ON DELIVERY

Integrating financial and performance management and reporting to achieve specific outcomes

KPMG LLP

Executive summary

The role of departmental strategic objectives

Each Central Government Department has a set of departmental strategic objectives (DSOs), which enable it to plan its activities and to prioritise its resources. In the longer term, it is the Treasury's goal for each Department to have DSOs that define fully measurable outputs or outcomes that relate directly to expenditure, that cover completely all of the department's activities and that are reported to Departmental Boards.

KPMG were engaged to work with the National Audit Office, HM Treasury and the Department for Innovation, Universities and Skills (DIUS) to help DIUS assess and improve the measurability, relevance and costability of the Department's DSOs and to develop and refine a suitable DSO monitoring report for the Departmental Board.

The importance of effective performance management

Fundamental to our work is the belief that an effective performance and financial management framework increases significantly the ability of any organisation:

- to achieve its objectives economically, efficiently and effectively;
- to deliver against its performance indicators and targets;
- to meet its obligations to stakeholders;
- to allocate its financial and other resources, by providing a clear link between resource inputs and outcomes achieved; and
- to develop a clear structure for the reporting of and accountability for performance.

The benefits to the organisation

For government departments then, the benefits of a sound framework are that:

- there is a clearer understanding of where public money is being spent and what is being achieved for that money;
- there is more ready data on the costs of achieving outcomes to help with forward planning and budgeting;
- there is greater opportunity within the year (or planning period) to adjust and refine programmes in order to maximise outputs;
- the suite of measures focuses on what the department needs to know (rather than just what it can measure easily) and identifies any activity which is not adding value;
- it ensures sound management along the delivery chain so that individual activities can be linked clearly to outputs and outcomes;
- it offers the opportunity to check that policy assumptions about what outputs best deliver any outcome are regularly checked and refined;
- reporting frequencies can be determined by a clear understanding of causal links – ie within timescales that are sensible for action to be taken on the information;
- core performance and financial information can be presented in a relevant and coherent way to different audiences within the department and across Whitehall; and
- this coherence and clarity will also reduce the overall effort put in to performance reporting.

In short, it enables organisations to provide more and better public services from the finite resource available.

In the following pages we set out the components of a performance and financial management framework and illustrate it both with simple hypothetical examples and more complex 'real' examples from our work with DIUS. The key lesson form this work is that these improvements to performance management and reporting mechanisms are both achievable and beneficial.

Contents

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1. The importance of effective performance management

1.1. The aim of performance management

The aim of performance management is to maximise the ability of an organisation to achieve its objectives. It does this by helping the organisation to understand what these objectives are and to ensure that all of its activities are focused on achieving them. In short, effective performance management lies at the heart of what the organisation thinks, says and does.

An effective performance management framework increases significantly the ability of the organisation to achieve its objectives economically, efficiently and effectively; to deliver against its performance indicators and targets; and to meet its obligations to stakeholders.

It also assists the organisation in allocating its financial and other resources, by providing a clear link between resources input and outcomes achieved. And it provides a clear structure for the reporting of and accountability for performance.

1.2. A framework for effective performance management

We set out here a model framework for the effective management of performance, which can be used to develop and enhance organisations' existing performance management arrangements.

This model is based on four key factors:

- focusing on outcomes;
- understanding what drives performance;
- managing operational activities; and
- responding to the external environment.

Each of these factors is critical to the ability of the organisation to achieve its objectives and to deliver its desired outcomes. We summarise this framework diagrammatically in Figure 1 below.

The *management of financial resources* is also a fundamental aspect of organisational performance. Consequently, we consider how an organisation can determine the full cost of its activities and, therefore, of its outputs and outcomes. Chapter 6 looks at approaches to costing, the guiding principles and the processes involved in implementing a costing framework. It also includes a worked example from our work at DIUS in relation to the Train to Gain programme.

Finally, we turn our attention to the *monitoring and reporting of performance*, and in particular to how organisations can report performance effectively to their Boards or equivalent bodies. This is discussed in Chapter 7.

1.3. Interpreting the framework

We have included in this report a number of examples to illustrate the various aspects of the framework and how they apply to individual organisations.

Furthermore, we have drawn on our work with the Department for Innovation, Universities and Skills (DIUS), to produce specific worked examples in respect of how the framework applies to this organisation and how it enables DIUS to better understand and to improve its own performance.
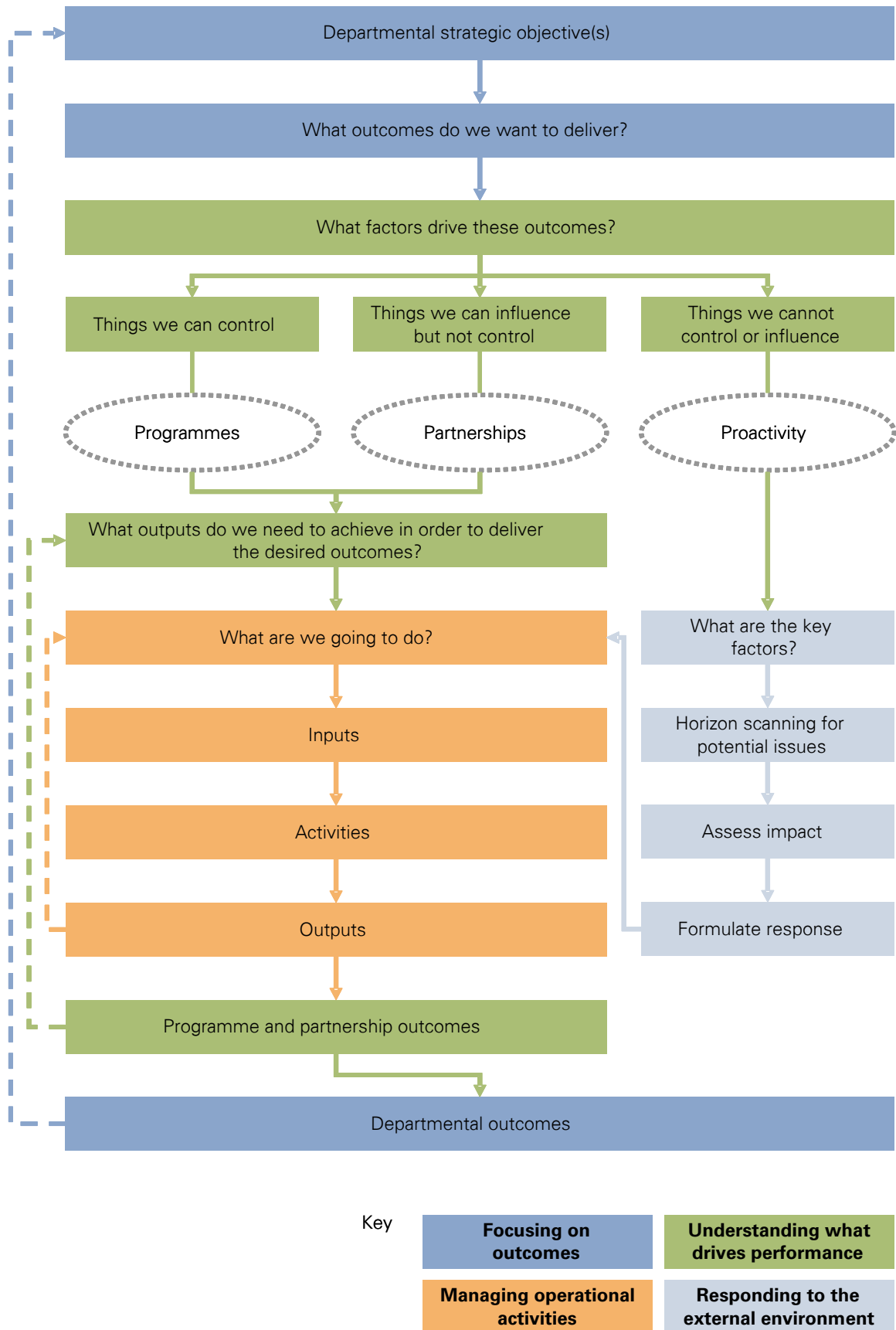
**Figure 1: A model framework for the effective management of performance**

2. Focusing on outcomes

2.1. The need for SMART-ness

The organisation needs to have a clear focus on the outcomes that it wants to deliver. But it is not sufficient for these to be couched in aspirational 'soundbites'. Outcomes need to be specific, measurable, achievable, relevant and timebound (SMART) – so that at a given point in the future the organisation will know whether or not it has delivered them.

2.2. From objectives to outcomes

This means that where strategic objectives encompass a range of outcome areas, it may be necessary for the organisation to break these down into a number of individual SMART outcomes, which can then form the basis of its performance management activities.
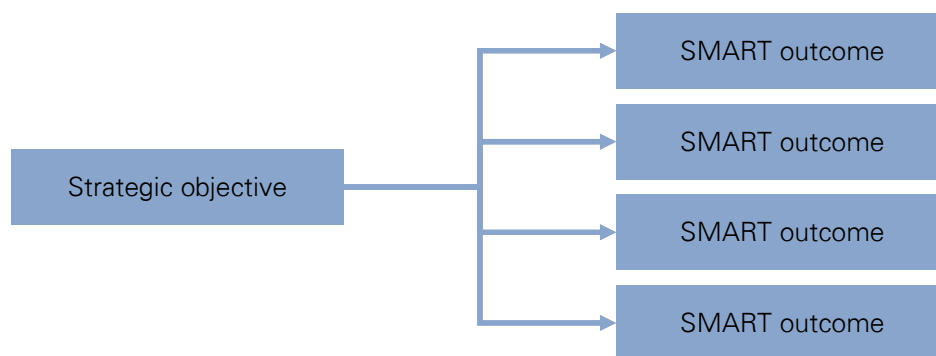
Figure 2: Breaking a strategic objective down into a number of SMART outcomes

For example, a strategic objective 'to deliver efficient and high quality services while improving customer satisfaction' relates in fact to three discrete areas, namely:

- delivering efficient services;
- delivering high quality services; and
- improving customer satisfaction.

This objective can be broken down into SMART outcomes relating to each of these areas, for example:

1. to achieve cash releasing efficiency savings across each service of 5% per annum from 2008/09 to 2010/2011, using 2007/08 outturn figures as a baseline;

2. to ensure that 95% of services provided meet the agreed standards of service in 2008/09, rising to 97% in 2009/10 and 98% in 2010/2011; and

3. to improve customer satisfaction by three percentage points each year from 2009 to 2011 as measured by question six (overall satisfaction) on the annual customer satisfaction survey, using the 2008 survey as a baseline.

2.3. Making outcomes relevant

By focusing on SMART outcomes rather than soundbites, the organisation has a clear understanding of what it is trying to achieve. It is, however, important that these outcomes are robust and appropriate to the organisation's role and responsibilities – for not only do they provide the foundation for the organisation's activities but they are also the ultimate arbiter of its success.

3. Understanding what drives performance

3.1. Identifying what the organisation can control and what it cannot

A clear focus on the outcomes that we want to deliver does not, however, tell us what we need to do in order to bring them about. For this, it is necessary for the organisation to understand the factors – which may include issues of public perception and user satisfaction – that drive these outcomes, and consequently the things that it can do to make them happen.

In general, the factors that drive outcomes fall into one of three categories:

- things that the organisation can control – the organisation can formulate specific programme activity to address the drivers underlying the desired outcomes;
- things that the organisation can influence but not control – the organisation can work in partnership with other organisations that <u>are</u> able to control the drivers underlying the desired outcomes; and
- things that the organisation cannot control or influence – the organisation has no option but to monitor proactively such drivers, to assess the impact that they may have on its ability to achieve its objectives and to formulate an appropriate response when necessary. (We shall consider these drivers in more detail below, when we look at how the organisation can respond to the external environment.)

