



National Audit Office

**REVIEW**

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# Performance Frameworks and Board Reporting II

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National Audit Office

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# Summary

## Introduction

**1** Being able to measure performance is a key step to managing performance. Most organisations in the public and private sectors use formal performance frameworks as a means to secure coherent performance management; for Central Government, those frameworks have been based around performance objectives arising from Spending Reviews – currently expressed in a Public Services Transparency Framework. Such frameworks aim to bring together different types of indicators, typically covering categories such as inputs, capacity, activities, outputs and outcomes, in a logical way to help organisational planning, monitoring and performance reporting. Performance reporting to the board is a key element in effective organisational governance, and also a useful indication of what really matters to the organisation.

**2** This paper summarises the results from an NAO review of performance frameworks and board reporting in twelve government departments and twelve Arm's Length Bodies. NAO teams applied a maturity model to assess the quality of information that went to boards in late 2010. The review involved scrutiny of key documents and interviews with and a survey of board members. The purpose of the review was to establish the strengths and weaknesses of current arrangements to baseline practices and promote future improvement. The review does not represent a full audit of those arrangements. Appendix One sets out the methods used in full.

## The maturity matrix and overall results

**3** The maturity model was developed as part of the 2009 NAO report *Performance Frameworks and Board Reporting*.<sup>1</sup> This set out good practice in board reporting, with examples and case studies, summarising these in a maturity matrix. The matrix assesses the level of maturity of board reporting practice across three areas:

- a Developing a Performance Framework** – the appropriateness and sophistication of the performance information that is included in board reports, particularly the degree to which it is linked to the organisation's strategic objectives.
- b Reporting Performance Information** – the quality of data that is included in board reports and the way it is presented to provide insight and explanation to inform decisions.
- c Using the Framework** – the degree to which board members are able to make decisions based on value for money information and therefore drive improvement across the organisation.

**4** There is a close relationship between these three areas. Board members require insightful information, clearly presented, to judge value for money and make future plans. Analysis requires effective reporting systems, good integration of performance and financial information, and a clear link to the organisation's objectives to be useful to decision-makers wanting to optimise the allocation of resources.

**5** We assessed current practices in each area by reference to the five point maturity scale ranging from 'existing' to 'optimising'. A summary description of these levels is in **Figure 1**.

**6** A full copy of the matrix is in Appendix Three of this report, which indicates in more detail the criteria for judging the five levels for each of the three areas of the matrix. Organisations had to show that they had consistently achieved this level of maturity across the range of criteria for that level.

<sup>1</sup> Performance Frameworks and Board Reporting: A review by the performance measurement practice, National Audit Office, July 2009.

**Figure 1**  
Summary description of the five point maturity scale

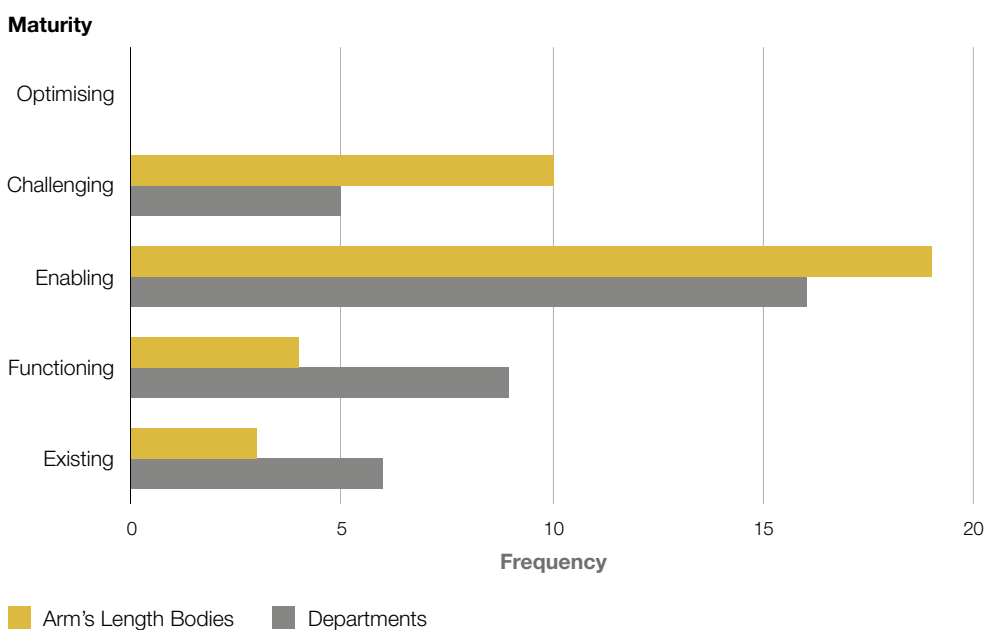
Summary description of level across 3 areas	
Level 1 – Existing	Basic level – performance reports are produced.
Level 2 – Functioning	Performance framework covers all key objectives and major activities.
Level 3 – Enabling	The framework is structured around a delivery map and helps the board to assess effectiveness.
Level 4 – Challenging	The framework is integrated into management systems and provides insights into value for money.
Level 5 – Optimising	The framework is based on a validated business model, helps optimise resource allocation and drives high performance.

**7** We found a range of maturity in the 24 organisations assessed (**Figure 2**). None of the organisations reached the highest level of maturity in the matrix (Optimising). Five organisations are at the lowest level of maturity (Existing) in at least one of the three areas of the matrix. Many organisations have taken steps to improve performance reporting, but our findings indicate that progress has been mixed. One director told us:

*There have been several attempts to produce a useful board pack over the period. Hampered by a lack of real interest in discussing the results, and also to some degree the lack of dedicated/expert resource to collate the performance reports. So on occasions I (and others) have just stuck a series of pages together without much attempt to add value.*

Departmental executive director

**Figure 2**  
Maturity Levels across all three areas of the Matrix



Source: National Audit Office Maturity Matrix

**8** These results indicate that, while many elements of good performance assessment and reporting are in place, Central Government organisations are not getting full value from their performance frameworks and associated systems. Within this overall picture, two further patterns are evident. Arm’s Length Bodies (ALBs) scored better than departments; and scoring decreases, on average, in moving from framework development, through reporting arrangements to use (**Figure 3**).

**9** Timing may play a part in the first of these patterns. Our assessments relate to late 2010, prior to the finalisation of new Departmental Business Plans and any subsequent changes in the reporting frameworks. Departments, in particular, were often in transition from the previous Public Sector Agreement structures towards new sets of input and impact measures. This may explain why departments scored less well than Arm’s Length Bodies – operational Agencies and Non Departmental Public Bodies (NDPBs). The operational nature of these entities also makes performance definition and monitoring more straightforward, with easier read-across from commercial good practice literature.

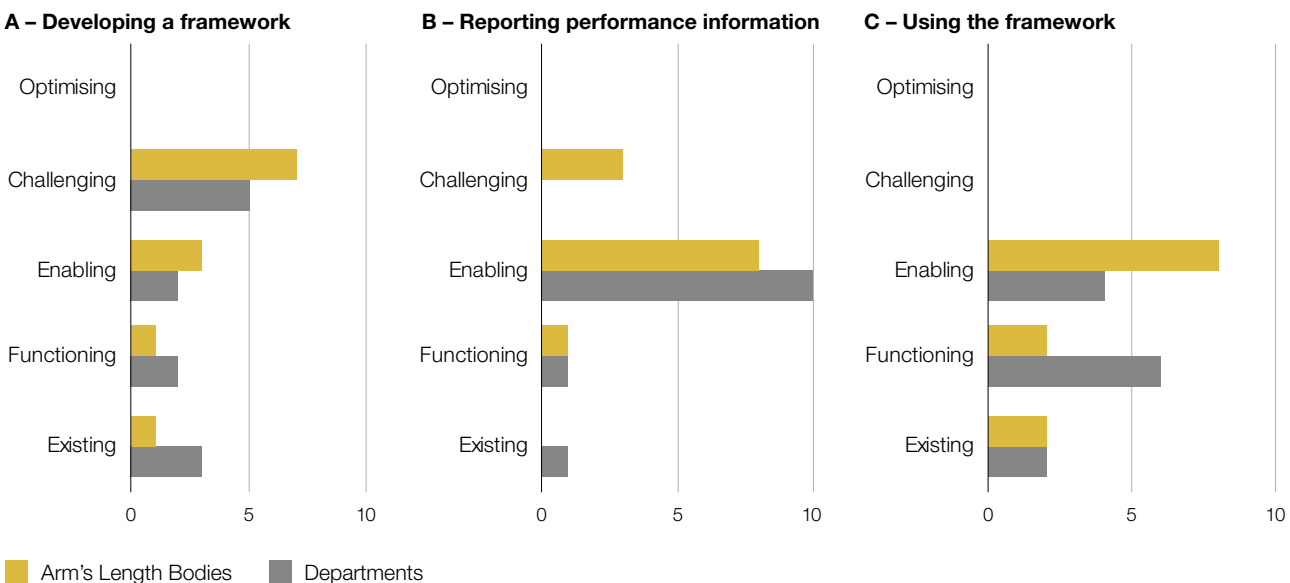
**10** We identified four factors, as follows, which are crucial to getting full value from performance assessment and reporting.

