



HM Treasury: Progress and next steps

Foreword

The first Capability Reviews were published in July 2006. Their purpose was to give honest and robust assessments of capability to central government departments and to identify the specific measures needed to ensure that the Civil Service is equipped to meet its future challenges. My aim was to develop a culture of excellence and continuous improvement in every part of the organisation and to ensure that the Civil Service was at the heart of the Government's commitment to delivering world-class public services.

Since then, the Capability Reviews Team in the Cabinet Office has reviewed 17 departments and worked with them to address areas highlighted for improvement. The team has worked with more than 100 external reviewers drawn from a wide range of backgrounds in the private, wider public and voluntary sectors, as well as directors general from other government departments. The team members have added a much-welcomed independence to the reviews and have shared their insights and experiences to help departments in their development.

Our progress report and the external validation of the Capability Review process by the Sunningdale Institute in 2007 demonstrated a picture of improvement, often against very challenging internal and external pressures. Our challenge is to sustain this improvement and build on this to deliver excellence in the Civil Service.

We know that the pace of external change will continue to increase so we need a Civil Service that is flexible and able to respond quickly and professionally to all new and emerging challenges. To that end, we are now revisiting the departments we have reviewed to assess progress and to discover and share best practice. This report on progress and next steps for the Treasury is the first step in that process.

I would like to congratulate the Treasury for making good progress over the last two years. In particular, I have been pleased to hear that the Department has remained committed to delivering on its vision for change despite the pressures arising from the unprecedented events of the last two years.

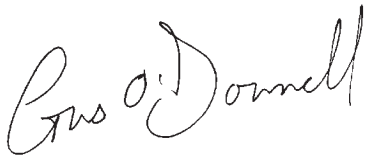
Effective departmental leadership remains the key to unlocking capability and departmental performance and I am pleased that there has been a strengthening of top teams in departments, supported by a new Civil Service leadership framework for the Senior Civil Service as a whole.

It is important that the Civil Service is able to turn the changes following the reviews into improved delivery in new and complex environments, with and through a range of delivery partners and stakeholders. To meet increasing public expectations, it will be important for departments to enhance their delivery capability and improve the way they work across departmental and sector boundaries. Although there is evidence of strong performance in these areas, I will look to the Capability Review programme to be the catalyst for further change.

I would like to thank and acknowledge the support of the review team who have made this progress and next steps report possible. The members of the team were:

- Amelia Fawcett CBE, Chair, Guardian Media Group;
- Andy Friend, former Chief Executive, John Laing PLC; and
- Bronwyn Hill, Director General, Department for Transport.

This report marks a further step towards the achievement of excellence and continuous improvement. Each department will respond by addressing particular areas for improvement identified in its review. The Capability Reviews Team, on my behalf, will continue to review progress but I will also expect departments to maintain a self-assessment of their capability in light of their current and future challenges.

A handwritten signature in black ink that reads "Gus O'Donnell". The signature is written in a cursive, flowing style.

Sir Gus O'Donnell KCB
Cabinet Secretary and Head of the Home Civil Service
December 2009

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1. The Department

The Treasury is the UK's economics and finance ministry. Its aim is to raise the rate of sustainable growth, and achieve rising prosperity and a better quality of life with economic and employment opportunities for all.

The Treasury is responsible for formulating and implementing the Government's financial and economic policy, protecting the public finances and promoting economic growth domestically and internationally.

It is one of the oldest government departments, and also one of the smallest, employing approximately 1,400 staff. In 2008/09, the Treasury Group (including the Office of Government Commerce and the Debt Management Office) had a budget of £200m, of which £140m is accounted for by the core Treasury.

The Department has two Departmental Strategic Objectives (DSOs) and one Departmental Corporate Objective (DCO):

- DSO1 Maintaining sound public finances
- DSO2 Ensuring high and sustainable levels of economic growth, well-being and prosperity for all
- DCO Enabling Treasury to deliver effectively and efficiently, and remain a strong, respected and professional economics and finance ministry

The Department is also formally responsible for leading on the Public Service Agreement to end child poverty.

