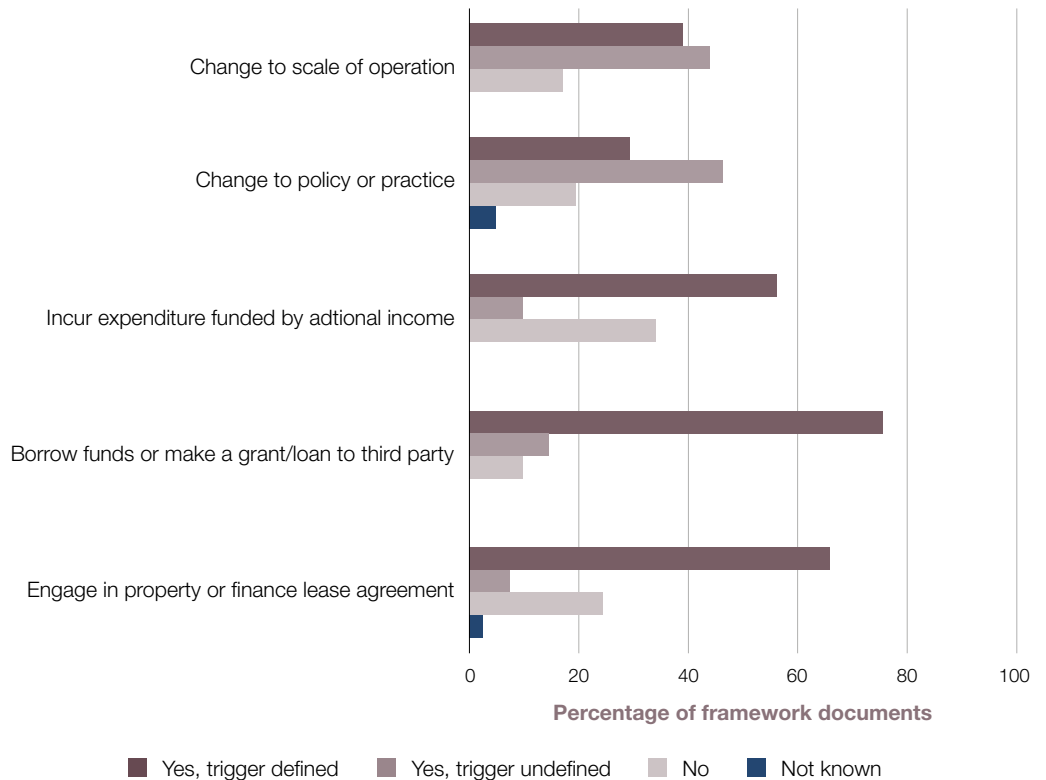
# Part One

## NDPB Performance Frameworks

### Framework documents

**1.1** Each NDPB should have a framework document which defines its relationship with its sponsor department, is tailored to its specific responsibilities and forms the basis of a Department’s monitoring of NDPB performance. The document should set out the NDPB’s purpose, governance and accountability arrangements, and those activities which will require clearance from the sponsor department (**Figure 2**).<sup>1</sup>

**Figure 2**  
Areas where Departmental approval must be sought



Source: National Audit Office analysis

<sup>1</sup> *Managing Public Money*, HM Treasury, 2009, p. 51.

**1.2** Departments mainly take assurance that NDPBs are complying with the framework documents from internal and external audit, monitoring financial information and through regular meetings with the NDPBs. Departments identified instances of non-compliance for seven NDPBs (17 per cent) (**Figure 3**). Almost all instances of non-compliance related to the NDPB making special payments without prior approval from the Department – even though most framework documents specify when departmental approval is needed for financial transactions.

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### **Figure 3**

Instances of non-compliance with the frameworks in the last three years according to Departments

<b>Instances of non-compliance</b>	<b>Number of NDPBs</b>	<b>Percentage of NDPBs</b>
No instances	34	83
At least one instance	7	17
<b>Total</b>	<b>41</b>	

*Source: National Audit Office analysis*

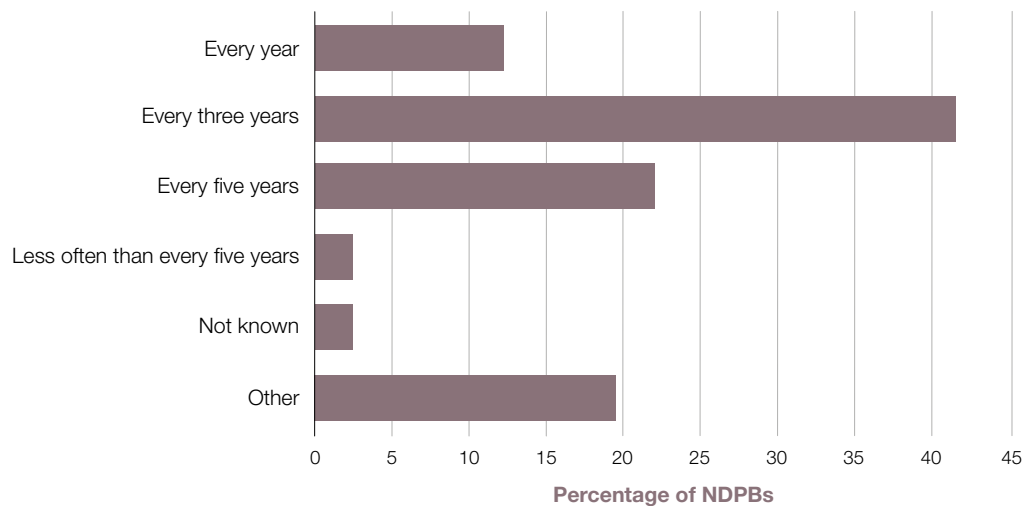
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**1.3** Central government guidance recommends that departments review framework documents of arms-length bodies at least every three years.<sup>2</sup> **Figure 4** and **Figure 5** suggest that the majority of departments are reviewing and updating the framework documents every three years – a spending review cycle – in line with good practice. There may be valid reasons why a department would review the framework document but choose not to update it. It is nevertheless noteworthy that more than one third of the frameworks for the ‘reviewed every three years’ set of NDPBs are more than five years old (**Figure 6** on page 10).

<sup>2</sup> *Reforming Arms-Length Bodies*, HM Treasury, 2010, p. 17.