**a) Clarity over the role of the board**

**11** The board has a key role in demanding good performance information and acting on it. While this review did not set out to deal with broader questions of the board’s role and performance, the comments we received from board members and other stakeholders suggested that a degree of uncertainty in these areas hampered the development and use of better performance reporting. A revised governance code has recently been prepared, and departmental boards are being reconstituted with more non-executive directors. In taking forward these changes there are opportunities to:

- Clarify boundaries between policy and strategic management by using real examples to establish the board’s remit.
- Make sure that governance arrangements work effectively on a transition of government, and that compliance with the governance code is adequately monitored.
- Consider the quality of organisational performance assessment and reporting systems as part of board effectiveness reviews.
- Consider arrangements to give non-executive members additional leverage – for example, by promoting Parliamentary hearings in the event of resignation.

**Figure 3**  
Maturity in each area of the matrix



Source: National Audit Office Maturity Matrix

### b) Quality of business or logic models

**12** A good performance measurement framework is based around clear performance objectives; tailors performance measurement to key delivery drivers, and affords a full view of the organisation's current performance and credible projections of future performance. Most of the organisations we reviewed had frameworks which covered objectives, inputs and outputs and/or outcomes – and therefore scored relatively well for the development of frameworks. But the strength of evidence supporting the framework or the articulation of the underlying business models was often weak. That affects the ability to link inputs and activities to outputs and outcomes, to interpret current performance and to project future performance. These weaknesses are part of the explanation for lower scores in the reporting and use part of the matrix. Areas for attention include:

- Clear articulation of the business models underpinning major streams of business.
- Periodic validation of key assumptions underpinning the model, by reference to emerging results.
- Board review of systems to provide assurance on the quality of such models, and confirmation that they have been applied to all major parts of the organisation.

### c) Integration of financial and performance information

**13** One of the key links a good performance framework has to forge is that between resources and results. Historically, this has been a weak area for government, with the Public Service Agreement system, for example, rarely making any connection between costs and outcomes. The new Public Services Transparency Framework provides a welcome emphasis on the use of resources, and on monitoring of unit costs. We found that currently, however, few organisations made such links and that the underlying performance and costing systems were not well aligned. Areas for attention include:

- Alignment of cost and results reporting, so that at least sets of results can be associated with aggregated costs.

- Development of better management accounting systems, to permit better cost allocation and the development of unit costs.
- Development of analyses that permit tracking of trends in efficiency and productivity in major streams of business, to promote performance improvement.

### d) Contribution of frameworks to decision support

“The best performance measurement framework is ineffective if it is not used by the board, senior management, and indeed the whole organisation to drive performance.”

National Audit Office, *Performance Frameworks and Board Reporting*, 2009 p23.

**14** Effective performance reporting often consists of a mix of standard reporting against key objectives, which gives an organisational overview, supplemented by analyses which aid interpretation or focus on particular areas where board decisions are required. We found that, while many board members were content with the information they received, there was a lack of means to aid interpretation of progress – variance analysis, benchmarks, trend analyses – or of analysis platforming specific decisions. The extent to which high-level frameworks were integrated into lower level systems, and into team and personal objectives, was also limited. And assurance over data quality was rarely well-developed. Areas for improvement include:

- The development of tools – such as benchmarking and variance analysis – to help interpret progress data, and to make forecasts more objective and accurate.
- Greater reflection of the corporate performance framework in budgeting and review systems, and at divisional and lower level management systems;
- Better assurance over the reliability of monitoring data, and closer attention to the monitoring and reduction of data lags.

### Moving the agenda forwards

**15** This review was timed to establish a baseline of organisational maturity in measuring and reporting performance against the backdrop of changes in the performance management landscape. Our findings and recommendations direct attention to areas for attention.

While there have been some elements of good practice identified by this review, there are also some key weaknesses which need to be addressed. In future audit work we will be looking for the following practices – outlined in **Figure 4**.

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### Figure 4

#### Elements of maturity to be established in 2011 and beyond

<b>Board</b>	Clarity of board roles and the ability of the board to challenge on strategic management issues such as budget and performance reviews. Well-reviewed compliance with the Governance Code
<b>Business models</b>	Performance and financial indicators are structured around clear, well-evidenced business models; cover all main areas of business and key objectives
<b>Reporting</b>	Board papers at least align costs and results in major areas of business, to enable board scrutiny of cost-effectiveness. Management accounting is being improved to inform judgement of efficiency and productivity
<b>Decision support</b>	Board reports analyse past and projected trends in performance and use comparative tools or models to aid interpretation of performance and prospects. Supporting data is timely, quality assured and responsive to the board's requests for information

*Source: National Audit Office*

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# Part One

## Clarity over the role of the board

### Variable compliance with good practice principles

**1.1** At the time of this review in late 2010, the HM Treasury's 2005 Code of Good Practice was in place. This stated that Central Government boards had a duty to scrutinise strategy and the delivery of policy for effectiveness and efficiency.

"The board should meet sufficiently regularly to discharge its duties effectively... [Non-executives] should [ensure] that all aspects of strategy and delivery of policy are scrutinised for effectiveness and efficiency."

HM Treasury Code of Good Practice, 2005.

**1.2** Since the 2010 Spending Review was current at the time of our fieldwork, and involved strategic review of performance and cost-effectiveness, we looked to see how boards had fed into the Review. We found in several cases examples where boards had made sure that the right information structures were in place and the decisions took account of value for money considerations.

*Spending cuts process has been taken through board sub-groups and then to full board in logical and informative way, engaging members well.*

Arm's Length Body non-executive.

**1.3** In other cases, however, despite the statements of good practice issued by HM Treasury on the role of the board, we found several examples of boards not providing scrutiny to key strategic decisions:

- Three departments had no quorate board meetings between the 2010 election and the following Spending Review.
- In at least five departments, the boards were either not involved in the Spending Review bids at all, or they were not briefed sufficiently to allow them to scrutinise the strategic decisions.

### Revised best practice guidance

**1.4** In June 2010, the Cabinet Office published *Enhanced Departmental Boards: Protocol* in line with changes to the Ministerial Code. Whereby departmental boards are to include ministers on the board; with non-executive board members and executive board members in roughly equal proportion. Despite this significant change in the composition of the board, the role of the board remains substantially the same as it was under the previous Code of Governance.

**1.5** The new arrangements do, however, give non-executives more power. The 'lead' non-executive will report annually on their governance arrangements and can now recommend that the Permanent Secretary should be removed. These arrangements may support the non-executives in asserting the role of the board.

**1.6** In addition, the Statement of Internal Control, which has featured in Annual Reports, has now been revised and is to be presented as a broader Governance Statement. This new Statement requires the identification of and explanation for any non-compliance with the Code of Good Practice. The changes should add to the disciplines around compliance with the Code.

### Using private sector experience to best effect

**1.7** The Government has stated that it wishes to bring more experience from the private sector into departmental governance.

*"Tapping into the expertise of senior leaders with experience of managing complex organisations in the commercial private sector... These experts will provide challenge and support through their membership of departmental boards, which will provide the collective strategic and operational leadership of government departments."*

Cabinet Office website.<sup>2</sup>

**1.8** While there are plans to inject more 'private-sector' thinking into departmental boards, there may be further challenges in securing the desired benefits. Among these is the attitude of board members and their own perception of their role.

<sup>2</sup> <http://www.cabinetoffice.gov.uk/content/enhanced-departmental-boards-protocol> Accessed: March 2011.

*I don't think Departmental boards think about their activities as "business-like" or to influence the strategic direction of the Department.*

Departmental executive director.

Indeed, our board member interviews and survey showed a significant degree of confusion and frustration in distinguishing policy, strategy and implementation.

*We struggle a little on what strategic means at the board in the current structure, where is the line between what is strategy and what is policy?*

Departmental non-executive.

