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NATIONAL AUDIT OFFICE

Measuring the Performance of Government Departments

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL
HC 301 Session 2000-2001: 22 March 2001

The United Kingdom's coxless four taking Gold at the Sydney 2000 Olympic Games

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John Bourn
Comptroller and Auditor General

National Audit Office
12 March 2001

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executive summary

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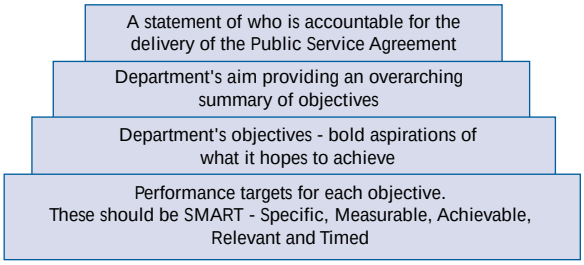
1 Performance measurement is an integral part of modern government. It stands behind the creation of targets, contracts and agreements that control service delivery. Good performance information can help Departments to develop policy, to manage their resources cost effectively, to improve Departmental and programme effectiveness and to report their performance to Parliament and the general public, so promoting accountability for public resources.

2 Public Service Agreements for Government Departments and cross-cutting areas set out what the Government aim to achieve. Each Public Service Agreement includes the aim of the Department or policy area, supporting objectives and related performance targets which underlie the resources allocated to them in public expenditure reviews (see **Figure 1**). Service Delivery Agreements have now been introduced which specify how these targets will be achieved, while Technical Notes define key terms and outline the performance measurement methods which will be used to monitor progress.

3 For the latest review - Spending Review 2000 - Public Service Agreement targets have been reduced in number. They are also more orientated towards the specification of desired outcomes for public services, such as improved health and life expectancy, rather than outputs of Departmental activities, such as the number of operations, or processes or inputs (see **Figure 2** overleaf). The percentage of Public Service Agreement targets that address outcomes increased from 15 per cent in 1999-2002 to 68 per cent for 2001-04. This focus on outcomes is novel. We commissioned a review of systems used to measure government performance in eight other countries. It showed that few other countries have yet designed their highest-level performance measurement systems around outcome-based measures (see Appendix 3).

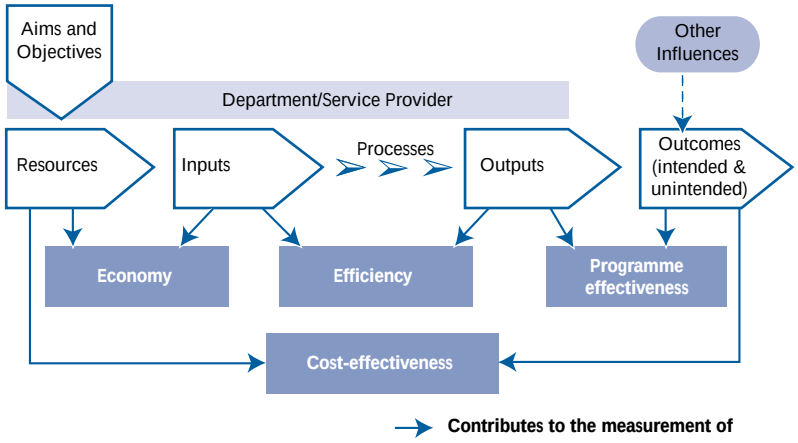
1 Summary of the content of Public Service Agreements



Source: National Audit Office

2 Relationship between Inputs, Outputs and Outcomes

This figure shows the relationship between inputs, outputs and outcomes



Source: National Audit Office

4 This report follows our March 2000 report on "Good Practice in Performance Reporting by Executive Agencies and Non-Departmental Public Bodies". It extends our coverage of performance measurement issues to Departments by taking an interim look at the progress they are making in measuring their performance, and in particular their outcomes. We surveyed the 17 main Departments and interviewed those involved in a number of cross-cutting areas to identify the challenges they face together with some of the solutions they have adopted. The report covers the selection and design of performance measures; the links between Public Service Agreements and targets for service providers; and the identification of appropriate sources of data to support measures and the reporting of outturn against target. This summary outlines the main good practices we identified and is supported by a list of key questions that Departments may wish to consider when they develop and implement their Public Service Agreement targets (see Annex 1, page 10).

Selecting and designing measures

5 Public Service Agreement targets should flow from the Government's overarching themes and Departmental objectives. A good target not only demonstrates the achievement of a Departmental objective, but also encourages appropriate behaviour by staff in the organisations delivering the relevant services. Our survey showed that Departments faced challenges in devising measures which are shared or influenced by other Departments, which capture the essence of their objectives and which can be implemented in ways which avoid promoting perverse behaviours.