**Figure 4**

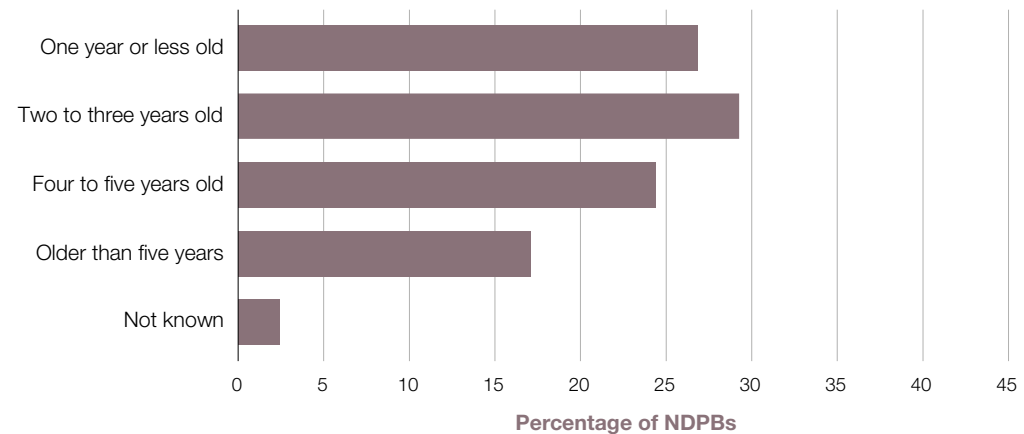
Departmental responses about the frequency of review framework documents



Source: National Audit Office analysis

**Figure 5**

Age of NDPB framework documents at time of our survey



Source: National Audit Office analysis

**Figure 6**

Age of framework for NDPBs 'reviewed every three years'  
per Figure 4

Age of framework documents	Number of NDPBs	Percentage of NDPBs
One year or less old	8	50
Two to three years old	1	6
Four to five years old	1	6
Older than five years	6	38
<b>Total</b>	<b>16</b>	

Source: National Audit Office analysis

### Performance measurement frameworks

**1.4** Where NDPBs are the primary means of delivering departmental objectives, there should be clear links between NDPB performance measures and departmental priorities.<sup>3</sup> However, some NDPBs will also carry out additional functions or choose to measure performance in areas which are of limited interest to a sponsor department. The NDPB measurement frameworks may also need to meet the needs of more than one department where, as with cross-cutting Public Service Agreements, the NDPB is delivering strategic priorities which cut across more than one department.

**1.5** **Figure 7** and **Figure 8** show that in most cases NDPB performance measures form a key part of a Department's performance measurement framework and its ability to assess progress against departmental objectives. However, about half of the NDPBs with 40 per cent or less of the performance measures aligned to the sponsor department (in **Figure 8**) could not link their measures to objectives of any department.

<sup>3</sup> HM Treasury & Cabinet Office, *Better Government Services: Executive Agencies in the 21st Century*, Cabinet Office, 2002, pp. 31-32.

**Figure 7**

NDPB and departmental view on strength of alignment between NDPB performance measures and departmental objectives

Strength of alignment	Number of NDPBs	Percentage of NDPBs
Strong	30	73
Moderate	7	17
Weak	3	7
Negligible	1	2
<b>Total</b>	<b>41</b>	

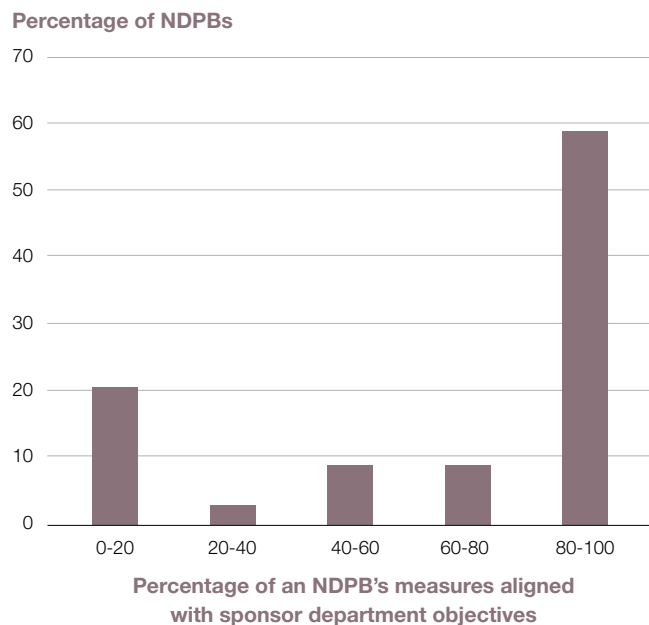
**NOTE**

1 Totals do not sum correctly due to rounding.

Source: National Audit Office analysis

**Figure 8**

National Audit Office analysis of alignment between NDPB performance measures and sponsor department objectives



Source: National Audit Office analysis

## NDPB performance measures

**1.6** An NDPB's corporate planning process should translate high-level objectives and aspirations into measures against which performance and progress can be assessed.<sup>4</sup> To help the sponsor department ensure that NDPBs contribute to wider government objectives and deliver value for money, the planning cycle should also include enough time for the department to comment on and challenge NDPBs' objectives and related performance measures.

**1.7** Most departments (93 per cent) felt that the corporate planning cycle included sufficient time for them to comment and challenge NDPBs proposed objectives and related performance measures (see also **Figure 9**).

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### Figure 9

NDPBs perception of adequacy of departmental challenge to objectives and performance measures

NDPB perception of departmental challenge	Number of NDPBs	Percentage of NDPBs
Yes – Department given due consideration to objectives/measures	37	90
No – Department not given due consideration to objectives/measures	2	5
No departmental input to objectives/measures	2	5
<b>Total</b>	<b>41</b>	

Source: National Audit Office analysis

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**1.8** NDPB performance measurement frameworks should give a balanced view of NDPB activity, covering all significant areas of work and be appropriate to, and useful for, stakeholders. The links between an NDPB's objectives and its performance measures should be evident to all those who may have an interest in NDPB performance (**Figure 10**). The types of measures will depend on the service that the NDPB is providing, but they should allow a sponsor department to monitor how an NDPB's performance is contributing to its own priorities (**Figure 11** and **Figure 12** on page 14).

<sup>4</sup> HM Treasury, Cabinet Office, National Audit Office, Audit Commission, Office for National Statistics, *Choosing the Right FABRIC – A Framework for Performance Information*, National Audit Office, p. 6.

**Figure 10**

## Coverage of NDPB objectives with performance measures

Coverage of NDPB objectives	Number of NDPBs	Percentage of NDPBs
Full coverage of objectives	17	45
At least two thirds of objectives covered	11	29
Less than two thirds of objectives covered	10	26
<b>Total</b>	<b>38</b>	