The Chancellor of the Exchequer has overall responsibility for the work of the Treasury, together with other organisations that are part of the Chancellor's wider departments. The Department is overseen by the Treasury Board, which is chaired by the Permanent Secretary, and comprises ten executive members and four non-executive directors.





Since 2007, the world economy has faced unprecedented challenges, with the financial crisis of late 2008 precipitating a steep and synchronised global downturn. Reinforcing the international response, the Treasury has played a pivotal role in stabilising the domestic financial system through a series of interventions to secure individual financial institutions, address system-wide instability in the markets and get credit flowing in the economy again. Through measures in successive Budgets and Pre-Budget Reports, the Treasury has also set out comprehensive plans for both short-term fiscal stimulus to support the economy and medium-term fiscal consolidation, to put the public finances back on a sustainable footing.

This period has placed extraordinary demands on the Department. The nature of the policy challenge, the scale of the workload and the immediacy of the deadlines have been unprecedented. The underlying nature of the Department's responsibilities has fundamentally changed as a result. These events have tested the Department's capability in every area and, as such, the Department has had to maintain a determined focus on continuous improvement to its capability throughout this period.




2. Assessment of capability for future delivery

The Treasury has made notable progress since its original Capability Review in 2007. It has strengthened its leadership team and developed a clear vision and programme to deliver internal change, to which it has remained committed despite unprecedented demands as a result of the economic downturn. Staff engagement has increased and business planning and performance reporting improved. The Department needs to maintain this momentum by delivering on its people strategy, tackling shortfalls in basic business infrastructure and engaging better with stakeholders, both externally and across government.




Leadership

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

Strategy

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

Delivery

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

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

3. Review findings

Leadership

The Treasury has strengthened its leadership. It has built a more effective and cohesive Board which has maintained its commitment to the vision for change despite the unprecedented pressures arising from the challenges of the economic downturn. The Department can build on the progress made by increasing pace internally and being more decisive about change implementation. The Board needs to take steps to engage all staff, particularly in the more junior ranges, and to decide and deliver on its workforce strategy.

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- The Permanent Secretary has received considerable praise from both staff and stakeholders for his personal leadership. He has been steadfast and committed in his approach to progressing the corporate vision (Vision 2011).
- The Board has been strengthened, with changes made to executive membership and with the introduction of three new non-executive directors. Non-executive directors are playing a more challenging role both on the Board and throughout the business, for example in their membership of project implementation committees.
- The 2008 staff survey shows a marked increase in confidence in management, with 70 per cent of staff having confidence in senior managers within their Directorate, a rise of 14 percentage points from 2007. Staff see the Board as a more cohesive team, working individually and collectively to promote the Department's values and champion change.
- 'The Leadership Theme', supported by a Leadership Commitment Group launched in May 2008, has made tangible progress on improving corporate behaviour, for example with the introduction of clear expectations of Treasury leaders and benchmarked corporate objectives for staff at Senior Civil Service (SCS) level.
- The Department has improved its internal communication. Staff believe that the Board is more visible, and 75 per cent of staff (staff survey 2008) feel that they are kept well informed about what is happening in their Directorate. Staff have seen an improvement in Executive Management Group (EMG) communication, with 46 per cent feeling that the EMG does a good job on communicating, a 21 percentage point increase in the 2009 pulse survey when compared to 2007. Communication channels include the Permanent Secretary's monthly blog, Board Question Time, an updated intranet platform (The Red Box) and regular e-bulletins, as well as the EMG Plus forum which provides an opportunity for staff to provide views and feedback and to play a part in developing the change programme.

- Stakeholders across Whitehall and externally speak very highly of the intellectual capability of Treasury staff. Overall levels of staff engagement and commitment are good, with 86 per cent (staff survey 2008) being proud to be part of the Department (20 percentage points above the central government benchmark), 82 per cent supportive of its values and 80 per cent considering the Department as a good place to work (11 percentage point increase from 2007).
- The Department has increased staff resources and introduced specialist skills via both recruitment and secondment routes. Staff speak of improved learning and development opportunities and 75 per cent (staff survey 2008) say that their performance has improved as a result of skills developed over the year.

