National Audit Office

Briefing
by the Comptroller
and Auditor General

Lessons for major service transformation

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Lessons for major service transformation

This briefing note outlines major lessons for service transformation. It draws on lessons developed in our report *Welfare reform – lessons learned*[1] but also sets out broader principles from our work auditing government programmes and reporting on value for money. This is an evolving area driven by continuing pressures on public spending and increasing efforts to transform services using iterative and responsive approaches. We are continuously developing our work in this critical area for government, and hope that these lessons prompt further valuable discussion.

Lesson 1: transformation programmes raise the greatest risks of failure

1 There are many different types of major programmes in government. We can distinguish in particular between building things, such as an aircraft carrier, from developing new services, such as a welfare payment or apprenticeships programme. When we think of major projects we tend to think first of building things and we have a reasonable understanding of how to manage the construction phases of these kinds of projects, the formal processes involved and the measures of success (delivery to time, quality and cost).

2 Service transformation programmes are less well understood. The National Audit Office's (NAO) reports show that while all programmes can suffer from problems like defining scope, engaging with stakeholders effectively and managing performance, transformation programmes are particularly prone to challenges in these areas. For example, the full scope of these transformation programmes is not easy to define upfront. Moreover, these issues are likely to have a greater impact on transformation programmes and be difficult to recover from. While new approaches – for example, agile development – can help to speed up programmes, we should acknowledge that these are not well established in government. Departments need to be clear on the risks associated with these approaches and how they govern and integrate programmes.

1 Comptroller and Auditor General, Welfare reform – lessons learned, Session 2015-16, HC 77, National Audit Office, May 2015

Lesson 2: set realistic goals and be honest about what really matters

3 All programmes have to balance ambition and realism in setting goals. Having a clear vision is important and so is communicating the full opportunity available. But ambition should not become a barrier to honest conversations about what really matters and what can be delivered, or exploring the alternatives for achieving objectives. A department should be open about what constitutes an acceptable shortfall against its aims, and set major milestones for the programme accordingly.

4 By frequently exploring different ways of achieving its goals – not simply considering broad options at the early policy stages – a department can improve planning and protect the critical path for the programme. Goals need to be developed based on evidence and not a particular view of assumptions unsupported by evidence. Without allowing pessimism to become a default approach, departments can and should plan for the possibility of failure and how they would deal with it. They should be prudent about success and consider how, if they needed to, they would de-scope the programme with the least impact on outcomes. This is more than developing a risk register and tracking mitigation strategies; programmes have a high rate of failure and departments should be prepared.

Lesson 3: policy development must take account of implementation

5 Those developing any major programme should take account of its implementation and operability. In the case of service transformation programmes this is particularly challenging as both policy and implementation choices must anticipate user reactions and behaviours.

6 Those developing legislation should work closely with their operational counterparts and ensure that policy reflects realistic assessments of how things work in practice, being willing to make decisions to simplify policy where necessary. For example, a pure policy analysis of a new welfare programme might favour complex calculations of entitlements to benefits, using a range of different sources of information and allowing for numerous complicated exemptions. But if this policy is too complicated or expensive to administer, or unintended consequences not identified early, it is unlikely to be as effective as originally intended.

Lesson 4: don't be tempted to score benefits early

7 Business cases for major transformation programmes typically identify large benefits from undertaking a programme. Without benefits the programme probably would not be proposed or agreed. But these benefits are uncertain and can be highly dependent on the 'implementation path', how the programme is introduced and decisions made along the way.

8 When faced with the constant difficult choices of government, it is tempting to try to accelerate major transformation programmes in order to pay for decisions that increase spending in the short term. Departments are in constant discussions with HM Treasury about when to introduce reforms and 'score' the savings or benefits of those programmes.

9 The problem is that these timing decisions don't reflect the difficult operational reality of introducing transformation programmes, with their reliance on cultural and behavioural change over time. Big transactional departments have a natural – or 'default' – approach that is gradual and incremental. Large systems such as welfare, criminal justice, housing or social care are complicated interlocking systems and it is hard to know for sure how one change will affect another. Rightly or wrongly, departments have learnt to proceed cautiously in making changes across these systems and managing interdependencies.

Lesson 5: do identify tangible short-term gains

10 Caution about what government can achieve in major transformation programmes is not a recipe for inactivity. We should aim for long-term transformational change, particularly if we want to see significant reductions in spending on low-value administration. And we should have a clear vision for how people will use services in the longer term.

11 But having an ambitious longer-term objective does not mean that we can only measure success in one-dimensional terms. Departments can – and often do – make significant improvements along the way. Identifying these interim steps as distinct gains does not just ensure that value is created even if the whole programme is not completed, it also makes it more likely that the ultimate outcome also works. Smaller tangible achievements may not just be social and political successes, but may also improve operational understanding and 'buy in' to long complex change processes. They can add value and stand alone as a success.

12 Departments have long recognised the need for flexibility during change programmes and adaptability as they learn about user responses and operational challenges. The problem with flexibility per se is that it is hard to distinguish from lack of commitment or a tendency to 'move goalposts'. But by identifying tangible short-term gains government can balance the genuine need for flexibility with the demands of taxpayers and stakeholders for visible progress.