**NOTE**

1 Analysis covered 38 out of the 41 NDPBs sampled.

Source: National Audit Office analysis

**Figure 11**

## Mix of NDPB performance measures

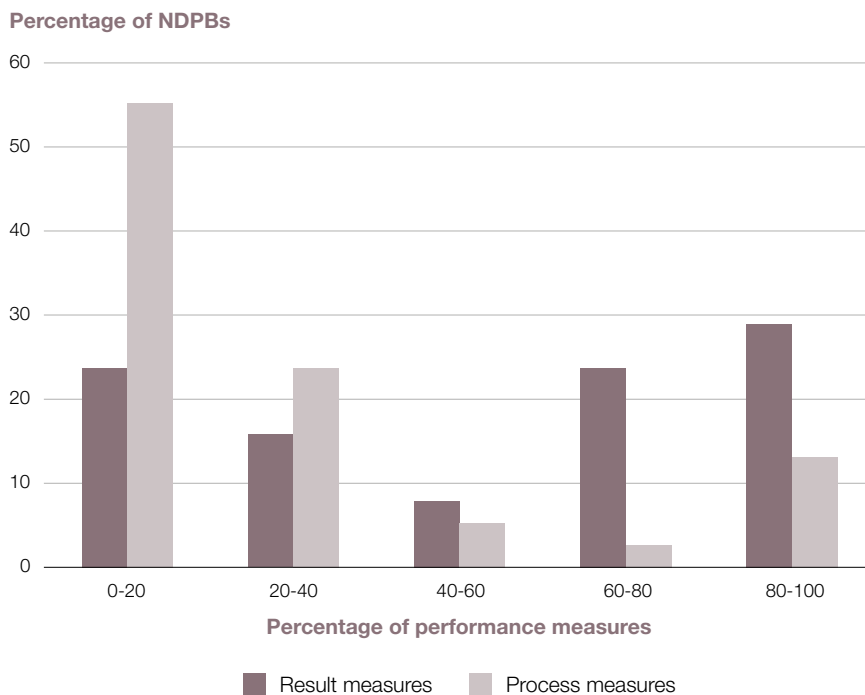
Type of measures	Number of measures	Percentage of measures
<b>Result measures</b>		
Outcome	62	7
Stakeholder satisfaction	61	7
Output	240	27
<b>Total result measures</b>	<b>363</b>	<b>40</b>
<b>Efficiency measures</b>		
Operational efficiency	56	6
Cost efficiency	45	5
<b>Total efficiency measures</b>	<b>101</b>	<b>11</b>
<b>Process measures</b>		
Milestone measures	351	39
Organisational capability	53	6
<b>Total process measures</b>	<b>404</b>	<b>45</b>
<b>Input measures</b>		
Income generating	22	2
Other input measures	9	1
<b>Total input measures</b>	<b>31</b>	<b>3</b>
<b>Total</b>	<b>899</b>	

**NOTE**

1 Totals do not sum correctly due to rounding.

Source: National Audit Office analysis

**Figure 12**  
Proportion of result and process measures in NDPB reporting frameworks



Source: National Audit Office analysis

**1.9** In total, we could readily link 77 per cent of all NDPB objectives<sup>5</sup> with one or more performance measures. For the remaining 23 per cent of objectives, the link to NDPB performance measures was unclear.

**1.10** Although departments consider that they are sufficiently involved in deciding the performance measures, their ability to judge longer-term performance will be limited when there are insufficient numbers of ‘results’ measures, or if ‘business models’ linking processes to results are not well-developed.

5 We took the NDPB objectives from strategic plans, Annual Report and Accounts, and statutory objectives specified in framework agreements.



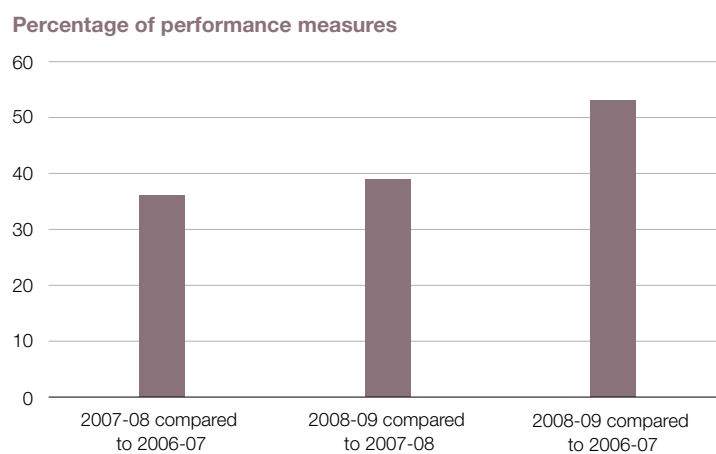
## Consistency of performance measures

**1.11** The National Audit Office report on *Improving Service Delivery – The Role of Executive Agencies* recommended that targets in executive agencies and other similar arms-length bodies “need to have a fair degree of consistency so that trends in performance can be assessed over a number of years.”<sup>6</sup> As pointed out in the Better Government Services Review, consistency in the performance framework needs to be balanced with the need to substitute or eliminate targets that have become irrelevant in the light of changes to departmental and NDPB objectives.<sup>7</sup>

**1.12** For those NDPBs in our sample that report on milestones against activities, the churn of performance measures was almost one hundred per cent as the milestones change every reporting period. **Figure 13** shows the still high levels of churn in indicators for those NDPBs whose frameworks were not wholly based on milestones.

**Figure 13**

Proportion of new measures in NDPBs performance frameworks between 2006-07 and 2008-09



Source: National Audit Office analysis

6 Comptroller & Auditor General, *Improving Service Delivery: The Role of Executive Agencies*, Session 2002-2003, HC 525, National Audit Office, March 2003, p. 22.

7 HM Treasury & Cabinet Office, *Better Government Services: Executive Agencies in the 21st Century*, Cabinet Office, 2002, p. 33.

## Linking cost and performance information

**1.13** Both NDPBs and departments need to be able to link cost and performance information in order to prioritise resources and deliver value for money. As Figure 11 on page 13 shows, few performance measures explicitly link cost and performance.

**1.14** Most of the cost-efficiency measures we identified relate to specific efficiency-saving programmes. However, we found ten measures (one per cent of all measures) across eight NDPBs which allow departments to judge the unit cost of outcomes, outputs and process or to monitor the private sector investment leveraged (**Figure 14**).

**1.15** The ability to report against cost-effectiveness measures depends on the level of integration of financial and performance information.<sup>8</sup> Assessments of cost-effectiveness that allow decision makers to judge the effect of an increase or decrease in funding on outcomes, outputs, and activities require a robust costing methodology.

**1.16** The majority of NDPBs said that they used some form of costing method to link performance and financial information (**Figure 15**). However, we found little evidence that NDPBs integrate cost and performance information in any public reporting.

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### Figure 14

#### Unit cost and investment leveraged measures

##### Unit cost measures

- Unit cost per application processed
- Fee income per site (two measures for one NDPB)
- Administration cost for each completed application

##### External investment leverage measures

- Public and private regeneration infrastructure investment leveraged
- Private sector investment leveraged
- Attraction of external funding
- Ratio of partnership funding to grant investment
- Ratio of funds from external public and commercial sources

Source: National Audit Office analysis

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<sup>8</sup> Previous National Audit Office reports have pointed out the importance of linking financial and performance information, in particular for assessments of cost-effectiveness and marginal costs. See *Performance Frameworks and Board Reporting*, National Audit Office, 2009, pp. 24-26 and *Managing financial resources to deliver better public services*, Session 2007-2008, HC 240, National Audit Office, February 2008, pp. 21-22.