A number of performance measurement methods can be used to encourage joint working

6 The desired outcomes cannot always be achieved by organisations working alone. Well-designed outcome objectives and targets can assist and encourage departments to work in partnership with others to deliver outcomes. Three-quarters of Departments said they faced a great challenge in agreeing outcome measures which are shared or influenced by others. Our work highlighted a number of different circumstances in which different performance measurement approaches had been used to overcome this challenge. Circumstances included those where:

- Government specified overarching objectives that applied across all Departments, such as that for the promotion of sustainable development. In this instance the Department of the Environment, Transport and the Regions created a set of sustainable development performance indicators on which all Departments could draw - and which have been reflected in 12 of the 17 Departmental Public Service Agreements. The indicators have worked well in raising the profile of sustainable development in circumstances where the creation of a large number of shared targets would have been unwieldy (paragraph 2.6 and 2.7);
- key Government priorities, such as reducing drugs misuse, unemployment, poverty and crime led to the creation of cross-cutting Public Service Agreements which provide shared objectives and targets for these policy areas. This approach worked well where a manageably small number of Departments were involved, helping to articulate priorities through a few shared targets and thereby encourage joint working (paragraph 2.8);
- different objectives overlapped, leading to an opportunity for a shared target. An example includes the target for debt reduction for heavily-indebted poor countries shared between the Treasury and the Department for International Development. Here, the objectives were increased global prosperity and sustainable development for the elimination of poverty respectively. The shared target was based on close working between the Departments to define the level of debt relief appropriate, and to allocate relief so as to achieve the greatest reduction of poverty (paragraphs 2.10 and 2.11 and Case study 2).

7 In choosing the most appropriate measurement method for encouraging joint working, factors to be considered therefore include:

- the number of Departments and other stakeholders involved;
- the degree of stakeholder interpretation of national objectives needed for cost-effective pursuit of objectives;
- the priority accorded the objective; and
- the costs and burdens of given approaches to setting targets and monitoring progress.

A good understanding of the link between activity and outcomes can help Departments design targets

8 The way that Departmental programmes generate outcomes is often complex. We found that several Departments had developed programme models or maps, to yield a better understanding of the relationship and logic between their activity and outcomes and to help them to devise appropriate performance measures. Activity included sophisticated and relatively expensive quantitative modelling, such as that used by Customs and Excise to explore ways to reduce tobacco smuggling. Customs drew on a variety of services and methods, including the results of research, to identify the scale of tobacco smuggling, predict the likely drop in smuggling if it could be made less profitable, and then gauge what level and assignment of resources would be needed to achieve specified reductions in smuggling. A simpler approach, on the other hand, was used effectively by the Department for International Development to target aid. They drew on their own and external evaluations and research to define the characteristics of countries most likely to make most effective use of development assistance, and then set about rating these characteristics in poor countries.

9 Choices over the approach adopted naturally depend on the cost and feasibility of any option against the potential benefits. But we found that, in addition to helping devise performance measures, modelling and mapping methodologies can facilitate resource allocation, monitoring and accountability and can assist Departments to decide how to respond to changes in circumstance. It was also evident that the move to measuring end outcomes means that there can be considerable overlap with policy and programme evaluation. Departments will, in the future, need to ensure they integrate the short-term managerial objectives of performance measurement with the long-term policy based objectives of evaluation (paragraphs 2.14 to 2.15 and 2.27 and Case study 3).

The format of targets can be varied so that they closely address the policy objective

10 The majority of targets set for 2001-04 were founded on movements in a simple set of statistics recording overall outcome status, such as improving the average level of performance achieved across the country. In some cases, Departments found it valuable to supplement averages with minimum standards or measures of variations. The Department for Education and Employment's 2001-04 Public Service Agreement, for example, included targets aimed at the achievement of minimum educational standards. One such target is for at least 38 per cent of children in every Local Education Authority to obtain five or more GCSEs (or equivalent) at grades A* to C by 2004. In another case, the Home Office specified a target for reducing variations by requiring that no local authority should have a domestic burglary rate which is more than three times the national average. These examples show that the format of the target selected can help direct attention precisely on the concerns underlying policy objectives (paragraphs 2.17 to 2.22).

By careful design and implementation Departments can minimise the potential for perverse behaviour and unwanted skewing of performance

11 Targets are designed to focus attention on priorities. Treasury guidance to Departments recognised however that in doing so there is a risk that targets may unintentionally create incentives for perverse or unwanted activity, or that they create so tight a focus on targeted areas that no attention is paid to important but untargeted areas. We found that in selecting their targets for 2001-04 some Departments had actively reviewed and rejected targets that could lead to perverse activity. For example, the Department for Trade and Industry rejected a target for reducing the number of small business failures as their economists argued that a high "churn rate" could be a sign of a healthy economy where enterprise and innovation was promoted. The Department for the Environment, Transport and the Regions ensured that their overall measurement systems provided a balanced and comprehensive view of performance by including within their Service Delivery Agreement additional outcome measures for those objectives not covered, or only partially covered, by a Public Service Agreement target (paragraphs 2.32 to 2.37).