Lesson 6: recognise the (senior) organisational cost of transformation

13 Shortages of capacity and key capabilities are commonly used to explain problems with both business-as-usual performance and major change programmes. The challenge for policy-makers is that it is hard to tell when these problems become genuine constraints on policy, and when they are the natural expression of caution in any major organisation.

14 In the construction phase of major projects to 'build things' the quantities and types of skills needed are reasonably well understood. While there is no precise formula, it is fairly clear, for example, that a shortage in qualified engineers would have a direct impact on the speed and quality of implementation. It is less clear what resources are needed by departments to sponsor major programmes and this is particularly true for transformation programmes. How many people do we really need to re-write legislation, design a policy and work out operational processes? The result is that it can be hard to judge the impact of perceived gaps in programme capacity.

15 Transformation programmes take a particularly heavy toll on senior leadership. Because many decisions are highly leveraged – in the sense that a small decision about managing a process will have large impacts after being repeated millions of times in transactional processes such as benefit or tax systems – the onus is often on senior teams to be closely involved in these decisions. The use of agile approaches places greater importance on senior leaders who need to do more than chair meetings. Programme directors need to be highly experienced, understand how to manage the environment, and break down any resistance to change. The NAO's work shows how finely-balanced this arrangement can be, and the dependence on clear governance structures to make it work. While there is no easy formula for how much transformation an organisation can cope with, it is important to recognise that these are organisationally expensive in terms of leadership attention and capacity.

Lesson 7: don't underestimate what you can learn from engagement

16 Engagement with stakeholders is a well-recognised principle of good programme management. Government also has formal requirements for consultation processes when major changes are introduced, and several mechanisms to allow users, providers and other affected groups to comment. The problem is that engagement is often conducted around policy rather than implementation choices, and it can be difficult for departments to disentangle key findings from the wide range of different submissions they receive.

17 But user engagement is one of the best ways to understand how a new programme will work in practice. By pointing out concerns with proposals, stakeholder groups are performing a valuable 'red team' exercise on proposals. The more that they can be encouraged to test and refine the whole programme (from policy through to implementation) the better the quality and usefulness of the exercise. Some of the biggest problems with reforms have arisen when people have not behaved as departments expected.

Lesson 8: recognise the value of learning and market development

18 Any major programme that tries to introduce a new or unfamiliar process will take time. There are practical lags in introducing any change, including the time taken to train staff or renew leases, as well as natural learning curves both on the front line and in management. The NAO has recommended that business cases recognise these learning curves explicitly.

19 One particularly acute example of learning is in market development. Where a programme depends on an immature supply chain, it will take time to work with providers to establish the market. In some cases these markets will have to establish common working practices, develop skills and set up their internal management processes. Any programme aiming to achieve its objectives using a long and decentralised supply chain will need to factor that into its planning, and establish and maintain relationships with the market.

Lesson 9: do anticipate the need to make changes in live running

20 One big lesson that government as a whole has learnt is the need to avoid 'big bang' reforms wherever possible. Several departments have adopted incremental, pathfinder or test-and-learn approaches to introducing programmes, recognising that they will need to make changes even while the programme is being introduced.

21 Tying in with the importance of engaging stakeholders, phased or flexible implementation is a valuable tool for testing the operational working of a programme. The challenge for any department must be to set out clearly what the key questions are that it is seeking to answer in this phase of implementation, and how it might then address them. Flexibility cannot be a substitute for lack of clarity or thought.

22 It is also important to recognise that this learning process can take a long time even when a programme appears to be fully up and running. Big questions that are postponed in the early stages of a programme need to be addressed at some stage and can come back to haunt departments. This is particularly true in contracted arrangements, where some contractual clauses are only really tested later in the programme. The NAO's work on active supplier management has shown how important it is to manage contracts continuously rather than seeing them as periodic procurement exercises.

Lesson 10: recognise the opportunities and limits of technology

23 A mantra of IT professionals (or digital and technology leaders, as they are now commonly called) is that IT cannot be treated separately from the rest of business transformation. In other words, there is no such thing as an IT programme. To some extent this is a similar issue to the divide between policy and implementation; any artificial distinction creates serious risks of unrealistic expectations and a tendency to assume someone else will solve your problems.

24 The interaction between technology and major transformation programmes is now widely accepted, as are the opportunities technology can bring when combined with process improvements and better user-centric design. But the frequency with which IT projects appear to suffer problems shows that IT-enabled business change projects are something to be handled with care. If programmes depend heavily on the use of technology to be successful, it is important to focus on the new business processes that technology will support.

Lesson 11: set out clear decision-making and challenge

25 In every major programme departments will have to make decisions about what to prioritise and what to compromise on. The challenge is understanding which elements of a policy or programme are intrinsic to achieving its objectives, and which – while desirable – are not essential. When programmes exhibit major failings in governance it is ultimately a failure in making these kinds of decisions that have a real effect on success.

26 Strong direction and tightly managed communications can build momentum and help to overcome inertia in programmes. But decision-makers must take care that this does not breed a culture of deference or lack of challenge. While the process of 'challenge' can be frustrating and time-consuming it protects those ultimately responsible for delivery by forcing out underlying concerns.

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