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**Figure 15**

Costing methods used by the NDPBs to link performance and financial information

<b>Costing method</b>	<b>Number of NDPBs</b>	<b>Percentage of NDPBs</b>
Direct allocation	17	41
Activity-based costing	10	24
Combination of direct allocation and activity-based costing	2	5
Other	4	10
None	2	5
Not known	6	15
<b>Total</b>	<b>41</b>	

*Source: National Audit Office analysis*

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# Part Two

## NDPB Performance and VFM

### NDPB performance

**2.1** Treasury's recent paper, *Reforming Arms-Length bodies*, emphasises the importance of greater transparency when providing information in helping to ensure that arms-length bodies deliver value for money.<sup>9</sup> Treasury states that arms-length bodies should be required to publish information regularly on their performance.

**2.2** When reviewing NDPB performance we found:

- Annual reports often lack the necessary transparency to allow for an assessment of target achievement or performance improvement.
- There is a significant churn of measures, in particular between two spending reviews, which can confound analysis of performance trends (see paragraph 1.12 above).
- NDPBs use different types of performance reporting frameworks that range from activity-based scorecards which can include around 100 measures to well-defined lists of a few, high-level and numerical indicators.

**2.3** We therefore limited our analysis to the top-level performance information that NDPBs regularly report to departments and to those NDPBs that mainly report against numerical performance measures or a mix of numerical measures and activity milestones. Overall, we found that the proportion of targets met and the level of performance improvement has remained relatively static for the last three years (**Figures 16 and 17**).

9 *Reforming Arms-Length Bodies*, HM Treasury, 2010, pp. 18-19.

**Figure 16**

NDPBs performance trends 2006-07 to 2008-09

	Performance 2007-08 compared to 2006-07	Performance 2008-09 compared to 2007-08	Performance 2008-09 compared to 2006-07
Performance improved	63%	57%	60%
Performance decreased	27%	33%	32%
No improvement	10%	10%	8%
Number of measures	208	187	136
Number of NDPBs	22	24	22

Source: National Audit Office analysis

**Figure 17**

NDPBs performance as percentage of targets met 2006-07 to 2008-09

	Performance 2006-07	Performance 2007-08	Performance 2008-09
Targets met	59%	58%	64%
Targets not met	23%	27%	20%
Not possible to say	18%	15%	17%
Number of measures	339	370	312
Number of NDPBs	20	23	22

**NOTE**

1 Totals do not sum correctly due to rounding.

Source: National Audit Office analysis

**Target setting**

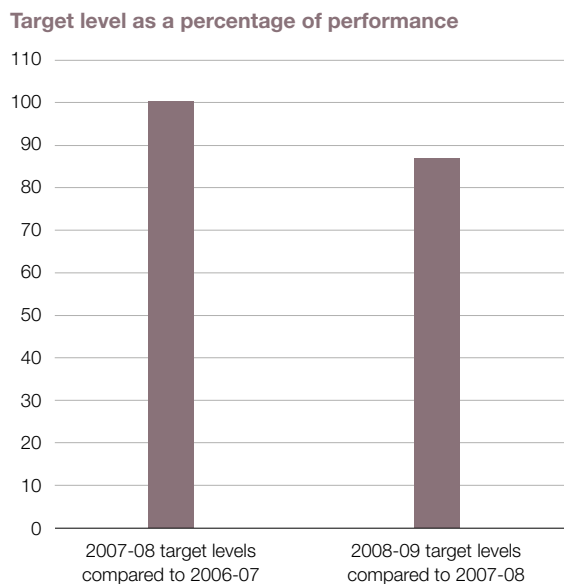
**2.4** Targets can be useful in challenging an NDPB to improve performance. When setting targets for performance measures, departments need to set targets which are sufficiently stretching but which are also realistic. Previous National Audit Office reports have highlighted the importance of setting stretching targets for arms-length bodies that are not based solely on historical levels of performance.<sup>10</sup>

**2.5** A review of a subset of targets (**Figure 18** overleaf) shows that on average NDPB performance targets are lower than performance in the previous year. On average targets in 2008-09 were 87 per cent of the actual performance levels of 2007-08. Interestingly, the drop in the level of targets coincides with a 6 per cent increase in the percentage of targets met between 2007-08 to 2008-09 (Figure 17).

<sup>10</sup> Comptroller & Auditor General, *Improving Service Delivery: The Role of Executive Agencies*, Session 2002-03, HC 525, March 2003, pp. 17-18.

**Figure 18**

Level of targets compared to performance in previous years<sup>1</sup>



**NOTE**

1 This analysis is based on a subset of 100 targets, namely absolute numeric performance measures which NDPBs had to meet, and where the form of the target continued for more than one year.

Source: National Audit Office analysis

**2.6 Figure 19** shows that departments rarely adopt analytical approaches to setting targets, and in over one third of NDPBs, do not get involved at all. Overall this suggests shortcomings in a target-setting process which does not appear to challenge NDPBs to improve performance.

**Figure 19**

Departments' use of performance target-setting methods

Target-setting method	Number of NDPBs	Percentage of NDPBs
Based on historical performance	17	42
Departments not involved in setting targets <sup>1</sup>	15	37
Expert panels	5	12
National Audit Office/ Public Accounts Committee recommendations	2	5
Benchmarking against public and private sector peers <sup>2</sup>	1	2
Not known	1	2
<b>Total</b>	<b>41</b>	

**NOTES**

- 1 This includes NDPBs that do not have performance targets but only monitor direction of travel.
- 2 This category excludes benchmarking back-office functions.
- 3 Totals do not sum correctly due to rounding.

Source: National Audit Office analysis

## Benchmarking back-office functions

**2.7** In 2007, the Public Audit Forum first published a list of standardised value for money back-office performance indicators that would allow public bodies to benchmark their back-office functions against their peers. Many of the measures were also included in the HM Treasury's report *Benchmarking the Back Office: Central Government as part of the Operational Efficiency Programme*.<sup>11</sup> None of these indicators featured in the NDPB performance frameworks we reviewed.

**2.8** Twenty eight (68 per cent) of the NDPBs we surveyed nonetheless collected at least some of the Public Audit Forum indicators. Another four NDPBs could provide us with data on some of the six measures for which we requested information, even though these NDPBs do not routinely collect this data. The wide range of values for each indicator in part reflects wide differences in the nature of the NDPBs (**Figure 20** overleaf). In one case, we found evidence of formal departmental data analysis to aid instructive comparison of a 'family' of similar NDPBs.

## Evaluating NDPB effectiveness in delivering objectives

**2.9** Departments should routinely evaluate whether the function an NDPB carries out is still required and, if so, whether the NDPB model is the most effective vehicle for achieving its objectives.<sup>12</sup>

<sup>11</sup> HM Government, *Benchmarking the Back Office: Central Government*, HM Treasury, 2009.

<sup>12</sup> See *Reforming Arms-Length Bodies*, HM Treasury, 2010, p. 17, where a full purpose review is cited as potential review type within a three year risk-based review plan. See also *Public Bodies: A Guide for Departments*, chapter 9.

