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Using human capital to strengthen
public-sector performance

A Deloitte Research study



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About this research

In preparation for this report, Deloitte & Touche LLP conducted a series of interviews with senior figures in ten central and regional government organisations. We interviewed Human Resources Directors (or their equivalent), together with a smaller sample of managers with delivery responsibilities.

Foreword

Over the next few years, the public sector will need to be ‘match fit’ to deal with major structural challenges and changes. Capability building will become an increasingly important discipline across public-sector organisations, as departments and local authorities respond to the changing demands of citizens, politicians and their workforces.

The effective use of ‘talent’ is a concept that is well understood across the public sector. Established management development programmes and wider use of external appointments have done much to build capacities in key delivery and management areas over the last few years.

But as this report indicates, these steps have not always led to increases in overall capability amongst public-sector organisations. Although high-performing individuals have brought considerable value to organisations, they have not always achieved the rate of change needed to transform capability.

This report examines how public-sector organisations could address this problem by combining a strategic approach to defining requirements with a series of practical steps for implementing capability building. This requires an end-to-end assessment of current and future requirements at all levels, together with practical measures to create the right structures, processes and business cultures to develop a measured response to these requirements.

Strategic use of human capital – in any industry or sector – is not the sole driver of capability building. Effective business leaders use a combination of measures including IT transformation, effective financial management, and leadership renewal which, taken together, provide organisations with the tools they need to build capability.

But of these mechanisms, more effective use of human capital to enhance capability is an area that we believe is underdeveloped in departments and local authorities, and where there is real opportunity for improvement. To be ready for future challenges, however, public organisations need to act now.

I would like to extend my thanks to the officials in government we interviewed in support of this report. Without the insight and perspectives they provided, this work would not have been possible.



Mike Turley
Industry Leader, UK Public Sector

Executive summary

From strategy to execution

In future, public service organisations will be required to build on their strong record of policy-making excellence by improving the way policy is implemented. Traditional boundaries and roles will also change in response to a shifting requirement to work collaboratively with others. A renewed focus on providing value for money will influence decision making and productivity across central and local domains. But our research indicates that, as yet, plans to steer organisations through this transition are not fully developed. As a result, the risks of obsolescence or capability shortfalls grow as the pace of change gathers momentum.

To avoid these problems, public organisations will need to take forward a process of wholesale transformation by developing the tools to improve policy execution, work more effectively with partners, and reform elements of their business cultures to ensure they remain fit-for-purpose. But as this report indicates, few public-sector organisations have begun this process in earnest.

Managing the transition

Efforts to utilise 'talent' to drive some of these changes are well established across the public sector. But by itself, 'talent management' is not a panacea for the multifaceted challenges associated with reforming large organisations. Deep-seated skills, productivity, and professionalisation problems cannot be resolved by nurturing a cluster of high-flyers. Identifying and building capabilities through universal workforce reform, at all levels, represents a more strategic response to these challenges, and an approach public organisations need to embrace to manage impending changes effectively.

By focusing on capabilities that are most important to the business, organisations can identify where investment will bring the most value. This is why 'capability building', rather than 'talent' or better application of human resources policy, is the focus of this report. Our research draws on interviews with senior officials in public organisations to highlight common weaknesses, and sets out a roadmap to help organisations navigate the transition to a modernised operating model.

This requires fundamental changes in three areas:

Step 1: Strengthen metrics

First, public-sector organisations need to utilise performance management as a tool to identify and expand the required capabilities. This suggests that although most public-sector managers recognise the need to use performance management in this way, they may be constrained from doing so by weak systems or non-compliant working cultures. It also indicates that public-sector managers have not yet put measures in place to address poor performance effectively, which can constrain them from creating leaner, more productive business areas.

As a response to these problems, public-sector leaders will want to consider how to:

- Implement stronger appraisal standards that place a series of 'hard' delivery expectations on every post holder.
- Professionalise the 'line management' function by increasing mandatory induction and refresher training for line managers, and offering advice and guidance to help line managers negotiate complex processes.
- Review organisational reward strategies to establish better links between productivity and reward.

By focusing on capabilities that are most important to the business, organisations can identify where investment will bring the most value.

Step 2: Adapt to a new workforce

Second, there is an increasing need for public organisations to work collaboratively with partners to meet objectives. But the evidence suggests government at all levels has been constrained by a lack of relevant skills and the continuing dominance of policy-making as the discipline of choice for ambitious, high-performing individuals. This has led to mismanagement of partners in some areas, and limited progress in developing and professionalising key skills groups. To address this, managers will want to consider how to:

- Establish sourcing strategies to define those capabilities which should be developed internally, and those which might be acquired through existing partnerships.
- Focus on retaining the right people by assessing the retention of high-performing individuals and people with particular skills, and developing plans to improve attrition rates amongst these groups.
- Develop commissioning and stakeholder management skills in response to a changing role across the delivery chain.
- Create knowledge-management processes and communities of practice to link disparate areas of the workforce together.

Step 3: Bring these changes together in a single overarching programme to drive transition

Third, these changes cannot be made in isolation. Public-sector organisations need to integrate them into a single overarching plan to manage their transformation into dynamic, responsive organisations that are ready to meet emerging requirements. At its heart, this plan must have robust mechanisms in place to identify existing capabilities, and those which will be required in future through an all-embracing assessment of the workforce, across all levels. The focus on high performers and critical workforce segments is not enough; a comprehensive grasp of the operational detail in each business area is essential to managing this transition effectively.