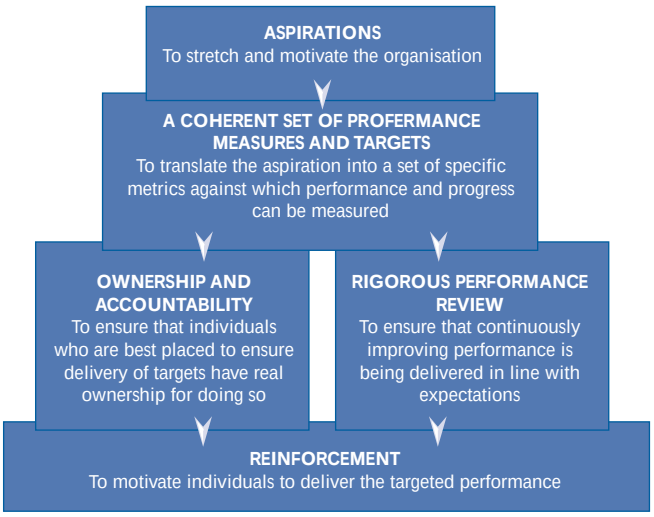
Implementing targets so as to raise performance

12 If Public Service Agreement targets are to drive behaviour and stimulate improvements in outcomes they need to be translated into operational targets for the diverse range of Agencies, Non-Departmental Public Bodies, contractors and local and voluntary organisations that deliver public services. The Civil Service Management Committee - which comprises the permanent heads of Government Departments - proposed that each Department develop a business planning model which uses targets to communicate aspirations and priorities to those delivering services. Departments should establish ownership for these targets, and effectively review and reward good performance (see **Figure 3**). Through our survey we found that the greatest challenges Departments face in making high-level targets operational are getting ownership and rewarding good performance, with lesser but still common challenges in integrating Public Service Agreement targets into normal planning activity and influencing service provider's priorities (paragraphs 3.2 to 3.6).

Involving all stakeholders improves local targets and builds ownership

13 Communication and collaborative working are key elements in securing local ownership of service delivery targets. Thirteen Departments told us that consulting other stakeholders had helped them establish targets and measures which can achieve improvements in performance. In some cases, such as in the Home Office's work to establish Best Value indicators to support their objective of reducing deaths and injuries from fire, Departments constituted a formal group of interested parties to devise a common approach and develop well-understood and achievable delivery targets. The use of a group, as opposed to a series of bilateral meetings, enabled a rapid exchange of views and the sharing of knowledge so that any barriers to progress were quickly assessed and overcome. Through this method of consultation the Home Office secured a sense of ownership from all those in the service delivery chain, and benefited from their expertise in defining measures and targets for service delivery which drew heavily on existing sources of data (paragraphs 3.7 to 3.12).

3 **Business Planning Model endorsed by the Civil Service Management Committee**



The model was developed by the Public Services Productivity Panel and has been endorsed by the Civil Service Management Committee. The Panel are a small group of senior business prople and public sector managers that have been established to identify ways to help improve the productivity of the public sector.

Source: Public Services Productivity Panel

By supporting service providers Departments can improve the effectiveness of local target setting

14 The achievement of some Public Service Agreement targets will depend upon services delivered by many bodies across the nation. Some Departments have found that they could encourage ownership by assisting those delivering services to introduce new measurement systems and by helping them set informed local targets. The Department for Education and Employment took this approach in requiring schools to set targets for the examination performance of their children at ages 11 and 16 years. The Department provided a mixture of funding, training, information and guidance to assist schools in setting appropriate targets. In doing so they not only provided substantive support for the process, but they also reinforced the importance of targets and demonstrated their commitment to achieving the desired outcome (paragraphs 3.13 to 3.15 and Case study 5).

Business planning systems can promote coherent and efficient pursuit of outcome targets

15 Departments were developing business planning systems which enabled them to communicate and monitor Public Service Agreement targets. The Ministry of Defence, for example, were developing their overall performance measurement methodology around a Balanced Scorecard. The Scorecard defines their performance under four broad perspectives which cover outputs, resource management, learning and development and process improvements. The Scorecard reflects the Ministry's Public Service Agreement as well as other strategic objectives such as Civil Service diversity and ethnic minority objectives and provides a better alignment between their Public Service Agreement objectives and those by which they manage themselves. Individual scorecards have been developed within each of the three Services, including objectives which are aligned with, but not the same as, the Ministry's strategic objectives. Standardised business planning arrangements like the Scorecard help to provide a clear focus on Departmental priorities, to translate priorities into clear and easily understood actions at operational level and to align effort at all levels behind the Department's strategic objectives (paragraphs 3.16 and 3.18 and Case study 6).

