



FROM: CHIEF SECRETARY  
DATE: 15 May 1985

(A)

PRIME MINISTER

**POLICY WORK AND THE FINANCIAL MANAGEMENT INITIATIVE**

Before the Financial Management Unit was disbanded at the end of 1984, it prepared 3 final reports on management topics:

- a. Policy Work and the FMI
- b. Resource Allocation in Departments - Role of the Principal Finance Officer
- c. Top Management systems, second report.

Copies have already been sent to all departments whose plans were set out in the FMI White Papers.

2 The reports at (b) and (c) are factual. I see no problem in releasing them, subject to a few excisions, on which departments are being consulted separately.

..... 3 The first report at (a) raises wider issues. I enclose a summary. It suggests a more rigorous approach to the way in which Ministers and Departments approach their task. If carried through, it should improve the analysis of policy and the discussions in the public expenditure survey, and also affect the quality of debate of these matters in Parliament etc. The suggestion that all proposals in Cabinet papers should include a short statement on the way in which performance will be assessed is a particularly interesting one.

4 I hope that we can agree that all reviews of policy and new policy initiatives should include a statement of the way in which performance is subsequently to be evaluated. Of course many reports already say something about this, but we should ensure this more systematically and then make sure that performance is actually tested against the agreed criteria.

5 As far as the proposal for Cabinet papers is concerned, a more selective approach is likely to be more effective. I should like to see a requirement that all policy proposals going to Cabinet Committees which have value for money implications should include a note about performance assessment. This might consist either of actual proposals or of an explanation why, with the agreement of the Treasury, something different is being suggested. If you agree, I should like to ask the Joint Management Unit to pursue this suggestion with the Cabinet Office. Accepting the recommendations will of course tend to put in sharper focus those instances where our policies have not fully met their objectives as well as those where they have done as well or better. But I think we should accept this risk, which will help to demonstrate our seriousness in making government more efficient.

6 Meanwhile it would be worth making the report publicly available, with a few editing changes. I would anyway propose to take out the references to Cabinet papers and to any other internal Government documents which we would not wish to make public. Full scale publication would be inappropriate, but I should like to make the report available to those who are most likely to be interested, including Members of Parliament, consultants, academics, and others. We will be asked about our response to the report, and it would be useful to give it a general endorsement by including a foreword. I would propose to make these arrangements known by means of an arranged Parliamentary Answer. Drafts are enclosed. If you agree I will arrange for low key publication of the edited report as soon as possible.

6 To summarise, I propose that:

- a. we should make the three reports publicly available subject to some editing;

- b. we should commend the paper on policy work in an arranged Parliamentary Answer and by adding a brief foreword;
- c. all policy reviews and new policy initiatives should include consideration of subsequent policy assessment;
- d. instructions to departments on the preparation of policy proposals for Cabinet Committees should include a requirement to consider subsequent policy assessment on the lines I have suggested.

I am sending copies to all Ministers in charge of departments and to Sir Robert Armstrong and Sir Robin Ibbs.

PR

PETER REES

## **POLICY WORK AND THE FMI**

### **1. SUMMARY**

1.1 The Financial Management Unit has looked at the implications of the FMI for policy analysis and evaluation in departments. We have concentrated on how departments assess what programmes of expenditure are actually achieving.

1.2 Our conclusions are based on a number of case studies on how departments deal with specific policy areas. This was supplemented by other case material and more general discussion.

#### **Main findings**

1.3 As some of our case work shows valuable progress is being made and good practice established in assessing the performance of programmes but there is scope for very considerable further improvement. In many areas:

- policy aims or purposes, where stated, are not expressed with sufficient precision to allow assessment of whether these purposes are being achieved or not;
- assumptions about the nature of the problem or conditions with which the policy is intended to deal are not made explicit and therefore not systematically tracked to see whether the assumptions remain valid; and
- assumptions about the link between the policy and impacts on the world outside are not made explicit and therefore not systematically tested.

#### **Benefits of Improved Performance Assessment**

1.4 Evidence from the case work shows that improvements in assessing the performance of policies can help to identify more quickly and more systematically outdatedness, misdirection or unsatisfactory results. In turn this can and should provide Ministers with more options for redirecting or adjusting programmes in ways which give greater room for manoeuvre for securing policy objectives within a given public expenditure total. Better assessment of programmes can also help Ministers to make the case for proposed changes in programmes to those affected outside Government.

