



National Audit Office

Department for Environment, Food and Rural Affairs

Managing front line delivery costs

Detailed Methodology

JULY 2011

Detailed Methodology

1 This document accompanies *Managing front line delivery costs* (HC 1279, Session 2010-12), a report published by the Comptroller and Auditor General in July 2011. It provides a detailed description of the methodology used for the report. A summarised methodology is contained within Appendix One of the report.

2 The Department delivers the majority of its policy objectives through a range of delivery bodies. The Department spends some 80 per cent of its total budget through these delivery bodies. This report examines:

- the extent to which the Department requires delivery bodies to accurately measure the full cost of carrying out front line activities;
- whether cost and performance data are linked sufficiently to measure the value for money of achieving impacts and outcomes; and
- whether cost data is used to drive value for money improvement.

3 The main elements of our methodology are set out below.

The selection of delivery bodies

4 In October 2010, we identified a long list of 19 non-departmental public bodies and executive agencies funded by the Department. We excluded those bodies that receive less than £30 million in annual funding from the Department. The eight remaining bodies represented over 95 per cent of the Department's funding to arms length bodies. The short list of four was chosen based on discussions with the Department to ensure the selection encompassed a range of activities, sizes and funding, and that delivery bodies had capacity to take part in the study.

The four bodies reviewed are:

- Animal Health;
- Centre for Fisheries and Aquaculture Science (CEFAS);
- Environment Agency; and
- Food and Environment Research Agency (FERA).

5 The Rural Payments Agency has the largest annual expenditure among all of the Department's delivery bodies, due to the value of European funds it distributes to farmers. In relation to the budget it receives directly from the Department it is a medium sized arm's length body. The Rural Payments Agency was excluded from this study on the basis that the NAO have reported on the Agency three times since 2006 and that we continue to monitor and report progress to Parliament. The NAO intend to publish a further report on the progress of the Rural Payments Agency in early 2012.

6 The fieldwork for this study took place between December 2010 and March 2011.

Areas of analysis

7 We based our analysis around six broad areas of enquiry, designed to provide an insight into the how delivery bodies approach recording and using cost data. The areas of inquiry are:

- how budgets are set for key front line activities;
- the use of cost data in setting fees for chargeable activities;
- the use of scenario planning and modelling of activities and budgets;
- the assessment of the performance of activities;
- how cost savings are managed and monitored; and
- the management information and data provided to the Department.

These areas of enquiry were discussed and shared with the Department prior to the start of fieldwork.

Interviews with the delivery bodies and the Department

8 We visited the four delivery bodies to interview key members of staff including senior management, finance staff and operational staff. This was followed by interviews with finance and policy staff at the Department.

9 We conducted semi-structured interviews. The questions covered the following areas of discussion:

- the measurement of front line delivery costs and the degree of precision used;
- the methodology used to calculate the costs of front line work;
- the challenges faced in costing front line work and any recent progress that had been made;

- how understandings of cost and cost drivers inform budget setting processes;
- the fees set for chargeable work and how these are amended based upon cost data;
- the use of cost data to identify and deliver expenditure savings;
- the cost data included within the routine management information presented to decision makers;
- the cost and performance information required by the Department;
- the data and information that is provided to the Department;
- the guidance and best practice support provided by the Department; and
- how the Department uses this information to assess the value for money of the activities it funds arm's length bodies to deliver.

10 The interviews aimed to identify current practices in costing front line work and areas of improving practice and to inform our understanding of the relationship between the delivery bodies and the Department.

Document review

11 We reviewed a wide range of documents from the four delivery bodies and the Department. The key documents we reviewed included:

- annual reports for the four delivery bodies and the Department;
- corporate and business plans;
- papers and minutes from Board meetings;
- papers and data submitted to the Department;
- internal budgeting and finance guidance;
- documentation of internal processes and systems;
- internal management accounts and financial information;
- internal audit reports; and
- Departmental publications and guidance.

12 The document review aimed to identify:

- recent financial performance, including the recovery of costs where fees are charged;
- the routine cost information available to decision makers and how it was produced and used by delivery bodies;
- the guidance to support accurate costing and management of front line activities;
- the operation of internal controls;
- the delivery bodies' working relationship with the Department; and
- the strategic objectives and activities of the delivery bodies.

Quantitative analysis

13 We undertook an analysis of the data held by delivery bodies, which included the following sources:

- data used for internal budgeting;
- data held on the cost of undertaking chargeable work and the related fees that are charged;
- data on the performance of front line work;
- a breakdown of direct and indirect costs; and
- internal costing analysis.

14 The quantitative analysis aimed to identify the operation of approaches to costing identified through interviews and document review. We specifically looked at how the data has been used to allocate resources, assess the performance of activities and monitor and make changes to fees and charges.