**1.9** For oversight and scrutiny to be effective, non executives have to be brought into the decision-making process at a stage when their advice and challenge can make a difference. Our survey suggested that sometimes their involvement was too late. Thirty six per cent of non-executive survey respondents stated that significant decisions were

'routinely' or 'often' presented to the board as a 'fait accompli'. Fewer than 10 per cent of all respondents stated that this 'never' happens (**Figure 5**).

*All major decisions on policy implementation and development are made and agreed with politicians before board consideration. As such, only cosmetic adaptation is possible.*

Departmental non-executive.

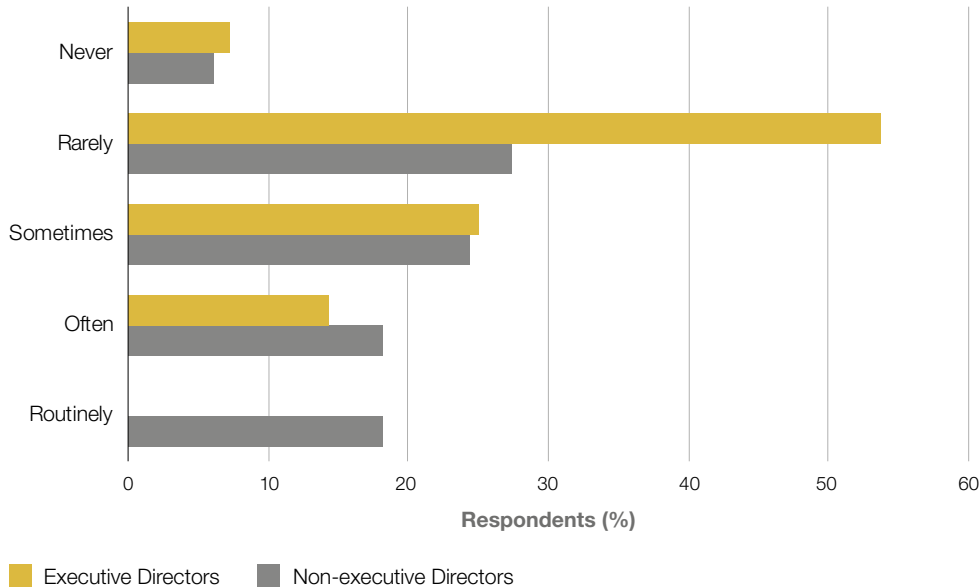
*Given circumstances, and occasionally politics, has meant some issues have come up to the board too well formed and we have asked for earlier, less structured options for the really key issues.*

Departmental executive director.

**1.10** The lines between policy, strategy and implementation need to be clear so that both officials and boards have a common understanding of the timing and routing of performance-related plans and analyses.

**Figure 5**  
Board decisions appear as a fait accompli

**Survey response**



**NOTE**

1 Table of board member responses to the survey question: 'Significant decisions are presented to the board as a fait accompli?' Options are listed.

Source: National Audit Office survey of board members, 2010

## Structural differences between public and private sectors

**1.11** Getting value from outside experience also depends on the wider governance context. In the private sector, market scrutiny places direct pressure on the chief executive and executive team to maintain appropriate governance arrangements. Any sign that boards are not functioning effectively, or that there are major and continuing differences of view within the board, is likely to have a material effect on share prices and the ability of a company to attract commercial partners. Shareholder and market confidence is partly dependent on the assurance provided by proper governance arrangements. This increases the pressure to maintain good practice, and gives non-executives power commensurate with their legal responsibilities in the governance arrangements.

**1.12** Public sector governance arrangements have, in part, moved towards the private sector model. The structural differences between the two, however, limit the extent of value from importing the private sector model without considering the balance of rewards and sanctions available. Notions of what constitutes 'good performance' are harder to define and less widely accepted. There is no day-to-day choice over investment in a department, and no established professional market analysts reviewing corporate plans, performance and governance with a view to recommending investment or divestment. Media and Parliamentary scrutiny of the public sector is more contestable and has less immediate consequences. Public sector non-executive directors don't face the same sort of legal liabilities, or enjoy the same potential rewards, that they would in the private sector. Making sure that the board has adequate powers and motivation in practice is an important element in securing the desired discipline over performance.

## Board behaviours

**1.13** Board observations conducted for this review found a range of dynamics at play between board members. Observers counted the different types of interaction between board members – see Appendix Four for more details. As may be expected, non-executive contributions were largely 'Challenging' in nature while the executives 'Gave Information' and 'Suggested Actions'.

**1.14** The greatest variation was found in the role the Chair plays in meetings. In most meetings, the Chair played a facilitative role with a higher proportion of their contributions in the 'Summarising', 'Clarifying' and 'Thanking/Praising' categories. In most meetings, fewer than 10 per cent of 'Giving Information' contributions were from the chair. In one meeting that we observed, the proportion of time that the Chair gave information was over 20 per cent, and their total contribution was more than three times that of any other board member. In meetings where the Chair dominates to such an extent there are risks to board effectiveness: the ideal is to secure open, challenging but constructive contributions from all board members.

**1.15** Some bodies had addressed the issue of board behaviour directly. One department's Performance Committee brought in a performance coach to help them ensure that their meetings were effective by ensuring that:

- team behaviours were constructive;
- propositions and challenges were evidence-based; and
- clear actions were decided and responsibility for these allocated.

**1.16** This Committee meets in a 'Performance Hub'. This is a dedicated space where performance data is displayed in large print on notice boards. Before discussion, those issues to be raised for discussion are marked by participants using colour coded stickers. The Committee then discusses performance by gathering around the relevant charts. Those who have used this method found it facilitated a clear line of sight between performance data and operational units.

**1.17** While these methods may not be right for all groups, they show how some organisations are addressing potential behavioural or presentational barriers to effective board performance discussions in direct and novel ways.

## Part Two

### The quality of business models underpinning reporting frameworks

**2.1** Board reports should focus the board's attention on the key performance information for the delivery of their organisation's strategy. Without a good business model underpinning the selection of activities and indicators, the board cannot be confident that the reports contain sufficient information to help them manage performance and give advice on improvements.

- The majority of organisations assessed achieve the basic level of maturity in this area, linking indicators to objectives.
- A minority have significant gaps in the comprehensiveness of their performance indicators.
- No frameworks were based on sophisticated statistical analysis which would provide assurance on their robustness, and help refine them over time.

#### Clear objectives

**2.2** Clear objectives are the foundation of a good performance framework with well selected performance indicators. Indeed, 'clear objectives' and 'a focus on strategy and objectives' were jointly the most commonly cited critical success factor for a performance framework: 28 per cent of survey respondents commented on these factors:

*Measures aligned to strategic objectives.*

Departmental non-executive.

*That what is being measured is actually the critical driver/indicator of the required outcome, not just something that can fairly readily be measured.*

Departmental non-executive.

*Measures what matters most (what gets measured, gets done) to drive the right behaviours – in particular by prioritising resources.*

Arm's Length Body executive.

**2.3** Without clear objectives, it is impossible to create an effective performance framework. Clear objectives not only determine the appropriate business model but they also set the conditions of success to be measured by indicators.

#### NAO review of framework comprehensiveness

**2.4** Most of the departments and bodies assessed had a well developed framework that set out objectives and activities. They generally achieved good scores in the maturity matrix for 'developing a framework', although there was a range of performance. Most frameworks were structured around their organisation's high level strategic objectives; 20 out of 24 organisations are rated either 'Fair' or 'Good' (**Figure 6**).

**2.5** There were, however, four organisations that were rated either weak or with critical gaps in this basic area, as the indicators did not cover all of the significant areas of the business. Without sufficient indicators, there are risks to the effective monitoring of performance. These risks apply at all levels of management. The risks are, however, greatest at board level where performance reporting is necessarily condensed and board members will not be familiar with the details of all business areas. The sufficiency of information received by boards is often a contributing factor in problems identified in NAO value for money reports.