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- Confidence in the commitment to change has not yet permeated throughout the entire organisation. Staff survey scores on the management of change (35 per cent in 2008) have remained static and some staff speak of progress being slow, for example around Capability Review recommendations on stakeholder management and workforce planning. They point to the need for the EMG to move away from its current very deliberative approach to internal corporate change, fostered by a prevalent analytical culture, and for it to make decisions more quickly and drive delivery.
- Improvements in the engagement of SCS staff are evident, encouraged by, for example, leadership events and SCS breakfast meetings. While welcoming the new approach, some SCS staff speak of the need to involve and consult the group much earlier in corporate policy development to counter any perception that the engagement is only a gesture before implementation.
- Staff in more junior ranges, particularly in corporate service roles, feel undervalued and speak of the absence of opportunities for progression. The Department recognises that it has more to do to improve communication and engagement beyond the SCS. Only 36 per cent of staff (staff survey 2008) feel that they have a clear understanding of how the Treasury Board's Vision 2011 affects their work.
- While the Department has made recent progress in its resourcing, skill development and workforce planning, it has been slow to develop an explicit understanding of its needs for the future. The people strategy is still in draft form, and outcomes from the activity that has taken place have been limited.
- The 2009 Whitehall stakeholder survey indicates that 71 per cent of these stakeholders in regular contact with the Treasury feel that staff have insufficient experience. Both Whitehall and external stakeholders speak of an absence of breadth of experience and the need for greater diversity of background and skill set at all levels within the Treasury, including at Board level.

- While annual staff turnover levels have reduced from 34.1 per cent in March 2008 to 22.5 per cent in March 2009 (against a target of less than 25 per cent), stakeholder confidence is still undermined by the frequency of staff changes. Treasury managers point to the need to change the internal market drivers, which currently incentivise staff to move on quickly, and for a more focused effort to improve overall diversity which currently falls below performance targets in most categories.

Strategy

The Treasury is highly regarded for its analytical capability, strong evidence-based approach to policy making and its response to demands such as Pre-Budget Reports and Budget activity, G20 events and financial stability interventions. There has been limited progress on stakeholder engagement. The Department needs to engage more and earlier with its stakeholders, across the entire business.

The Treasury is highly regarded for its analytical capability, strong evidence-based approach to policy making and its response to demands such as Pre-Budget Reports and Budget activity, G20 events and financial stability interventions.

- The Department introduced its twin-track strategy in December 2008. 'The Way Forward' and 'Fulfilling Our Potential' set out clearly its outcome-based DSOs and DCO and the 'Themes' underpinning its corporate vision.
- There is a good understanding and buy-in among staff of the Department's purpose and this is evident in the 2008 staff survey scores, with 89 per cent of staff having a clear understanding of the purpose and objectives of the Department, and 86 per cent understanding how their team's objectives contribute to the Department's overall objectives.
- Whitehall and external stakeholders are united in their very positive views of the Treasury's analytical capability. They are also supportive of its widely held reputation for a strong evidence-based approach to policy making, with 68 per cent of Whitehall and 67 per cent of external stakeholders feeling that Treasury staff base their advice on evidence and sound analysis (2009 Whitehall and external stakeholder surveys).
- The Department has shown that it is able to respond to new and challenging circumstances and has learned from experience, for example in applying lessons from the Northern Rock intervention to ensure a faster, more efficient response to the handling of subsequent banking interventions.
- Both staff and stakeholders speak highly of the Department's excellent discipline and focus in relation to its core business, for example Pre-Budget Report and Budget activity. Its organisation and coordination of the UK G20 finance ministers meeting in Horsham was also well received by UK central government stakeholders and international peers.

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- The Treasury has responded well to the need to inform the public about current issues including, for example, in relation to responding to the economic downturn. In addition to the Treasury website, it has now launched YouTube and Twitter channels. The Department has created a new post of Director of Communications Strategy, has strengthened its Press Office and established an Economic Briefing Unit.

