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**Paper for Public Accounts Committee, 21<sup>st</sup> October 2010**

**by Andrew Davies AM**

**Background:**

I have long argued that just examining Assembly Government budgets and what is spent ignores the vital question of how effective that expenditure is; what is delivered and what is the value of what is delivered. My criticisms of the performance of senior management practice in the Welsh Assembly Government must be seen in that context, and I believe must also be set within a critique of the wider UK civil service.

In constitutional terms, the civil service is pre-devolution in its structure and accountability. Assembly Government officials are part of the UK civil service and its top official, the Permanent Secretary Dame Gillian Morgan, is accountable to the UK Cabinet Secretary, Sir Gus O'Donnell, not the First Minister or indeed the Assembly Government Cabinet. The Permanent Secretary is a UK Civil Service Commission appointment, in which Welsh Ministers have no formal role. I believe this raises serious and fundamental issues of accountability, transparency and scrutiny both for the Welsh Assembly Government and the National Assembly for Wales. It is the one remaining element of the pre-devolution system of governance in Wales that remains unexamined and unreformed.

I believe many of the challenges faced by Government at all levels reflect long standing defects in the civil service culture. Civil Service reform was identified in 1997 by Sir Richard Wilson, Head of the UK Civil Service as his major priority. His aim was to create Civil Service culture focused on delivering strategic government objectives and outcomes, where senior civil servants were assessed on their leadership and management. He laid out an ambitious reform programme with five main priorities:

- Greater Leadership
- Better business planning
- Performance management
- More openness to new and outside ideas, i.e. innovation,
- More diversity at all levels of the civil service

This reform agenda was explicitly followed in Wales by Sir Jon Shortridge, the Permanent Secretary of the Welsh Assembly Government in a paper c.1999.

So what has been the record across the civil service in the last 10 years? In 2005/6 Whitehall Government departments undertook their own series of 'Departmental Capability Reviews', (DCRs) which showed very clearly major deficiencies in the Civil Service culture. (While the Welsh Assembly Government civil service did not formally take part in the DCR process, a similar 'stock take' exercise was undertaken.) The main thrust of the Reviews was that within the civil service there was:

- Weak executive, strategic and corporate capacity, with poor leadership and management.
- Weak reflective capacity, little capacity with poor long-term thinking, policy making and financial planning. Government tends to be short-term, both in policymaking and in financial planning.
- Poor co-ordination and disjointed government leading to silo thinking and working, with little evidence of joint working between Civil Service departments.
- Management of memory & knowledge is poor, which undermines learning and innovation
- Insufficient challenge in the system and a risk averse culture with an obsession on administrative process and compliance, not on performance management with a focus on outcomes and service delivery.

In my experience promotion of senior officials is largely on the basis of intellectual and administrative ability not on management capability: 'Drafting' skills and facility with language are more highly valued than management ability. Senior management tend to intellectualise, to analyse and debate rather than take executive decisions. Because of a narrow preoccupation with policy making performance management, whether within or outside government, is not seen as a priority. As Greg Dyke, former Director General of the BBC said in April 2007, *"politicians and civil servants think that policy-making and legislation is the hard bit, whereas anyone who has actually run any sort of large organisation knows, the difficulty is not making the policy, but knowing how to deliver it."*

There is also an inward looking, introverted culture. I remember a consultant working for the Assembly Government saying, *"Don't forget, senior officials spend most of their time managing you as Ministers and not their departments."*

#### **Financial and performance management:**

- The main emphasis in government and the public sector generally is on managing budgets and monitoring expenditure rather than on evaluating performance and monitoring outcomes.
- In the civil service there is no definition of 'value' in terms of value for money and little notion of 'opportunity cost' and as a consequence there is no objective basis for comparing and evaluating different activities and their outcomes.
- Financial performance systems are separate from performance management systems, and there is no relationship between the two.

- Business planning in my experience appeared to have little or no correlation between high level or strategic priorities and the departmental business plan at an operational level, and on which officials at a lower level were appraised.
- There is little or no performance management and poor performance is not consistently challenged. In fact there is insufficient internal and external challenge in the whole system, including at senior level.

I want to emphasise that my criticism is of the civil service system and especially its senior management and not of all civil servants, the majority of whom are very hard working and creative but who are often poorly led and managed.

### **Senior Civil Service:**

All senior management are part of the Senior Civil Service (SCS), whose pay and conditions are determined by the Home (UK) civil service. With regard to non-SCS staff, there is more flexibility or discretion on the part of the Welsh Assembly Government.