Non-financial and financial rewards, local targets and assistance influence the priorities of service providers and staff

16 Eighty-two per cent of Departments rated the challenge of ensuring that there were rewards which encourage services providers to achieve or exceed targets as great or very great. Some Departments had, however, started to make useful progress in establishing appropriate incentives for local providers. Their methods included:

- developing agency and internal targets so that they clearly focus on national priorities. The Employment Service's job entry targets, for example, are weighted so that they give staff a clear sense of the priority of finding jobs for the most disadvantaged jobseekers, such as those on New Deal. The use of weightings is particularly valuable when an agency has been set a broad package of targets which are of varying importance to the Department's objective (paragraphs 3.33 to 3.35 and Case study 8);

- providing extra funding and greater flexibility for entities that improve service delivery. The Department for the Environment, Transport and the Regions are piloting local Public Service Agreements, which set targets for individual local authorities which support national and local priorities. The Agreements both help authorities to improve performance above levels already planned, for example, by relaxing planning and other restrictions, and provide incentives through additional funding if targets are achieved (paragraph 3.37).

17 Departments are currently considering how they could reform their systems for rewarding staff so that they provide greater incentives to deliver key business objectives and targets. In meeting this challenge they are able to draw on the work of the Public Services Productivity Panel who have examined performance based incentives in a number of Departments and Agencies. In their 2000 report - Incentives for Change[1] - the Panel proposed that good performance against Public Service Agreement targets should be rewarded by greater use of team bonuses, funded in part from productivity gains, and other measures such as flexible working hours, development opportunities and non-financial rewards and prizes (paragraphs 3.39 to 3.43).

Collecting good quality performance data

18 The move towards outcome targets has changed the emphasis of information requirements from data on outputs, processes and inputs - which can normally be sourced from Departments' and Executive Agencies' internal systems - to information on a Department's impact on society, which often requires the capture of information outside central government. That could be information collected and made available by third parties, such as the information provided to Department for International Development from countries who receive aid. Or it could be new or existing streams of data collected by Departments or other Government agencies. Where the data collection process is undertaken or overseen by the Office for National Statistics the stream of information is classed as National Statistics. We reviewed the latest Public Service Agreement targets to estimate the likely source of underlying data (paragraph 4.4).

19 The results show that there is significant use of National Statistics and Local Authority statistics, which come from systems which use standard definitions. The majority of data, however, come from systems which are operated by Departments, Agencies and Non-Departmental Public Bodies and are not subject to oversight by the Office for National Statistics. Whether data come from other organisations, or are internally generated, Departments need to establish adequate quality assurance arrangements. In all cases, they should define the quality of data they need, and then make sure they obtain it (paragraphs 4.5 to 4.7 and Figure 21).

1 *Incentives for change: Rewarding performance in national government networks, Public Services Productivity Panel, January 2000*

By drawing on established methods Departments can minimise the cost and risks of collecting new data

20 Many of the new sources of data commissioned by Departments revolve around surveys of the target population which Departments aim to influence. But survey work can be expensive, and places demands on scarce expertise within Departments. Departments can work to minimise the risks and costs of surveys, however, as the Lord Chancellor's Department did when planning their survey of dispute resolution. The Department established the nature and accuracy of data they needed, then drew on existing academic expertise to design a survey instrument and an efficient sampling process. The Research Unit of the Legal Services Commission will manage the survey, ensuring relevant expertise is brought to bear, while the mechanics of the survey will be handled by a market research firm under a competitive contract. This carefully thought-through approach makes the Department well placed to achieve the desired data quality while paying close attention to costs (paragraphs 4.11 to 4.12).

Departments can assist service providers by improving the usefulness of existing information sources and cutting unnecessary data

21 Departments have taken the opportunity to review their existing data systems to make best use of them, as the Department of Social Security are doing by creating a source of corporate information. The Department looked for inexpensive ways to make their many existing data systems better linked so that staff at the centre and in the network of local offices can more easily access and analyse information on different aspects of performance. In other cases, such reviews have led to a reduction in data collection burdens, as in the case of the Department of Trade and Industry, which managed a reduction of 26 per cent in the information they collect from around 80 Business Links - organisations who assist small businesses to improve their competitiveness. These reviews have made an important contribution to improving the cost-effectiveness of Departments' overall data collection efforts (paragraphs 4.16, 4.22 and Case study 9).

Departments need to develop and operate methods for obtaining assurance about the quality of data

22 We asked Departments about the challenge of validating performance data. Just under half said that they faced a great or very great challenge in obtaining assurance on the reliability of data. There are, as yet, no commonly accepted standards that apply to validation. National Statistics are subject to review by the National Statistician (and behind him or her, the Statistics Commission) and published local authority indicators and the indicators to be published annually under the NHS Performance Assessment Framework are subject to review by the Audit Commission. But arrangements for validating the data sources were rarely indicated in Service Delivery Agreements or Technical Notes - which provide details of how targets are to be measured - although some Departments aimed to apply the same checks to their data systems as those required for National Statistics (paragraphs 4.26 to 4.32).