**Figure 20**

NDPB Performance on selected Public Audit Forum VFM indicators

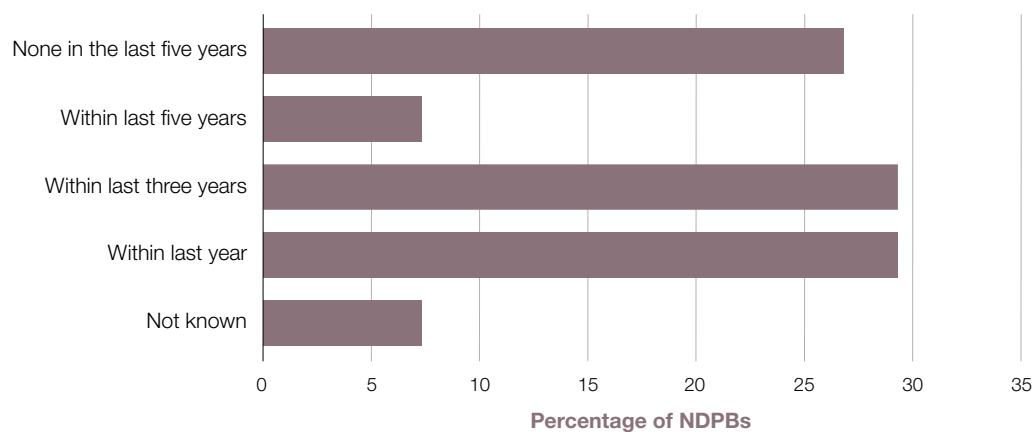
PAF VFM indicator	Sample size	Mean	Minimum	Maximum
Finance cost as percentage of running cost	32	1.9%	0.1%	5.5%
HR cost per employee (in £)	20	1,925	721	3,734
Average working days per FTE lost to sickness absence	31	6	2	12
Leavers in the last year as percentage of total staff	19	12.9%	7.0%	21.0%
ICT cost as percentage of running cost	31	4.7%	0.3%	18.0%
Property cost per m <sup>2</sup> (in £)	29	402	85	1,007
Percentage of spend with third-parties routed through established contracts	14	69.6%	21.0%	100.0%

Source: National Audit Office analysis

**2.10 Figure 21** shows that most departments (66 per cent) had evaluated the effectiveness of their NDPB in the last five years. When evaluations are carried out, they range from an independent, expert assessment and stakeholder consultations to less formal discussions between department and NDPB. For 25 per cent of NDPBs, however, no recent evaluation was available: and for some of those that had been reviewed, the evaluations lacked depth. For a significant proportion of NDPBs, therefore, departments lacked hard data on their cost-effectiveness.

**Figure 21**

Last evaluation of NDPB being the optimum delivery vehicle



Source: National Audit Office analysis



# Part Three

## Monitoring Performance, and Risk

### Frequency and timeliness of information received

**3.1** To facilitate active monitoring, departments need information which is timely. Good practice guidance suggests arms-length bodies should supply departmental boards with reports on at least:<sup>13</sup>

- monthly management accounting information;
- performance information; and
- identification and management of risk.

**3.2** In addition, NDPBs may also report progress against milestones of major projects to the department.

**3.3** As **Figure 22** and **Figure 23** overleaf show, the frequency and timeliness of information flow to the department varies according to the type of information reported. Performance information is generally reported less frequently and promptly than management accounting information.

### Data quality arrangements for performance information

**3.4** Information supplied to the departmental board should be of “quality appropriate to enable it to discharge its duties in respect of all the activities of the department, including the work of executive agencies and arms-length bodies”.<sup>14</sup> Previous National Audit Office reports have highlighted the importance of providing high quality performance information to manage public bodies and to hold them accountable.<sup>15</sup>

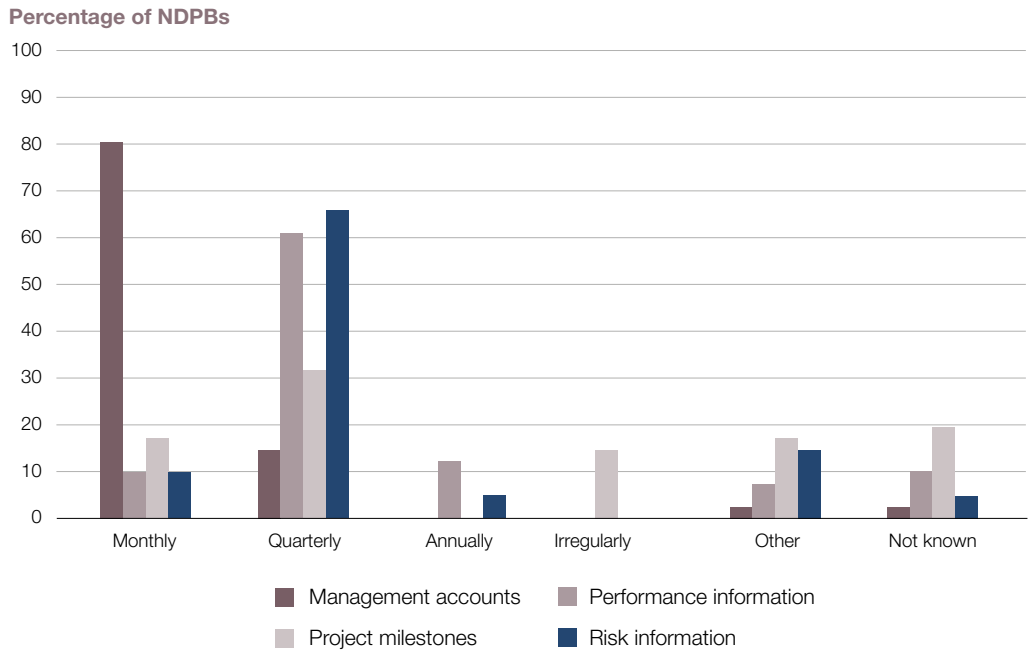
**3.5** Departments can ensure that they are supplied with high quality performance information by defining the data quality assurance process the NDPB has to follow. However, for only 29 per cent of NDPB have departments formally defined the data quality assurance process for reported performance data.

<sup>13</sup> *Corporate governance in central government departments: Code of Good Practice*, HM Treasury, 2005, p. 8.

<sup>14</sup> *Corporate governance in central government departments: Code of Good Practice*, HM Treasury, 2005, p. 8.