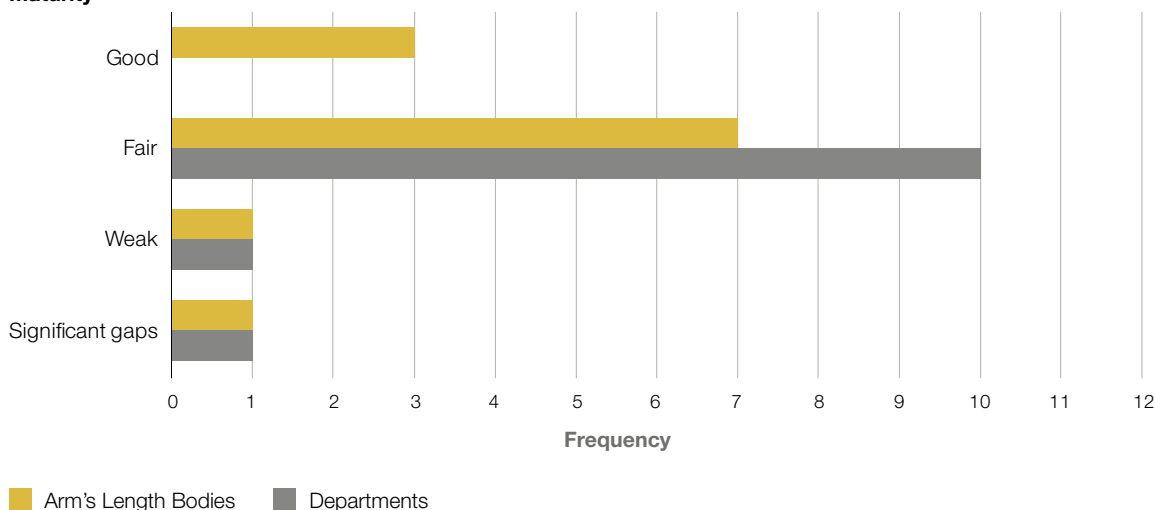
**2.6** Some frameworks also lacked indicators covering important dimensions of performance – a lack of financial or quality measures for example. Without adequate coverage of main business areas, and of the main dimensions of performance, the board will be hampered in its ability to scrutinise and drive value for money.

*It would be useful however to have a more structured audit approach (on a regular basis) of the issues brought to board, to ensure that we are clearly meeting all our areas of responsibility.*

Arm's Length Body non-executive.

**Figure 6**

Indicators in performance frameworks are not always comprehensive

**Maturity****NOTE**

1 Maturity Matrix assessment A2ii (Developing a framework, 'Functioning' level), 'Performance measures show how the organisation is progressing towards achieving strategic objectives' judged by National Audit Office auditors applying a 4 point scale.

Source: National Audit Office Maturity Matrix

**2.7** There are three main mechanisms through which non-executives may gain assurance over the sufficiency and reliability of the information they receive:

- Through routine executive reporting around the operation of controls.
- Internal audit reviews of performance frameworks and reporting.
- Non-executive subcommittee leadership and participation.

**2.8** The last element is also a way for non-executives to gain insights into the business and assure themselves that they have the right information to perform their duties effectively. We found, however, that in the assessed organisations non-executive leadership of committees was comparatively rare compared to the private sector. In 12 departments

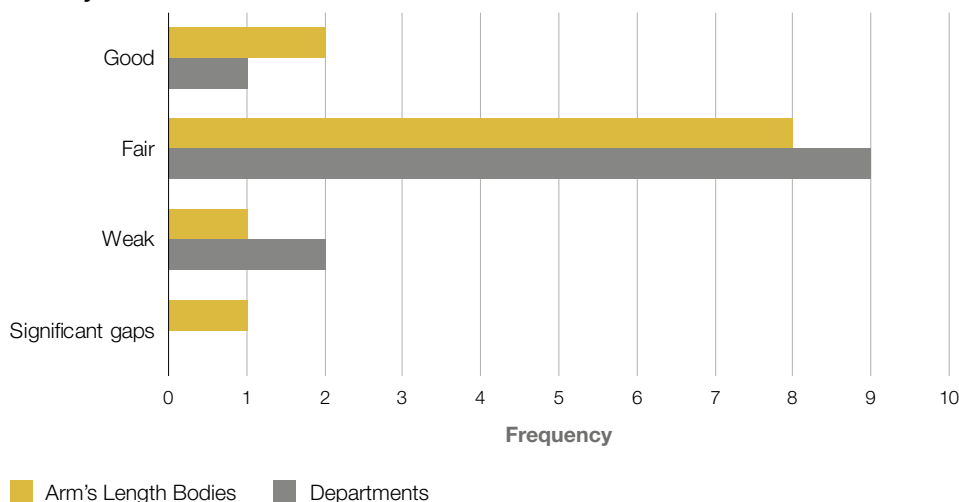
there were no non-executive led committees other than the audit committee. By comparison, our desk review found that all of the top 10 UK FTSE and top 10 US NASDAQ companies were found to have non-executive led committees in addition to the audit committee. Indeed, these private sector companies were found to have an average of three non-executive led committees in addition to the audit committee.

**Analysis underpinning frameworks**

**2.9** Twenty out of twenty-four organisations achieved either 'Good' or 'Fair' for their frameworks being based on business models and delivery maps (**Figure 7** overleaf). Frameworks should be based on a logic model which explains how each activity is contributing to the overall objectives, and which includes a range of leading indicators for monitoring progress and highlights areas that need particular attention.

**Figure 7**

Majority of performance frameworks based on business models

**Maturity****NOTE**

1 Maturity Matrix assessment A3i (Developing a Framework, 'Enabling' level), 'Performance measures are based on business models and delivery maps', judged by National Audit Office auditors applying a 4 point scale.

Source: National Audit Office Maturity Matrix

**2.10** There was, however, a range of sophistication in the analysis behind business models and delivery maps. At the most basic level, there was a simple mapping between objectives, inputs, activities, outputs and outcomes. This kind of delivery map is a useful management tool to ensure that the indicators are comprehensive and that the linkages between activity streams are realised. A good visual logic model is useful in communicating purpose throughout an organisation – from division level down to teams and individuals. With a clear sense of coordinated purpose, teams may be more motivated and more likely to find innovative ways to improve performance.

**2.11** A simple mapping of objectives and delivery mechanisms may not, however, give the board sufficient confidence in the selection of key performance indicators. More sophisticated analysis underpinning the selection of indicators may give the board a greater degree of confidence in the sufficiency of information. More advanced analysis includes the use of formal process mapping techniques and statistical analysis of the relationships between key drivers.

**2.12** We found none of the assessed organisations to have consistently used advanced analysis to underpin their logic models. There were, however, examples of good practices which were in development but not fully implemented:

- One Arm's Length Body had regressed its activity indicators against overall results to identify the main drivers of performance, and so the most important 'leading' indicators;
- A second Arm's Length Body was developing a statistical tool to undertake predictive 'What if?' modelling and scenario planning. This would act as the foundation of its performance framework and inform board strategy development.

## **Board frameworks and changing performance frameworks**

**2.13** When high-level strategies change, the information reported to boards must change accordingly. Most departments and agencies have faced significant changes in the wake of 2010 election and the subsequent comprehensive spending review, with reduced budgets, changes in the way that they deliver services and re-alignment of resources.

**2.14** After such changes, there is a significant risk that performance reports are not focused on the most critical areas during the change process. We found concerns among board members about whether board reports based on the new business plans would give them the level of information they need.

*The Corporate Scorecard reporting process has been rationalised and made more reflective of real issues, over recent months. Some further progress is still needed. The cuts agenda/spending review/change programme within the organisation is obviously making it much more of a rapidly-changing picture with performance reporting accordingly more difficult.*

Arm's Length Body executive director

*I was satisfied that the reports met the majority of the needs of the previous regime. However, those reports will not meet the requirements of the emerging policy and financial environment.*

Arm's Length Body non-executive.

# Part Three

## Integration of financial and performance information

**3.1** The purpose of integrating financial and performance information is to understand the link between money spent and results achieved, to enable informed decision-making. A lack of integrated, or even aligned, performance and financial information makes it very difficult to judge the value for money of different areas of activity. This issue has featured regularly in NAO reports in recent years, for example:

“By integrating financial and operational performance information departments will have a clearer picture of how much is being spent on which programmes and to what effect. Departments cited the ability to better match inputs to outputs as one of the four factors most likely to improve performance.”

*Managing financial resources to deliver better public services, 2008, p21.*

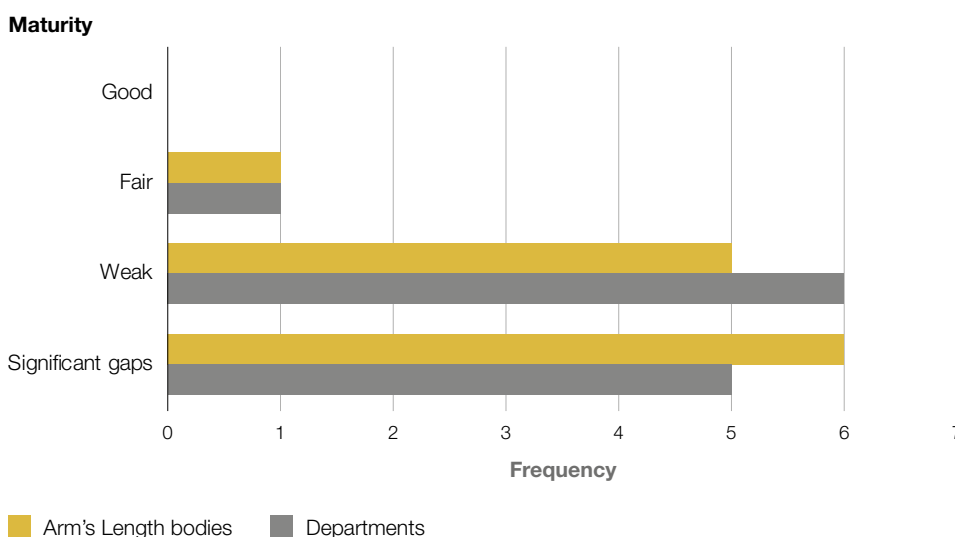
## Financial and performance information is not integrated in Board reports

**3.2** We assessed the papers submitted to departmental and Arm’s Length Body boards; including the performance and financial reports. In all but two organisations the performance and financial reports are separate reports (**Figure 8**). In all other organisations reviewed there was either no mention of costs in the performance reports, or there was only very limited reference to costs.