3.2. Developing strategies

For those drivers that the organisation can control or influence, it should seek to understand what strategies it needs to pursue and what outputs it needs to achieve in order to deliver the desired outcomes. This understanding could come - for example - from its own expertise, from academic or practitioner research, or from pilot or other studies. The organisation can then use these outputs as a basis for the planning and management of its operational programme and partnership activity.
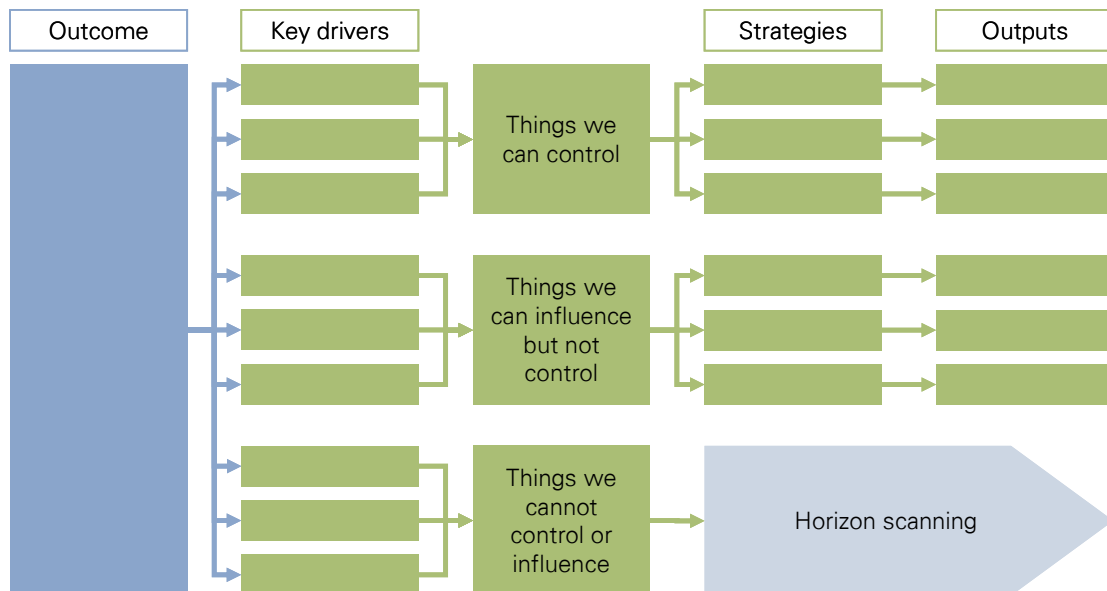
Figure 3: Understanding the key drivers of outcomes in order to identify appropriate strategies to be pursued and outputs to be achieved

To return to the example introduced in the previous section, one of the desired outcomes was to improve customer satisfaction. The organisation's own experience, together with specific research, may reveal a number of factors that drive customer satisfaction, such as:

- being able to get in touch with the right person in the organisation;
- transactions between customers and the organisation being processed promptly; and
- the organisation's staff having a positive, friendly attitude when dealing with customers.

In seeking to improve customer satisfaction, the organisation should, therefore, identify appropriate strategies that focus on these drivers. These strategies will in turn provide specific outputs against which performance can be measures. We set out some examples in the table below.

Outcome	Key driver	Strategy	Output
To improve customer satisfaction by three percentage points each year from 2009 to 2011 as measured by question six ('overall satisfaction') on the annual customer satisfaction survey, using the 2008 survey as a baseline.	Being able to get in touch with the right person in the organisation.	Improving customer access.	Customers to be directed to the right person at their first point of contact.
	Transactions between customers and the organisation being processed promptly.	Improving processing times.	For all significant transaction streams, transactions to be processed within agreed timescales.
	The organisation's staff having a positive, friendly attitude when dealing with customers.	Improving staff attitudes.	Staff to deal with customers in a friendly and positive manner.

Each of these outputs should be supported by specific guidance, setting out SMART targets for the desired output and explaining how performance will be measured.

Figure 4: Using an understanding of what drives the organisation's desired outcomes to identify appropriate strategies and outputs

3.3. Outputs and outcomes

It is worth dwelling at this point on the significance of the distinction between outputs and outcomes, which highlights the importance of understanding the relationship between them. It is the responsibility of the organisation to understand the drivers of its desired outcomes to a sufficient extent that it is able to determine what outputs will lead to the delivery of these outcomes. Individual programmes and partnerships - whether within the organisation or external to it - are then tasked with the achievement of these specific outputs, for which they will be held accountable. They are not, however, to be held accountable for the delivery of the outcomes to which these outputs relate, as this remains the responsibility of the organisation itself. In short, programmes and partnerships are accountable for the achievement of outputs; the organisation is accountable for the delivery of outcomes.

Worked examples: Understanding what drives performance in innovation (DIUS)

The Outcome causality map ensures that we understand the underlying assumptions and the causal links to activity while the assessment and review matrix allows a regular check of whether our original assumptions still hold. In this way we can review whether the original strategy is still the best 'bet' for delivering the required outcome or that we need to refine it.

Outcome causality map

**DIUS Departmental Strategic Objective 1: Promoting innovation
(illustration of part of the strategy on innovation)**

Outcome required	Our underlying assumptions/ hypotheses	Causality – how it will deliver the outcome	Main delivery mechanisms

Outcome measure

Greater engagement of HEIs and PSREs with business

Business/ intellectual income generated

Increasing research and development

Average UK R&D intensity

Stimulating innovation activity

Percentage innovation active

Business lacks mechanisms to collaborate effectively, so economic potential may be lost.

Business may under-invest in R&D as unable to capture spillovers, so economic and social benefits may be lost.

Business especially SMEs may under-invest in innovation as it is high risk and firms are unable to assess potential value. Potential loss of economic and social benefits.

Demand drives innovators to meet new advanced needs - early users (including government) can shape innovations early in development and provide seed funding

Encouraging co-ordination and avoiding fragmentation

Fostering multi-disciplinary collaboration and connections

Creating a culture of innovation

Work with partners/ other stakeholders to understand how best to stimulate innovation

Investing to help innovative businesses and co-ordinate support

Stimulate emerging technologies

Knowledge transfer partnerships

Knowledge transfer networks

HEIF

Other R&D grants, tax credits etc

NMS programmes

Collaborative R&D

Innovation platforms

EU programmes

Causality assessment and review

DIUS Departmental Strategic Objective 1: Promoting innovation

Outcome	Key factor – why will this delivery mechanism work?	Delivery mechanism	Degree of impact (1-5)	Likelihood of impact (1-5)	Key evidence	Any development /refinement to strategy for this outcome?
Engagement of HEIs and PSREs with business	•Lack of mechanisms for effective collaboration so need to create methods to foster multidisciplinary co-ordination •Co-ordination and collaboration through KTNs etc	Innovation platform	4	3	•Stakeholder surveys •Impact studies	
		Collaborative R&D				
		KTP				
		KTN				
	Stimulating a culture of innovation	Influencing and leadership				
Stimulating innovation activity	•Likely under-investment t in innovation because it is high risk and difficult to asses future value	Innovation platforms				
		Collaborative R&D				
		KTP				
		KTN				
		Influencing and leadership				
Increasing research and development	•Businesses may under-invest in R&D	Innovation platform				
		Collaborative R&D				
		KTP				

(Annotation callouts)

This should identify the main hypotheses and causal assumptions behind the chosen delivery mechanism

Here we make an assessment of the degree of impact we expect the delivery mechanism to have on the outcome

This assessment is of the degree of certainty we have of the causal link

And this identifies our key sources of evidence of that causal link

This periodic review is unlikely to lead to a complete change of strategy but it could lead to a refinement of the balance of the elements

4. Managing operational activities

4.1. Allocating clear responsibility

Having identified the outputs that it wishes its programmes and partnerships to achieve, the organisation needs to ensure that these operational activities are managed economically, efficiently and effectively.

It is, therefore, of primary importance that clear responsibility is allocated to individual programmes and partnerships for the achievement of outputs, whether they are operated by teams, departments or service lines within the organisation or by external stakeholders or stakeholder groups. As with outcomes, these outputs must be specific, measurable, achievable, relevant and timebound.

4.2. Ensuring accountability for performance

Programmes and partnerships with specific responsibility for the achievement of identified outputs constitute the delivery mechanisms through which the organisation seeks to achieve its objectives. These programmes and partnerships are accountable for the achievement of specific outputs, so should have considerable autonomy in deciding how to structure themselves and their activities so as to ensure that they meet their obligations to the organisation.

The activities of each programme and partnership will in all likelihood take the form of one or more individual projects or supporting activities, each of which will rely on a set of enabling capabilities, such as particular skills or an understanding of a particular system or issue. The development of these enabling capabilities is critical to the success of the activities of the programme or partnership, and consequently also to the achievement of the outputs for which it is responsible.

The role played by these enabling capabilities in the achievement of partnership and programme outputs, and therefore in the delivery of the organisation's desired outcomes, can be illustrated using an outcome delivery model. We set out an example below.
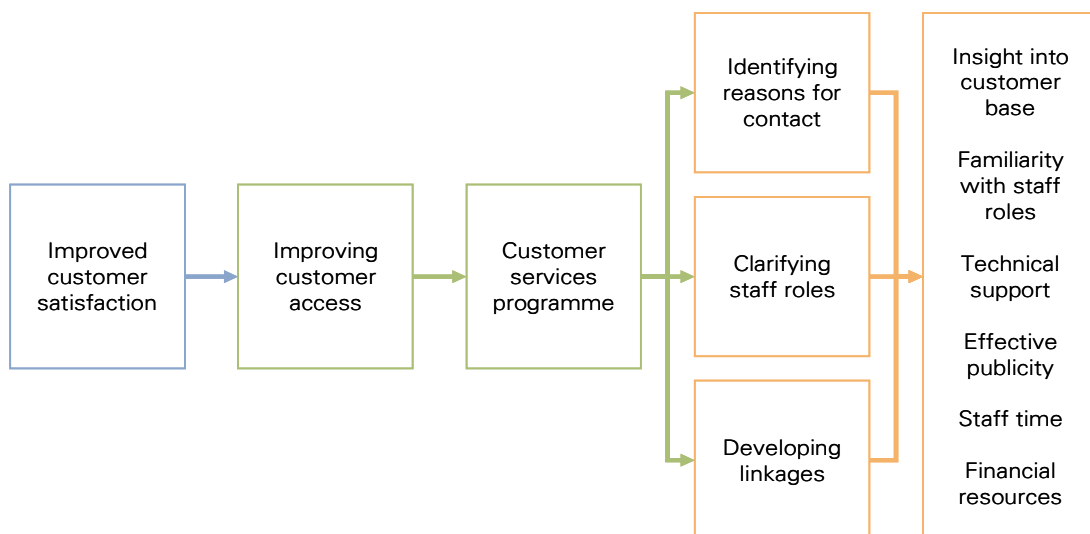
Figure 5: Using the outcome delivery model to illustrate the role played by enabling capabilities in the achievement of outputs and the delivery of outcomes

Given the significance of these enabling capabilities as key inputs into programme and partnership activities, the organisation should work with individual programmes and partnerships to ensure that their availability is secured. Lack of availability of these capabilities is an early warning indicator that outputs may not be achieved; therefore the availability and status of these capabilities should be the subject of regular reporting to the organisation.

An understanding of the inputs and activities that lead to the achievement of programme and partnership outputs is also central to the organisation's ability to achieve value for money. The level of inputs – such as cash, staff time, etc. – required to resource projects and supporting activities is a direct measure of their economy. And the volume and quality of the outputs achieved by these activities is a measure of their efficiency. Both of these aspects of value for money are the responsibility of the individual programmes and partnerships managing these activities. The effectiveness of these activities, however – that is, the link between the outputs achieved and the outcomes delivered – remains the responsibility of the organisation.

4.3. Knowing who is doing what

Given the significance of individual delivery mechanisms and activities to the delivery of its desired outcomes, it is critical that the organisation maintains an overview over who is doing what. There are two main ways in which this can be achieved.

