



Capability Reviews

Tranche 2: Common themes and summaries

Foreword

My long-term aim as Head of the Home Civil Service is to develop a culture of excellence in every part of the organisation.

The Civil Service needs to position itself to be able to meet the challenges of rapidly changing domestic and international circumstances, as well as rising public expectations, over the decades to come. And, in the best traditions of the Civil Service, we must have the right skills to deliver the priorities of any elected government of whatever persuasion. To do this, we must be flexible, adaptable, nimble and skilful. We should be proud of our work, passionate about improving and clear about the need for more pace and professionalism.

As Head of the Home Civil Service, I am responsible for ensuring that the whole Civil Service has the required set of capabilities, to lead and deliver public services well into the future. I commend what we have already achieved, but do not shirk the challenge of how much further we need to go.

In particular, we need to:

- be recognised by ministers and by external bodies as a strong source of expert, objective policy advice, trusted by all to be honest, impartial and to act with integrity;
- have highly developed policy and strategic capabilities, and an understanding of those who deliver and use public services;
- deliver world-class, citizen-centred services, frequently in partnership, learn from the best examples of change and have the confidence and skills to apply what we learn; and
- improve some aspects of current performance, and soon.

We are fully committed to tackling all of the above issues, and urgently.

It is this thinking that led to the decision to undertake Capability Reviews, the first of their kind in central government. The programme was launched with the full support of the Prime Minister and my permanent secretary colleagues. The reviews form a rolling programme across Whitehall, with 17 reviews to be completed and published.

In July 2006, we published the first four Capability Reviews. These were for the Department for Education and Skills, the Department for Work and Pensions, the Department for Constitutional Affairs, and the Home Office. These are big delivery departments representing nearly half of the Civil Service.

The first tranche of reports included the key actions the departments would be taking to address the areas for improvement identified in the reports. We will report formally on progress in summer 2007. But it is already clear that strong progress is being made.

The tranche 2 reports, which we publish today, are about smaller departments where influencing skills are the key to delivery. They are for the Department of Trade

and Industry, Communities and Local Government, and the Cabinet Office. The findings of the reports reinforce the findings of the tranche 1 reviews, particularly around the need to sharpen the strategic focus on the central operations of each department. For my own department at the centre of government, the Cabinet Office, this means continuing with existing reforms further and faster to drive the transformation of the Civil Service as a whole. All three reports contain ambitious actions and robust mechanisms for monitoring progress.

Capability Reviews assess each department's capability to meet its future challenges. They do this objectively against an understanding of those challenges, and do not attempt to compare departments with widely differing scope and objectives. Their conclusions are all firmly grounded in objective evidence compiled with the help of review team members drawn from the public and private sectors. The findings of the reviews are reviewed for consistency by a moderating panel of experts, which includes members from outside the Civil Service.

The reviews have been conducted with the full cooperation and support of the departments. To be effective, they have, of necessity, been in-depth in gathering facts and evidence, objective in their findings, and challenging for those under review. I would like to thank everyone involved, particularly the members of the external review teams, staff within the departments themselves, and staff in the Capability Reviews Team in the Cabinet Office, and especially the permanent secretaries and their Secretaries of State.

The focus of the reviews is on future needs rather than auditing the past. The primary judgements assess the strengths and weaknesses of departmental capability to meet future expectations of citizens and ministers.

The reviews are key to helping permanent secretaries improve their departments. Each department, in response to the reviews, has committed to deliver on key actions in order to address areas where capabilities need to be strengthened, and to which they can be held to account. Progress is already being made and the momentum for a step change in capability and performance is now building.

The details of each review are in the separate reports for each department. This report summarises the findings and actions as they relate to the public service reform agenda. It also sets out how the process will move forward and how departments will be held to account for delivery.



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Cabinet Secretary and Head of the Home Civil Service

December 2006

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1. Overview of tranche 2 departments

Each of the departments in tranche 2 takes the lead on some very ambitious and wide-reaching government objectives and each faces its own set of challenges:

- The Cabinet Office has an overarching aim to make government work better.
- Communities and Local Government has a vision of prosperous and cohesive communities offering a safe, healthy and sustainable environment for all.
- The Department of Trade and Industry's (DTI's) purpose is to create the conditions for business success and to help the UK respond to the challenge of globalisation.