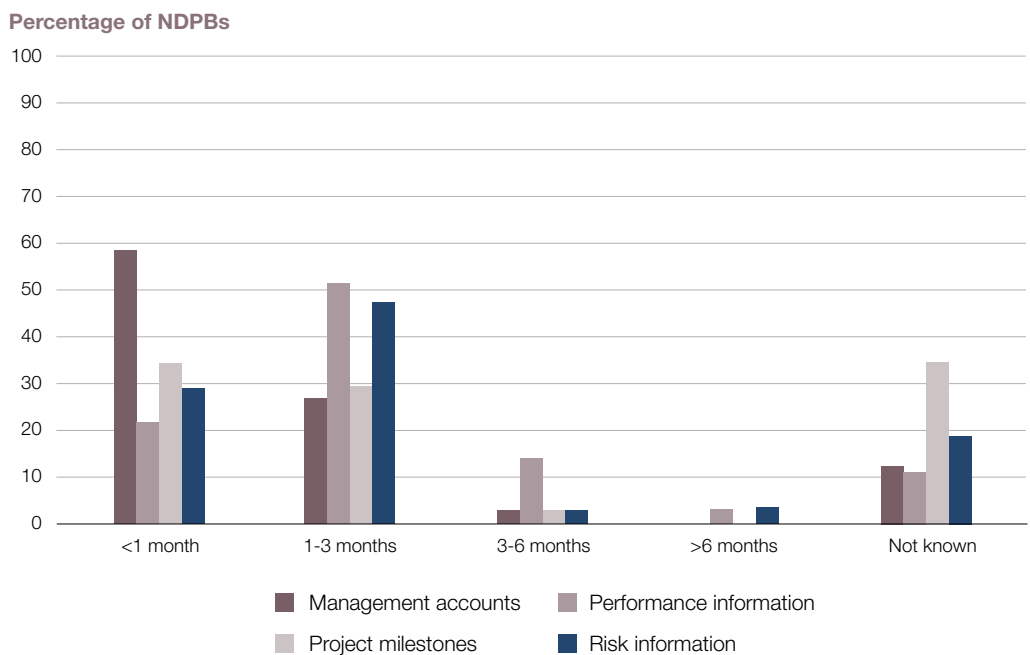
<sup>15</sup> See Comptroller & Auditor General, *Measuring Up: How good are the Government's data systems for monitoring performance against Public Service Agreements?*, Session 2008-2009, HC 465, National Audit Office, October 2000

**Figure 22**  
Frequency of information reporting to departments



Source: National Audit Office analysis

**Figure 23**  
Time lag between time of reporting and period data refers to



Source: National Audit Office analysis

**3.6** As **Figure 24** shows, audit is the most common method departments use to assure performance data quality (49 per cent). However, the extent to which departments can place reliance on this depends on the quality and coverage of the audit carried out.

**Figure 24**  
Performance data quality assurance methods

Data quality assurance methods	Number of NDPBs	Percentage of NDPBs
Internal audit	11	27
External audit	5	12
Both internal and external audit	4	10
Validate with external surveys	2	5
Board reviews outliers	2	5
Other	3	7
None	10	24
Not known	4	10
<b>Total</b>	<b>41</b>	

Source: National Audit Office analysis

## Sanctions and rewards

**3.7** Sanctions and rewards on both an organisational and individual level can be powerful tools to drive performance in public sector organisations in addition to funding or regulatory instruments, if effectively designed and implemented.<sup>16</sup> Sanctions and rewards can be of a financial nature, such as contract or payment holdback or bonus funding above an established performance baseline; operational, such as increased or reduced autonomy from central government; or reputational, such as awards or public rankings.<sup>17</sup>

**3.8** **Figure 25** overleaf shows that in 44 per cent of cases the departments did not link organisational sanctions and rewards to the NDPBs performance. The use of sanctions and rewards was, however, more common on an individual level: in 71 per cent of cases the sponsor department specified that it links the NDPB's Chief Executive's remuneration package to the achievement of the NDPB's performance targets.

**3.9** Even if departments do not operate a system of sanctions and rewards to drive NDPB performance, they still need to hold them to account if NDPBs do not meet the performance expected of them or if NDPBs overspend their budget. As a prerequisite, departments should clearly define what underperformance and overspending would look like. If NDPBs are in danger of missing their performance targets or overspending, departments should demand mitigating actions and follow up whether these actions have been carried out.

<sup>16</sup> *The Use of Sanctions and Rewards in the Public Sector*, National Audit Office, 2008.

<sup>17</sup> For more details see *The Use of Sanctions and Rewards in the Public Sector*, National Audit Office, 2008, pp. 40-44.

**Figure 25**

Types of sanctions and rewards linked by departments to NDPB performance

Types of sanctions and rewards	Number of NDPBs	Percentage of NDPBs
Financial	6	15
Operational	2	5
Reputational	2	5
A combination	12	29
Other	1	2
None	18	44
<b>Total</b>	<b>41</b>	

Source: National Audit Office analysis

**3.10** In 64 per cent of cases the departments had defined what overspending and underperformance would look like. Of the remaining 15 NDPBs that had not defined what overspending and underperformance looked like, seven linked the NDPB's Chief Executive's remuneration package to the achievement of performance targets.

### Risk management performance

**3.11** Many NDPBs we surveyed are the sole or primary delivery agents for key departmental objectives. Their failure to meet performance targets or deliver specific projects poses a significant risk to the delivery of departmental objectives. A previous National Audit Office review emphasised the shared responsibility of risk management between sponsor and sponsored body and recommended that risk management processes were 'joined up'.<sup>18</sup>

**3.12** As **Figure 26** shows, for 11 NDPBs (at least 27 per cent) departments do not have formal processes in place ensuring that risks related to departmental delivery are integrated into departmental risk management processes. Furthermore, in seven cases risks affecting departmental delivery objectives materialised in the last three years (see **Figure 27**). In the case of three NDPBs, the department and the NDPB identified that this was due to inadequate risk management, while two NDPBs failed to escalate the risk to the department early enough to allow for countermeasures. These data suggest that some departments and NDPBs can still improve their risk management and, in particular, better 'join up' their respective processes.<sup>19</sup>

<sup>18</sup> *Corporate Governance of Sponsored Bodies*, National Audit Office, 2004, pp. 27-31.

<sup>19</sup> See *Good Practice Guide to the Statement of Internal Control*, National Audit Office, 2010

**Figure 26**

Formal processes in place to ensure integration of NDPB risks in departmental risk registers

<b>Risk integration processes in place</b>	<b>Number of NDPBs</b>	<b>Percentage of NDPBs</b>
Formal processes in place	27	66
No formal processes in place	11	27
Not known	3	7
<b>Total</b>	<b>41</b>	

*Source: National Audit Office analysis*

**Figure 27**

Effectiveness of risk management processes in the last three years

<b>Effectiveness of risk management processes</b>	<b>Number of NDPBs</b>	<b>Percentage of NDPBs</b>
Risk materialising as a result of NDPB action or inaction	7	17
No risk materialising as a result of NDPB action or inaction	34	83
<b>Total</b>	<b>41</b>	

*Source: National Audit Office analysis*

# Part Four

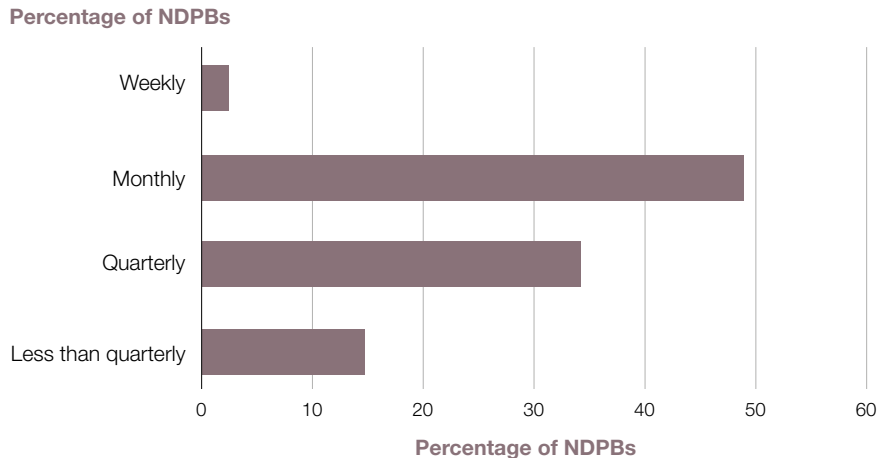
## Relationships between Departments and NDPBs

**4.1** As well as frequent and timely reporting, constructive and open communication between NDPBs and departments is key to driving performance improvement.