Firstly, the organisation can focus on its own organisation structure, looking at which internal departments and external partners are involved in individual programmes and partnerships. This analysis can be portrayed as a modified organisational structure diagram, an example of which is set out below.
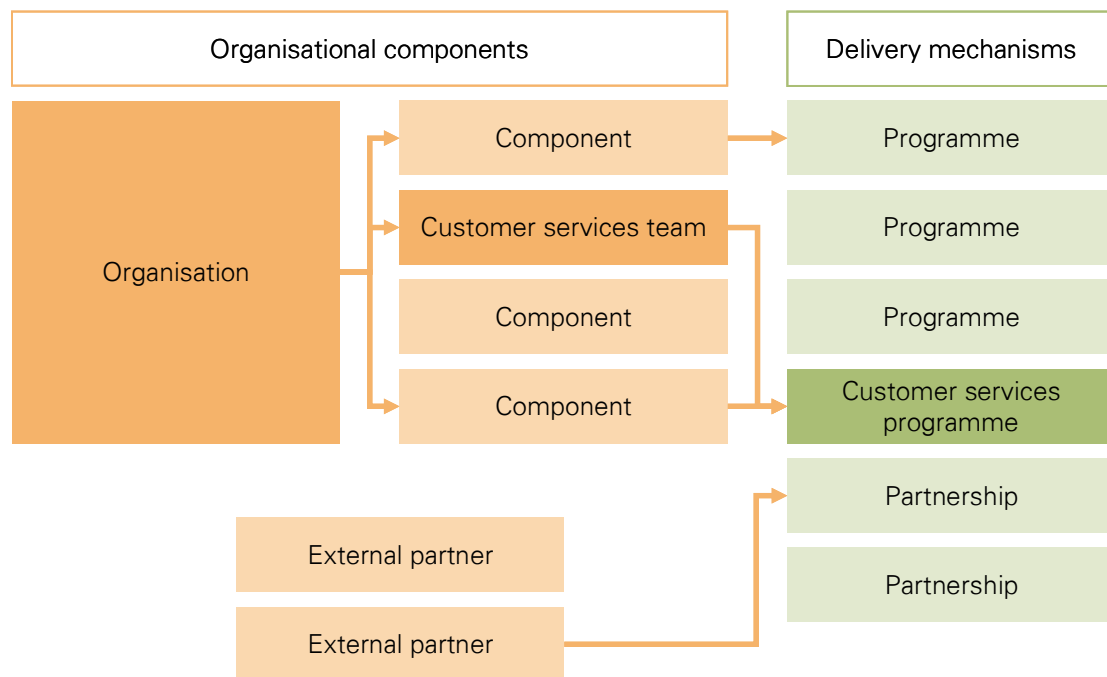
Figure 6: Using an organisational structure diagram to indicate which parts of the organisation are involved in which delivery mechanisms

Secondly, the organisation can consider its operations in terms of delivery chains for each desired outcome. Delivery chains set out the delivery mechanisms and activities for a specific outcome, enabling the organisation to identify all of the agents – internal and external – involved in the delivery of this outcome.

We set out below a simplified example delivery chain.
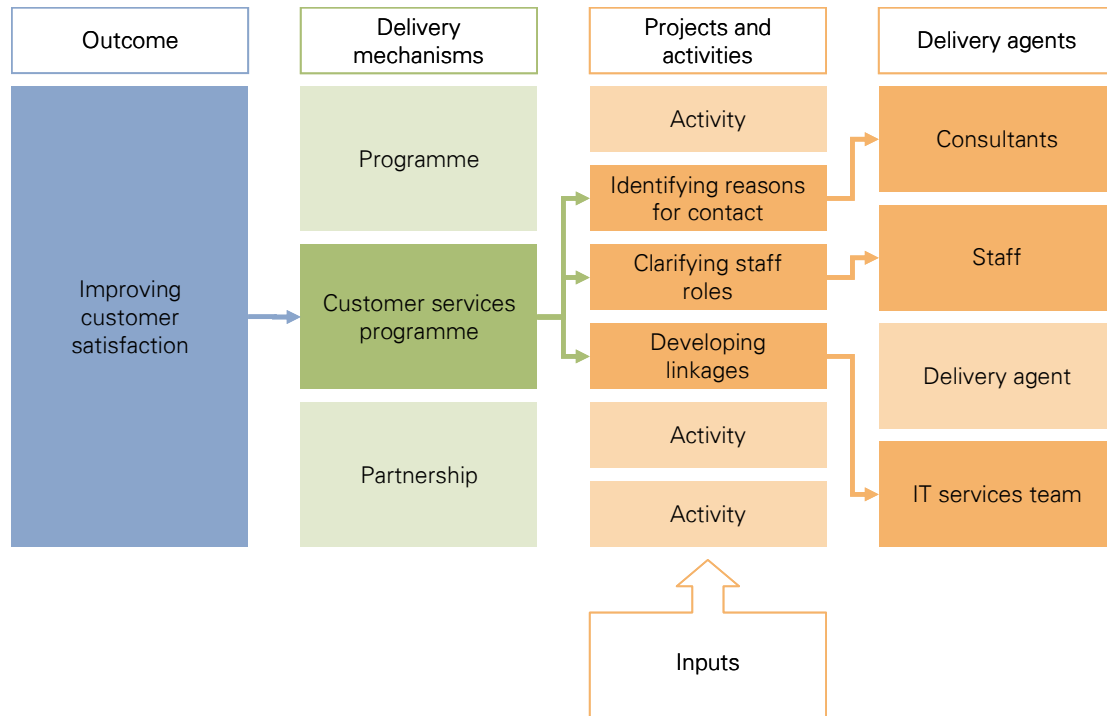
Figure 7: Using a delivery chain to identify the agents involved in the delivery of a desired outcome

As they provide a detailed 'map' of activity, delivery chains can also play a valuable role in helping the organisation to determine how resources should be allocated and how performance should be reported.

In Figure 7 above, for example, it is clear that resources will need to be allocated to each of the projects and activities if they are to be successful. It is likewise clear that, in order for the organisation to be able to assess performance against the programme and partnership outputs, information will be required from each of the delivery agents on their own performance in respect of the projects and activities with which they are involved.

Worked examples: Managing operational activities in innovation (DIUS)

The Outcome delivery model in this example shows the main strategies, delivery mechanisms and supporting projects in relation to the department's 'improving innovation' objective as well as the generic 'enabling capabilities' needed within the department and its partners to maximise the impact of its delivery.

The structure diagram shows the partners responsible for the main delivery mechanisms for the overall delivery of this departmental objective.

The delivery chain for one specific activity, the innovation platform, shows how this is managed on a day-to-day basis - allocating resources and ensuring that information on costs and performance is reported back through the chain to the department. The delivery chain should help to ensure that the right data is collected and reported in the appropriate place.

Outcome delivery model
DIUS Departmental Strategic Objective 1: Promoting innovation

Enabling capabilities

- Governance - effective management of key delivery mechanisms
- Resourcing/ capacity
- Effective marketing and communications
- Effective partnerships and consultation
- DIUS and TSB's leadership role
- Citizen and customer focus
- Analysis
- Driving VFM

Key projects and supporting activity

Key departmental projects and supporting activity for strategy

- Public sector innovation
- Influencing other government departments
- Innovative procurement
- Small business research initiative and Glover
- Regulation
- NDPB oversight
- Horizon scanning
- Regional agenda and co-ordinating activity with RDAs etc
- European/ international activity
- Business support simplification
- White Paper/Sainsbury implementation
- Publications, scorecards, analytical papers etc

Main delivery mechanisms

- Collaborative R&D
- Knowledge transfer partnerships
- Knowledge transfer networks
- HEIF
- Other R&D grants, tax credits etc
- Innovation platforms
- NMS programmes
- EU programmes
- Influencing activities e.g. with govt. depts

Strategies

- Support for business innovation
- Exploitation and knowledge transfer
- Create a culture of innovation
- Co-ordination and alignment of government support
- Building the innovation Infrastructure - Standards etc
- Demand side measures - procurement and capability
- International co-operation

External factors eg national economy, tax regimes, and available skills, stable support

DSO 1
Accelerate the commercial exploitation of creativity and knowledge, through innovation and research, to create wealth, grow the economy, build successful businesses and improve the quality of life

So key measures should include:

Enabling capability	Project management	Programme/delivery Mechanism metrics		Outcome metrics
- Governance – performance management - Leadership - Communications - Partnership working - Analytical work - VFM	- Milestone targets - Impact studies - Partnership/ influencing - assessments and surveys - Leverage	- £ inputs - Completions - Number of licensing agreements /new products - added value and sustainability of collaboration	- churn – movement of skilled people - stakeholder satisfaction	- Business/ intellectual income generated - Percentage innovation active - Average UK R&D intensity - Key knowledge transfer outputs - Take-up of intellectual property

Organisational structure diagram

DIUS Departmental Strategic Objective 1: Promoting innovation

Strategic partners
Other depts
OGC

Innovation platforms

DIUS Innovation (policy funding and quality)

TSB

Strategic partner
BERR

Delivery partners
Other departments and devolved governments
RDAs
Research Councils
BSI and NMS

Design Council

Strategic partner
DCMS

UK IPO

NESTA

BN Space Centre

Collaborative R&D

Knowledge transfer networks

Knowledge transfer partnerships

Standards work

Support Advice Advocacy

IP awareness Legislation

Support innovative enterprise

Technology development programme

Key external factors

World economy

UK economy in relation to others

Skills and graduate research base

Tax and incentivisation

Relationships eg HE to industry to government

Stability of the support regime

Delivery chain

DIUS Departmental Strategic Objective 1: Promoting innovation – Innovation platforms

Business Plan

Standards

Infrastructure

Procurement

Partnerships

DIUS Board

DIUS

£200m

TSB

£ proportional

Innovation Platform

Future opportunities - The big challenges for UK society

Scoping phase

SLAs

Government departments

£

RDAs

£

£

RCs

- Market?
- Societal need?
- Global issue?
- Problem ID and Definition
- Resourcing
- Costs
- Blockages
- Future value
- Transformation of Economy
- Clear signals for businesses to act / get involved

Platform selection process

Gateway review process

- Specific platform KPIs
- Generic platform KPIs
- Satisfaction surveys
- Leverage ratios overall and by sector
- Key milestones delivered to trigger contract payment
- Measuring added value of collaboration
- Proxy measures e.g. creation and movement of skilled people, contribution to literature, dissemination of info

Issues

- Specific platform KPIs vs generic platform KPIs
- Balance between S/T outputs and L/T outcomes
- Type of leverage
- Critical success factors e.g. commercial success
- Measuring added value of innovation platform vs collaboration R&D
- Capturing knowledge
- Length and variable time lags between inputs / outputs / outcomes
- Gearing on R&D
- Extra business benefits

Key: ■ **Key delivery chain**   £ *Funding*
      ■ *Inputs*   ① *Management information*

5. Responding to the external environment

5.1. Recognising what the organisation cannot control

We have identified above that there will inevitably be some drivers of desired outcomes that the organisation can neither control nor influence. It is vital that the organisation identifies these drivers and the key factors that underlie them, for any changes in these factors could impact significantly on the organisation's ability to deliver its desired outcomes.

With these factors identified, the organisation is able to 'scan the horizon' on a regular basis for any potential issues that may arise in respect of these factors, so that it can assess the impact of these issues and formulate an appropriate response. Any action that the organisation decides to take in response to issues identified can then be incorporated into existing programme or partnership activity or, alternatively, could form a new activity in its own right.

5.2. The importance of openness

It is important to recognise and to be open about the fact that there will be things that the organisation cannot control or influence. The organisation should seek to identify and discuss candidly such factors, so that it may take appropriate account of their impact when planning and managing its operational activities. This will also provide the organisation and its stakeholders with a more comprehensive understanding of the extent to which the organisation is indeed able to deliver its desired outcomes and to achieve its objectives.

6. Determining the cost of achieving desired outcomes

6.1. Approaches to costing

In order to ensure the effective allocation of resources, the organisation should seek to develop a framework that will allow it to determine the full cost of undertaking its activities, achieving its outputs and delivering its desired outcomes, to the extent that it is cost-effective to do so.