Conclusion

23 The introduction of Public Service Agreement targets, and in particular the move to outcome-focused targets, is an ambitious programme of change which puts the United Kingdom among the leaders in performance measurement practice. At the moment, the reforms are still in their early stages: the first public reports of progress against the first generation of Public Service Agreements appeared in spring 2000; the first such reports for the latest targets will not appear until autumn 2002. This report therefore focuses on the system that has been set rather than the impact of the reforms.

24 We noted, however, that some changes have already taken place. The increased focus on outcomes has reinforced initiatives to promote joined-up working across Government. And it has also helped to bring central Government and local service providers closer together. The reforms have led Departments to look carefully at the mechanics of their programmes, and in several cases noted in this report - Customs and Excise work on tobacco smuggling, and the Department for International Development's aid programme, for example - resources have been reallocated with the aim of improving effectiveness.

25 By refining the application of outcome-focused targets, drawing on the emerging good practices identified in this report and elsewhere, there is the prospect of more firmly evidenced improvement in performance in future. Initiatives such as the Technical Review Panel, comprising a wide membership across Government, have provided a useful mechanism for sharing expertise and peer reviewing proposed measures. Improvements in performance measurement will demonstrate not only the impact on citizens' lives, and the more cost-effective use of Government resources, but also the professionalism of public servants in promoting open, responsive and joined-up government.

Annex 1

Key questions that Departments may wish to consider as they develop and implement their Public Service Agreement targets and measures

These questions have been derived from good practice identified during our study and included in the Executive Summary and main body of this report. The list is not comprehensive and should be used in conjunction with existing guidance, for example, the core criteria for performance measurement systems included in the performance information framework which also cover how organisations should use performance information (see paragraph 1.19 and Figure 11 on page 20).

Selecting and designing performance measures (Part 2)

1 Are performance measures underpinned by a clear understanding of how programmes and activities impact on desired outcomes?

- Have the main influences on the desired outcome been clearly identified?
- Have Departmental activities and performance measures been chosen with regard to:
  - The main influences on outcomes?
  - The motivations of people involved in delivering and receiving services?
  - The results of relevant research and programme evaluations?
- Have modelling methodologies which, for example, demonstrate the logic of programmes, been used when they can cost effectively inform the formulation of targets, help monitor progress towards the final outcome and assist the Department to account for performance?
- Have data collection and analysis methodologies been chosen so as to show the contribution of the Department's programme to the achievement of the desired outcomes, from that of other factors?
- Do performance measures complement evaluation and research programmes?

2 Where joint working with other Departments is appropriate, do the performance measurement methods support cost effective joint working?

- Has the potential for joint working been clarified between partners and a strategy for achieving joint ends agreed?
- In any given case, does the selected strategy recognise the implications of the number of stakeholders involved, the degree of local interpretation of objectives that is desirable, and the costs and burdens of managing the resulting targets?
- Does the performance measurement regime support the strategy selected? For example, by:
  - Defining a set of common performance measures for overarching objectives, on which each Department can draw, so promoting a coherent approach but allowing each Department to reflect their priorities and circumstances;
  - Specifying a cross-cutting Public Service Agreement for priority policy objectives involving a small number of Departments which share objectives and targets under the Agreement;
  - Using a shared target where different Departmental objectives overlap, supported by clear agreement on priorities, resources applied and activities.
- Where there are shared targets, is one Department or organisation charged with overall responsibility for achieving or co-ordinating activities aimed at achieving each target, and given authority to vary resource allocations or activities to that end?

3 Have the Department considered the form of target which would most closely support the policy objective? Options include:

- Measures of average performance or improvement;
- Measures of minimum standards;
- Measures of variation, for example, between different parts of the country or different groups of people.

4 Are targets designed and implemented so that they minimise the potential for perverse behaviours and avoid unwanted skewing of performance?

- Are proposed targets actively reviewed by a range of stakeholders and professionals to identify perverse incentives or misleading information which could be unintentionally generated?
- Are outcome targets set within a broader framework of performance measurement to guard against over-emphasis on targeted areas?

Implementing Public Service Agreement targets to improve performance (Part 3)

5 Are all stakeholders effectively involved in the setting of lower-level targets so that local ownership is encouraged?

- Have the Department considered establishing formal groups which bring stakeholders together to promote a rapid exchange of views and knowledge and to facilitate a group understanding of the implications of objectives and targets?
- Do targets and measures draw wherever possible on existing sources of performance information thus minimising the burden of data collection?
- For each Public Service Agreement target, have the Department examined the merits of setting local providers outcome or output targets? For example:
  - outcome targets can communicate priorities and can give local service providers flexibility over the method of service delivery. This can be valuable when local needs vary or where it is desirable for service providers to innovate;
  - output targets can give a much narrower and focused attention to actual service delivery. Departments may find it useful to adopt such targets where there are a range of providers delivering different services which contribute to a broad outcome.