In each organisation, a workforce strategy needs clear direction, engagement and ownership from its leadership. It is not too late for public-sector organisations to invoke the necessary changes to remain effective as their environment and expectations change around them. But to do so, a blueprint for change needs to be driven by senior individuals with a clear mandate and the responsibility for transformation. Getting the right individuals in place is a key factor, as is a clear endorsement from the top that appetite for reform is wholehearted and well understood.

The end of the beginning

Taken together, the Capability Reviews, the new Public Service Agreements (PSA) and the introduction of Comprehensive Area Assessments (CAA) have begun the process of transition. To develop these further, public organisations need to think more strategically about performance-management processes, how to manage a changing workforce across shifting boundaries, and bring these strands together under a single plan to build capability through better use of human capital. Public-sector organisations need to act on plans to manage this transformation now if they are to remain effective in future.

Introduction: Setting the public-sector context

In recent years, UK public-sector organisations have come under increasing pressure to develop world-class capacities for policy-making, delivery and corporate services in response to a fundamental change to their role as the exclusive providers of public services.

This change is likely to increase as traditional silos and boundaries are broken down, and government renews its efforts to arrange services around the citizen. To remain fit-for-purpose in this new environment, public-sector organisations will need to review their existing culture structures and processes, and address the key challenges of skills shortfalls, accountability mechanisms and productivity. They must do this in spite of the external pressures of demography and efficiency, as well as a charged political and media climate, which means the fear of mistakes and inadequacies dominates the agenda.

For central departments, this first step in responding to the need for change was taken in the Capability Reviews conducted over 2006-07, which included assessments of the key capacities of procurement, project management, and corporate services functions against a common framework.¹

More recently, the launch of 30 new cross-cutting PSAs in October 2007 reinforced the need for departments to adapt to changing roles and responsibilities, and effectively manage other contributing departments, delivery partners, and frontline workers to meet each Agreement.

The Government has also changed the way it reviews performance at the local level. From April 2009, local authorities will undergo new CAAs, to assess service delivery (across councils and their private and voluntary sector partners) within each community.² This approach will require local authority leaders to utilise their 'extended' workforce to create the right mix of policy and delivery skills to meet local expectations.

It is therefore an ideal time to examine how public-sector organisations are responding to these changes, reviewing outmoded structures and processes where necessary, and using all available levers to adapt and prepare for their changing roles and requirements. The evidence set out in this report presents the realities of departments and local authority responses in 2008. The report also looks forward to future capability building, taking into account four trends which may have a bearing on public-sector organisations in future:

- There may be a sharp rise in commissioning – increasing demand for management of private and voluntary sector partners across a range of delivery models.
- In response to this requirement, public-sector organisations will move away from their traditional 'knowledge worker' offerings as they seek to strengthen technical and professional competencies.

- Public organisations will come under renewed pressure to do more with less as ten years of increases in real-term spending tapers off.
- The retirement of the 'baby boomer' generation and a shrinking labour pool will impact operating capability, as 30 per cent of the total UK public-sector workforce are aged 50 or over.³

Public-sector organisations must also come to terms with continuing changes in priorities as, for example, excellence in customer insight gives way to a renewed focus on efficiency and value for money.

Beyond 'talent management'

By itself, the management of 'talent', which most⁴ organisations take to mean high-performing, high-potential, or 'critical' segments of the workforce,⁵ represents only one aspect of the changes needed to adapt to future requirements. It provides continuity of leadership and capacity growth in specific business areas.⁶ For example, in light of the changeover to International Financial Reporting Standards, public-sector organisations will be required to build capability and adapt to new standards to meet a specific policy requirement. This represents capability building at a tactical level.

Strategic capability building is different. It considers the **entire** workforce of an organisation, including corporate services professionals, contact-centre staff, consultants, and suppliers – the correct marshalling of whom makes a fundamental contribution to adapting to new requirements over the long term. Within a range of capability-building techniques, 'human capital' can sometimes be regarded as the 'softest' mechanism. There is often a clearer link between, for example, £100 million of information technology investment, and the resulting increase in capability. A coherent workforce strategy may be less easy to quantify, except as an intellectual principle, and so the rationale for investment or board-level attention may be less obvious.

But like the private sector, the capacity of the public sector to meet future requirements and challenges will flow ultimately from the management of its people. Understanding the required capabilities in terms of skills, knowledge and behaviour, and how diverse workforce segments contribute and interrelate, is vital to transforming overall capability. By focusing on capabilities that are most important to the business, organisations are able to identify where investment will bring the most value. This is why 'capability building', rather than 'talent' or better application of human resources policy is the focus of this report.

Our analysis of interviews with public-sector leaders includes an examination of performance-management processes, how organisations are responding to a changing workforce across central and local domains, and current progress in capability-building efforts across the public sector.

1. Effective performance management: The engine room of capability building

The need to reform in response to changing boundaries and roles has been made more challenging by a renewed emphasis on efficiency. Following the 2004 Gershon Review, the 2007 Comprehensive Spending Review set new targets for achieving value for money across public-sector organisations, including a £30 billion efficiency savings objective by 2010-11.⁷ Local authorities have been asked to find annual net savings of £4.9 billion by 2010-11,⁸ and discussion of the Public Value Programme to drive cost reductions over the longer term has compelled public-sector leaders to ask a new question: “what change and capability building is achievable with what we’ll have left?”

Interviews with public-sector leaders for this report conveyed a strong sense that efficiency imperatives and baby-boomer retirement may be greater drivers of public-sector capability than shifting role requirements. One solution to driving productivity and value for money across organisations lies in introducing stronger performance-management frameworks at the individual and corporate levels, and addressing poor performance where it arises.