The approach we have suggested for developing a costing methodology employs activity-based costing (ABC) principles to establish the full costs associated with achieving outputs.

There are three broad approaches to the costing of activities, outputs and outcomes. These are illustrated in Figure 8 below.
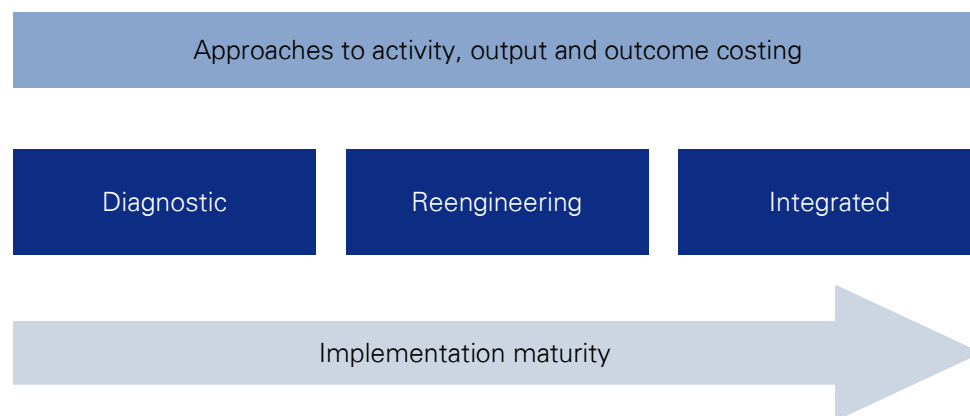
Figure 8: The three approaches to activity costing

The diagnostic approach allows the organisation to establish cost information at periodic intervals, for example monthly, quarterly or annually, depending on its operational requirements. This approach is the most straightforward of the three and requires information that should be readily available within the organisation.
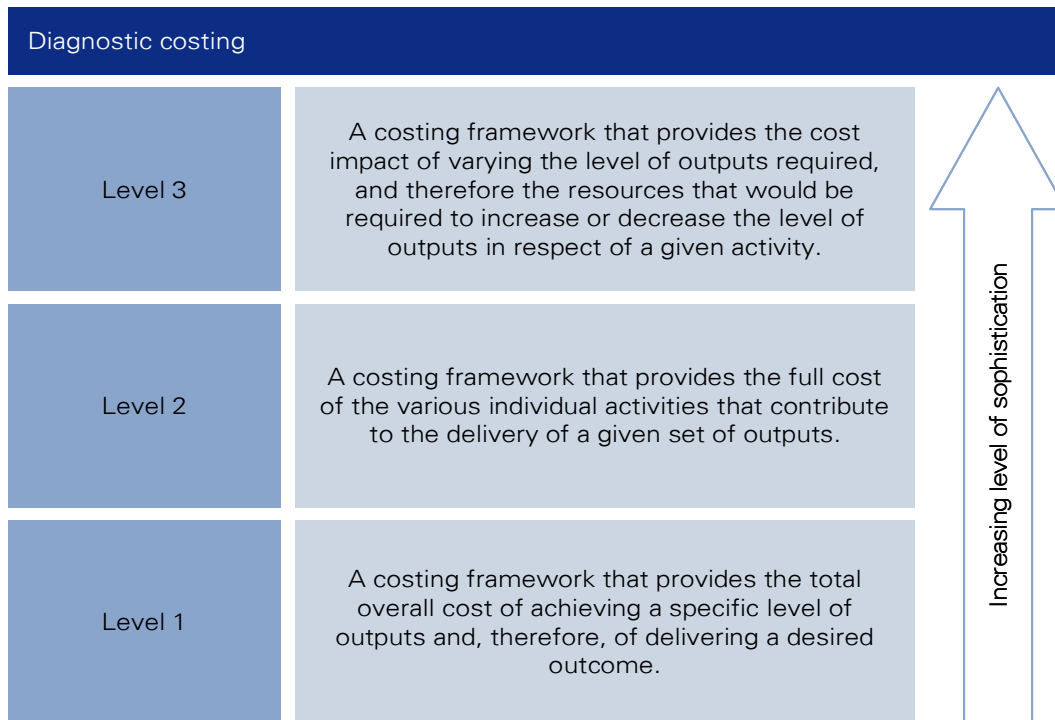
The reengineering approach is based on a 'bottom up' analysis of the organisation's operations and seeks to identify activities that do not contribute effectively to the achievement of its strategic objectives. This approach provides a detailed insight into the organisation's activities and is often used to support business process reengineering exercises. However, the resources required to undertaken and implement this approach are often prohibitive.

The integrated approach is the most advanced approach to costing. It draws on aspects of the both the diagnostic and reengineering approaches, but requires the integration of financial and operational systems across the organisation so that costing information is available on a real-time basis, often using a dedicated performance reporting system.

For an organisation that is seeking to establish the cost of activities, outputs and outcomes for the first time, the diagnostic approach is the most appropriate choice. Consequently, it is on this approach that we will concentrate here.

6.2. Levels of diagnostic costing

Diagnostic costing can be implemented at one of three broad levels of sophistication, which are set out in Figure 9 below.

Diagnostic costing		
Level 3	A costing framework that provides the cost impact of varying the level of outputs required, and therefore the resources that would be required to increase or decrease the level of outputs in respect of a given activity.	↑ Increasing level of sophistication
Level 2	A costing framework that provides the full cost of the various individual activities that contribute to the delivery of a given set of outputs.	
Level 1	A costing framework that provides the total overall cost of achieving a specific level of outputs and, therefore, of delivering a desired outcome.	

Figure 9: The three levels of diagnostic costing

Level one is the most straightforward of these levels to achieve, as it requires little more than the allocation of costs to outputs. Level two builds on this, in that it allocates costs further to individual activities and outputs. In practical terms, level two is often considered the minimum level of cost granularity that is acceptable within an effective performance management framework.

We set out in Figure 10 below the flow of costing information through the organisation for a level two costing framework.

Key

→ Costing information
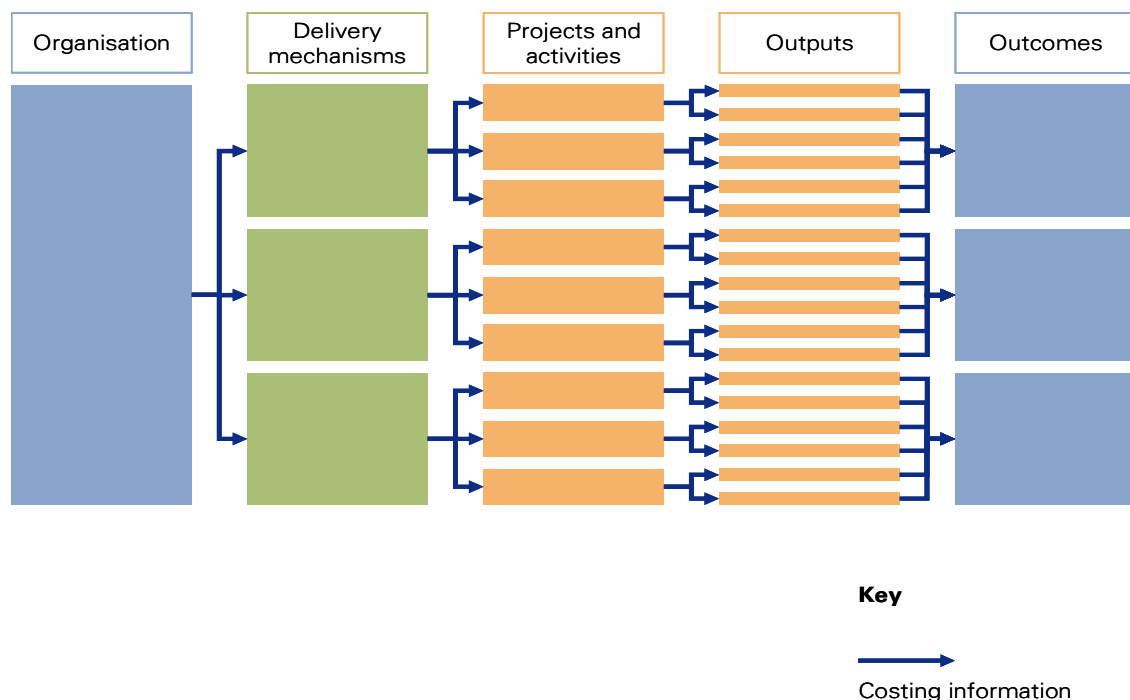
Figure 10: The flow of costing information through the organisation

Level three provides the most sophisticated level of costing, in that it allows the organisation not only to establish the cost of achieving specific outputs, but also to forecast the level of resources that would be required to achieve varying levels of outputs. This requires a detailed understanding of the cost elasticity of different outputs. Therefore, it is usually feasible for an organisation to establish a level three diagnostic costing system only once it has achieved level two successfully and has collated cost data over a number of periods.

6.3. The principles of activity costing

Activity-based costing (ABC) is a cost allocation methodology used to more accurately assign the indirect and direct resources of an organisation to its activities performed based on consumption. This is based on the premise that providing services requires an organisation to perform activities. These activities in turn consume its resources.

ABC uses a two stage cost assignment approach. In the first stage, resource costs are assigned to activities based on the amount of resources consumed in performing the activity. In the second stage, activity costs are allocated to products, services, or customers based on the extent to which the activity contributes to the products or services costed.

6.4. Guiding principles

Full absorption of costs: The costing framework should aim to include all costs associated with producing a unit of a cost object (eg. a programme) included in the cost of outputs. This may include costs associated with the group that is directly involved in the programme being costed and any other costs that contribute, in any way, towards producing the programmes such as administration costs.

Balance between accuracy and practicality: When designing the framework, the organisation should seek to strike a balance between accuracy and practicality (i.e. ease of implementation and ongoing maintenance). This recognises that added complexity in the framework, although potentially leading to gains in accuracy, often results in a framework that is difficult to maintain on an ongoing basis.

High impact items drive design of the framework: The organisation should focus on high cost/impact items when developing the costing methodology. Low cost items have an insignificant impact on the total costs of operations, so often do not warrant the additional effort to treat them separately. A case in point could be administration expenses. If it is established that these expenses form an insignificant proportion of total costs, it would not warrant a great deal of effort applied to its allocation mechanism.

6.5. Processes of implementing a costing framework

In broad terms, the organisation first identifies the aspects of its operations for which it wishes to establish costs (i.e. cost objects).The organisation then needs to identify the costs that should be included in the costs of these cost objects (i.e. in-scope vs out of scope costs). Under full absorption costing principles and in order to establish the full cost of cost object, all costs incurred by the organisation should be included.