6 Have opportunities been sought to assist service providers to set, where appropriate, and achieve effective local targets?

- Do the Department explain to service providers the purpose and potential benefits of the target setting process?
- Are service providers helped to obtain the skills they need to set local targets, for example, by giving them access to experts, funding, training or by providing analytical tools?
- Do service providers get access to Departmental performance information, such as comparative data, where this will help them set informed targets?
- Have the Department sought service providers' views about the presentation and substance of any performance information collected and disseminated by the Department?
- Do the Department make available guidance and good practice on setting and achieving targets?

7 Are Public Service Agreement targets located within a wider Departmental business planning system?

- Does the planning system help the Department and service providers to focus on the achievement of national priorities?
- Does the planning system define performance in a balanced and consistent way?
- Does the planning system assist management to examine and compare the performance of different programmes or service providers?

8 Have the Department explicitly considered the best way of influencing the priorities of service providers and staff?

- Are local targets revised promptly to reflect changes in Public Service Agreement targets?
- Can local targets be weighted so that they focus staff attention on priorities?
- Are there effective incentive regimes that reward good performance with, for example, additional funding, recognition awards and increased autonomy from central monitoring and inspection?

9 Has the work of the Public Services Productivity Panel been used to inform the Department's approach to developing systems which link performance rewards for teams and individuals to the performance of the organisation?

Collecting good quality performance data (Part 4)

10 Have the costs and risks of collecting data for new targets been minimised?

- Have the Department established clearly the nature and quality of data needed to monitor progress against targets?
- Has full use been made of established sources of data collected by the Department or other parties before considering new data requirements?
- Where new data must be generated, is full use made of established measurement methodologies and are data specified so that the burdens of data collection are minimised given the quality required?
- Have the Department established clear accountability for data quality and agreed responsibilities for the key steps involved in collecting, processing, reporting and checking data?
- Have agreed data definitions been established and communicated to all those involved in collecting, analysing and reporting data?
- Are there controls to ensure that agreed data definitions are used consistently by those involved in collecting performance data?
- Where data are collected by third parties have the Department considered providing technical assistance and other resources to assist the production of good quality data?

11 Do the Department and their service providers make cost-effective use of all existing information sources?

- Are performance measurement systems regularly reviewed to identify items of information which are no longer needed or items which are collected more than once?
- Can information be presented in a form which would make it easier for service providers to access and analyse data on different aspects of performance?

12 Have arrangements for obtaining assurance been designed and implemented to ensure that data collected meet the required standards?

- Have the different options for obtaining assurance on the accuracy and quality of performance data been fully explored and the most appropriate and cost-effective option selected?
- Have the arrangements for obtaining assurance on performance data been documented, for example, in the Technical Note?
- Are there controls in place to ensure that the assurance arrangements are operating as designed?
- Are any shortfalls in the quality or accuracy of performance data fully recorded?
- Are any shortfalls remedied, and systems reviewed and revised as necessary to ensure the production of better data in future?

Part 1

Introduction

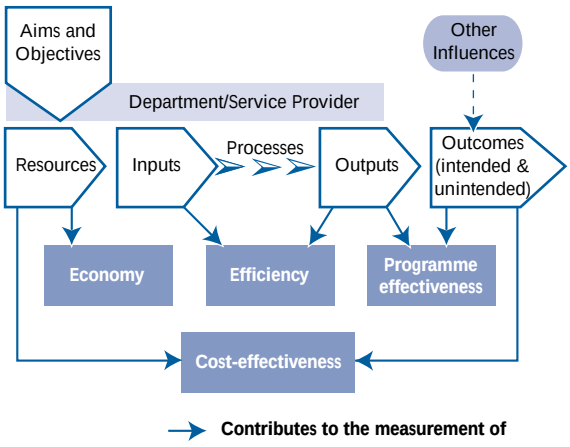
1.1 This report reviews the ways by which Government Departments measure their performance. It examines the challenges and good practices arising from the introduction of Public Service Agreements. It also looks at how Departments have selected and designed high-level outcome targets, cascaded these targets down to those who deliver services and collected good quality data to monitor progress against targets.

1.2 This part of the report explains why the National Audit Office undertook an examination of performance measurement in Government Departments. In particular it covers:

- Why performance measurement in government is important;
- Public Service Agreements and their part in the performance measurement process;
- The reason for undertaking a study and the methodology employed.

4 Relationship between Inputs, Outputs and Outcomes

This figure shows the relationship between inputs, outputs and outcomes



Source: National Audit Office

Why Performance Measurement in government is important

"Performance is a cornerstone of our commitment to modernise government. It provides some of the tools needed to bolster improvements in public sector performance including improving accountability, performance management, risk management and business planning.