Our interviews indicated that public-sector performance-management frameworks sometimes place less emphasis on ‘hard’ productivity and delivery indicators than private-sector organisations. The convention of ministerial accountability established in a pre-democratic era also means that accountability for delivery does not always rest with individuals.⁹ When poor performance arises, individuals may be ‘managed out’ to a new role elsewhere in government, rather than dismissed altogether. Accountability is better in local authorities where council managers are increasingly held responsible for their decisions by local communities, and organisations are publicly judged by way of an overall ‘ratings’ system. Policy and overall spending responsibility should remain under firm political control, but greater accountability for individual civil servants on delivery could have a significant impact on productivity and capability building over the long term.

Performance-management frameworks appear vulnerable to frequent revision and renegotiation in the public sector. Forty per cent of our interviewees were in the process of developing a new framework, and a further 30 per cent had had existing arrangements in place for only two years or less. Support for performance management was shown to be lukewarm at lower levels, which in some instances, threatens to undermine support entirely:

“...there’s a lot of ill feeling about it. We’re currently going through yet another round of discussions about what we’re trying to do here and revisiting the fundamental principles. So it’s a process that’s in danger of being discredited through poor management [and a] lack of understanding of what we’re trying to do.”

Human Resources Director, UK Government Department

A strong message from our interviews was that more could be done in public-sector organisations to improve overall credibility and understanding of performance-management systems, their purpose and impact.

Key issues

Common problems in performance management are well understood by senior public-sector managers, and the evidence indicates broad consensus on some steps organisations could take to make their performance-management frameworks more effective (see Figure 1).



However, our evidence highlighted a powerful current of cultural and procedural barriers that can prevent managers from reforming outmoded systems. In addition, a lack of overarching accountability frameworks for public-sector workers can create a culture of disengagement and non-compliance on performance management. At lower levels, there is sometimes a tacit, but institutionalised belief that performance management is an administrative exercise, with no real value to individuals.

Some respondents also identified the limited use of financial incentives beyond low-level bonuses as a barrier to driving interest and engagement. Nearly half those we interviewed argued that financial incentives (particularly at junior level) are weak and do not provide extra motivation to perform. In some cases, bonus systems were viewed as counterproductive because they create antagonism through perceived inconsistency or inequity.

Sidebar 1: Optimising performance management – a case study

The leadership of a large city council had become increasingly concerned that existing performance-management systems were not being applied correctly, impairing the quality of management information on skills distribution and high-performing individuals across the organisation.

After identifying the problem as one of compliance, not an inherent failure of the framework, the Council's first step was to create a mandatory induction programme for new entrants and line managers to underscore the value and importance of the performance-management process and how it impacted capability building across the organisation. This was followed by a programme for writing job descriptions to increase definition and hard performance indicators for jobs at all levels. Third, the Council introduced a competency framework for line managers that emphasised thoroughness in performance appraisals and assertiveness in addressing poor performance. Finally, the Council created an internal communications strategy to drive wider use of informal performance conversations, mentoring, and understanding of performance-management best practices.

These changes increased performance-management compliance across the organisation, which led to better management information on skills and overall performance. They also increased awareness and engagement with the performance-management system at operational levels and had an immediate impact on productivity.

Source: Deloitte Research, 2008.

Poor performance

For years, the public sector has failed to confront poor performance: only 16 per cent of the Senior Civil Service (SCS) believe that it is effectively dealt with in departments.¹⁰ Another survey of workers in different industries showed that 39 per cent of managers believe the culture in their organisation is tolerant of poor performance, but this rises to 63 per cent in the government sector.¹¹

Our interviews support this assessment. The respondents came from organisations that fell into one of two categories: those which had identified poor performers but were prevented from taking action by cultural and procedural barriers, and others which had not yet identified poorly performing individuals or teams. A member of the first group remarked:

“What comes up repeatedly through feedback is that [staff] recognise underperformance amongst their colleagues. They want managers to address it, and up until this point, I think we haven't really grasped that. ...if we're not actively managing performance, then we probably haven't got a handle on who the good performers are, who the poor performers are, and we can't then begin to address that. It also means that we don't get the maximum out of people. For me, that's probably the biggest issue that we've got.”
Human Resources Director, Local Authority

In addition, around three-quarters of our interviewees believed their junior- and middle-ranking line managers are sometimes poorly equipped to confront poor performance because of a lack of appropriate skills and confidence to hold effective performance conversations within their teams. Over time, this has created a culture of permissiveness in some areas, where cursory performance measures undermine the credibility of the appraisals process. Some interviewees also identified a gap between what some managers think they are capable of and the reality:

“We’ve put in a tailored course, which is specifically about managing poor performance, [that has been] much appreciated by those who have attended, but it hasn’t been that well attended. One has to draw the conclusion that our deputy directors think they’re well equipped to do this, but we will lay it on again because I’m not sure I believe that.”

Human Resources Director, UK Government Department

Managers also told us that weak appraisal systems can sometimes encourage ‘soft’ assessments of performance, rather than objective analysis of in-year productivity. The imprecision of language and emollient way appraisals are sometimes conducted may also contribute to this. An entrenched reluctance to address poor performance is also driven by the reputation of redundancy and industrial relations as newsworthy issues. As a result, informal performance conversations are less common than in the private sector, with managers preferring to use ‘official’ mechanisms to ensure due process is followed.