Once the cost base has been established, the organisation should seek to understand the flow of funds from itself to its delivery agents, whether internal or external. The organisation should also determine at this stage how the activities undertaken by it and its delivery agents contribute to the achievement of outputs and the delivery of outcomes. If the organisation has followed the approach outlined in this guide to manage its performance, this information should be readily available.
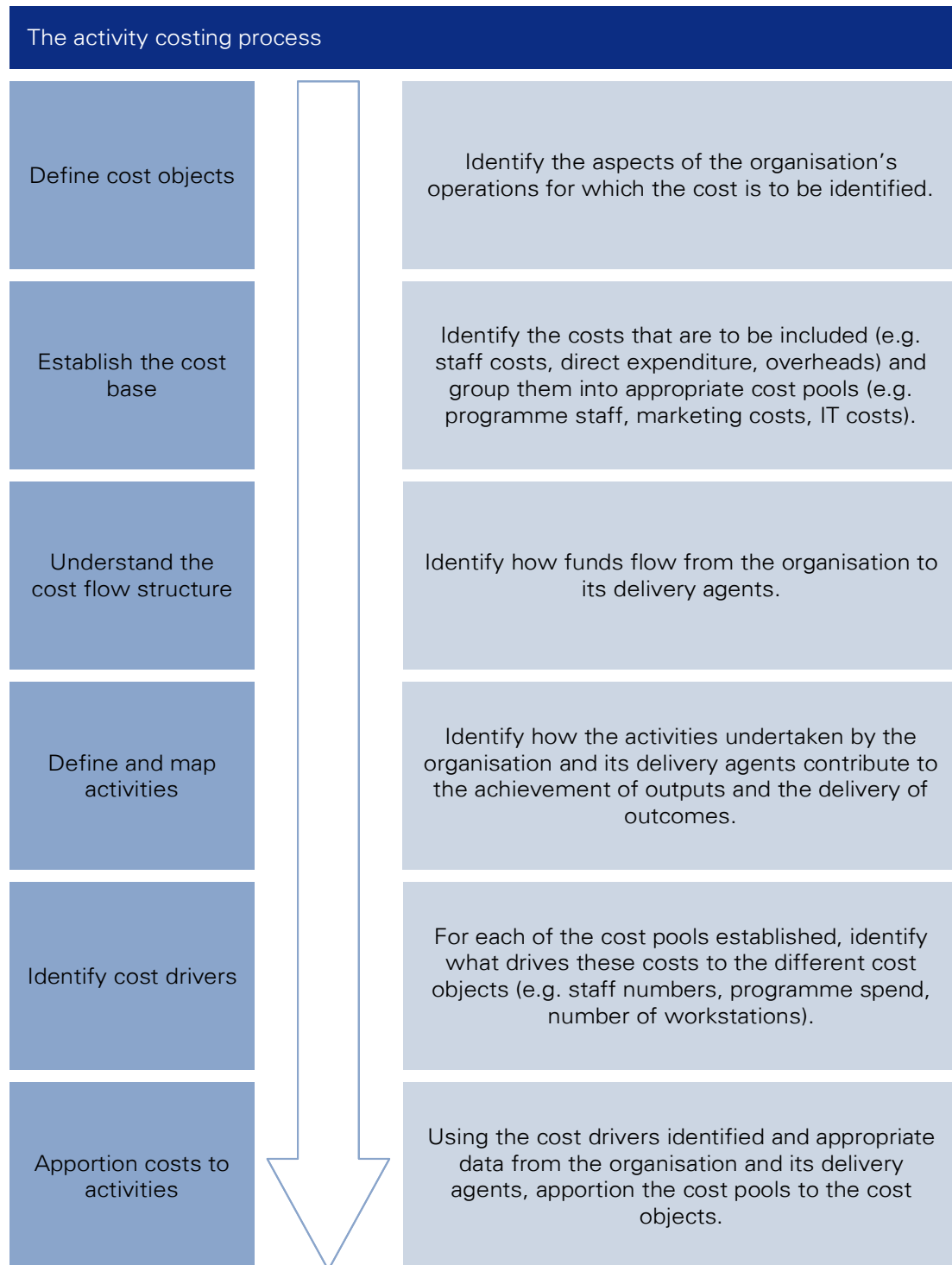
For each cost pool, the organisation should now determine what drives these costs and what leads them to be incurred by activities. For example, the costs of programme staff may be capable of direct allocation to different programme and partnership activities. Indirect costs such as marketing overheads or IT costs, however, could be 'charged' to activities on the basis of programme spend or number of workstations respectively.

It should be recognised at this point that no set of cost drivers will be perfect. In identifying and applying cost drivers to cost pools, the organisation should seek to use information that is already

available – even when it is not necessarily the best cost driver – rather than to develop whole new sets of performance information.

The final stage of the activity costing process is to apportion the cost pools to the different activities, using the cost drivers identified. This allows the organisation to establish the full cost of activities. Furthermore, through its understanding of how these activities are linked to outputs and outcomes, the organisation can also establish the full cost of the achievement of outputs and the delivery of outcomes.
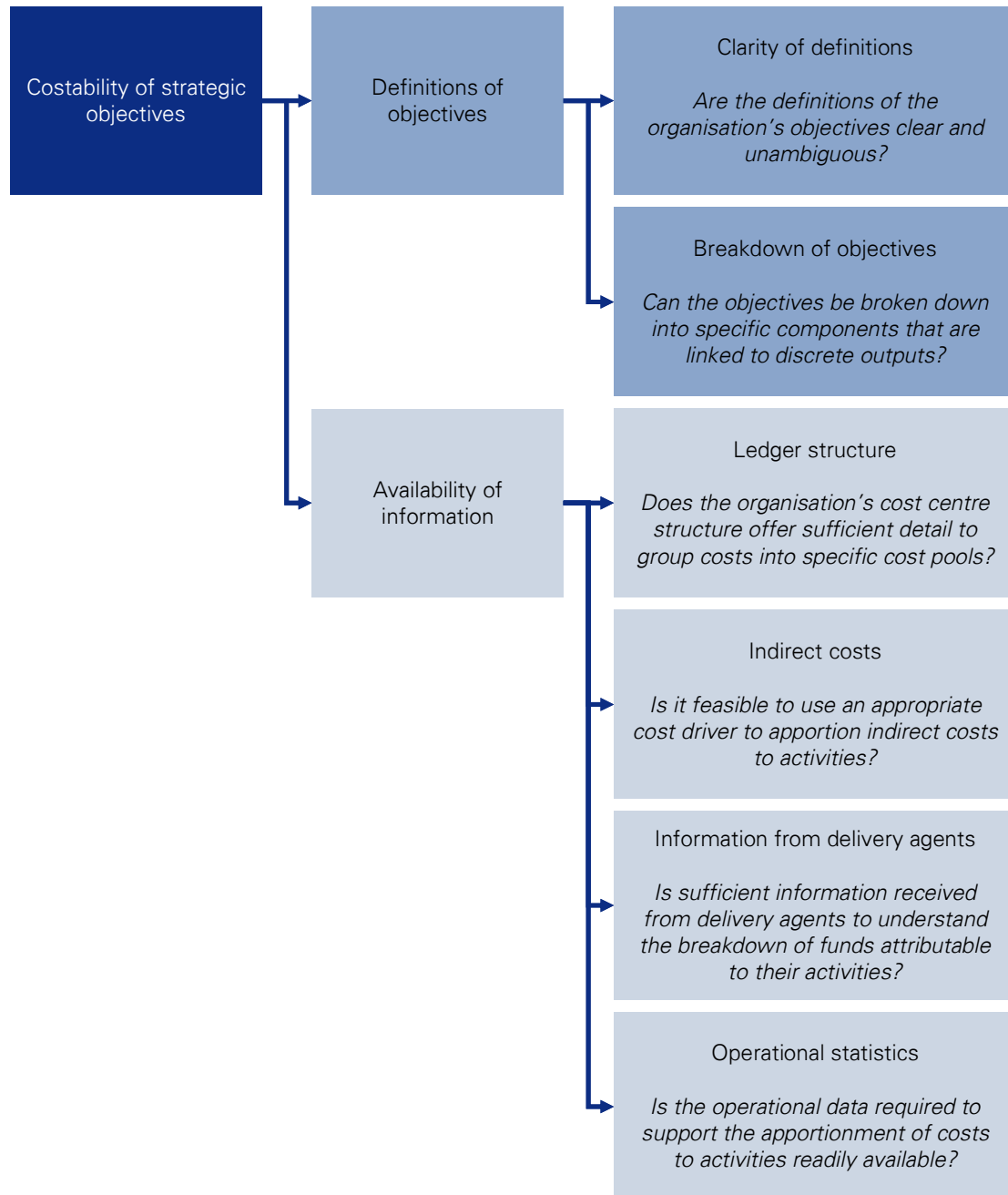
We have set out this activity costing process in diagrammatic form in Figure 11 below.

The activity costing process	
Define cost objects	Identify the aspects of the organisation's operations for which the cost is to be identified.
Establish the cost base	Identify the costs that are to be included (e.g. staff costs, direct expenditure, overheads) and group them into appropriate cost pools (e.g. programme staff, marketing costs, IT costs).
Understand the cost flow structure	Identify how funds flow from the organisation to its delivery agents.
Define and map activities	Identify how the activities undertaken by the organisation and its delivery agents contribute to the achievement of outputs and the delivery of outcomes.
Identify cost drivers	For each of the cost pools established, identify what drives these costs to the different cost objects (e.g. staff numbers, programme spend, number of workstations).
Apportion costs to activities	Using the cost drivers identified and appropriate data from the organisation and its delivery agents, apportion the cost pools to the cost objects.

Figure 11: The activity costing process

6.6. Issues to consider

In undertaking an activity costing exercise, there are a number of issues that the organisation should consider. These relate to the definition of its strategic objectives and the availability of information across the organisation. By ensuring that these issues have been resolved, the organisation can improve significantly the ease with which the exercise can be completed successfully. We have summarised these issues in Figure 12 below.

Costability of strategic objectives

Definitions of objectives

Clarity of definitions

Are the definitions of the organisation's objectives clear and unambiguous?

Breakdown of objectives

Can the objectives be broken down into specific components that are linked to discrete outputs?

Availability of information

Ledger structure

Does the organisation's cost centre structure offer sufficient detail to group costs into specific cost pools?

Indirect costs

Is it feasible to use an appropriate cost driver to apportion indirect costs to activities?

Information from delivery agents

Is sufficient information received from delivery agents to understand the breakdown of funds attributable to their activities?

Operational statistics

Is the operational data required to support the apportionment of costs to activities readily available?

Figure 12: Issues to consider when undertaking an activity costing exercise

Worked examples: Determining the cost of achieving desired outcomes

This worked example sets out to cost 'Train to Gain', which contributes to the delivery of DSOs 2 and 3. Applying the principles set out in the preceding pages, Train to Gain is treated as an 'Activity' contributing to achieving DSOs 2 and 3 (i.e. a cost object). The in-scope costs included the programme funding for Train to Gain, administration costs of DIUS and funds paid to the Learning and Skills Council (LSC) for its administration.

As administration costs of DIUS form a relatively small proportion of total costs, we used a relatively simple driver - the proportion of full time equivalents (FTEs) administering Train to Gain at DIUS over the total number of FTEs administering programmes at DIUS - to allocate a proportion of DIUS administration expenses to Train to Gain. We performed a similar exercise to allocate the administration expenses of the LSC to Train to Gain. The allocated overhead costs combined with the total programme funding for Train to Gain produces the full cost of Train to Gain. This exercise extended to the other programmes contributing to DSOs 2 and 3 would provide the total cost associated with delivering these DSOs.

This worked example is depicted diagrammatically overleaf.