**4.2** The majority of NDPBs meet relatively frequently with the departmental sponsor, which tends to be a senior member of the department (either Director General or Senior Civil Servant) (**Figure 28**). Most NDPBs and departments consider the relationship to be good or very good (**Figure 29**).

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**Figure 28**  
Frequency of NDPB and departmental sponsor meetings

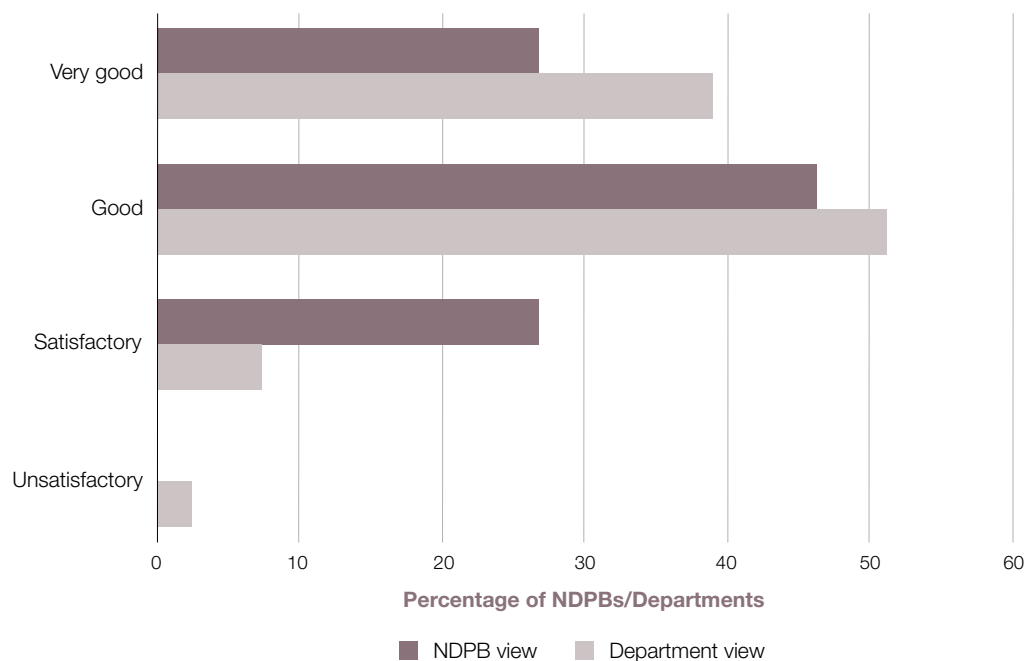


Source: National Audit Office analysis

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**Figure 29**

Relationship between NDPB and Department



Source: National Audit Office analysis

**4.3** The *Better Government Services Review* recommended that the ‘top team’ of departments should “harness the entrepreneurial and management expertise of those responsible for delivery”<sup>20</sup> and emphasises here, in particular, the role of departmental board members to represent the entire organisation, including the various sponsored delivery bodies, and not just the particular part of the organisation they oversee. We therefore wanted to know whether and how the NDPBs are represented at departmental board level (**Figure 30** overleaf).

**4.4** Overall 52 per cent of NDPBs were formally represented on the board of their sponsor department. By comparison, 39 per cent of NDPBs (16 NDPBs) have some departmental representation on their board, either as full members involved in decision-making or as observers. A further three NDPBs have observers from another department on their board, while a further two NDPBs invite NDPB representatives to their board meetings which they occasionally attend.

**4.5** Ninety per cent of NDPBs we surveyed deal with more than one unit in the sponsor department regularly. In our previous report on *Corporate Governance in Sponsored Bodies* we emphasised the importance of the department having a coherent approach in dealing with sponsored bodies to counterbalance the risk of duplicating efforts, lack of consistency in communication and in positions taken towards the NDPB by various forms of the department.

<sup>20</sup> HM Treasury & Cabinet Office, *Better Government Services: Executive Agencies in the 21st Century*, Cabinet Office, 2002, p. 22.

**Figure 30**

## NDPB representation on departmental board

NDPB representation on departmental board	Number of NDPBs	Percentage of NDPBs
NDPB represented by departmental sponsor	17	42
NDPB attending/observing departmental board meetings	2	5
NDPB represented by more than one departmental/NDPB official	2	5
NDPB not represented on departmental board	15	37
Not known	5	12
<b>Total</b>	<b>41</b>	

**NOTE**

1 Totals do not sum correctly due to rounding.

Source: National Audit Office analysis

**4.6** We therefore asked those NDPBs which had multiple interfaces with the department whether they thought the department as a whole acted coherently (**Figure 31**).

**Figure 31**NDPBs perception of departmental approach<sup>1</sup>

NDPB perception of departmental approach	Number of NDPBs	Percentage of NDPBs
Units in sponsor department act coherently in interaction with NDPB	24	67
Units in sponsor department do not act coherently in interaction with NDPB	12	33
<b>Total</b>	<b>36</b>	

**NOTE**

1 Analysis excludes those NDPBs which do not deal with more than one department.

Source: National Audit Office analysis

**4.7** Examples of ways departments use to ensure that they act coherently include:

- Active ‘gateway’ role of the sponsor team that channels requests to and from the NDPB.
- Partnership boards that include all the relevant units in the departments and/or the NDPB.