Finally, traditional human resource mechanisms such as surplus pools can act as barriers to reform. Also known by other names including the ‘redeployment register’ or the ‘priority talent pool’, surplus pools are used by many large private and public organisations to ‘park’ staff between assignments.

Our interviews illustrated four differences between their use in public- and private-sector organisations:

- Surplus pools in the private sector are normally a symptom of discontinuity of workload, not a reflection of employee performance. However, often in public-sector organisations there may be a tacit acknowledgement that the individual is not performing to a satisfactory standard. As a result there may be a stigma attached to surplus pool status.
- There is a convention in the private sector that staff will spend ‘down time’ acquiring new skills, training, or studying for a professional qualification.
- In the private sector, individual skills and experiences are normally matched to a role before appointment. This is less common in the public sector, where no record of skills may exist, and as a result, individuals may be ‘shoehorned’ into a role for which they are not suitable.
- For the majority of private-sector systems, time spent in the pool is limited to an agreed period after which the individual either finds another post, or is made redundant.

As with appeals processes, surplus pool rules tend to be skewed in favour of individual rights:

“The whole surplus management process... it’s been around for years. It’s very rules driven and very bureaucratic in terms of the various steps you have to go through and the time it takes.”

Human Resources Director, UK Government Department

Our interviews indicated that use of surplus pools is an area where public-sector leaders feel there is a need for change. More widely, respondents were adamant that a strategic plan to build capability should address the entire workforce, including poor- as well as high-performing individuals.

Tackling performance management: Some solutions

The measures for improvement set out in Figure 1 were provided by public-sector managers aware of the barriers organisations face in reforming performance management. The Civil Service, described by one interviewee as “a very comfortable place to be”, could change if managers are able to drive a culture of individual accountability for delivery and operational decisions, and provide training and support to implement behavioural and process changes. It should be noted that in some organisations, managers are constrained by an underlying obligation to agree standardised objectives with trade unions, which are then rolled out across the department, regardless of whether they are appropriate for each business area. At the strategic level, the impact of new PSA and CAA mechanisms may also assist change if ministers are prepared to take remedial action by closing or reforming organisations that do not meet the new targets.

In the meantime, practical steps to tackle barriers to reform could include:

1. Better integration of performance management to the business

- Create stronger links between individual and organisational performance.
- Make performance management a regular item for discussion at board level.
- Take action where people are unable or unwilling to develop required capabilities or attain the required performance standards.
- Enable leaders to stimulate greater ministerial interest and engagement in performance-management issues by illustrating the link between effective people management and delivery excellence.

2. Review human resources policy

- Establish more robust performance-management/appraisal mechanisms that place a series of ‘hard’ delivery expectations on every post holder, even at junior level.
- The proper execution of appraisals could be positioned as a collective performance indicator for teams and departments.
- Encourage individuals to aim higher by setting clear, stretching goals, and aligning performance to customer outcomes.

3. Professionalise the ‘line management’ function

- Increase mandatory induction and refresher training for line managers.
- Foster the skills and confidences to conduct quality conversations about what is expected.
- Clarify legal requirements and boundaries.
- Develop a hub for performance-management expertise and guidance within each organisation.
- Enforce compliance at all levels of the business.

4. Review organisational reward strategies

- Establish better links between productivity and reward.
- Align elements of reward and recognition to the attainment of required skills, behaviour, and overall contribution. Inconsistencies in current bonus and performance-related pay systems in place across many public-sector organisations are often a source of antagonism amongst staff.

2. Managing an extended workforce

In the last ten years, public-sector leaders have worked to drive greater choice and contestability in public-service delivery in response to a political imperative from ministers. Government at all levels now seeks to provide services by choosing the best, most efficient mechanism for each job, and is preparing for a future rooted in collaboration and partnership with private- and third-sector intermediaries. This requirement has brought about three changes:

- A sharp rise in private- and third-sector service provision, whose operators may offer more cost-effective and better quality service delivery.
- The evolving role of public organisations as commissioners of services has prompted managers to ask whether they have capacity to manage partners and stakeholders effectively.
- Public-sector leaders have sought to rebalance an accent on policy-making in institutions with stronger emphasis on strengthening their own procurement and delivery capacities.

However, an unspoken but powerful indifference to delivery roles across the SCS has obstructed progress in this last objective (see Figure 2). Looking ahead, it may require several years of high-level intervention, financial incentives, and systemic training to create high-quality internal procurement and programme-management capacities across each organisation.

Through a combination of these changes, public-sector leaders are increasingly outsourcing delivery and programme-management functions to external partners, including suppliers, delivery agents, and consultants. Consultants can provide considerable value with specialist services and advice, but the Office of Government Commerce (OGC) estimates that around 40 per cent of all government spending on consultancy services is in response to mainstream capacity shortfalls.¹³ Our evidence supports this view:

“We don’t [use external consultancy] very well. I don’t think we actually extract the learning that we should or assimilate the skills that we need to transfer. Why is that? There’s been a dependency, I think, on external support for years and years now. So it’s almost like default, “Oh, we can’t do it, we haven’t got enough resources ourselves or we haven’t got the expertise.”