At a later stage, DIUS could explore expanding on this principle to identify costs at a more granular level if needed, to assess the effectiveness of certain activities or initiatives carried out under a given programme. Using the same example, this principle could be employed to identify the costs of the various marketing initiatives supporting Train to Gain in order to measure the value for money of these initiatives in delivering outcomes.
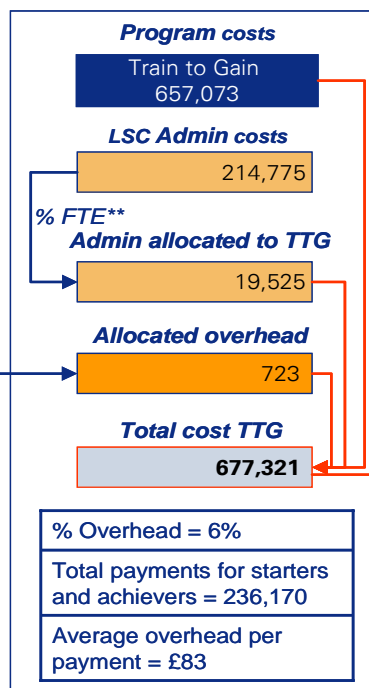
Cost flows
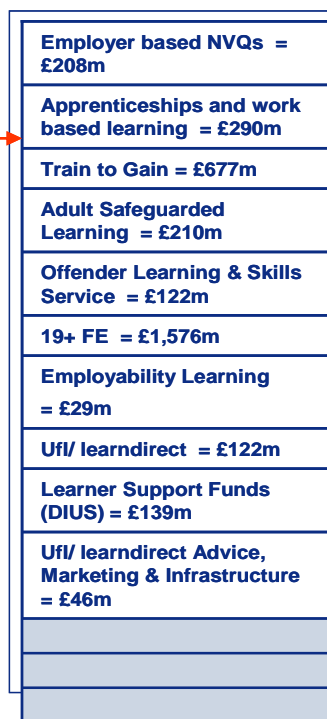**DIUS Departmental Strategic Objective 2: Enhancing skills – Train to gain**
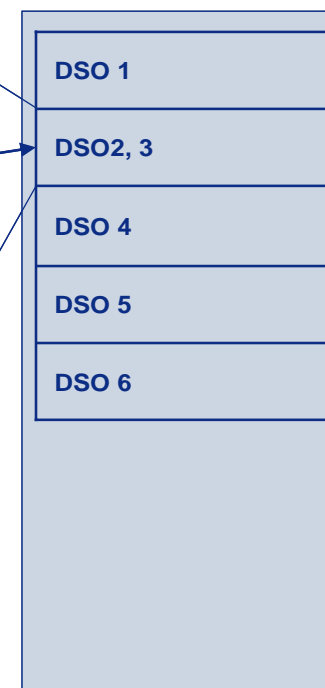
DIUS Financials (£'000)

Program costs

Train to Gain
330,000

DIUS Admin costs

74,216

% FTE*

Admin allocated to TTG

723

LSC Financials (£'000)

Program costs

Train to Gain
657,073

LSC Admin costs

214,775

% FTE**
Admin allocated to TTG

19,525

Allocated overhead

723

Total cost TTG

677,321

| % Overhead = 6% |
| Total payments for starters and achievers = 236,170 |
| Average overhead per payment = £83 |
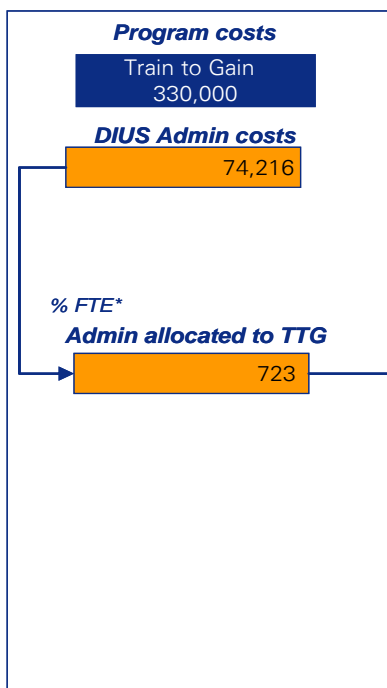
Key components supporting DSOs

| Employer based NVQs = £208m |
| Apprenticeships and work based learning = £290m |
| Train to Gain = £677m |
| Adult Safeguarded Learning = £210m |
| Offender Learning & Skills Service = £122m |
| 19+ FE = £1,576m |
| Employability Learning = £29m |
| Ufl/ learndirect = £122m |
| Learner Support Funds (DIUS) = £139m |
| Ufl/ learndirect Advice, Marketing & Infrastructure = £46m |
| |
| |
| |

DIUS DSOs

| DSO 1 |
| DSO2, 3 |
| DSO 4 |
| DSO 5 |
| DSO 6 |

Direct

LSC financials and Key components are from the LSC 08-09 Grant Letter

* Admin cost allocation at DIUS

Cost driver = %FTE
Number of FTEs attributed to administering TTG = 7
Number of total staff administering programmes = 716
Proportion of admin cost allocated to Train to Gain = 1%

** Admin cost allocation at LSC

Cost driver = %FTE
Number of FTEs attributed to administering TTG = 9
Number of total staff administering programmes = 99
Proportion of admin cost allocated to Train to Gain = 9%

Note

As administration costs are a relatively small proportion of programme costs, we have used estimated FTEs to allocate overhead costs to programmes.

Where Admin costs are a significant proportion of overhead costs (eg DWP):
- *Cost centres would need to be categorised into supporting and operational units*
- *Costs would be pooled at support cost centres, and cost drivers determined to allocate costs to operational units*
- *Cost drivers would need to be determined to allocate operational costs to activities / initiatives*
- *Activities / initiatives would need to be mapped to DSOs, and allocated accordingly*

TTG figure in the Key components column contains Programme and Admin - all other programmes are solely programme money.

7. Monitoring and reporting on performance

7.1. The benefits of effective monitoring and reporting

The ability to monitor and report on performance is critical to the development of an effective performance management system. A robust approach to monitoring and reporting performance not only enables the organisation to explain to internal and external stakeholders what it wishes to achieve, what action it is taking, and what progress it has made. It also allows the organisation to assess whether its activities are contributing successfully to the achievement of planned outputs and, in the longer term, whether these outputs are leading to the delivery of desired outcomes.

The model framework that we have outlined here provides a clear structure for the effective management of performance, for the allocation of responsibility and for the maintenance of accountability. It also gives a clear indication as to how the organisation should seek to monitor and report on its performance.

7.2. Focusing on outcomes

The organisation should monitor the actual outcomes achieved against its desired outcomes. This should be reported to Board level and to stakeholders. However, depending on the nature of the desired outcomes this may not be measurable in the short term. Consequently, the organisation may wish to develop interim measures of performance in this respect – these may relate to activities or outputs rather than outcomes.

For example, for our example of improving customer satisfaction, a detailed survey is undertaken on an annual basis that will enable performance in delivering this outcome to be assessed. In order to assess performance more frequently, the organisation could monitor the delivery of programme outputs or progress in undertaking specific activities.

7.3. Understanding what drives performance

In identifying appropriate outputs for its programme and partnership activities, the organisation must make an assessment of what outputs will contribute to the achievement of its desired outcomes. In order to understand whether this analysis is robust, the organisation should compare the actual outcomes delivered with the intended outcomes from its activities.

This is explained graphically in Figure 13 below.

If the outputs lead to the desired outcomes…

Outputs → Desired outcome / Actual outcome

…then the organisation's understanding is robust.

However, if they do not…

Outputs → Desired outcome / Actual outcome

…then the organisation may need to revise its understanding.
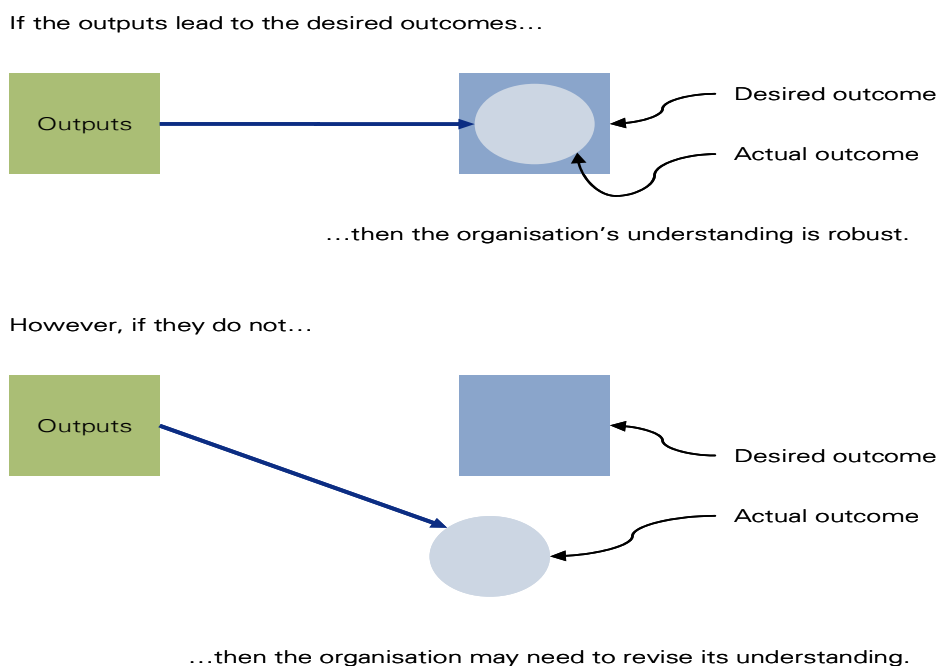
Figure 13: Assessing whether the organisation's understanding of what outputs lead to desired outcomes is robust

The results of this assessment should be reported extensively internally, so that the organisation can improve its understanding of the drivers of the desired outcomes and use this improved understanding to plan its activities more effectively.

7.4. Managing operational activities

Individual programmes and partnerships should monitor their achievement of desired outputs, together with the inputs and activities that have led to these outputs. This should be reported within the organisation at an appropriate level, with any issues of under or over performance being escalated as necessary. Significant performance issues should be reported to the Board.

An example of a reporting hierarchy is set out in Figure 14 below.
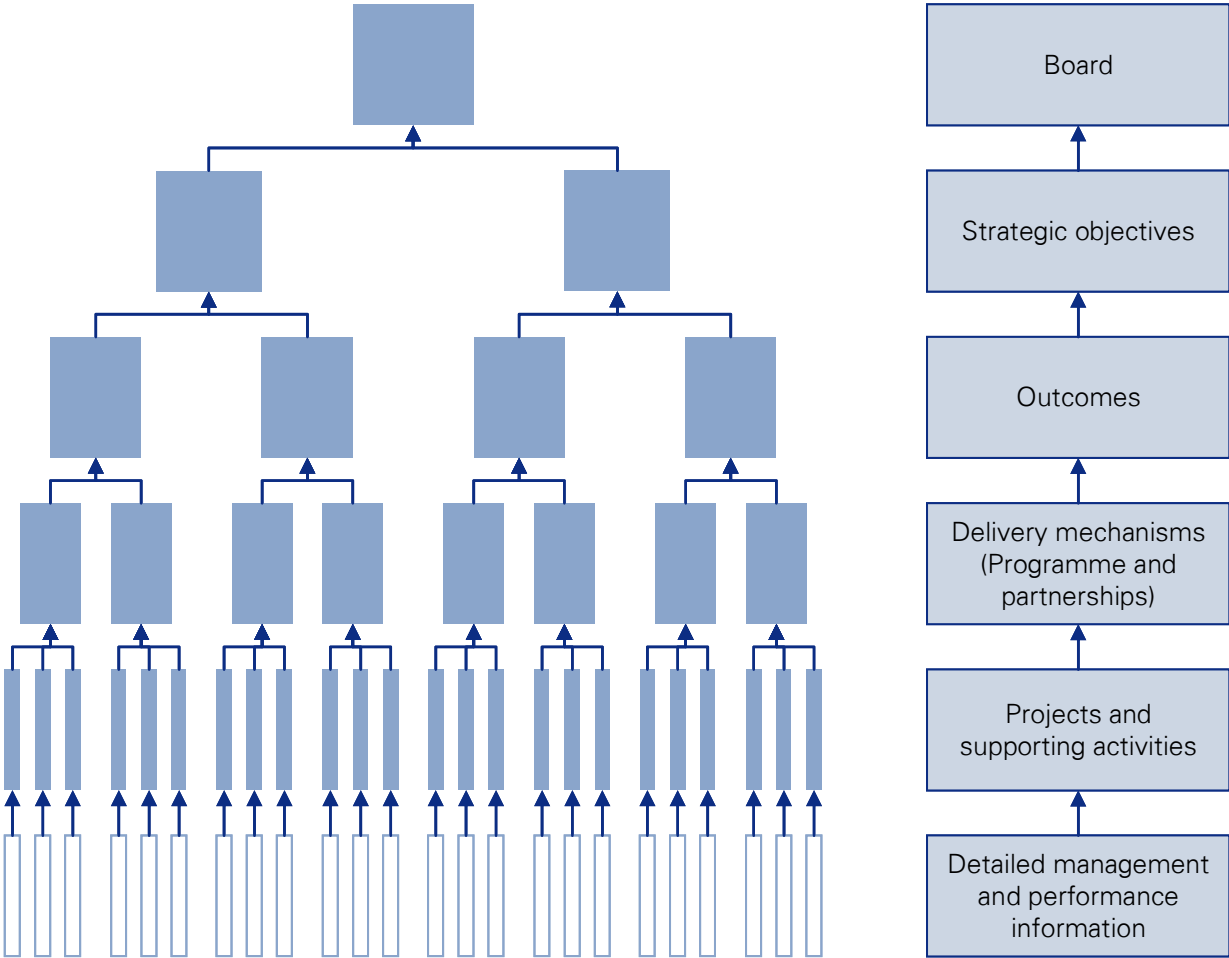
Figure 14: An example hierarchy for reporting performance within the organisation

At the apex of the reporting hierarchy sits the organisation's Board or similar body, which has overall accountability for the delivery for the achievement of the organisation's strategic objectives. It is clear, then, that the clear and timely reporting of information to the Board is essential.