The individual departments cannot deliver on these challenging objectives on their own. They are reliant on close and cooperative working amongst other government departments, with the wider public and voluntary sectors, and with other partners. Broadly, the departments in tranche 2:

- have some delivery outcomes that are highly aspirational, and difficult to track and measure;
- are organised around stakeholder groups and across multiple delivery streams as the lead (but not sole) government sponsor;
- deliver a number of ultimate outcomes to the citizen through others, rather than directly, and do so in complex delivery environments and through lengthy delivery chains;
- use soft levers, such as influence, support and partnerships (rather than direct control), to create conditions in which others can be more successful;
- need to work effectively across boundaries with other government departments, agencies, non-departmental public bodies and other arm's length bodies, including local authorities; and
- have an external and outward-facing leadership role.

The complex delivery environments of these departments present a particular challenge to the way they are organised, managed and led. They all need:

- influential, confident and visible leaders who can work effectively across organisational boundaries and responsibilities to deliver better public services;
- appropriate departmental structures and business models to support the various agencies and partners in delivery chains to work in a coordinated and linked way, streamline delivery, and share learning and best practice;
- a framework of effective cross-departmental working within a machinery of government that can focus on the outcomes that matter; and
- the right internal departmental systems, practices and processes to support delivery, including the best use of evidence in decision making, the right measures to support a performance management framework and continued improvement in business processes such as finance and HR management. This 'corporate glue' provides the unifying sense of purpose to ensure and measure effective delivery.

The next section explores the relationship between these requirements and the common themes identified in the reports of tranche 1 of Capability Reviews.

2. Common themes

The tranche 1 of Capability Reviews looked at four of the biggest public service delivery departments, accounting for nearly half of all UK civil servants: Home Office, Department for Education and Skills, Department for Constitutional Affairs and Department for Work and Pensions. Those reviews identified four common themes that are critical to building capability in the Civil Service to meet the challenges of the future.

The three departments in tranche 2 are very much smaller, employing less than 5 per cent of the Civil Service. Although these departments are different in size and kind from those in the tranche 1, some of the findings of the tranche 1 reviews have inevitably recurred, for example the need for stronger departmental boards, and better management of our people. Overall, the issues common to each of the departments in the second tranche provide further reinforcement and amplification of the common themes from tranche 1.

Addressing these will position the Civil Service to respond to those domestic and international trends that will drive the needs of public services over the decades to come.

The common themes are:

1. **Leading from the centre** – how the core of each department can better perform the role of strategic leadership from the centre by focusing on high-level strategy, managing performance, and ensuring that staff have the right skills.
2. **Improving the way we deliver** – by looking more carefully at the model we choose for each public service, making sure that this is the right model for the task rather than an accident of history. This also means, where appropriate, introducing more diversity and contestability in the provision of public services, through, for example, competition, contracting out, public–private partnerships, trusts and other means.
3. **Responding to citizens, businesses and communities to shape services** – through developing a better understanding of what society wants, getting better information about people’s experiences of services, and using this to design service provision more effectively.
4. **Skills, capacity and capability reforms** – to make sure staff have the skills and resources to deliver world-class levels of service to their customers and stakeholders.

3. Theme 1 – Leading from the centre

The Civil Service recognises that great leadership is central to strengthening capability. It has done much in recent years to improve its leadership cadre through intensive leadership development programmes, talent management, and recruiting a diverse mix of talented individuals from the wider public and private sectors.

Against this backdrop, however, the tranche 2 Capability Reviews identified a particular challenge for the departments in the second tranche. Each has a need for leaders who can operate effectively in their challenging delivery environments by influencing across complex and dispersed delivery chains and affecting outcomes without direct leverage.

Developing influential, confident and visible leaders who can work effectively across organisational boundaries and responsibilities

The culture of Whitehall has developed a leadership style over many years in which leaders are at their most comfortable within their own directorate or accounting officer responsibilities. Taking responsibility for specific accountabilities is, of course, a strength and to be commended and continued in the future, but the demands of 21st century government require leaders who can inspire and operate across boundaries and specific responsibilities.

This is a different style of leadership and one that is relatively scarce. It is, however, especially important to the departments under review in this tranche as they attempt to:

- exercise leadership across big domains of influence, whether central or local government, or business and the economy;
- join people together to achieve policy outcomes and public service improvements where the benefit may be found in other parts of the system from those where the initial costs are incurred; and
- maximise the collective impact on some of the most challenging problems faced by government, whether this is the impact of globalisation or new technologies, or the most difficult social challenges such as social cohesion and integration.

Good examples on which to build include:

- The Cabinet Office heads of profession have established successful professional networks across government in communications and IT.
- Senior staff in Communities and Local Government are using floor meetings, intranet polls, question time and voting events to become more visible and to listen more effectively to staff and stakeholders.
- DTI has taken steps to bring in a range of different skills and backgrounds, including significant numbers of senior staff with business experience, has developed new approaches to cross-boundary working, and is continuing to broaden its talent pool.