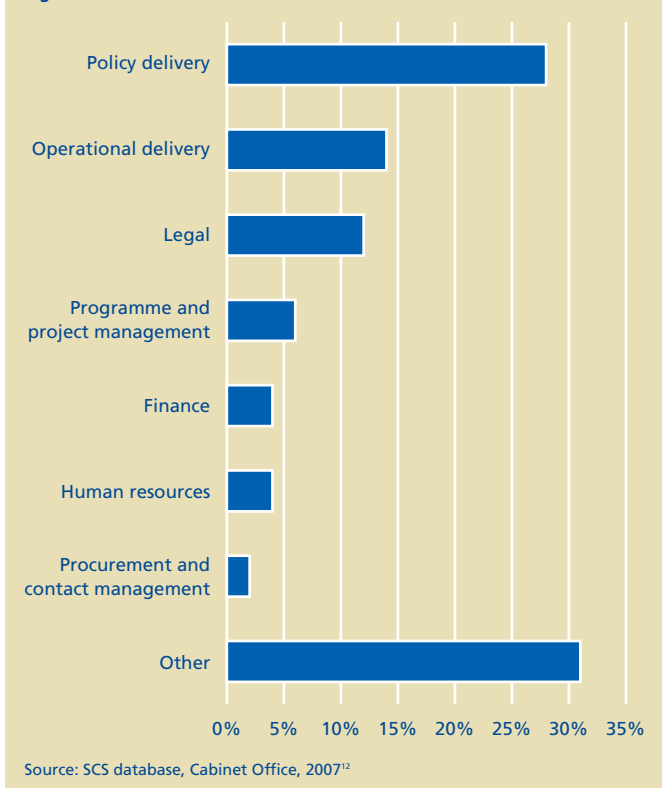
Human Resources Director, UK Government Department

Developing capabilities to manage a more diverse workforce, and responding to changing requirements and stakeholder entry and exit, now represent a significant challenge for public-sector organisations. Managers need to develop communities of practice and establish robust knowledge management processes to preserve business continuity over the long term.

Increasing use of external appointments

Where existing capability has been insufficient, public-sector organisations have sought to inject new skills and experiences through the increasing use of external appointments. As well as new capabilities, these individuals have brought new perspectives from the private and third sectors on the suitability of existing structures and processes in public-sector organisations. Some of the respondents were themselves external appointees, and shared some observations illustrating how organisations could benefit from responding to commercial perspectives.

Figure 2: Distribution of roles across the Senior Civil Service 2007



Although pay differentiation between the public and private sector is minimal at junior- and middle-ranking positions¹⁴ the gap becomes greater at more senior levels.¹⁵ Performance-related pay (PRP) is more widely used at SCS level, but the inadequacies in the system are widely known (see Sidebar 2):

“If you look at the complete shambles that senior salaries have become in the Civil Service, the system is broken although it has not yet quite fallen over, and nobody can see an alternative system, given all the constraints on it, of different types.” **Human Resources Director, UK Government Department**

Sidebar 2: Performance-related pay and bonuses in the public sector
Widespread use of PRP across the Civil Service began in the 1990s following the delegation of pay, grading and performance-management arrangements to departments and agencies for staff below SCS level.

At the local authority level, PRP was introduced in the 1980s and '90s. Since then it has been at the heart of several pay disputes, and suffered from a lack of comparative benchmarking across local government domains. For both local and central government, the chief purpose of moving to PRP systems was to make pay more responsive to the market, to enable departments and agencies to have greater control over their pay bill, to ensure value for money by promoting public service delivery, and to increase transparency.

Current PRP practices vary considerably within the Civil Service. Non-consolidated bonuses are the main way of delivering PRP, but as with bonuses, these vary widely both in cash terms and as a percentage of total salary.

Evidence from our interviews suggests that poor operation of performance-management systems and a lack of regular, honest feedback has affected the ability of systems to differentiate fairly between poor, satisfactory and high performers. In addition, inflexibility in PRP funding means that bonus payments, even for high-performing staff, are often comparatively low as a percentage of salary, and fail to encourage poorer performers to aim higher.

A possible solution to these problems might be to establish job family groupings that recognise areas of expertise and better reflect differences in market worth of key skills.

Source: Deloitte Research, 2008.

Interviewees who had been externally appointed also expressed surprise at the status attached to finance, human resources and IT roles compared with policy making. They suggested that, in the public sector, corporate functions tend not to be utilised as strategic instruments but rather as administrative functions to support operations. This contrasted sharply with their experience in private-sector environments, where corporate functions wielded significant influence at board level and made major contributions to organisational strategy and objectives.

Driving better management of a new, extended workforce

There are several steps public-sector organisations could consider to improve operating capability through better management of an evolving, extending workforce:

- 1. Develop a sourcing strategy for required capabilities.**
This could be achieved by defining which capabilities should be developed internally, which could be procured from elsewhere, and which might be acquired through existing partnerships.
- 2. Retain the right people.** The public sector has excellent retention rates compared to the private sector, but this does not mean organisations are always retaining the right people. A better measurement might be to assess retention rates of high-performing individuals and people with particular skills before developing specific plans to improve attrition rates amongst these groups.
- 3. Develop commissioning stakeholder management skills.**
In response to an evolving role within the delivery chain, public-sector organisations could encourage high-calibre individuals to pursue commissioning and stakeholder-management careers, and create professional groups of these disciplines to assure future capability in this area.
- 4. Drive the ‘intelligent customer’ function.** Better management of consultants and interim staff represents a significant challenge for public-sector organisations. There are several steps managers could consider to address this (see Figure 3).

Figure 3: Building the intelligent customer function in government

Maximising supplier value

In the private sector, consultants are often used to fulfil programme-management engagements or to design and implement complex technical or commercial projects. Unlike the public sector, they are rarely used to meet mainstream capacity shortfalls. Steps to improve management of external support in the public sector could include:

Taking a systemic, end-to-end look at cross-cutting policy issues such as adult social care to identify key gaps where external expertise is required.