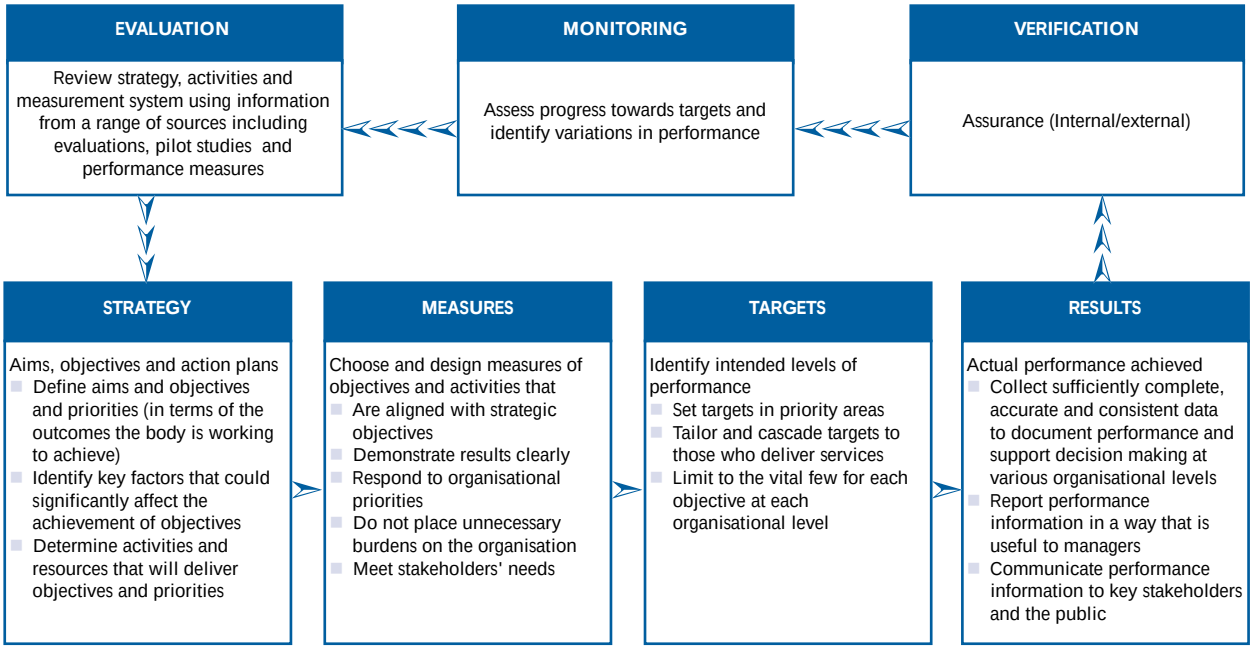
Good quality information also enables people to participate in government and exert pressure for continuous improvement. In addition to empowering citizens, this information equips managers and staff within the public sector to drive improvement. Performance information is thus a catalyst for innovation, enterprise and adaptation."[2]

1.3 Performance measurement systems can provide a range of information embracing the inputs, processes, outputs and through to the ultimate outcomes of government programmes. **Figure 4** illustrates the relationship between the inputs, outputs and outcomes.

1.4 A good performance measurement system will assist a Department to monitor and report progress towards long term objectives. Internally, performance information is integral to the process of management. Performance measures assist departments to communicate their key objectives and priorities, monitor the services they deliver and report what they have achieved. Externally, performance measures are vital for effective accountability. With appropriate information Parliament, members of the public and other stakeholders can exert pressure for improvements and can better participate in the development of policy. **Figure 5** sets out the characteristics of the key stages in the performance management process and shows how performance measures and targets support that process.

5 Key Stages in Performance Management

This figure identifies the main components of Performance Management



Source: National Audit Office

Spending Review 2000

1.5 Performance targets feature explicitly in Government expenditure planning and reviews. The Government published the results of their 2000 Spending Review in July 2000.[3] Exploration of Government objectives, targets and associated performance measurement arrangements take three forms.

a) Public Service Agreements

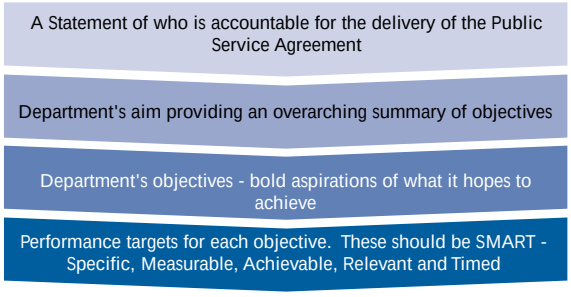
1.6 Public Service Agreements are the latest major development in central Government performance measurement (Appendix 2). They set out what the Government aims to achieve with the resources provided. Public Service Agreements for 2001-04, published in July 2000,[4] are fewer in number than those produced following the Comprehensive Spending Review in 1998. The latest Agreements cover the 17 main Government Departments, four cross-cutting programmes, local government and the Northern Ireland Office. Each Public Service Agreement sets out the aim of the Department or programme, the supporting objectives and the related performance targets showing what will be delivered. Most of the targets are to be achieved during the period April 2001 to March 2004. **Figure 6** shows the content of Public Service Agreements.