The Cabinet Office is responsible for supporting transformation in the Civil Service and aligning people management, development and deployment practices with current and future policy and delivery needs.

The findings from tranches 1 and 2 emphasise the increasing challenge to the centres of departments to add more value and provide effective leadership for the whole delivery system – not just their own staff. It is clear that, to meet that challenge, they need better support from the centre of government and more effective corporate leadership across the Civil Service.

As a result, the Cabinet Office has:

- implemented a new leadership framework for the Senior Civil Service, as part of the Professional Skills for Government framework. All Senior Civil Service staff are assessed against common and challenging standards for leadership;
- developed a clear corporate role for the ‘top 200’ leaders in the Civil Service;
- initiated cross-government projects to tackle common capability challenges identified in tranche 1; and
- started to produce a comprehensive People Strategy for the Civil Service.

The newly independent National School of Government is also developing and delivering a range of tailored and high-quality leadership programmes and talent development schemes. The Sunningdale Institute harnesses the expertise of top academics and leaders to the challenge of improving Civil Service capacity.

4. Theme 2 – Improving the way we deliver

Business and delivery models are the mechanisms through which departments organise themselves, their agencies and other bodies in delivery chains, to deliver services. The tranche 1 Capability Reviews cast doubt on whether some existing business models remained appropriate for the current delivery challenge or whether they were simply inherited and remained as accidents of history.

The tranche 2 reviews have raised similar issues. They show the importance of a coherent approach to delivery through arm's length bodies, and the synergies that can be achieved from a more joined-up approach. They also show that there is scope for improving the understanding of appropriate business models, how they link together and, ultimately, the effectiveness of different levers to improve delivery to the public.

Linking, coordinating and monitoring to deliver in a joined-up and coherent way

The Capability Reviews found some examples of unclear operating frameworks. They observed leaders within departments whose main focus was a particular part of the business and its external stakeholders, rather than delivery of the department's objectives as a whole. This weakens the departments' impact.

In some cases, departments were not seen as a single organisation but as a number of organisations held together in a loose federal structure with little agreement on how to organise this federation to deliver maximum value. The Capability Reviews found weaknesses in integrating different strands of work within an overall stakeholder focus, and delivery agents and partners commented on the lack of strategic oversight.

The Capability Reviews have prompted three key questions.

- 1. Is there clarity about who does what and why?** The Capability Reviews indicated that departments' delivery systems are increasingly complex, with a wide range of partners and delivery agents, but without clear respective roles based on what works best in what circumstances.
- 2. Does the departmental centre take appropriate ownership of delivery in its agencies, arm's length bodies and other partners?** The Capability Reviews found that this was variable and the approach to monitoring was inconsistent. The basis of the relationship between the departments and their agencies or, in the Cabinet Office's case, between the various business units at the centre of government and departments, is not always clear or applied consistently. In some cases, the relationships focused on prescription and risk-averse performance management rather than on strategic management of outcomes.
- 3. Could operating models be redesigned?** Each of the departments works with or through a set of principal stakeholders at various levels. The Capability Reviews found that departments had given insufficient thought to how these

interactions could be improved and simplified to benefit end users and stakeholders.

Each department needs to be clearer about:

- the functions the centre must perform to manage each delivery chain;
- the performance issues the centre must address to play its role in improving delivery; and
- the interventions the centre should make to effect transformational change and improve delivery outcomes.

Opportunities for better customer segmentation, streamlining and rationalisation and for better use of shared delivery channels within a clear strategic framework have not yet been fully explored. Departments need explicitly to determine the right models for each delivery chain and be sure that those models:

- are the right ones to deliver;
- can be operated in a way that eliminates silo working;
- are streamlined to remove duplication; and
- can become more stakeholder focused.

To ensure the right business models, each department must have a clear understanding of how the levers employed by it, other departments and its arm's length bodies contribute to outcomes.

There are already examples of good practice:

- The recently formed Cabinet Office Delivery and Transformation Group brings together the near-term delivery, medium-term capability and longer-term transformational agendas for particular areas of government in a more joined-up way.
- Communities and Local Government's work on housing and regeneration shows good commitment to more effective partnering around key outcomes.
- DTI is developing means through which it can assess the effectiveness of delivery of regional development agencies (RDAs).
- A new Sunningdale Institute will bring together external experts and civil servants to carry out a piece of intensive work looking at the current design of their organisations and reviewing how aligned these core components are in delivering effective organisational outcomes.
- The Service Transformation Programme, led by the Cabinet Secretary and the Permanent Secretaries' Steering Group, aims to improve user-based public services.