Establishing clear frameworks and enforceable rules for departments and local authorities that consultants should only be used for specialist or one-off functions.

Establishing stronger performance-management indicators to assess whether external service providers are providing value for money.

Taking steps to foster supplier-customer trust and communication at an early stage. Private-sector experience shows that customers can be more closely involved at tender stage without compromising independence or competitiveness.

Broadcasting successes more frequently. Public perception of consultants in departments and local authorities does not always reflect their true contribution. Communications should reflect instances where partnerships have worked – not only how much was spent, but also how much was saved.

Source: Deloitte Research, 2008.

5. Create knowledge-management processes and communities of practice to link disparate areas of the workforce together.

This could link together existing partnerships to develop knowledge and expertise, offset the impact of a fragmenting workforce, and drive the flow of management information and the best practices around regionalised business areas.

6. Respond to the requirements of 'Gen Y' (see Figure 4).

Public-sector managers could explore flexible and remote working policies, corporate social responsibility programmes, sabbaticals and opportunities to network through technology as part of a modernised offering to prospective employees.

Figure 4: The requirements of 'Gen Y'¹⁶

In 2007, a global poll of chief executives showed that the acquisition and retention of talent is now one of the major challenges for employers, and is viewed as the most important step to improving corporate innovation performance. Increasingly, public-sector organisations across OECD countries are now in direct competition with private-sector employers to recruit from a shrinking labour pool, where technical, commercial, and corporate services skills are at a premium.

The baby-boomer phenomenon will create vacancies, but it also threatens operating capability, particularly for organisations where 'critical talent' – groups and individuals that drive a disproportionate share of an organisation's business performance – retire en masse. For the new generation, Generation Y or 'Gen Y', the core values traditionally found in public-sector environments are appealing. However:

- Gen Y individuals may be less comfortable working in one role for more than a few years, preferring instead to obtain experience from a diverse range of business areas.
- Use of technology and the opportunity to network with colleagues is important, as is a genuine balance between work and life, and opportunity to contribute to corporate social responsibility.
- For public-service organisations to appeal to the incoming generation, departments and agencies may have to transform their image as monolithic, slow-moving institutions to compete with younger, more flexible workplaces.

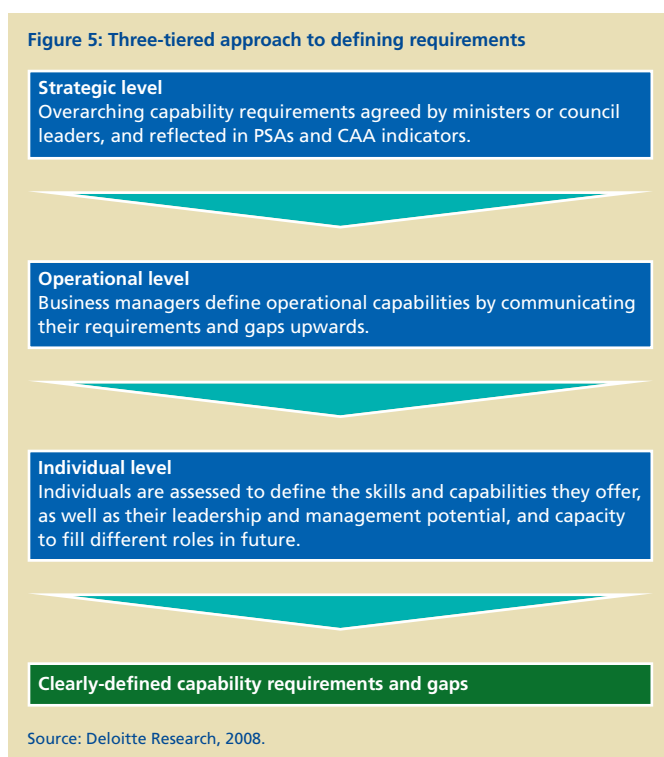
Gen Y workplace needs	Public-sector strengths	Public-sector weaknesses	Strategies for the public sector
Flexibility	Breadth of opportunities within public sector	Absence of career planning; slow advancement	Provide long-term career planning; cultivate learning opportunities; promote mobility
Balance/socialibility	Good work/life balance	Lack of social activities, mentoring, networking opportunities	Host social events; develop formal/informal networking programmes; enable flexible schedules
Sense of meaning/purpose	History of public service	Poor public perception due to bureaucratic inefficiencies	Highlight core values; prioritise social responsibility; initiate branding campaign and campus outreach
Access to technology	Significant funding on technology	Sub-par technology hinders flexibility, sociability, training	Offer online recruiting; provide flexibility around media choice; develop electronic learning tools

Source: Deloitte Global Research, 2007.

3. Capability-building approaches

Defining requirements

For public-sector organisations, effective capability building will form a large part of the solution in their efforts to adapt to new roles and business models. Public-sector managers interviewed understood the need to begin these efforts by defining requirements – to examine whether capabilities exist at the right levels to adapt to change and improve operational performance. But the evidence from our interviews indicated variability and a lack of a standardised methodology to define requirements across the public sector. In some cases, organisations used a three-tiered process to combine strategic intent (agreed by the leadership), operational priorities, and capabilities required at the individual or team levels (see Figure 5). But for others, this process was not yet in place or was applied sporadically in response to gaps, rather than as part of a planned process to define requirements across the organisation.