**3.3** Previous NAO work has found that Public Service Agreements and Departmental Strategic Objectives rarely contained any links to finance:

“Financial information has been poorly linked with the Public Service Agreement indicators. Annual departmental expenditure has been apportioned by Departmental Strategic Objective, but this apportionment is not broken down by the indicators used to report progress, and so is not readily usable for deeper analysis of the cost of progress. Separate value for money targets have been set in successive

**Figure 8**  
Financial and performance information is not integrated



**NOTE**  
1 Maturity Matrix assessment C3iii (Using the Framework, 'Enabling' level), 'Performance information is used to prioritise resources', judged by National Audit Office auditors applying a 4 point scale.

Source: National Audit Office Maturity Matrix



Spending Reviews, but these targets have centred on cost cuts and transfers, and have not been closely linked to Public Service Agreement or Departmental Strategic Objective programme efficiency. This situation hinders informed strategic decision-making because it is not clear what allocation of available resources could achieve the best overall results.”

*Taking the Measure of Government Performance*, 2010, p7.

### **The challenges of integrated cost and performance information**

“Linking financial information to performance information is crucial to the board’s ability to determine the value for money of an organisation’s activities and to make strategic decisions on resource allocation or process improvement. ‘Presentational’ reporting, where cost and performance information is presented side by side, is the most basic form of integration. But decision-making is best served by providing marginal cost information to answer questions such as ‘how much would it cost to achieve another unit of the intended outcome?’ or ‘what investment is necessary to increase the rate of improvement from x to y?’ Achieving the level of integration between financial and performance information needed to assess marginal cost is much more difficult and requires a robust costing methodology to be applied, for example, activity-based costing.”

National Audit Office, *Performance Frameworks and Board Reporting*, 2009, p24.

**3.4** The NAO acknowledges that there are challenges in the development of robust costing methodologies. There are problems in attributing and validating the impacts of activities to intended outcomes. The costing of objectives across organisational divisions requires either estimations or the adaptation of financial systems. Programmes often support more than one objective, and so a strict allocation of costs to outcomes is more complex.

**3.5** Better costing is nevertheless possible. Under the ‘Options Appraisal’ process proposals for major projects or new programmes must be analysed to establish the balance of cost and benefits. Where there is no ready information on costs and benefits, departments employ a range of techniques to estimate and value those elements. These are, however, one-off and relatively expensive appraisals. Unless routine financial and performance reporting systems are aligned, organisations will struggle to produce reports which give a sense of value for money.

### **First steps: alignment of cost and performance information**

**3.6** Although there was considerable room for improvement in most board reports, there were some signs of progress, and good practice examples. For example, the financial and performance information in one Arm’s Length Body is presented together in the same report. Information on objectives, targets, finance and risks is presented together for the organisation overall and, more importantly, for each operational directorate (**Figure 9** overleaf).

**3.7** Where objectives can be divided and brigaded in a way that aligns with the organisation’s structure, the basic sense of the value for money may emerge more clearly. This allows board members to ask more informed questions and start making basic links between levels of resource and performance. Part Four of this report explores the further analysis and narrative which may be included in a report which may further enable a board to drive value for money.

**Figure 9**

Board report structure showing some alignment of cost and performance information

Strategic Objective and Top Level Targets Q4 2010-11		2010-11 Area X Financial Performance			
<b>Owner</b>		<b>Owner</b>			
<b>Area X Overall Strategic Objective</b>		<b>£000</b>	<b>Budget</b>	<b>Actuals</b>	<b>Variance</b>
		Programme total			
<b>Area X Top level Targets</b>		Gross			
		Income			
		Of which			
<b>Area X Operational Targets</b>					
		Capital			
		Administration total			
		Gross			
		Income			
		Of which			
		Total			
<b>Area X Key Points</b>		<b>Area X Strategic Risks</b>			
		<b>Owner</b>			
		Risk No 1		←	
		Risk No 2		←	
		Risk No 3			
		Risk No 4			

Source: Arm's Length Body board papers

## Part Four

### Board's use of information to drive value for money

**4.1** High performing boards do not spend time questioning the quality of board reports, but rather they focus on the key issues and drive value for money. This review found that:

- Reports could do more to create traction with the data and support the board in their use of the information. More could be done using benchmarks and value for money targets, and by adding incisive analysis and narrative explanations of trends.
- Most frameworks are integrated into their organisations to some extent. However, further integration is possible and would support boards in driving high performance.
- Board members were generally content with the data presented to them, and its quality. Board reports also scored well on accessibility, coherency and their focus on key issues. Data timeliness was only fair, however, and more detailed work on data quality showed continuing concerns with the reliability of non-financial data systems.

#### Analysis and narrative in performance reports

**4.2** Board members have limited time to spend preparing for meetings and the meetings themselves need to be focused on the key points. There was no consensus among board members we surveyed about what level of detail they would like in board reports. Some find high levels of detail distracting, while others like to be able to pursue topics further. A key challenge for those preparing reports is to add detail on emerging issues of concern whilst maintaining the focus and conciseness of reports.

*There remains a tendency to add items covered in reports without a similar focus on 'retiring' data sets by moving them down into business area reports when their relevance to supporting business management decision-making has past or the performance indicates a stable and satisfactory performance level has been achieved and can be sustained.*

Arm's Length Body, executive director.

**4.3** Boards need more than the basic information on performance if they are to drive the effectiveness and efficiency of delivery in the most targeted way. This means having access to information which helps them interpret reported performance. Board members need to be able to review performance and challenge the levels attained with a clear sense of the scope for improvement and the scale of any problems faced.

**4.4** Few of the assessed organisations routinely did this successfully in board reporting. Where there was good practice it was often sporadic and inconsistently applied. Only six out of twenty-four organisations reviewed were found to be 'good' or 'fair' in this area (**Figure 10** overleaf).

**4.5** There were, however, good examples of benchmarking used successfully. These were often found where there were multiple providers of broadly similar services. For example, with NHS Primary Care Trusts and National Offender Management Services' prisons.

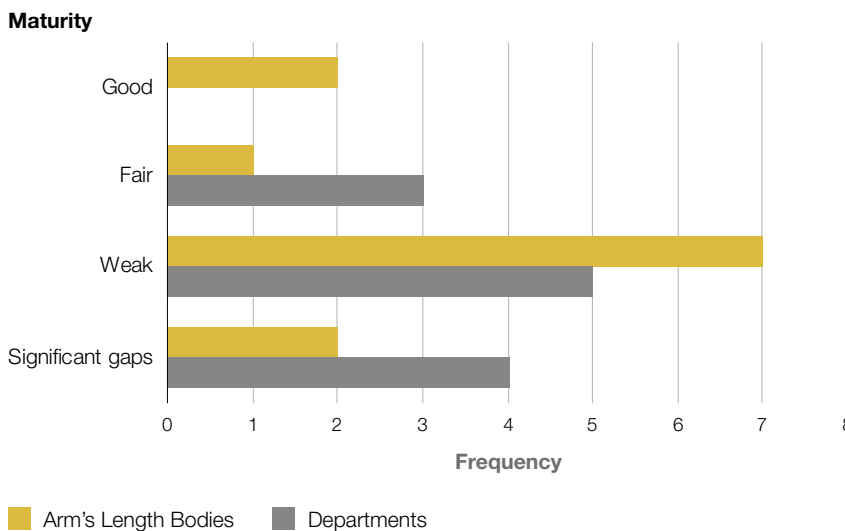
**4.6** There is a greater challenge when there are no other suppliers of similar services in the country. In such cases, there are broadly two options:

- Seek international comparisons. Even where other country providers do not have identical metrics or the same systems, there is still value to the board in a broad sense of scale of performance variance and the scope for improvement. A narrative explanation for variance in performance and system or metric differences will add value to the comparison.
- Where benchmarking overall performance is difficult, elements of activities may be isolated and benchmarked. This is a particularly useful method in benchmarking across sectors where a service is unusually unique and no international comparators are available. For example, one Arm's Length Body has isolated metrics of the performance of their queuing systems and benchmarked against private sector comparators.