5. Theme 3 – Responding to citizens, businesses and communities to shape services

Each department in tranche 2 has Public Service Agreement targets that are shared with one or more other departments. The reviews have highlighted the importance of government departments being clear about their roles and responsibilities and being equipped to work effectively together. The issue is less one of structure and more one of effective operation across departmental boundaries and responsibilities, to ensure effective service delivery and improve the consumer interface.

There is currently little capacity at the centre for taking a strategic delivery overview of the total government machinery. The tranche 1 reviews reflected on the role of stakeholders in shaping services whereas, in tranche 2, the issue emerging was more one of the ability of the government machinery to respond collectively to consumers' overall needs.

Concentrating on the outcomes we need, and organising around them

An important theme of the Capability Reviews in this tranche was the need for departments to become more than the sum of their parts to deliver their ultimate visions.

All three departments recognise the importance of making their high-level visions a reality for their staff and stakeholders, to give a sense of common purpose and direction, and prioritised actions for delivery. There should be a visible thread that runs from a department's high-level aims and objectives to individual team, agency, and business partner plans to improve collective working. The Capability Reviews have shown that, while high-level strategies can be clear, there is not always a clear sense of the outcomes needed to achieve them. An opportunity exists, therefore, to improve the connections along this thread to enhance delivery.

The tranche 2 departments recognise the importance of focusing on the outcomes that will make the biggest contribution to achieving their vision, but the following challenges remain:

- defining the outcomes that will deliver the departments' visions, to give strategic clarity to staff and stakeholders;
- using the vision statements to drive the direction and performance of the organisation and to give individuals a focus on outcomes on a daily basis; and
- delivering the outcomes and making this happen (or realising this) at the operational level.

Making the right connections across government

In order to make an impact on their challenging agendas, both DTI and Communities and Local Government need to create effective partnerships around the government objectives on which they lead. In each case, neither holds the key to all the

government interfaces with their principal stakeholders (businesses and local government respectively) and both have to work in a coordinated and coherent way with other government departments.

The Capability Review of the Cabinet Office recognised the need to provide an effective operating framework which is clearer about:

- functions that belong in the centre and those that belong in departments;
- oversight of cross-departmental policy issues and delivery priorities; and
- the role of the Cabinet Office in governing this.

The Capability Reviews found some confusion amongst stakeholders about departmental roles and responsibilities and some unhealthy tension between departments. They found room for improvement in the way that different departments are organised and connect together to provide a seamless policy and delivery front to stakeholders. The Cabinet Office, in its response to the Capability Review, has set itself the target of defining more clearly how things get done across government. This includes a better understanding of what prevents effective cross-departmental working.

There are already examples of good practice:

- The Cabinet Office has taken action to remove functions that no longer fit with revised aims and objectives.
- New groups of permanent secretaries have started to tackle key Civil Service management issues collectively.
- Communities and Local Government has demonstrated a new approach to partnership working with other government departments, to achieve a common set of outcomes that strengthen community cohesion, in the development of its local government White Paper, *Strong and Prosperous Communities*.
- Similarly, the fresh thinking on local area agreements and performance management for local government has been received positively by other government departments. Communities and Local Government is also making progress on working with external partners and other government departments to tackle issues around particular places.
- DTI is now periodically holding successful joint board meetings with HM Treasury and other government departments.
- DTI has worked with the Ministry of Defence, the Foreign and Commonwealth Office and the Department for International Development to streamline export licensing.

6. Theme 4 – Skills, capacity and capability

The tranche 1 Capability Reviews identified the need for corporate services to change to reflect the shift in focus to delivery across the Civil Service. The latest Capability Reviews have reinforced the need for excellent support services to enhance operations in a complex delivery environment, and the need for a particular type of leadership to make this work. The Capability Reviews noted scope for improvement in systems, processes and performance management, to provide the right platform for high-level performance and prioritisation across all departments.

Improving corporate systems and discipline to support delivery

Each department needs good systems and processes (the ‘corporate glue’) to provide a unifying sense of purpose, and ensure and measure effective delivery. This is particularly important for the smaller strategic departments, including those under review here, where the visions are big and broad and the actions initiated from them can have such far-reaching implications.

Each person in those departments needs to be equipped with the right knowledge, evidence and best practices to support their activities. The departments themselves need to be clear about the performance of their overall efforts. In each case, more needs to be done to invest in the corporate systems and disciplines to achieve these ends.

The Cabinet Office also has a particular role in improving common standards and processes across the whole of the Civil Service. Heads of profession in areas such as HR, finance and IT are already driving improvements in professionalism, standard systems and processes, and the effectiveness of these functions, in order to achieve efficiency gains across the whole public sector. Improvements in skills and capability are the focus of the Professional Skills for Government framework.