There has been limited progress on stakeholder engagement. The Department needs to engage more and earlier with its stakeholders, across the entire business.

- The Department has increased activity in stakeholder management since the original Capability Review, for example by sharing best practice across directorates. The 2009 stakeholder surveys suggest an overall sense of some improvement. However, the Treasury does not have a comprehensive Department-wide engagement strategy with outcome measures and clear lines of accountability, which is driven and overseen by the Board. This has contributed to a lack of significant progress in this critical area.
- Whitehall and external stakeholders still speak of the need for more openness and less micro-management, and for greater depth of experience and consistency in Treasury representation to get the best from relationships. The 2009 Whitehall stakeholder survey indicates that 38 per cent of such stakeholders think that the Treasury is effective at encouraging joined-up partnership in government work, 36 per cent that it is 'effective at sharing information, analysis, solutions, strategies, intentions and best practice' and 17 per cent that it involves stakeholders in policy development and decisions.
- The Treasury recognises that improvements in knowledge management within the Department have focused primarily on filing, storage and the need for better IT systems to support them, but that this does not address the whole issue. There remains the potential for valuable knowledge and experience to be lost when people move on, which contributes to reduced stakeholder confidence levels. The Department needs to create an environment where wider sharing of knowledge and experience, early in policy development, becomes the norm.

Delivery

The Treasury has improved its business planning and the availability of comprehensive management information to inform delivery. It is taking steps to improve capability in the finance function across government. The Department needs to tackle shortfalls in its basic business infrastructure and simplify and enforce underpinning processes. The role of the Treasury in relation to new acquisitions and its wider responsibilities needs to be clarified, and its model of engagement with other government departments developed to ensure consistency and successful delivery of outcomes across a very challenging fiscal consolidation agenda.

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- The Department has significantly improved the quality of management information available, with departmental performance reports submitted to the Board and directorate corporate reports issued quarterly. A twice-yearly Vision 2011 outcomes report tracks progress on delivery of the vision's five 'Themes'.
- All directorates now have comprehensive business plans and their performance is reviewed on a six-monthly basis by the Permanent Secretary and a non-executive director.
- The Department places a greater emphasis on risk, for example through the Group Resource Accounts Committee (GRAC) and its internal audit function. The Treasury recognises that the events of the past two years have provided learning opportunities and considerable experience in relation to risk management. A comprehensive review of risk management is currently under way.
- The Department has appointed a Head of Finance profession and increased engagement of the finance community as part of a move towards increasing capability across government. Finance directors welcome the opportunities now provided by the Treasury for them to provide input and to become more involved in policy formulation.
- Staff say that resources are being deployed more effectively, with 53 per cent (2009 pulse survey) feeling that the Department is doing a good job of moving people to where they are most needed, a 19 percentage point increase when compared with 2007. Staff speak of an increasingly agile department which has adopted the much more responsive model it was forced to follow when faced with the considerable challenges arising from the economic downturn.

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- The Department is due to implement a much-needed new IT system (Fast Forward) by spring 2010, but some staff express little confidence in successful delivery and deep frustration about deficiencies in basic business infrastructure.
- Such shortfalls are compounding tensions between corporate service and policy functions and serving to alienate the former. Over-engineered processes in some areas, for example in recruitment and appraisal, are fuelling an already prevalent culture of non-compliance. This is contributing to an environment in which operational and management skills are not valued universally.
- While there is a wealth of management information available, the Department recognises that it is not yet using that information to its full potential across the entire business. Similarly, it acknowledges that, following the decision to introduce a three-year rather than an annual overarching departmental plan, individual directorate business plans are not serving to drive delivery as intended.
- Staff feel that the management information available could be used more effectively, not only to deliver efficiencies but also to inform prioritisation. They speak of expanding workloads and the need for a more robust approach to prioritisation at the appropriate level to ensure that there is no reduction in quality of output in the face of ever-increasing demands.
- While the Board has streamlined its activity to enable it to engage more in strategic discussion, some managers question its line of sight on performance. They stress the importance of an effective underpinning sub-committee structure to ensure seamless and effective governance. A review of corporate governance is due to report by the end of 2009.
- Staff and stakeholders are not always clear about the Department's responsibilities towards its 'wider family'. The Department will need to develop its role in relation to existing and new bodies, for example UK Financial Investments and the Asset Protection Agency, to ensure the right level of strategic operational oversight and experience required to discharge its responsibilities.
- The 2009 Whitehall stakeholder survey indicates that 24 per cent of Whitehall stakeholders see the Treasury's role in departmental performance as clear. Representatives of other government departments say that the Treasury underestimates the willingness and ability of those departments to contribute to strategic thinking on fiscal consolidation and outcome delivery. Clarity of role and an improved model of engagement with Whitehall departments will be key to the collaborative working necessary to deliver on a very challenging agenda.