**4.7** Another Arm's Length Body used elements of both techniques in benchmarking sickness levels. Common measurement systems and definitions are rarely perfect when benchmarking across countries. The performance team therefore adjusted reported figures to bring them onto a comparable basis. They also worked common metrics into the contracts with private sector service providers in order to increase the breadth of comparison.

**4.8** Whether data is presented in the context of targets, budgets or benchmarks, there is still a need for a strong supporting narrative to explain current status and prospects. The narrative should give board members an insight into what has influenced performance, as well as simply describing the performance achieved. Board members need this sort of information to allow them to quickly and efficiently focus their attention on areas where action may be necessary. Any themes running across the organisation, and any links with issues on the horizon may be drawn out by such narrative and enable board members to take a strategic view.

**Figure 10**  
Targets or benchmarks are rarely used as comparators



**NOTE**

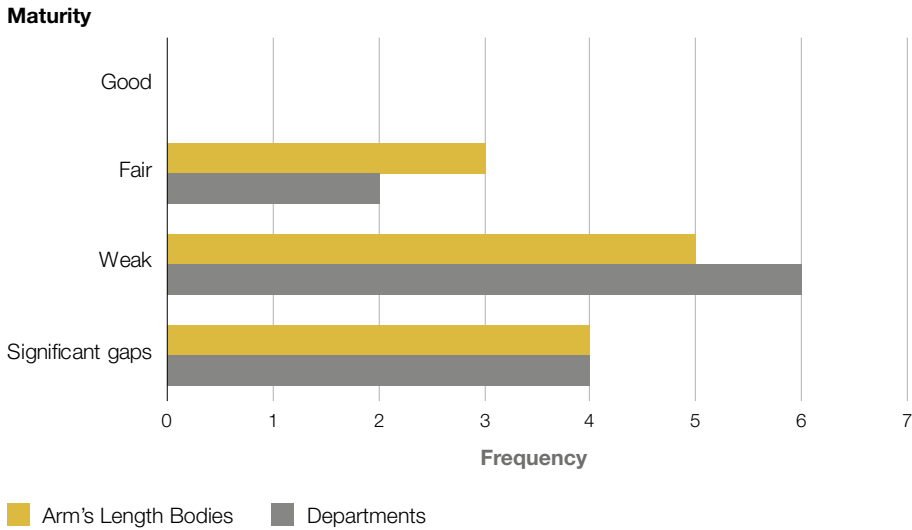
1 Based on Matrix assessment B4i (Reporting performance information, 'Challenging' level), 'Targets and benchmarks are used as comparators', judged by National Audit Office auditors applying a 4 point scale.

Source: National Audit Office Maturity Matrix

**4.9** No assessed organisations were found to consistently give high quality insight into the influences on performance; most performance reports were limited to a simple description of performance achieved. Five had some examples of good practice which were not consistently applied. All others were found to be either weak or critically weak in this area (Figure 11).

**4.10** The value of performance reporting is increased if it encompasses reliable forecasts from current to future performance. We found few sophisticated forecasting methods employed. One Arm's Length Body's board reports took performance information one step further by including multiple scenario forecasting. This approach combined risk reporting with performance reporting to allow a succinct appraisal of future prospects and the need for any board interventions. Information of this kind also helps the board to plan strategically.

**Figure 11**  
Reports do not always give insight into what has influenced performance



**NOTE**

1 Based on Matrix assessment B5iii (Reporting Performance Information, 'Optimising' level), 'Reports give insight into what has influenced performance, as well as describing performance achieved', judged by National Audit Office auditors applying a 4 point scale.

Source: National Audit Office Maturity Matrix

**Integration of performance frameworks into business systems**

**4.11** Boards are supported in their ability to drive value for money when the performance frameworks are integrated into their organisations’ budgetary and operational systems. At best, organisational architecture, culture, motivation and ethos are all aligned with the objectives of the organisation. This means that the organisation’s structures and incentive systems support the board in driving performance through the framework.

**4.12** Where frameworks are well integrated into organisations, the board may speak directly to the teams who take direct ownership for areas of performance. *Taking the Measure of Government Performance* recommended that performance measurement systems need: “firm integration of performance measurement into public bodies’ management systems – so that lower-level management systems feed into and support top-level objectives”.

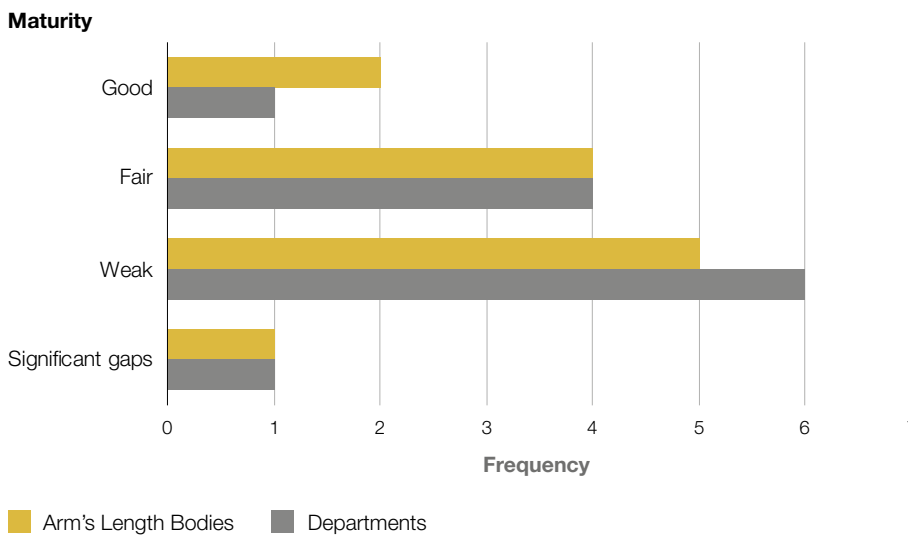
*Taking the Measure of Government Performance*, 2010, p8.

**4.13** Many bodies scored poorly in this area although there are some examples of better practice which ought not be costly to introduce more widely (Figure 12). They include:

- Performance reports published on an intranet, with briefings on key issues raised and key owners identified.
- Individual performance appraisals judged on contribution to success of team/division/organisational objectives.
- Directorates and teams taking ownership of targets and objectives. For example, teams prepare their own scorecards and business plans which align with corporate level scorecards.

**Figure 12**

Business unit, team, and individual performance measures are connected to the corporate performance measurement framework



**NOTE**

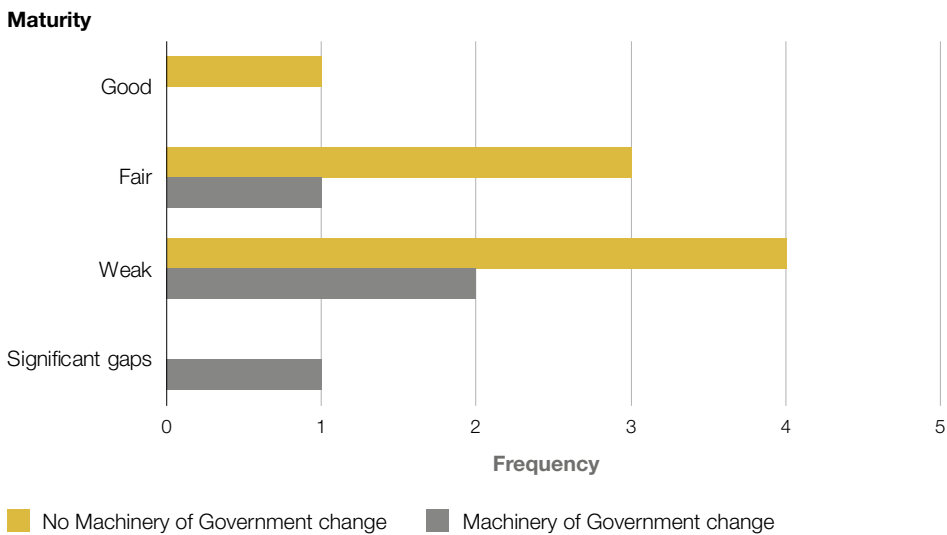
1 Based on Matrix assessment A4iii (Developing the Framework, ‘Optimising’ level), ‘Reports give insight into what has influenced performance, as well as describing performance achieved’, judged by National Audit Office auditors applying a 4 point scale.