The Capability Reviews found that this was an area being addressed by the departments:

- The Cabinet Office is developing new management systems to provide the support necessary to deliver excellent services.
- DTI has ambitious plans for improvement across its corporate services framework and is well placed to implement them.
- Communities and Local Government has identified skills gaps in economic analysis and in programme and project management and is developing plans to fill them.

Where necessary, the departments have made key appointments at board and director level to strengthen finance, HR and other corporate functions and to sharpen focus and challenge.

A good evidence base to support decision making

A good evidence base is key to effective decision making in response to future challenges. The highly aspirational nature of the departments' objectives makes the costs and benefits of delivery difficult to track and measure. It is important that departments find ways of measuring the impact of their various activities and prioritise accordingly. The Capability Reviews found evidence of a general need to improve analytical capacity, including:

- strengthening the analytical evidence base and evaluation;
- developing a better sense of what works and why in delivery, and for that knowledge to be applied consistently; and
- understanding better the baselines, outcomes and the link between inputs and outcomes.

Good examples already exist, including:

- a comprehensive evidence base and regular assessments of the UK's economic position to accompany the DTI strategy;
- the Barker Review of Land Use Planning;
- the Energy Review at DTI; and
- the Prime Minister's Delivery Unit's work with departments on key delivery priorities.

Improving learning and sharing

The Capability Reviews have shown that there is scope for improved learning and sharing across departments and their delivery chains. It is important that good practice spreads across the Civil Service. Departments are already coming together to share good practice and address common challenges as part of their responses to the Capability Review programme. Permanent secretaries and other senior leaders are working together in groups to tackle key overarching issues for the Civil Service. A key role for the Cabinet Office and the leaders of the Civil Service will be to enable and encourage this further in the future.

7. Making improvements

These reviews are not an end in themselves – they are designed to create actions by which permanent secretaries can improve their own departments and from which we can all learn.

Once the initial review of each department is published, the permanent secretary's response becomes a commitment to the Cabinet Secretary as well as to his or her stakeholders.

Taking responsibility for change

- Departments' boards are fundamentally responsible for monitoring the delivery of their own action plans, with non-executive directors playing a key role.

Accountability

- On behalf of the Cabinet Secretary, the Capability Reviews Team will provide an assurance role that fits with departments' own processes.
- The Cabinet Secretary will hold permanent secretaries to account for progress against the key actions contained in the action plans.
- The Cabinet Secretary will hold stocktaking sessions with all departments six months after publication. These will be built around short self-assessments produced by departments and will be assured by the Capability Reviews Team drawing on input from review team members and non-executive directors.
- The Capability Reviews Team will conduct and publish a re-assessment after two years so that we can ensure that the step change in capability we all seek happens in practice.

Cross-departmental working

- The programme will look to broker further support for departments, where needed, to help them to deliver the key actions.
- The review process will highlight where good practice exists and ensure that this is shared with other departments facing similar challenges.





Because it is not appropriate for the Cabinet Secretary to hold himself to account for progress on his own review, additional arrangements have been put in place to ensure that he receives the same scrutiny and challenge as other departments.

8. Summary of assessments, key findings and actions




Cabinet Office

Assessment of capability for future delivery




Leadership

L1	Set direction		Well placed
L2	Ignite passion, pace and drive		Well placed
L3	Take responsibility for leading delivery and change		Development area
L4	Build capability		Urgent development area

Strategy

S1	Focus on outcomes		Well placed
S2	Base choices on evidence		Development area
S3	Build common purpose		Development area

Delivery

D1	Plan, resource and prioritise		Urgent development area
D2	Develop clear roles, responsibilities and business model(s)		Urgent development area
D3	Manage performance		Development area

The model of capability is shown at Annex A.
The assessment categories are shown at Annex B.

Key findings

The Cabinet Office has the challenge of leading the Government’s programme to transform the delivery of public services and produce a step change in the capability of the Civil Service. It is redefining the role of the ‘centre’, its approach to supporting other government departments and how it measures successful outcomes.

The Capability Review found that the Cabinet Office had a clear vision for the future of the Civil Service and a clear direction of travel for itself. The review also found evidence of very effective performance, where Cabinet Office is able to combine a clear and accepted role with acknowledged professional authority.

However, the low overall level of the assessment reflects the gap between the current capability of the Cabinet Office and the task it faces in the future. For much of the Cabinet Office's work, there is either ambiguity over the scope of its role and powers, or overlap between the work of various units. Clearer remits and business models are essential if the Cabinet Office is to exert effective leverage over service delivery from its position at the centre.