Reports to the Board should provide an overview of the operational and financial performance of the programmes and partnerships involved in the delivery of desired outcomes, together with an indication of any external factors or risks that could impact on their activities. We set out below an example of how such a Board report could be formulated.

Performance against strategic objective:					
Outcome 1:					
Delivery mechanism		Output performance	Financial performance	Risks and external factors	Delivery of outcome
Programme	Project				
	Project				
	Activity				
Programme	Project				
	Project				
	Project				
Partnership	Project				
	Activity				

Figure 15: Example of a report to the organisation's Board or similar body

Reports to the Board could also consider the extent to which individual delivery mechanisms have access to the enabling capabilities that they require in order to achieve their planned outputs. As a lack of availability of these capabilities is an early warning indicator that outputs may not be achieved, the organisation should seek to take appropriate action to ensure that any issues in this area are addressed promptly.

An example of how the availability of enabling capabilities could be reported to the Board, using a format similar to that used in Figure 15, is set out below.

Performance against strategic objective:				
Outcome 1:				
Delivery mechanism		Enabling capability	Assessment	Improvement required
Programme	Project	Capabilities required		
	Project	Capabilities required		
	Activity	Capabilities required		
Programme	Project	Capabilities required		
	Project	Capabilities required		
	Project	Capabilities required		
Partnership	Project	Capabilities required		
	Activity	Capabilities required		

Figure 16: Using the Board template to report on the availability of enabling capabilities

7.5.   Responding to the external environment

The organisation should monitor on a regular basis those key drivers of desired outcomes that it is not able to control or influence. Any potential issues identified, together with their likely impact and any action that the organisation is taking in response to them, should be reported to those within the organisation whose work they affect. Significant issues that may impact on the organisation's ability to deliver its desired outcomes should also be reported to the Board, as shown in the example report in Figure 15 above.

Worked examples: Monitoring and reporting on performance

The illustrations here show how the overall framework for reporting could work at DIUS and then illustrations of that reporting framework at the top two levels – Board level and DSO level.

The Board report seeks to bring the decision-critical information on each DSO together in a very concise fashion. It seeks to:

- bring cost and performance information together in one place
- identify the unit costs of outputs – not as a performance indicator per se but as a useful trigger and input to a conversation about the best use of resources
- link outputs to outcomes – acknowledging that the outcomes will be measured on a more long term basis eg annually
- identify any important risks
- identify whether a board decision is necessary.

We have included the unit cost of output as a key measure here. We believe that this is an important indicator at a strategic level because it is useful:
- at a policy level - to indicate the cost of additional units of delivery
- at a performance level - to indicate potential performance issues if expected values are not reached or the trend takes an unforeseen direction
- to help to make value for money judgements - particularly if comparative data is available.

The periodic DSO report is at the next level of detail and this supports the information in the Board report. It would not be routinely reported to the Board but would be available for 'drill down' if necessary. The 'front page' brings together the DSO performance targets, the main strategies for achieving these and the delivery mechanisms.

On the next page there is a summary of progress on the main infrastructure and policy projects which support delivery as well as on-going assessment of the enabling competencies and improvement activity.

Finally we bring together the main performance and cost information for each of the main delivery mechanisms.

Board reporting hierarchy

DIUS PSAs and Departmental Strategic Objectives
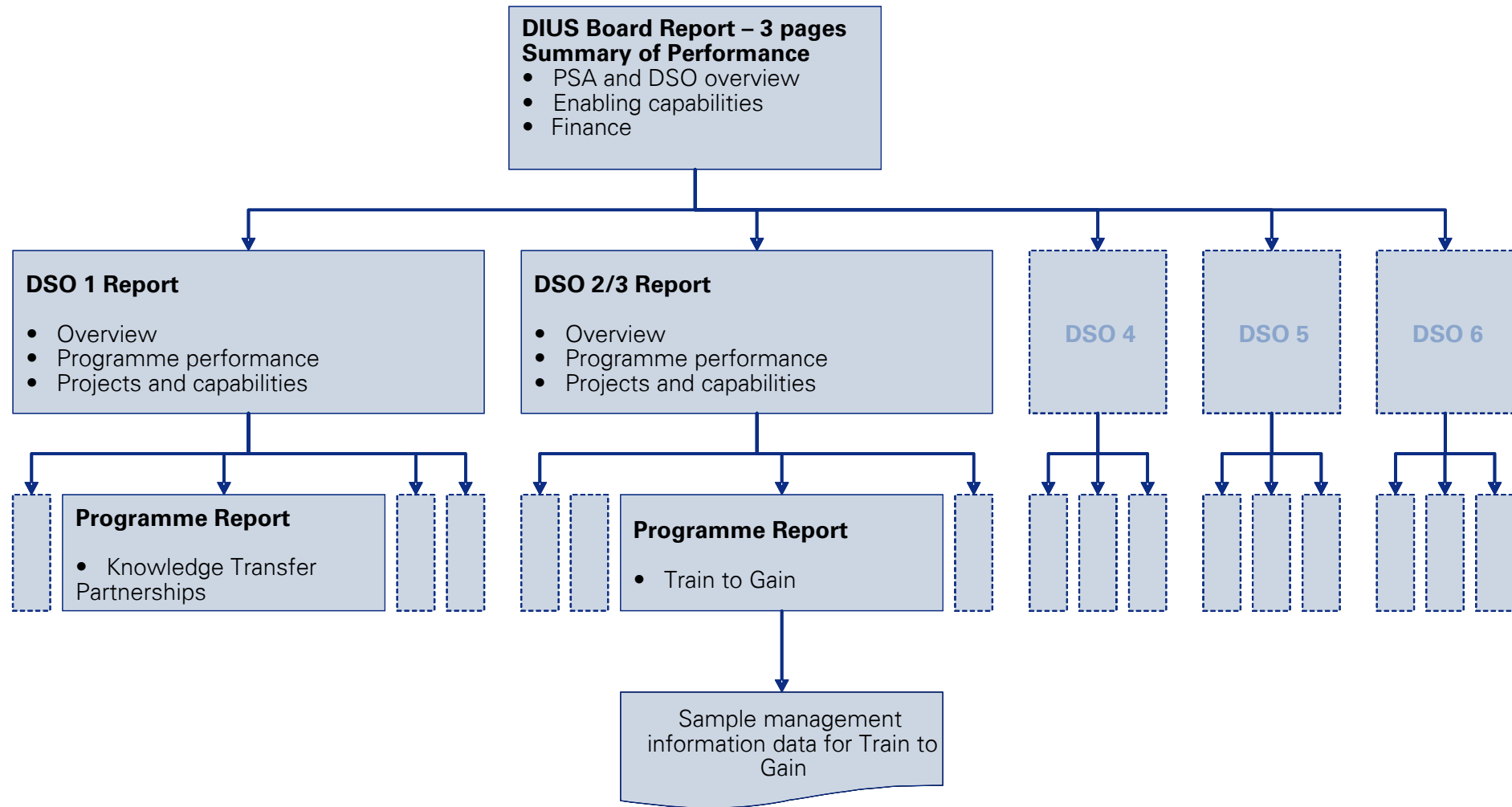
Board report - DIUS PSAs and Departmental Strategic Objectives

	Key measures	Latest performance data	PSA Target	Target for 08-09	RAG rating	Cost YTD Target	Cost YTD Actual	Key risks	Decision Required?
PSA 2 Improve the skills of the population ensuring a world class skills base	• Basic skills – literacy 　　　　　- numeracy • % adult s qualified to Level 2+ • % adults qualified to Level 3+ • apprentices completing • % adults qualified to Level 4+ • HE participation rate	217,900 83,000 71% 50% 75,500 31% 40%	597,000 390,000 79% 56% 130,000 34% Growth 1% every 2 years	476,000 118,000 74% 52% 31.5% 42%	A/R	£300.7m	£248.2m	Illustrative costs of the Train to Gain element of the full skills PSA	
PSA 4 Promote world class science and innovation	• Citations in scientific journals • HEI and PSRE research income • Percentage of UK businesses innovation active • PhD completers in STEM • Scientific A levels • Average R&D intensity	• £562 million • 64% • UK third in G7	TBC	Proxy targets for: Increase in investment Number of innovation platforms Number of KTPs	TBC			• Need to communicate impact of investments better • Design Council governance • Effective engagement with business	
DSO1 Accelerate the commercial exploitation of creativity and knowledge	As per PSA 4, plus • Regional breakdown of innovation activity • Knowledge transfer outputs • Take up of intellectual property	• Range 69% in E England to 55% in London	TBC	TBC	TBC	237.4m	229.3m	Illustrative costs of TSB and all innovation activity in DIUS. Full total needs to include NESTA, Design Council etc	
DSO 2/3 Improve the skills of the population and broaden participation	As per PSA 2				A/R				
DSO 4 Pursue global excellence in research and knowledge	As per PSA 4 plus • survey of attitudes to science • STEM graduates								
DSO 5 Capacity of FE and HE systems	HE balanced scorecard FE balanced scorecard								
DSO 6 Better use of science in government	Policy making International comparisons Foresight evidence								

	Key issues	RAG	Suggested action/ mitigation	Decision?
Enabling capabilities - see next page				
Financial Position (See Finance Summary)				
VFM; Operational efficiency; Lyons	• Total overhead cost of TSB activity is 11%			

Board report - DIUS capabilities and other departmental activity

The enabling capabilities, which include the four PSA enablers, will be assessed at various levels within DIUS:
- At partner level
- At programme level
- At DSO/PSA level

At Board level any serious issues or cross-department issues will need to be addressed and monitored.