Source: National Audit Office Maturity Matrix

**4.14** Changes in culture and the alignment of organisational structures, systems and performance frameworks take time. We found that, on average, departments which had undergone a reorganisation in the previous five years scored lower for both coverage and quality in integration of reporting within

the organisation (**Figure 13**). This finding supports the message in the NAO's report *Reorganising Central Government*, 2010, that there should be a clear business case and cost benefit analysis before major reorganisations are implemented.

**Figure 13**  
Machinery of Government changes weaken integration of frameworks into organisations



**NOTES**

- 1 Comparison of Departments which underwent Machinery of Government change in previous five years with those that did not.
- 2 Based on Matrix assessment A4iii (Developing the Framework, 'Challenging' level), 'Business unit, team, and individual performance measures are connected to the corporate performance measurement framework', judged by National Audit Office auditors applying a 4 point scale.

Source: National Audit Office Maturity Matrix

**Data quality and clarity of reporting**

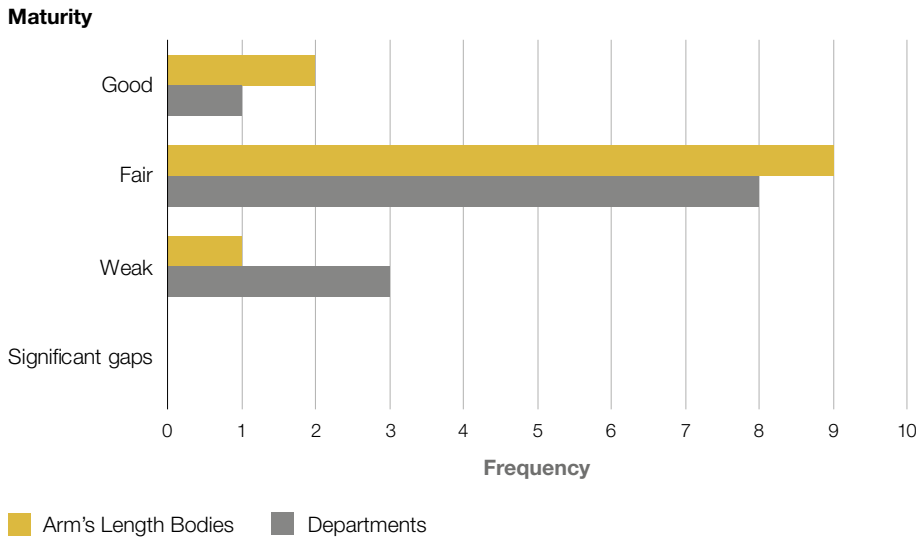
**4.15** We rated the quality and timeliness of data for most assessed organisations as either ‘fair’ or ‘good’; four were ‘weak’ (Figure 14).

*Ideally the monthly information would be available sooner ... we are normally a month behind when we receive the pack.*

Departmental non-executive.

**4.16** In response to the survey, board members tended to report that they were always or mostly content with the information they receive. Forty per cent of board members stated that board performance reports ‘always’ give an overview for the areas for which they are responsible, and another 50 per cent stated that this was ‘mostly’ the case. Arm’s Length Body board members were significantly more likely to state that they ‘always’ feel that they feel well informed about progress than departmental boards; 56 per cent compared with 23 per cent (Figure 15).

**Figure 14**  
Data is generally of adequate quality and timeliness



**NOTE**

1 Maturity Matrix assessment B2i (Reporting Performance Information, ‘Functioning’ level), ‘Data is of high quality and timely’, judged by National Audit Office auditors applying a 4 point scale.

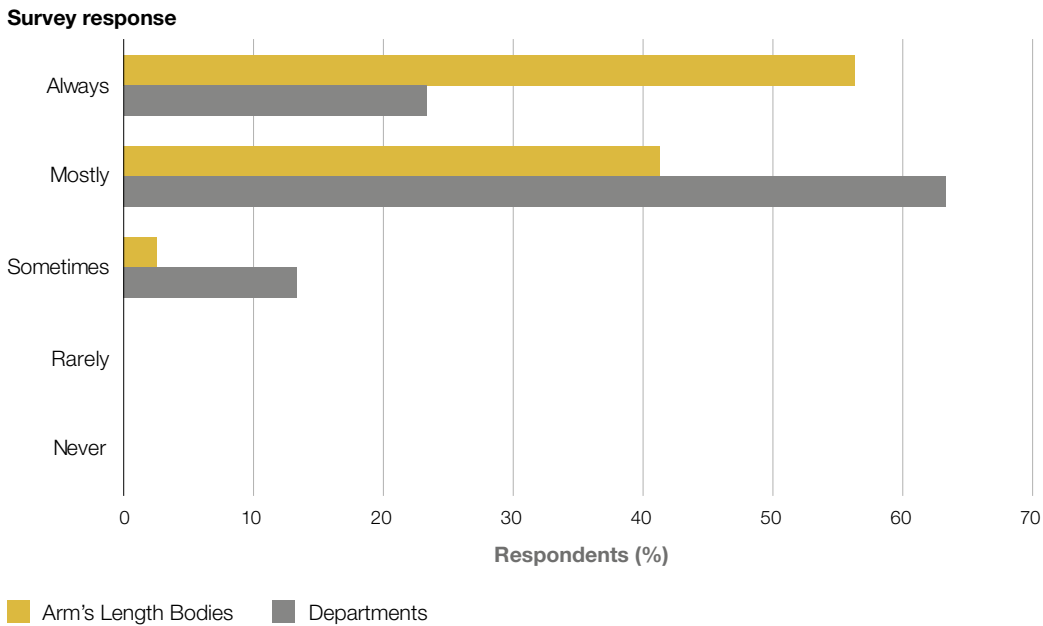
Source: National Audit Office Maturity Matrix



**4.17** The survey results also showed a trend for non-executives with a private sector background to be more critical than non-executives with a public sector background. For example, non-executives from the public sector were more than twice as likely as those from the private sector to answer ‘always’ to the question about how well informed they feel about progress. The move towards a stronger cohort of private sector non-executives may lead to information being challenged more.

**4.18** More detailed work on data quality presents a mixed picture. The NAO report *Taking the Measure of Government Performance* (2010) identified an improvement in the data systems used to monitor and report progress against Public Sector Agreement objectives between 2003 and 2010; as well as an improvement in the clarity and presentation of monitoring information (**Figure 16** overleaf). More than a third of data systems needed to be strengthened, however, and 10 per cent were not fit for purpose. Timeliness of these outcome-orientated data systems was also an issue: more than a third of data systems had a time lag of more than six months.

**Figure 15**  
Arm’s Length Bodies boards feel more well informed than departmental boards



**NOTE**

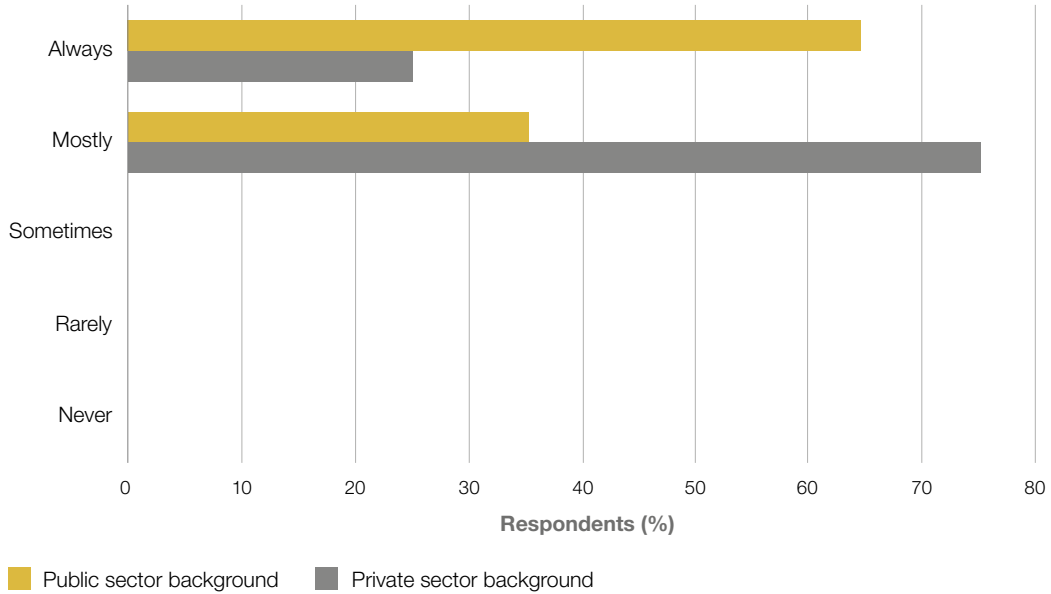
1 Comparison of Arm's Length Body and departmental board member responses to 'Do you feel well informed about organisational progress towards strategic objectives?'