Many would argue that it is anachronistic and elitist to have such a distinction which can create an 'us and them' culture. For example, only SCS grades are eligible for bonus or variable pay within the civil service, and as the Permanent Secretary points out in a letter to the Chair of the Finance Committee of the 13<sup>th</sup> August, SCS performance is appraised by the Moderating and Succession Planning Committee which comprises of herself and the seven Director Generals. It is consequently a closed system with only senior management representation and no external challenge on this committee.

Such a divide in status is also reflected in the lines of accountability. In her letter the Permanent Secretary also states that any changes made to the structure of the SCS, such as her introduction of a new layer of management with the seven Director General posts, had to be approved by the Senior Leadership Committee in **Whitehall** in October 2008, and the subsequent appointments were approved by **the Prime Minister**, (my emphasis.) This reinforces the notion that SCS are accountable to the Cabinet Secretary, the head of the UK civil service.

The clear trend in modern organisations in public and private sectors is for flatter management structures. Local government abandoned artificial distinctions of status when it moved to 'single status' in 1986, with all local government staff having one status and covered by one collective agreement, the only exception being chief executives and chief officers.

Going from general points of principle I now wish to look at some examples of poor practice as illustration. These have been laid out in my letter of the 25<sup>th</sup> July to the Permanent Secretary and my article in the Western Mail of the 18<sup>th</sup> July (attached). I also refer to transcripts of meetings this year of the Finance Committee of the 29<sup>th</sup> April and 15<sup>th</sup> July when the Permanent Secretary gave evidence on Welsh Assembly Government Staff Numbers and Costs.

<http://www.assemblywales.org/bus-home/bus-committees/bus-committees-other-committees/bus-committees-third-fin-home/bus-committees-third-fin-agendas.htm?act=dis&id=179699&ds=4/2010>

<http://www.assemblywales.org/bus-home/bus-committees/bus-committees-other-committees/bus-committees-third-fin-home/bus-committees-third-fin-agendas.htm?act=dis&id=192570&ds=7/2010>

### **Efficiency Savings resulting from changes to senior management structure:**

A new senior management structure was introduced in 2008 with the appointment of seven Director General posts with cross-departmental and cross-cutting remits. As Finance Minister I asked what savings were to be achieved, both in terms of finance and staff and also what specific posts had been lost due to this re-structuring. I was informed that there would be a net loss of eight Director posts and in a paper to Ministers on the 14<sup>th</sup> September 2009 it was stated that the net savings were £505,037. I pointed out that similar exercises in the private sector would have yielded considerably greater savings, that this re-structuring lacked ambition and was sceptical that it would be effective in bringing about the long overdue changes in culture and performance.

In Finance Committee on 15<sup>th</sup> July, the Permanent Secretary stated that “*the net reduction, including the posts that we have put back ....has been from 149 to 142. There are seven fewer senior civil servant posts than there were at the point when we introduced the DG structure.*” In a Western Mail article, in response to a Freedom of Information request, the Assembly Government stated that the total number of Senior Civil Servants (FTEs) was in fact 160.3. When questioned about this apparent discrepancy, the Permanent Secretary stated that the higher figure of 160 came from the Human Resources Information System (HRIS), while the lower figure of 142 came from “*a dedicated database which we use in managing and developing individuals.*” In her evidence to the Finance Committee on the 15<sup>th</sup> July, the Permanent Secretary admitted that the Assembly Government has separate finance and HR systems, which are not integrated. It would also appear that there is no consistency in the use of HR statistics, with different and inconsistent databases being used at different times. Similarly in my experience business planning appeared to show little or no correlation between high level or strategic priorities on the one hand and departmental business plans at an operational level, and on which junior officials were appraised.

On the cost savings, it is difficult to understand how the figure of £505,000 savings, quoted by the Permanent Secretary in giving evidence to the Public Accounts Committee in July, remains constant seemingly irrespective of how many SCS are employed. Director posts and functions that had been claimed in September 2009 as counting towards the savings have subsequently been backfilled (e.g. Director of Public Service), yet apparently the figure of £505,000 savings remained identical. This and other questions on the restructuring raised in my letter of the 25<sup>th</sup> July remain unanswered.

### **Senior management and performance management:**

Performance management across the Assembly government is poor. An assessment confirmed by the Welsh Assembly Government's own July 2010 external Stakeholder Survey, in which in section 3.16, stakeholders' views on the management and organisation of the Assembly Government were fairly negative. The Executive Summary stated that *"an area that performed less well was strategic management and delivery. Less than a fifth (17%) of stakeholders agreed that generally different parts of the organisation work well together and only 34% agreed that the Welsh Assembly Government as a whole is well managed."*

Because the system is so risk averse and focussed on administrative compliance and process there is little emphasis on outcomes and delivery. As a senior official who came from the private sector said to me, *"If the civil service had a choice of boxes to tick: namely what outcome have you delivered or have you complied with the administrative process, they will nearly always tick the 'compliance' box."*

Furthermore, there is no commonly agreed definition of value for money and uniform costings of activities in the civil service by which activities and achievements can be measured and performance assessed. This is systemic across departments within the civil service, but in my experience also applies to relationships with outside bodies where there is poor and inconsistent performance and relationship management. Recent examples such as the Welsh Horticultural College, Wales Millennium Centre and the National Botanic Garden of Wales and many others I believe demonstrate this.