Where it was used, this approach generated high-level requirements for the organisations that used it, but did not always produce the tactical detail relating to each business area. As a result, capability building did not always flow from an integrated plan of requirements, covering all levels and business areas. The reason was shown to be cultural: we found evidence that the discipline of communicating individual and team requirements up the hierarchy had not always been well observed. In some organisations, communication to share requirements between operational and strategic areas was weak, although closer working between human resources and finance functions in some central departments has helped managers establish a better picture of gaps across corporate services.

Outside the three-tiered process, some departments also made use of SCS 360 degree feedback, the Professional Skills for Government framework, and Capability Review findings to inform future requirements.

Sidebar 3: Defining capabilities – a case study comparing what is required with what is available

The finance department of a large county council employed 420 staff, and although the workforce was stable, the department was finding it increasingly difficult to attract staff with the right skills and experience for key posts. The Council wanted to transform its finance function, and put in place measures to build operating capability to realise its long-term strategy and vision.

The Council went back to basics and asked the question ‘finance for what?’ to identify current and future requirements, taking account of specific industry trends. The next step was to compare what was required with what was available. The Council analysed the existing workforce to define roles, levels, skills and individual capabilities. It then evaluated current human resources policy to measure the positive and negative impact of key processes and rules.

Following this work, the Council was able to identify the finance capabilities it would need in the future, and develop a plan to strengthen key gaps over a 12-month period. This work was an example of where a capability review carried out at an operational level had taken account of the wider strategic objectives of the business, and responded accordingly.

Source: Deloitte Research, 2008.

Most organisations we interviewed were in the process of developing capability-building programmes in response to specific policy requirements. We found less evidence of people-driven transformation programmes, except where critical workforce segments were being expanded in response to a specific future requirement such as customer insight or programme management.

Seventy per cent of our interviewees created a ‘line of sight’ between individual job descriptions and overall business objectives. But further work to identify capabilities at an individual level was limited to a small proportion of people described as ‘talent’, who were actively managed through the Faststream, or other development schemes.

In recent years, public-sector leaders have emphasised a need to rebalance institutionalised emphasis on policy-making skills with a greater focus on delivery by professionalising corporate and commercial functions. But the managers interviewed as part of this report suggested that professionalisation of corporate-services areas and customer-facing roles remains a major challenge. A disconnection between the need to professionalise and the lack of a consistent, professional operating model in these areas has created tension, which was recognised as counterproductive by some organisations.

Another observation emerging from our respondents was a lack of emphasis on training to develop leadership and line-management within operational areas across the public sector. For many organisations, the word ‘manager’ describes a gifted or experienced technician who had been promoted with little account taken of their management or leadership aptitudes. One respondent noted the importance of this issue:

“Managers are meant to manage people. It is part of the day job. Most people need the day job, because most of their work is done through their people. And it’s not done by HR on your behalf. They provide you with supporting services and some of the strategic stuff. But [HR doesn’t] manage your people; you do.”
Human Resources Director, UK Government Department

Sidebar 4: Using a workforce strategy to build capabilities – a case study from financial services

A major financial services client wanted to increase capability in all professional areas, and bring workforce planning under a single umbrella to inform strategic decision-making. At that point, workforce planning across the company was decentralised, and had increased recruitment costs, knowledge retention, and succession planning risks across a range of business areas.

The company developed a three-year strategy for capability building. This flowed from a workforce plan that delivered immediate ‘hard’ results by reducing recruitment, severance and induction costs by 5 per cent, and improving access to data on capability and skills around the business. This allowed managers to deploy resources more effectively. It also led to some significant reform of human resources policy to make it more flexible and responsive to the needs of the business.

Source: Deloitte Research, 2008.

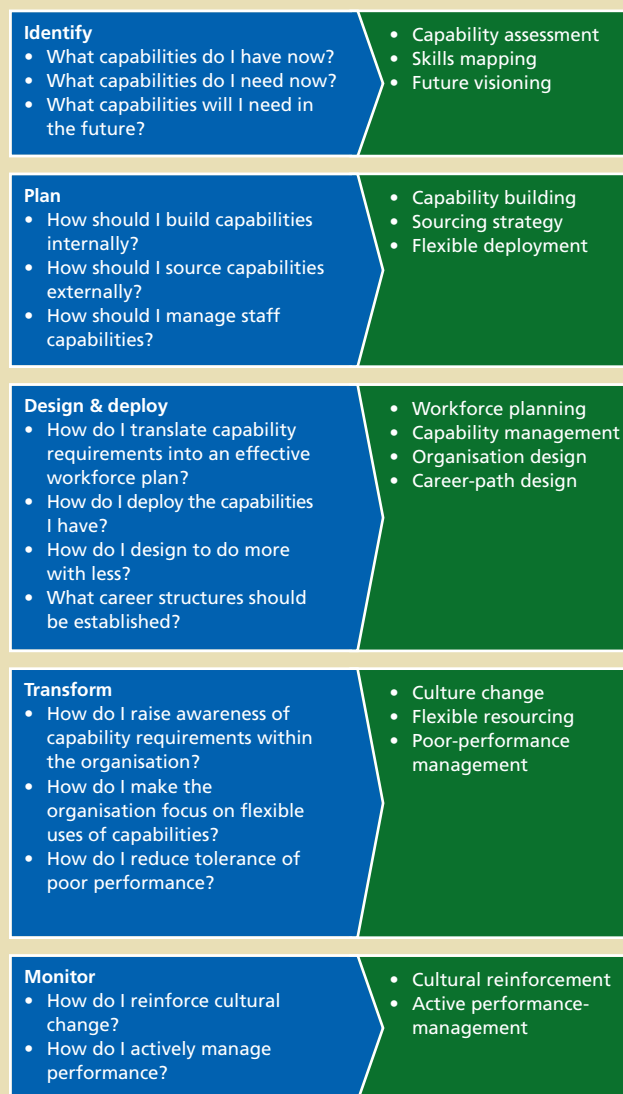
Using people as a capability-building agent