Source: National Audit Office survey of board members, 2010

**Figure 16**

Non-executives with private sector backgrounds are more critical of information about organisational progress than those with public sector backgrounds

**Survey response**



**NOTE**

1 Comparison of non-executives with a public and private sector background: 'Do you feel well informed about organisational progress towards strategic objectives?'. Note: Number of non-executives from private sector = 12, public sector =17

Source: National Audit Office survey of board members, 2010

# Appendix One

## Methodology

**1** This report examines the ability of government boards to make informed decisions about value for money and performance from the board reports that they receive. It focused on the quality of the information in these reports to cover the key issues, how it is reported and how useful it is for decision-making. The report builds on previous work done by the NAO in this area, which we used as the basis for our initial lines of inquiry.

**2** Our results are based on:

- A review of the key information that goes to boards. We applied a 'maturity matrix' that judges reporting quality to 12 departmental boards and 12 Arm's Length Bodies. This was completed based on an examination of the board minutes, interviews with staff responsible for the design and collation of reports, and collection of key metrics about the characteristics of these boards. The Maturity Matrix can be found in Appendix Two.
- A survey of board members, which was completed by 121 board members (both executive and non-executive) from 15 boards (6 departments, 9 Arm's Length Bodies). We estimate that the response rate from these boards is over 75 per cent. The survey questions can be found in Appendix Three.
- Conducting board observations of 4 board meetings, (1 departmental, 3 Arm's Length Bodies). The methodology consisted of assessing the types of involvement/intervention of different board members.

# Appendix Two

## Survey questions

The survey was distributed via board secretaries to board members, and consisted of nine questions.

### About You

- NAME
- I am an EXECUTIVE/NON EXECUTIVE board member [delete as applicable]
- Date (month/year) starting board membership:
- Date (month/year) ending [if applicable] board membership:
- I **AM/AM NOT** also a board member for other organisations

### 1 Board Performance Reports

I find:

- Reports coherent and logically structured
- Significant risks highlighted clearly
- The data to be of high quality
- The graphs and indicators useful

*(Always/Mostly/Sometimes/Rarely/Never)*

### 2 Board Performance Reports

- a Do the board performance reports give you an overview of all areas for which you are responsible?

*(Always/Mostly/Sometimes/Rarely/Never)*

- b How satisfied are you overall with the board performance reports you receive?

*(Completely Satisfied/Satisfied/Unsatisfied/Completely Unsatisfied)*

### 3 Information to the board

I feel well informed about:

- Organisational progress towards strategic objectives
- The marginal costs and benefits of decreasing spend on activities
- The marginal costs and benefits of increasing spend on activities

*(Always/Mostly/Sometimes/Rarely/Never)*

### 4 Performance reporting processes

- a Please list any significant business areas not covered in board performance reports
- b Please list any strategic issues not covered in board performance reports

### 5 Board reporting feedback

- a To what extent do you feel you can influence the content of board performance reports? (Significantly/Partially/Not at all)
- b What if anything needs to be improved in the board performance reporting?

### 6 Performance Measurement Framework development

- What do you consider the two main critical success factors for an effective Performance Measurement Framework?

### 7 Board engagement

I feel:

- The board's attention is engaged in the most appropriate areas of the business
- The board play a role in joining together business units where appropriate
- The board play a role in creating a dynamic and rewarding work environment

*(Routinely/Often/Sometimes/Rarely/Never)*

**8 Your contributions**

- My expertise is well used
- My ability to contribute is limited by the information I receive about organisational performance

*(Routinely/Often/Sometimes/Rarely/Never)*

**9 Decision-making**

- Significant decisions are presented to the board as a fait accompli
- I receive performance reports early enough to inform my views in board meetings
- I am involved in the appropriate stages of significant decision-making processes

*(Routinely/Often/Sometimes/Rarely/Never)*

# Appendix Three

## Maturity Matrix for Performance Measurement Frameworks

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	Level 1 – Existing	Level 2 – Functioning
<b>Developing a framework</b>	<p>A framework for performance measures exist:</p> <ul style="list-style-type: none"> <li>● Performance information gives a view of at least basic expected outcomes, outputs, and inputs</li> <li>● The performance measures in the framework are logically structured</li> </ul>	<p>The framework is structured around shared strategic objectives and provides an overview of the organisation's performance:</p> <ul style="list-style-type: none"> <li>● Performance measures show how the organisation is progressing towards achieving strategic objectives</li> <li>● The framework shows how enablers (inputs and processes) contribute to strategic objectives</li> </ul>
<b>Reporting performance information</b>	<p>Performance information is produced:</p> <ul style="list-style-type: none"> <li>● Performance data are collected throughout the organisation</li> <li>● Performance is collated at a corporate level to give an oversight of the organisation</li> </ul>	<p>Data is of high quality and timely:</p> <ul style="list-style-type: none"> <li>● Data are controlled for accuracy, reliability, validity, and robustness</li> <li>● Performance information is reported in a timely fashion to higher levels of the organisational hierarchy</li> </ul>
<b>Using the framework</b>	<p>Performance information is reported to the board:</p> <ul style="list-style-type: none"> <li>● A performance report is provided to the board</li> </ul>	<p>Performance information is monitored by the board:</p> <ul style="list-style-type: none"> <li>● The board monitors consequences and impacts of the performance reports</li> <li>● The board discusses performance information with senior management</li> <li>● The board ensures staff understand how they contribute to strategic objectives</li> </ul>

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**Level 3 – Enabling**

Performance measures are based on business models and delivery maps:

- Performance measures express progress on key drivers for the organisation
- The organisation understands the links between performance measures

Performance reports are accessible and actionable:

- Performance reports are coherently structured and easily understood
- Graphs, status ratings (eg. RAGs), and explanatory notes allow the reader to focus on the most important issues and identify senior responsible owners

Performance information is used by the board to evaluate the effectiveness of activities:

- The board queries the effectiveness of activities, focusing on problem solving and generating learning
- Performance information is used to prioritise resources
- The organisation reports aligned performance and cost information

**Level 4 – Challenging**

The framework is integrated within the organisation:

- A line of sight links lower level objectives with high level strategic objectives
- Business unit, team, and individual performance measures are connected to the corporate performance measurement framework

Targets and benchmarks are used as comparators:

- Expectations for VfM are formulated in terms of challenging targets
- Benchmarks drive efficiency by providing comparators with other organisations

Performance information is linked to financial information and used to determine value for money:

- The organisation reports integrated performance and cost information
- The board uses VfM information to make strategic decisions about whether or not to engage in areas of activity

**Level 5 – Optimising**

The links amongst key drivers of performance are quantified and validated to produce leading indicators:

- Statistical analysis evidences the relations between key performance drivers
- Selection of performance measures is based on the impact on outcomes

Performance reports explain the story of the organisation's performance and suggest a course of action:

- Analysis and reporting promotes cost-effectiveness by providing option appraisal to assist decision-making
- Reports give insight into what has influenced performance, as well as describing performance achieved

Performance information is communicated and used throughout the organisation and a performance culture exists:

- The board creates opportunities and incentives for staff to drive continuous performance improvement
- There is a feedback mechanism that enables the framework itself to be altered to take account of changing business needs
- Performance data inform debate of the marginal costs/benefits of activities and are used to drive allocative efficiency

# Appendix Four

## Board Observation Method

**1** The board observation method followed the approach developed by Peck (1995).<sup>3</sup> This focuses on the frequency of types of contribution to discussions from different board members. The contributions of Chair, Finance Director, non-executive directors and executives were noted, using a tally system each time they made a contribution. The board observation was applied to four boards.

**2** The contributions were counted under the following areas:

**1 Giving information about the client**

1a Discussing performance information

**2 Summarising**

**3 Relating independent experience**

**4 Giving opinion**

**5 Challenging/questioning**

5a Activity effectiveness

5b Performance framework or information quality

**6 Clarifying (non challenging)**

**7 Suggesting action**

7a Based on VfM information

7b On staff incentives & performance culture

7c To development performance framework

**8 Thanking/praising**

<sup>3</sup> Peck, E. (1995) *The performance of an NHS Trust board: actors' accounts, minutes of meetings and observation*, British Journal of Management, 6(2), 135–156.





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