Dept. enabling capabilities	Assessment	RAG rating	Improvement activity
Citizen and customer focus	• Is the delivery system informed by the needs and experiences of citizens? • To what extent are services personalised to meet the needs of individuals? • How effectively do citizens actively contribute to delivery?	These four capabilities are those which PMDU require reporting against for PSA monitoring	
VFM	• Are costs understood throughout the delivery system? • Are costs rigorously managed to ensure efficient use of resources? • Does an understanding of productivity inform decision making?		
Governance - performance management	• How well does the Board ensure sound governance and accountability? • How clear are roles and responsibilities within the delivery system? • Do programmes and actions add up to delivery of agreed outcomes? • How robust are performance management and data systems? • How effectively are risks and interdependencies managed?	Scoring highly on VFM should be helped by the cost analysis we have proposed including apportionment of administrative and support costs.	
Partnership working	• To what extent do delivery partners have the right skills? • How effectively motivated are those responsible for delivery? • How do partners work across organisational boundaries? • How strong are the lines of communication and feedback? • How well are delivery partners encouraged to innovate? • How extensively is best practice disseminated and implemented?		
Horizon scanning /Planning	• External issues that may impact PSAs/DSOs/capabilities require a response		
Analytical work – research and evaluation	• Policy capability and activity		
Leadership	• Assessment of Board performance • Staff KPIs such as survey results; absenteeism; turnover, development programmes • External leadership	These capabilities are additional ones which have been proposed by the DIUS staff we have consulted and link to delivery strategies. The final list would need to be informed by delivery partner assessment pilots and other dept approaches.	
Marketing and communications	• Influencing and communication to stakeholders • Strategies to mitigate/promote objectives		

Other key departmental activity

• Key projects

• Ministerial priorities

Board report - DIUS Finance

Programme	YTD actual expenditure	Full year forecast	Full year budget (revised (date) to include amounts drawn down in Winter Supplementary)	Amounts to be requested in Spring Supplementary Estimate	DEL budget Deficit/ surplus
	£ m	£ m	£ m	£ m	£ m
Resource DEL	xx	xx	xx	xx	xx
of which non-ring fenced	xx	xx	xx		
of which ring fenced (inc science element of Knowledge Transfer)	xx	xx	xx		
Resource DEL – DSO 1 etc	xx	xx	xx		xx
Capital DEL – DSO 2 etc	xx	xx	xx	xx	xx
Capital DEL – DSO 1 etc	xx	xx	xx		xx
Admin	xx	xx	xx		xx
Sub totals	xx	xx	xx	xx	xx
Annually managed expenditure (AME)	xx	xx	xx		xx
Totals	xx	xx	xx		
of which DSPO 1 etc					xx
of which DSO 2 etc					xx

Resource Accounts picture	Total in estimate		Year to date actual		End year forecast
	£ m		£ m		£ m
RFR 1	xx		xx		xx
RFR 2	xx		xx		xx

Net cash requirement	Estimated net cash requirement		Cash drawn to date		Forecast cash requirement
	£ m		£ m		£ m
	xx		xx		xx

The Government's vision (PSA)

In the global knowledge economy the UK's competitive advantage will rely on the ingenuity and capabilities of the UK population and will be dependent on the UK having an innovation system that can take advantage of the opportunities on offer.

DIUS is working to make the UK the country of choice for innovative businesses.

DIUS objective (DSO)

Accelerate the commercial exploitation of creativity and knowledge, through innovation and research, to create wealth, grow the economy, build successful businesses and improve quality of life.

Key targets

DSO targets	2007 base figure
Business and intellectual income generated by UK HE institutions and public sector research establishments	£562 million Annual report S&I investment Framework
The percentage of UK business with 10+ employees that are "innovation active"	64% Community innovation survey
Regional breakdown of %of UK businesses with 10+ employees that are 'innovation active.'	Range 69% in E England to 55% in London
Business R&D – average UK R&D intensity in 6 most R&D intensive industries, relative to other G5 economies.	UK third in G7
Key knowledge transfer outputs from public research base	tbc
Basket of measures of take-up of intellectual property	tbc

Strategies

- Support for business innovation
- Building the innovation infrastructure – eg work on standards
- Exploitation and knowledge transfer
- Demand side measures – procurement and capability
- Create a culture of innovation
- International co-operation
- Co-ordination and alignment of government support

From the outcome delivery model

Core projects and delivery mechanisms

	RAG rating		RAG rating
• Public sector innovation		• TSB	
• Procurement		• Design Council	
• Regulation		• NMS programmes	
• Regional co-ordination		• HEIF	
• Standards work		• EU programmes	

Periodic report 'projects and capabilities'
DIUS Departmental Strategic Objective 2

Activity	Performance		Cost		Key risks	Mitigation
	Plan targets or milestones	RAG rating	YTD	Full year forecast		
Projects and support activity						
Integration of employment and skills	▪ Joint board established but there are complex interdependencies across partners and projects. ▪ IES trials start in September 08 ▪ JCP employment and skills implementation pilots underway	Amber /red				
UK Commission for Employment and Skills	▪ Operational from 1 April 2008 ▪ sponsorship arrangements in place	Amber /green				
Skills Accounts	▪ Scale of work in preparation for the launch of universal trials in SE and E Midlands in September.	Amber /red			Delayed decision on SSC re-licensing	
Train to Gain growth plan	▪ Performance behind profile but Plan for Growth starting to come on stream	Amber/ red			budget still well underspent	
HE – employer co-funded provision	▪HEFCE has confirmed that the 5,000 entrants target for 08-09 will be met	Amber/ green				
Higher level skills pathfinders	▪ LSC and HEFCE designing options to simplify the experience of employers and individuals	Amber/ green				
Enabling capabilities	Assessment				**Improvement actions**	
Customer focus - marketing/ comms						
Leadership						
VFM						
Governance – perf. management						
Partnerships						
Horizon scanning /Planning						
Analysis – data, research/evaluation						

Illustrative projects – not the full range of activity. Needs to be the 5/6 projects critical for the delivery of the DSO/PSA.

Periodic report 'programme performance'
DIUS Departmental Strategic Objective 1

Programme	Performance			Cost			Key risks	Mitigation
	Plan targets	Actual	Full year forecast		YTD	Full year forecast		
Technology Strategy Board Key outputs							Need clear well informed strategy Possible role confusion	Develop Connect and Catalyse Clarity of linkages
Innovation platforms Progress to planned growth Leverage	5 IPs up and running	5	5				Need to develops two additional platforms	
KTPs ▪ How many KTPs live ▪ Participant assessment ▪ Leveraged funding	1,002 78% 3.01 : 1	1,048 82% 4.4 : 1	1,048 82% 4.4 : 1		23,624	23,624		
Scorecard ▪ Leadership ▪ Challenge innovation ▪ Technology ▪ Innovation climate ▪ Governance	Overall RAG rating from scorecard							
DESIGN COUNCIIL Design for Business Designing demand							Need to review the take-up rate on Designing Demand programme in in six regions	
Scorecard								
NESTA Innovation challenges Creative pioneers								
Scorecard								

Detail is provided in a monitoring sheet for each programme

Illustrative performance data reflecting strategy and delivery chain analysis

The key programmes should reflect those critical to the delivery of the DSO

Appendices

We outline in these appendices an approach to assessing the relevance, measurability and costability of strategic objectives.

This approach is set out in two documents:

- a **framework for assessing the relevance, measurability and costability of departmental strategic objectives**, based on the four factors set out in our model of effective performance management, namely:

  – focusing on outcomes;
  – understanding what drives performance;
  – managing operational activities; and
  – responding to the external environment.

  This framework is set out at Appendix A.

- a **self-assessment questionnaire** for organisations to determine their own performance against the framework described above and to identify how it they improve the relevance, measurability and costability of their strategic objectives.

  This questionnaire is set out at Appendix B.

Appendix C contains a glossary of some of the terms and abbreviations used in this report.

Appendix A

A framework for assessing the relevance, measurability and costability of strategic objectives

	Relevance	Measurability	Costability
Focusing on outcomes	Does the strategic objective cover all relevant desired outcomes for the Department? Do the desired outcomes identified cover all aspects of the strategic objective?	Is the strategic objective specific, measurable, achievable, relevant and timebound? Do we monitor actual departmental outcomes against the strategic objectives and desired outcomes? Are we able to measure achievement of the desired outcomes and, therefore, achievement of our objectives? Do the indicators we use to measure our performance tell us what we need to know? Are the indicators timely enough to inform decision making?	Can we determine the total cost of delivering the departmental outcomes and meeting the departmental strategic objective?
Understanding what drives performance	Do we understand the different factors that impact on the desired outcomes? Do we know what we can do to deliver these outcomes? Do the programme and partnership outputs help us to achieve the desired departmental outcomes?		Can we determine the total cost of delivering programme and partnership outcomes? Do we know how varying the level of resources input impacts on the achievement of programme and partnership outputs? Do we know how varying the level of programme and partnership outputs impacts on the delivery of outcomes?

	Relevance	Measurability	Costability
Managing operational activities	Do all programme and partnership inputs, activities, outputs and outcomes relate to the strategic objective and desired outcomes? Do programmes and partnerships achieve the desired outputs?	Do we monitor indicators of economy, efficiency and effectiveness of programme and partnership activities? Do we monitor actual programme and partnership outputs against planned outputs? Do the indicators we use focus on an appropriate range of areas, such as volume, cost, quality and timeliness of outputs achieved? Do we have an appropriate mix of forward- and backward-looking indicators?	Can we determine the direct costs to the department of programme and partnership inputs, activities and outcomes? Can we identify and apportion indirect costs to programme and partnership inputs, activities and outcomes?
Responding to the external environment	Do we understand the key external factors over which we have no influence or control, which could impact on our ability to deliver the desired outcomes? Do we have mechanisms for identifying potential issues and assessing their impact on our ability to deliver our desired outcomes? Do we have mechanisms for formulating a response to potential issues and integrating this into programme and partnership activity? Are we confident that we will not get surprised by developments in the external environment that we had not anticipated?		

Appendix B

Self-assessment questionnaire for assessing the relevance, measurability and costability of strategic objectives

Guide to scoring

4	Yes, definitely
3	Yes, but could be improved
2	In some areas, but not consistently
1	No, not really
0	No, definitely not

#	Question	Score	Action
A:	**Focusing on outcomes**		
A1	Does the DSO cover all relevant desired outcomes identified for the Department?		
A2	Do the desired outcomes identified cover all aspects of the DSO?		
A3	Is the DSO specific, measurable, achievable, relevant and timebound?		
A4	Do we monitor actual departmental outcomes against the strategic objectives and desired outcomes?		
A5	Are we able to measure achievement of the desired outcomes and, therefore, achievement of our objectives?		
A6	Do the indicators we use to measure our performance tell us what we need to know?		
A7	Are the indicators timely enough to inform decision making?		
A8	Can we determine the total cost of delivering the departmental outcomes and meeting the departmental strategic objective?		
	Total score for focusing on outcomes	/ 32	
B:	**Understanding what drives performance**		
B1	Do we understand the different factors that impact on the desired outcomes? Do we know what we can do to deliver these outcomes?		
B2	Do the programme and partnership outputs help us to achieve the desired departmental outcomes?		
B3	Can we determine the total cost of delivering programme and partnership outcomes?		
B4	Do we know how varying the level of resources input impacts on the achievement of programme and partnership outputs?		
B5	Do we know how varying the level of programme and partnership outputs impacts on the delivery of outcomes?		

#	Question	Score	Action
	Total score for understanding what drives performance	/ 20	
C:	**Managing operational activities**		
C1	Do all programme and partnership inputs, activities, outputs and outcomes relate to the DSO and desired outcomes?		
C2	Do programmes and partnerships achieve the desired outputs?		
C3	Do we monitor indicators of economy, efficiency and effectiveness of programme and partnership activities?		
C4	Do we monitor actual programme and partnership outputs against planned outputs?		
C5	Do the indicators we use focus on an appropriate range of areas, such as volume, cost, quality and timeliness of outputs achieved?		
C6	Do we have an appropriate mix of forward- and backward-looking indicators?		
C7	Can we determine the direct costs to the department of programme and partnership inputs, activities and outcomes?		
C8	Can we identify and apportion indirect costs to programme and partnership inputs, activities and outcomes?		
	Total score for managing operational activities	/ 32	
D:	**Responding to the external environment**		
D1	Do we understand the key external factors over which we have no influence or control, which could impact on our ability to deliver the desired outcomes?		
D2	Do we have mechanisms for identifying potential issues and assessing their impact on our ability to deliver our desired outcomes?		
D3	Do we have mechanisms for formulating a response to potential issues and integrating this into programme and partnership activity?		
D4	Are we confident that we will not get surprised by developments in the external environment that we had not anticipated?		
	Total score for responding to the external environment	/ 16	
	Total overall score	/ 100	

Appendix C

Glossary of terms

HEFCE	Higher Education Funding Council for England
HEI	Higher Education Institution
HEIF	Higher Education Innovation Fund
KTN	Knowledge Transfer Network
KTP	Knowledge Transfer Partnership
LSC	Learning and Skills Council
NESTA	National Endowment for Science, Technology and the Arts
NMS	National Measurement System
OGC	Office of Government Commerce
PSRE	Public Sector Research Establishment
RC	Research Council
RDA	Regional Development Agency
TSB	Technology Strategy Board
TTG	Train to Gain
UKIPO	UK Intellectual Property Office (formerly the Patent Office)
VFM	Value for Money