1.5 We do not underestimate the difficulties in making improvements. Some of these are technical - for example identifying and developing appropriate performance indicators and output measures. The pressures of day-to-day business are also not conducive to adopting a systematic approach to performance assessment, particularly where results can be assessed only over a long timescale. But some of the case studies show that with well directed effort good practical progress can be made quickly, particularly in programmes directly funded and controlled by departments. We recognise that the pace of improvement might necessarily be slower in those programmes where departments' influence is less direct.

#### **Recommendations**

1.6 Recommendations are concerned not with techniques as such nor to introduce some new all embracing system or methodology. They aim to define good practice, and to facilitate its application more widely, and more quickly.

1.7 The recommendations are in three areas:

- The **organisation** of roles and responsibilities for performance assessment.
- The need for a comprehensive **approach to performance assessment**.
- The need for **enabling mechanisms** to establish firmly the required approach to assessing performance.

### Organisation

1.8 We believe there is a requirement to be clearer about the respective roles of policy, finance, and specialist divisions, and of operational units. We recommend that:

- Policy Divisions should take the lead in the monitoring and evaluation of policy, the use of resources, results, and performance - and for proposing and taking appropriate action.
- Finance Divisions have an important supporting role in the use of analysis and systems development. This will require an increased use of specialist skills. The finance function also has a particular responsibility, acting in support of top management, to challenge and question the adequacy of the way in which policy divisions perform their monitoring and evaluation role.
- Where the execution of policy is in a separate operational unit it is particularly important that explicit and clear links are established between such units and the relevant policy division. These links should provide for a two-way flow of information about objectives, resources and achievements in addition to more routine matters.

### Approach to Performance Assessment

1.9 Performance assessment consists of a number of separate elements, the importance of which is not always recognised. We recommend that, for effective performance assessment, policy divisions should collect and analyse information about:

- The effects of policies.
- The efficiency with which these effects are achieved.
- The environment within which the policy operates. It is assumptions about the environment which provide the justification for the policy in the first place, and which need to be kept under review if policies are not to outlive their usefulness.

### Enabling Mechanisms

1.10 The best time to establish a more systematic approach to performance assessment is when policy is being reviewed or a new policy initiative is being launched. We therefore recommend that:

- All policy reviews, however initiated, should lead to a clear statement of how the performance of the policy, as redirected, is to be subsequently assessed and the arrangements for doing so.

7 - As a matter of course, when a new policy initiative which involves significant public expenditure is launched the proposed plans for subsequent monitoring and evaluation should be clearly specified. The PFO should advise top management of the adequacy of these plans.

Where such policy proposals are contained in Cabinet Papers, a short statement on the arrangements for subsequent performance assessment should be included.

### **Role of Top Management**

1.11 There will be a need for top management:

- (a) to make clear that they accord this work high priority, and that they expect to receive from policy divisions improved analysis and information about the performance of programmes;
- (b) to consider the improved performance information when reviewing programmes and allocating resources (especially in PES); and
- (c) to be prepared wherever possible to set objectives which are drawn in sufficiently specific terms to enable policy divisions to monitor progress.

DRAFT PARLIAMENTARY QUESTION FOR WRITTEN ANSWER

To ask the Chief Secretary if he will make available the final reports of the Financial Management Unit.

SUGGESTED ANSWER

Yes. Copies of three reports, Policy Work and the Financial Management Initiative, Resource allocation in Departments - Role of the Principal Finance Officer, and Top Management Systems Second Report, are being placed in the Libraries of both Houses. They are useful background documents for Members and others who have an interest in civil service management matters, and a number of copies can be made available on request.

The Government shares the approach to policy management which is described in the report on Policy Work and the Financial Management Initiative and will be considering further how best to take advantage of the useful ideas which are discussed in that report.

DRAFT FOREWORD

Since this report by the Financial Management Unit is likely to be of interest to Members of Parliament, academics and consultants, and others who are concerned with management matters, it has been decided to make it publicly available. The report reflects the views of the members of the Financial Management Unit, and should not be read as a statement of Government policy. However the Government have indicated that they share the approach to policy management which is described in the report. They will be considering further, with the help of the Joint Management Unit which has been set up to carry forward the work of the FMU, how best to take advantage of the useful ideas which are discussed in the report.

2. This report, with the other reports prepared by the Financial Management Unit, is a helpful contribution to the continuing drive to improve the efficiency of Government.