Key actions

In response to this report Cabinet Office will focus on two key areas: maximising its effectiveness as a central department and improving its internal management and cohesion. Both require Cabinet Office to sharpen its focus as a department. These actions will address the review's challenges to the Department to define more clearly how Cabinet Office enables the business of government, to strengthen capacity to lead transformation across the Civil Service, and to create coherent systems in support of a clear vision.





Actions include:

- engaging a permanent secretary from another Department to examine the role of the centre and specify where the centre is best deployed in influencing, negotiating, coordinating and directing roles in respect of its management of the Civil Service;
- developing a new strategy and set of operating principles, which will enable it to work more effectively within itself and across other government departments. Performance will be measured by how well targets across government are achieved;
- continuing to shed functions not related to its core business and delivering increased efficiencies to absorb 5 per cent real-term cuts annually to 2010/11. A further 10 per cent reduction in the size of the Department is planned for the year 2007/08;
- building on the existing Permanent Secretaries' Steering Group to create a strategic Civil Service Board. The group will be tasked with, amongst other things, official-level oversight of the Service Transformation Programme announced by the Chancellor in the 2006 Pre-Budget Report;
- putting in place work on cross-Civil Service management issues, led by permanent secretaries and directors. Work will include improving board effectiveness and a review of delivery models;
- overhauling the Corporate Development Group to reduce its size by 20 per cent and strengthen its professional capacity to enable it to lead change across the Civil Service, above all in developing staff capability;
- increasing board focus on strategic issues by using a new management committee to concentrate on the day-to-day management of the Cabinet Office. Two new non-executive directors have been appointed;
- appointing a new director of strategic finance and operations, to deliver exemplary resource allocation, business planning and financial processes;
- appointing a director-level change manager, reporting directly to the Cabinet Secretary, to draw up and oversee implementation of all aspects of the action plan; and
- giving far greater focus to the development of staff working in the Cabinet Office.




Communities and Local Government

Assessment of capability for future delivery




Leadership

L1	Set direction		Well placed
L2	Ignite passion, pace and drive		Well placed
L3	Take responsibility for leading delivery and change		Development area
L4	Build capability		Urgent development area

Strategy

S1	Focus on outcomes		Well placed
S2	Base choices on evidence		Urgent development area
S3	Build common purpose		Development area

Delivery

D1	Plan, resource and prioritise		Development area
D2	Develop clear roles, responsibilities and business model(s)		Urgent development area
D3	Manage performance		Urgent development area

The model of capability is shown at Annex A.
The assessment categories are shown at Annex B.

Key findings

Since its creation in May 2006, Communities and Local Government has taken forward an agenda for tackling some of the most demanding issues facing our society, including promoting strong and accountable local government; improving the environment and quality of life in neighbourhoods; tackling extremism at the local level; and extending equality and the benefits of economic growth to poor and deprived communities.

The Capability Review found good examples of leadership, driving forward an ambitious programme of change including a range of strong external appointments. The Department has begun to tackle a range of challenges, and staff and stakeholders are increasingly positive about the new vision for Communities and Local Government. People management, however, needs more strategic focus and planning and more ambitious plans are required to strengthen the Department's analytical function and help policy staff make full use of evidence of what works in what circumstances. A more rigorous approach to managing risk and performance is needed; partnerships with some key bodies are not fully effective; and there are skills gaps in project and programme management.

Key actions

The Department is clear that responding powerfully to the findings of the Capability Review will make it more effective in its service to ministers and the public. Its task is to build prosperous and cohesive communities that offer a safe, healthy and sustainable environment for all. These improvements in capability will be judged by their contribution to that goal.





Actions include:

- meeting the local government target of £5bn efficiency gains by March 2007, a year ahead of plans, and generating £860m of efficiency savings and a headcount reduction of 500 in the Department by March 2008;
- delivering more and better quality homes for the next generation, including 300,000 new homes in growth areas and an additional 160,000 homes in the Thames Gateway area by 2016;
- strengthening the Department's impact at the regional level by agreeing more focused priorities for Government Offices by the end of January 2007 and for the contributions of Regional Development Agencies to reflect the outcomes of the Comprehensive Spending Review 2007;
- publishing a detailed implementation plan for the local government White Paper, *Strong and Prosperous Communities*, by the end of January 2007 in consultation with key players in national and local government, with clear measures to track progress;
- establishing the Commission for Equality and Human Rights by October 2007;
- increasing the influence that local communities have over public service priorities in their areas through putting in place a further 63 local area agreements by April 2007;
- analysing rigorously what works and why in delivery and applying those lessons consistently across the Department by June 2007; and
- enhancing the knowledge base of the Department and increasing the number and profile of economists, scientists and other analysts over the next 12 months.