**Capability Reviews Team
December 2009**

4. Departmental response: plans for continuous improvement

The Treasury welcomes the findings of this review. The Department's determination to improve its leadership, strategy and delivery – the central aspects of this Capability Review – has been fundamental to ensuring a successful response to the most extraordinary financial and economic events in generations. It is for this reason that, despite the unprecedented pressure generated by the magnitude of these events, the Department has maintained a clear and determined focus on improving capability throughout this period.

The changing context

Since the Treasury's first review in December 2007, the context in which the Department has been operating has changed dramatically. The economic events of late 2008 resulted in a steep and synchronised global downturn. The UK, like other large economies, has seen both unparalleled instability in the financial systems and the largest fall for decades in economic output. The Department had to make unprecedented interventions in the markets to stabilise the financial system, and simultaneously respond to the major implications this had for the economy and the public finances.

Responding to these events has placed significant demands on all parts of the Department, and has fundamentally changed its nature: it is no longer simply a small strategic policy department, but is also now managing significant delivery responsibilities and has an extremely complex balance sheet.

The Treasury Board is immensely proud of what its staff have achieved during the last two years and would like to take this opportunity to thank them for their commitment, their pace and their passion during such a challenging time.

The work is not yet done. There are still significant challenges facing households and businesses across the country and so the continued priority for the Treasury during 2010/11 is to work to support the recovery of the UK economy while putting the public finances back on a sustainable footing.

Achieving the vision for 2011

In the context of these challenges, the Treasury is pleased with the progress made to date toward its vision for 2011, much of which is highlighted in the findings of this review.

In 2008, the Department's annual staff survey showed improvements in every category except one (which remained static). The Department is now above the survey provider's UK high-performing benchmark in three categories, above its UK national norm benchmark in five categories and above the central government benchmark on nine out of ten of the core questions asked.

However, there is still more to be done. The Department recognises many of the findings of the review where it can do more to improve and build on the achievements to date, and welcomes this constructive contribution to its change agenda. A work programme is in place that addresses the key issues raised by this report, and the Department will continue to work to deliver this successfully over the next 18 months. In particular:

- **A new people strategy** – this will build on the strengths of the Department’s workforce by addressing the issues raised by the review, such as the appropriate workforce deployment model, career paths for staff, skills and development and staff turnover.
- **A governance review** – this is due to report by the end of the year to clarify the governance arrangements relating to the Department’s new responsibilities and arm’s length bodies, as well as further improving the Treasury’s internal governance.
- **Infrastructure and process improvement** – the Department has plans in place to improve its IT infrastructure, and will review any overcomplicated corporate procedures while driving increased compliance.
- **Continued focus on leadership and communication** – while staff engagement scores have risen by nearly 10 percentage points between 2007 and 2008, there is more to do to ensure that communications reach everyone in the Department on a more consistent basis.
- **Continued focus on our stakeholder relationships** – continuing the improvement in working relationships with our stakeholders by increasing the Department’s efforts in this area as we deliver on a very challenging agenda for the economy and the public finances.

HM Treasury
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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 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 39 questions. For further information on the model of capability, see www.civilservice.gov.uk/capabilityreviews.

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 boards 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.

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 under way. 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 2009

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Ref: 299655/1209

Prepared for the Cabinet Office by COI