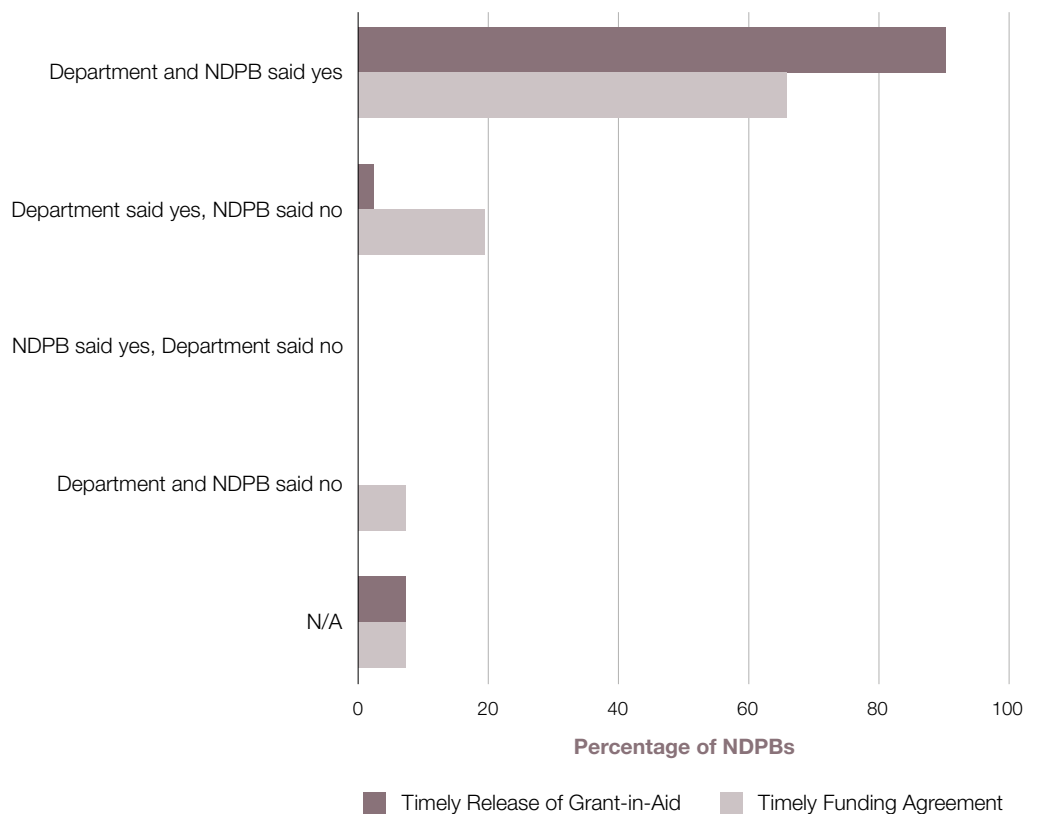


- Framework documents or protocols setting out the principles of interaction between the NDPB and the department.
- Nomination of specific leads within each unit that are responsible for liaison with the NDPB.

### NDPB funding

**4.8** We also asked departments and NDPBs separately, whether they thought that sponsor departments supported the management of NDPBs by releasing the grant-in-aid in a timely manner and reaching timely agreements with the NDPB about its annual funding agreement in the last three years (**Figure 32**).

**Figure 32**  
Perception of departmental support in releasing Grant-in-Aid and reaching timely annual funding agreement



Source: National Audit Office analysis

# Appendix One

## Methodology

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### The methods we used to gather evidence

#### 1 Review of NDPB documents

We reviewed documents including Corporate Plans and Annual Reports, Framework Agreements and Quarterly Performance Returns to sponsor departments.

We commissioned KPMG to review the documents of 11 of the 41 NDPBs.

#### 2 Interviews with NDPB officials

We interviewed officials of 41 NDPBs, including Finance Directors, Chief Accountants and Heads of Performance Units.

We commissioned KPMG to interview 11 of the 41 NDPBs.

#### 3 Interviews with departmental officials

We interviewed officials from the 12 sponsor departments of the 41 NDPBs, primarily members of the departmental sponsor team.

We commissioned KPMG to interview sponsor departments of 11 of the 41 NDPBs.

### How we used this evidence

To analyse:

- Financial and performance information.
- Nature and age of Framework Agreements.
- Level of alignment between NDPB performance measures and departmental objectives.
- Mix of NDPB performance measures.
- Frequency and time lag of reported data.
- Board representation.

To determine:

- NDPB perception of strength of link between its performance measures and departmental objectives.
- Sponsorship arrangements and engagement in corporate planning cycle.
- NDPB costing method and corporate indicators.
- NDPBs' perception of relationship with sponsor department.
- Risk management arrangements.

To determine:

- NDPB framework compliance.
  - Arrangements for and frequency of NDPB and framework reviews.
  - Departmental perception of strength of link between NDPB performance measures and departmental objectives.
  - Target-setting methods and incentive systems.
  - Performance data quality assurance processes.
  - Departmental perception of relationship with NDPB.
  - Integration of risk information.
-

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#### **4 Quantitative data analysis**

We analysed the performance frame-works of 24 NDPBs whose frameworks were not wholly based on milestones.

To analyse:

- Churn of performance measures.
  - Performance improvement and percentage of targets met.
  - Level of targets set as compared to previous year performance (on a subset of absolute, numeric targets).
-

# Appendix Two

## Sponsor Departments and NDPBs<sup>21</sup>

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### **Sponsor Departments**

**Department for Business,  
Innovation and Skills**

**Department for Culture,  
Media and Sport**

### **Non-Departmental Public Bodies**

- Technology Strategy Board
  - United Kingdom Atomic Energy Authority
  - Medical Research Council
  - Biotechnological and Biological Sciences Research Council
  - Science and Technology Facilities Council
  - Higher Education Funding Council for England
  - Construction Industry Training Board
  - One North East Regional Development Agency
  - South West of England Regional Development Agency
  - East Midlands Development Agency
  
  - Arts Council England
  - English Heritage
  - Sport England
  - UK Sport
  - British Library
  - Tate
  - Victoria & Albert Museum
  - UK Film Council
  - Big Lottery Fund
- 

21 As of 1 April 2010.

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<b>Sponsor Departments</b>	<b>Non-Departmental Public Bodies</b>
<b>Department for Children, Schools and Families</b>	<ul style="list-style-type: none"> <li>● Qualifications and Curriculum Authority (became QCDA and Ofqual from 1 April)</li> <li>● Training and Development Agency for Schools</li> <li>● Children and Family Court Advisory and Support Service</li> <li>● British Educational Communications and Technology Agency</li> <li>● National College for Leadership of Schools and Children's Services</li> <li>● Children's Workforce Development Council</li> </ul>
<b>Ministry of Justice</b>	<ul style="list-style-type: none"> <li>● Legal Services Commission</li> <li>● Youth Justice Board for England and Wales</li> <li>● Criminal Injuries Compensation Authority</li> </ul>
<b>Department for Work and Pensions</b>	<ul style="list-style-type: none"> <li>● Independent Living Funds</li> <li>● Child Maintenance and Enforcement Commission</li> <li>● Health and Safety Executive</li> </ul>
<b>Department of Health</b>	<ul style="list-style-type: none"> <li>● Health Protection Agency</li> <li>● Care Quality Commission</li> </ul>
<b>Home Office</b>	<ul style="list-style-type: none"> <li>● Serious Organised Crime Agency</li> <li>● National Policing Improvement Agency</li> </ul>
<b>Department for Environment, Food and Rural Affairs</b>	<ul style="list-style-type: none"> <li>● Natural England</li> <li>● Environment Agency</li> </ul>
<b>Department of Communities and Local Government</b>	<ul style="list-style-type: none"> <li>● Homes and Communities Agency</li> </ul>
<b>Department for Transport</b>	<ul style="list-style-type: none"> <li>● British Transport Police Authority</li> </ul>
<b>Foreign and Commonwealth Office</b>	<ul style="list-style-type: none"> <li>● British Council</li> </ul>
<b>Department of Energy and Climate Change</b>	<ul style="list-style-type: none"> <li>● Nuclear Decommissioning Authority</li> </ul>

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