Department of Trade and Industry

Assessment of capability for future delivery




Leadership

L1	Set direction		Development area
L2	Ignite passion, pace and drive		Development area
L3	Take responsibility for leading delivery and change		Urgent development area
L4	Build capability		Development area

Strategy

S1	Focus on outcomes		Urgent development area
S2	Base choices on evidence		Well placed
S3	Build common purpose		Well placed

Delivery

D1	Plan, resource and prioritise		Well placed
D2	Develop clear roles, responsibilities and business model(s)		Development area
D3	Manage performance		Well placed

The model of capability is shown at Annex A.
The assessment categories are shown at Annex B.

Key findings

DTI has a pivotal role in ensuring economic prosperity in a period of transition to an open, globally integrated, knowledge-based economy. DTI has a difficult and challenging agenda. It operates in a complex environment, with few direct levers to create the conditions for business success and future prosperity. It has worked hard over the past five years to develop a clear strategic framework within which it defines its business plans. There is a strong evidence base and strong delivery in individual business areas (particularly arm's length bodies). It is weaker, however, in leadership and its focus on outcomes and, to an extent, this can reduce the Department's overall leverage and impact.

The Department is characterised by some lack of confidence and there is often poor recognition by others of what DTI does and achieves. Clarifying its role with those other parts of government that contribute to the same objectives, and then operating together effectively, is a critical part of its future capability.

Key actions

DTI recognises the importance of developing its capacity to deal with its future challenges and will focus on becoming a smaller, more efficient and agile department. The Department will concentrate its efforts on the outcomes that will create the conditions for business success and respond to the challenge of globalisation. The Department will address four main areas for action: clarity of purpose; leadership; standards and responsibilities; and delivery. These relate directly to the review's challenges to the Department.

Actions include:

- securing a new set of comprehensive, clear and deliverable objectives in the Comprehensive Spending Review 2007;
- Board leadership to create a strong, confident and effective department;
- making improvements to the business planning process for 2007/08 to assist in better prioritisation and performance monitoring;
- reviewing delivery arrangements against a new strategic, performance-based business model in which DTI will work with its delivery partners and agents to deliver its objectives, starting with:
 - working more closely with other parts of government on the delivery of joint objectives;
 - changing the role and reducing the size of the Small Business Service from April 2007; and
 - further reducing the headquarters headcount by 300 following restructuring, on top of the 25 per cent reduction achieved since 2004, and relocating additional posts to outside London by 2010;
- achieving year-on-year efficiency savings of 2.5 per cent, a year which is equivalent to £380m by 2007/08;
- improving the Department's monitoring of performance and the management information on which it relies, through a clearer and more focused balanced scorecard by the end of 2007;
- improving shared learning and best practice amongst the Department's executive agencies, non-departmental public bodies and other delivery partners;
- within the next year, defining standards of leadership relevant to the Department, identifying and filling any skills gaps, and relentlessly focusing on building the Department's leadership capacity;
- reinforcing the Department's commitment to diversity and its leadership of this agenda in Whitehall and the business community, through delivery of its diversity strategy over the next two years; and
- communicating and engaging effectively with staff and stakeholders.

Annex A: The model of capability



The model of capability has been designed specifically for the Capability Reviews. It was developed through consultation with senior leaders in Whitehall and external experts. The model is deliberately selective and designed to focus on the most crucial areas of capability – leadership, strategy and delivery.

The reviews provide an assessment of capability for departments, identify key areas for improvement and set out key actions to address these areas.

The scope of the reviews is to assess the capability of departments' senior leadership in the areas above, using the model of capability. The model enables judgements to be made against 10 elements across leadership, strategy and delivery, using an underlying group of 49 questions.

Each review has been carried out by the Capability Reviews Team with a team of external reviewers assembled specially for the department under review. These reviewers have been drawn from the private sector, the wider public sector and board-level members of other government departments.

The Capability Reviews Team will regularly review progress and provide support to help ensure that the department is on track to deliver.

Leadership

Key questions that test current capability

L1 Set direction

- How do you set a clear direction and articulate the vision to provide a compelling and coherent view of the future?
- How do you take difficult decisions, and do you follow them through?
- How do you generate common ownership of the vision amongst the board, the department and delivery owners?
- How do you maintain focus when faced with crises/system shocks? How do you balance this with the need to keep the vision up to date when circumstances change?

L2 Ignite passion, pace and drive

- Are you seen as role models in the department, inspiring the respect, trust, loyalty and confidence of superiors, peers and staff? Do you talk, listen and act on feedback and thereby demonstrate an understanding of the business?
- Do you display passion about meeting delivery outcomes?
- How do you engage personally with customers and staff in the department and across the system?
- How do you maintain energy and enthusiasm? How do you inspire staff to be proud to work for the organisation?