Taken together, these findings suggest that some public-sector organisations have not yet recognised the potential of human capital as a capability-building agent over the long term. From our experience working on workforce reform projects for a range of private- and public-sector clients, we believe a more strategic, integrated approach to identifying requirements and deploying strategies to acquire capabilities could be enabled by:

1. **Expanding the definition of ‘talent’ to encompass all groups – including front-line operational staff.** The best-performing private- and public-sector organisations do not isolate a small cadre of ‘talent’ from the operational and corporate service workstreams, but integrate these roles into their operating model, creating opportunity for high-performing contact-centre staff, accountants, or IT technicians to assume senior positions within the organisation.
2. **Defining the capabilities the business needs today and the likely changes required across those capabilities in future.** This work could be ‘owned’ at board level but developed by the business in partnership with human resources. This partnership could strengthen collective understanding of strategic human resources functions and highlight key service delivery risks to the leadership.
3. **Construct an organisation-wide plan to anticipate, source and develop the required capabilities to meet the needs of the business.** This plan could anticipate changes in the labour market and focus on the capabilities that have the biggest impact on meeting efficiency targets. It could also monitor the changing market value of specialist skills that might be required in future.
4. **Wider ‘active management’ of careers for all employees, not only high-flying or critical workforce segments.** This will ensure a business can locate, grow and move people with the right capabilities to where they are needed recognising that future needs may be different from today’s. This could be achieved through line-management mechanisms and better employee engagement in the overall capability-building process.
5. **Create a consistent operating model for procurement and corporate service roles,** together with communities of practice to integrate required capabilities. This could allow organisations to aggregate expertise around a hub to professionalise the skills and behaviour of these functions, and embed them into operational areas of the business (see Figure 6).

Figure 6: A roadmap for capability building

Our evidence suggests that success in building organisational capability is bound up with effective people strategies. The process might include:



Source: Deloitte Research, 2008.

Next steps: A new model for people-driven capability building

The overarching conclusion of this report is that many public organisations as yet have neither optimised their cultural and procedural mechanisms, nor have adequate capability-building plans in place to adapt the way they operate to future changes.

Human capital – people – lie at the heart of almost any such transformation. Even when change is achieved through IT or is finance-led, human capital still has a profound influence on its delivery. There are several steps departments and local authorities could consider to move from existing arrangements to a more appropriate business model, which is right for emerging roles and responsibilities. These could include:

Greater accountability for individuals through effective performance management

To identify requirements, strengthen capabilities, and drive productivity and value for money, public-sector organisations could make wider use of 'hard' accountability mechanisms in performance appraisals, job descriptions, operational priorities and the overall vision.

Individual responsibility for performance could be more widely shared between political figures and individual managers. As a balance to this, those for whom failure carries potential risk to their reputations could be better rewarded where clear achievement can be shown to be delivered. Reward strategies that create better links between productivity and pay would send a clear message that the culture of each organisation had changed.

Public-sector organisations have traditionally struggled to address poor performance as a result of deeply embedded cultural and process barriers. The solution could lie in providing line managers with the skills and confidence to address poor performance head on, and create stronger individual accountability mechanisms to illuminate unsatisfactory performance where it occurs.

Developing skills and capacities to adapt to new operating models

A key capability-building challenge ahead will lie in the ability of public-sector organisations to manage partners and suppliers. This could be achieved by acquiring and building key skills, including stakeholder management, procurement, programme management and commissioning capacities, which cut-across departmental and local authority boundaries to achieve shared objectives.

Attracting high-calibre individuals to these functions could be a priority for public-sector organisations. A clear message from leadership that excellence in these areas can be a stepping stone to senior positions may be required to drive these changes. Managers could also consider more effective ways to engage suppliers and consultants and to leverage the skills and knowledge they offer more effectively.

As part of a renewal process to offset the capability-reduction effects of baby-boomer retirement, public-sector managers need to address the shifting requirements of 'Gen Y.' Wider use of flexible and mobile working in government has been prevented by concerns over technical security and productivity. But private-sector experiences show that security issues can be overcome, and productivity levels in, for example, home working, could be assured by an overarching accountability framework that emphasises delivery outcomes.

A new workforce strategy developed in partnership between operational leaders, corporate services professionals and human resources

This plan could be developed collaboratively, taking into account capability requirements at individual, operational and strategic levels across all areas of the business.

It might also develop solutions to enable better management of an 'extended workforce' of consultants, delivery agents and other partners, and establish communities of practice and proper operating models for corporate services and other disciplines – placing them at the heart of strategic decision-making.

It could also widen the traditional focus on the 'talent' or 'high-potential' segments of the workforce, and promote active career management for all individuals across the business.

Notes

- 1 <http://www.civilservice.gov.uk/about/accountability/capability/index.asp>
- 2 <http://www.audit-commission.gov.uk/cpa/cpatransition.asp>
- 3 Labour Force Survey, Office for National Statistics, 2006.
- 4 Deloitte interviews with central departments and local authorities, 2008.
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- 15 <http://www.ome.uk.com/downloads/29th%20Report%20on%20Senior%20Salaries%20-%202007.pdf>
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