Not only is the system risk averse and focussed on administrative process, it can be extremely slow to react and often shows little urgency in its decision-making, often ignoring the time constraints under which many outside bodies have to operate.

### **Department of Economy & Transport**

Going beyond a general critique of the civil service culture, it would be instructive to look at some examples in the Department of Economy & Transport which illustrate some very recent failings of the system. (see attached article, "Déjà vu all over again.").

In Finance Committee on July 15<sup>th</sup> the Permanent Secretary was questioned about the performance of senior management in the Department of Economy & Transport and in particular the very significant management failures identified in the audit report of the Technium programme; the Glenn Massey review of International Business Wales and the Ian Hargreaves review of the creative industries.

The Permanent Secretary stated in Finance Committee that she did not regard these as 'management failures' and that cultural change takes time. In 2006 two major reviews were commissioned, both of which were published in May 2007. The first was by the ministerial advisory group, chaired by Richard Parry-Jones, a former senior vice-president of Ford, which recommended the Assembly Government focus its business support on a few key sectors, as opposed to a generalised approach to business support in Wales. The second report was by working party headed by Simon Gibson of Wesley Clover, which recommended ways in which the knowledge coming out of our universities was commercialised. No action was taken on either report for three years.

Meanwhile the rest of the world moves on and one has to ask why it took so long for these seminal reports to be implemented.

It would be useful to examine one specific area which I believe demonstrates some of the key issues outlined previously in this paper.

### **Technium centre programme**

The Technium is a £100 million programme. The first Technium Centre was established in 2001 in Swansea in what is now SA1 and funded under the pre-Objective 1 EU Structural Fund programme. Designed as business incubator centres for high-tech, high growth potential companies, these were rolled out across Wales by the then WDA and ten centres now exist, although two previous centres, Bio Technium at the National Botanic Garden in Llanarthne and a Creative Industries Technium at Gelli Aur were also created but subsequently taken out of the programme with Bio Technium being acquired by a bio-technology company.

The Technium project has been run for nearly 10 years and despite a considerable degree of ministerial and external challenge until very recently there has not been any attempt to measure how effective the project has been. As a Minister I repeatedly asked for the total costs of this project and performance data but received no satisfactory answer. More recently however there has been a considerable amount of internal analysis of the Technium programme. As well as Internal Audit it has been looked at by others including the arms length Department of Economy & Transport's (DET) Ministerial Advisory Group and Corporate Governance Committee.

I believe it would be fair to say that the Technium programme is judged, rather like the Creative Industries strategy, as a good idea poorly executed. In particular the financial management and performance monitoring were very poor. The department's focus has been on occupancy rates within the buildings rather than the economic success of the client companies. Even on the former, it has performed poorly.

Senior management failed to understand that our economy is not enhanced by government acting as a landlord but by our companies prospering and, in turn, employing our citizens. The business support function within Technium centres has failed to significantly enhance the performance of the client companies. That is very disappointing, but more disappointing is the realisation that there is no evidence of the performance of these companies ever being monitored.

Ever since the Fulton Report commissioned by the UK Government in 1968 it has been argued that most civil servants, both in Whitehall and Cathays Park, are generalists not specialists. In some cases being a generalist is a strength but a department like DET cannot function properly without specialist skills. It is a department that needs to be

competitive with other similar organisations around the world and Wales cannot afford for it to be anything other than highly competent and highly specialised.

As well as the sector skills that ERP rightly identifies, the department also needs commercially orientated management skills. Financial skills in particular, have been identified as seriously lacking in the management of the Technium project. As a Minister I found there to be a constant deficit of hard financial information, despite there being some very able finance officers. The relevant information was never made available, despite frequent requests.

The Deputy First Minister has acknowledged these failings and is hopeful that they may be put right within the restructure arising from the Economic Renewal Programme (ERP). I support the main thrust of the ERP and some of the management changes being mooted as a result of it, but remain pessimistic about the capability of some senior managers as these are the same people that allowed these failings to take place.

It is a problem that whilst Ministers are technically accountable for the performance of their departments they are very constrained in bringing about any personnel changes to the way that department is managed. I empathise with Ministers currently serving who instigate policy but see it delivered with less effectiveness than is desirable. We must find ways of ensuring high quality delivery. In the case of DET, that includes re-focusing the culture so that it prioritises delivering value.