L3 Take responsibility for leading delivery and change

- Do you drive delivery by taking responsibility, welcoming challenging feedback on performance and learning lessons from successes and failures?
- How do you role-model an effective corporate culture of teamwork within the system? Do you and the senior leadership team act as an effective guiding coalition and initiate work across boundaries to achieve delivery outcomes?
- Do you accept the pressing need for change? Do you demonstrate your personal commitment to that change?
- How do you manage change effectively? How do you champion and drive through that change, addressing and overcoming resistance when it occurs?
- Are you open, honest, courageous and unflinching in delivering tough messages to your ministers and the department?

L4 Build capability

- How do you nurture talent and encourage innovation in order to build capacity?
- Do you have a leadership development/promotion process that is fair and transparent?
- How do you manage the performance of everyone by rewarding good performance and tackling poor performance?
- Do you get enthusiastically involved in identifying talent and building capability in individuals and teams?
- Do your culture, behaviour and staff profile reflect the diversity of the customers you serve?

Strategy

Key questions that test current capability

S1 Focus on outcomes

- Do you have one overarching set of clear and challenging outcomes, aims and objectives that will improve the overall quality of life for customers and benefit the nation?
- How do you work with ministers to develop strategy?
- How do you negotiate trade-offs between 'priority' policies?
- How do you work with other departments and partners external to government when developing strategy?

S2 Base choices on evidence

- How do you understand what your customers and stakeholders want?
- How do you identify future trends and plan for them? How well do you identify and manage the associated risks?
- How do you innovate by developing creative solutions to challenging problems? How do you ensure appropriate ambition?
- How do you choose between the range of options available?
- Once a strategic challenge has been identified, what process do you follow to address it, and who is involved?
- How do you ensure that your decisions are informed by sound evidence and analysis?
- How do you design systems that deliver your strategic objectives? How do you consider whole systems and understand the cost base?

S3 Build common purpose

- How do you align and enthuse the different players in the delivery chain to deliver?
- How do you remove obstacles to effective joint working? How do you share learning in order to ensure the strategy is delivered?

Delivery

Key questions that test current capability

D1 Plan, resource and prioritise

- Do you have the right skills, resources, structures and plans necessary to deliver the strategy as part of a clear model of delivery?
- Do you prioritise (and de-prioritise) and sequence deliverables, taking account of a proper risk management strategy, focused on change management priorities?
- Are your delivery plans aligned with the strategy? Are they robust and regularly reviewed?
- Are your delivery plans consistent with each other? Do they form a coherent whole that will deliver your strategy?
- How do you maintain a focus on efficiency and value for money?

D2 Develop clear roles, responsibilities and business model(s)

- Is the purpose of the departmental centre and headquarters functions clear?
- How do you ensure you have clear roles and responsibilities, rewards and incentives, which are understood across the delivery chain? Do they reflect the business model(s), and are they supported by appropriate governance arrangements?
- How well do you understand your business model(s)?
- How do you know whether you have the right balance between centralised and decentralised services?
- How do you identify and agree accountabilities and responsibilities for delivering desired outcomes across the delivery chain? How do you make sure that they are clear and well understood by all parties?
- How do you negotiate and contract with delivery agents, stakeholders and partners? How are these agreements documented and shared?

D3 Manage performance

- Do you have high-quality performance information supported by research and analytical capability? Does it allow you to track performance across the delivery chain?
- Do you actively respond to performance issues and follow them up?
- How effective is high-level programme and risk management across the delivery chain?
- How do you ensure and maintain effective control of the department's resources and the quality of its outputs?
- How do you know that your delivery chain understands customer needs and the drivers for satisfaction and responds to them?
- How do you ensure that your delivery chain captures and realises benefits?
- How do you feed this information back into the development of your strategy?

Annex B: Assessment categories



Strong – good capability for future delivery in place, in line with the capability model. Clear focus on the action and improvement required to deliver transformation over the medium term.



Well placed – well placed to address any gaps in capability for future delivery through practical actions that are planned or already underway. Is making improvements in capability and is expected to improve further in the medium term.



Development area – the department should be capable of addressing some significant weaknesses in capability for future delivery by taking remedial action. More action is required to close those gaps and deliver improvement over the medium term.



Urgent development area – significant weaknesses in capability for future delivery that require urgent action. Not well placed to address weaknesses and needs significant additional action and support to secure effective delivery. Not well placed to deliver improvement over the medium term.



Serious concerns – serious concerns about current capability. Intervention is required to address current weaknesses and secure improvement in the medium term. (NB only used infrequently, for the most serious gaps.)

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Publication date: December 2006

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Ref: 277216/1206

Prepared for the Cabinet Office by COI