The need to concentrate on measured and valuable outcomes is the main lesson to have come out of the various reports that have examined the problems associated with Techniums and the big question is whether all the current senior management team are likely to have learned that lesson. Credible structural plans have been put forward for consultation but it is essential that they are implemented with transparency so that, in future, effectiveness and value will be there for all to see.

ERP will not of itself bring about the substantial cultural shift this department needs. This can only be brought about by changes at senior level, a value based approach and a culture of constructive challenge being introduced.

**“This is like déjà vu all over again.”**

I welcomed the Economic Renewal Programme (ERP), recently launched by Ieuan Wyn Jones', Plaid Minister for Economy & Transport, as indeed did many in Wales' business community. That this is a progressive government can also be seen by the moves made by Labour Education Minister, Leighton Andrews to reform Higher Education in Wales. I also pointed out that the ERP builds on existing Labour-Plaid Assembly Government policy. For example, the move towards an investment and away from a grant culture was one I laid down five years ago when Economic Development Minister and repayable loans have been in the system for a long time.

However, I reserved judgment on the matter of delivery, an area of concern also identified by the CBI. As Minister I had long been concerned at our ability to deliver hard outcomes, as opposed to making policy and developing strategies. That is why I set up the Ministerial Advisory Group, (MAG) chaired by Richard Parry-Jones, former Senior Vice President of Ford, out of a desire to see some of Wales' best business and academic brains advise Ministers on key issues of economic delivery.

That is why I commissioned two reports, both submitted just before the Assembly elections in 2007. The first MAG report said business support should be focused on a small number of key growth sectors. I am delighted that Ieuan Wyn Jones supports this approach but saddened that senior Civil Servants felt threatened by it in 2007 and have since worked hard to resist reform.

The second report, produced by a working group chaired by Simon Gibson, who heads up Sir Terry Matthews's investment arm, Wesley Clover, was on the commercialisation of knowledge, i.e. how do we turn the clever ideas born in our universities into the successful companies and products of the future?

Both reports gave a clear steer on how Government business support should deliver - and both have gathered dust since 2007. In questioning Dame Gillian Morgan, the Assembly Government's top civil servant last week, I said I was incredulous that neither had been implemented in the last three years.

U.S. Supreme Court Justice Brandeis said that “sunlight is the best disinfectant” and I have long argued that openness and transparency make for better decisions. So let's look at the record.

What happened to the Gibson Report? It was obstructed by senior officials, as was clearly demonstrated by Simon Gibson and his colleagues when giving evidence to the Assembly's Enterprise and Learning committee's review of Higher Education & the Economy in April 2008. While this policy area is now a central plank of the ERP little has been done by senior officials since 2007 - meanwhile the rest of world is racing ahead!

And what was achieved where a sectoral approach was adopted? Earlier this year Professor Ian Hargreaves reviewed the Assembly Government's Creative Industries

strategy set up in 2004. Cutting to the chase, the Hargreaves' review said the strategy was good but implementation poor!

These are just some examples of poor management and I am glad that both the Technium programme and International Business Wales, other significant management failures, look like finally being addressed.

This is not just about one department. The weakness of senior management is fairly systemic in the Assembly Government civil service. For example, one of my priorities as a Finance Minister, supported by my colleagues, was to establish a Leadership Academy, supporting the next generation of leaders and managers of what I called the Welsh Public Service, with the training they needed to ensure public services in Wales thrived. However I had to pull the launch last September because not enough work had been done to bring together all our partners in education, local government and the NHS and I was unwilling to launch something of no substance.

I wouldn't want my comments to be seen as a criticism of the majority of civil servants. In ten years as a Minister I came across countless hard-working, highly competent and creative officials with an appetite for reform. There are many good people in the civil service but not enough with the right skills and in many cases they were effective despite, not because of senior management and the civil service culture. These talented people should be identified by Ministers and encouraged to take a lead.

As Yogi Berra, the US baseball coach, once said, "*This is like déjà vu all over again,*" and applied to the record of senior civil service management it is hard to disagree with him.

In the Assembly I thanked Ieuan Wyn Jones for his statement on the ERP and I will certainly do everything to help him deliver his programme and a more prosperous, fairer and more sustainable Wales. Looking forward, the imperative must be reform. With public finances being the tightest in the Assembly's existence, ensuring optimum effectiveness and highest performance from all parts of the Welsh Public Service and getting maximum value for money for Welsh taxpayers have to be the top priorities. Adapting to a period of austerity will demand adaptability, accountability and a willingness to make tough decisions. I believe we need to be honest about failure, open to new ideas and above all we need a radical reform of the effectiveness and performance of the senior management in the civil service.

**18<sup>th</sup> July 2010**

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