1.7 The Public Service Agreements covering the period April 1999 to March 2002 contained 387 performance targets. For 2001 to 2004, around 160 targets have been set, which include 30 which are shared by more than one Department. Both sets of targets will be relevant to the overlap year, 2001-02.

1.8 The Treasury monitor Department's performance against their individual Public Service Agreement targets and provide quarterly reports to the Ministerial Committee on Public Services and Public Expenditure. The Committee periodically examine the progress that individual Departments have made towards achieving their targets.

6 Summary of the content of Public Service Agreements

This figure shows the content of a Public Service Agreement



Source: National Audit Office

3 *Prudent for a purpose: Building Opportunity and Security for all, July 2000*
4 *2000 Spending Review: Public Service Agreements, July 2000*

1.9 Performance against Public Service Agreement targets is made public in Departmental reports. The first statements of achievement against the targets set for 2001-04 will be included in Departmental reports that will be published in Autumn 2002. These reports will also provide the final statements of Departmental performance against the targets set for 1999-2002.

b) Service Delivery Agreements

1.10 Service Delivery Agreements set out how the main Government Departments will meet their Public Service Agreement targets and how they plan to modernise and reform government to help deliver the targets. Service Delivery Agreements were published on 3 November 2000, and set out how each Public Service Agreement will be delivered together with key output targets that are critical to the delivery of the Public Service Agreement outcome targets. They cover issues such as the quality of service, the development of new processes and progress towards general objectives such as those relating to ethnicity, procurement and the prevention of fraud. They identify how Departments aim to improve performance, including how they propose to drive forward the Government's Modernising Government agenda. All Service Delivery Agreements have been made available on Departmental websites and the Treasury website:

www.hm-treasury.gov.uk/sr2000/sda/departments.html

contains a page of links to them all. **Figure 7** shows the content of these agreements for the main Departments. Service Delivery Agreements for the smaller Departments also include a small number of key performance targets for the outcomes they are aiming to achieve.

7 Summary of the content of Service Delivery Agreements for main Departments

This figure shows the content of a Service Delivery Agreement

- A Statement of who is accountable for the delivery of the Service Delivery Agreement
- A statement of how the Public Service Agreement targets will be delivered, including the structure in place to deliver them
- A statement of any key output targets that are critical to the delivery of Public Service Agreement targets
- Shows how the Department will organise themselves to deliver the targets and improve performance, including action on Modernising Government

Source: National Audit Office

8 Illustration of the content of government performance measurement documents

This figure illustrates the public information provided on the Ministry of Agriculture, Fisheries and Food's target for reversing the decline in the number of farmland birds by 2020

PUBLIC SERVICE AGREEMENT (extract relevent to target for decline in farmland birds)	**Aim:** One of the aims of the Ministry of Agriculture, Fisheries and Food is the "protection of the rural and marine environment and a thriving rural economy". **Objective:** To sustain and enhance the rural and marine environments and public enjoyment of the amenities they provide and to promote forestry. **Target:** Care for our living heritage and preserve natural diversity by reversing the long term decline in the number of farmland birds by 2020, as measured annually against underlying trends.
SERVICE DELIVERY AGREEMENT (extract relevant to target for decline in farmland birds)	"We are developing a strategy (by end October 2000) that uses the full range of our relevant policies to ensure that we meet this target: a) We are consulting with interested bodies on how to develop and refine our understanding of the changes in populations of farmland birds and with them will research further how to combat the causes of decline. We will, also in consultation, make extensive use of reviews and evaluations of our policies to ensure they are effective and delivering value for money. b) We have identified a number of management prescriptions for farmland that improve bird numbers and have included as many as possible in the agri-environment schemes which form part of the England Rural Development Programme (ERDP), such as the organic farming and the arable stewardship schemes. c) The Common Agricultural Policy (CAP) has a significant influence on farming methods and we will be working to ensure that CAP policies, such as those on set-aside management, have biodiversity as a key objective. d) We will also be encouraging measures which are not directly related to habitat management but which encourage environmentally sensitive farming through market forces, such as farm assurance schemes. The ERDP is available on our website, and includes performance targets."
TECHNICAL NOTE (extract relevant to target for decline in farmland birds)	"**National Statistic:** The data relating to breeding populations of farmland birds is a National Statistic and is the responsibility of the DETR. Details can be found at: *http://www.statistics.gov.uk* **Scope:** UK. Can consider tightening the scope when figures become available for England. **Timing and Definitions:** a) The 20 species of farmland birds are defined in the National Statistic. The indicator will provide an overall assessment of trends in farmland bird numbers but numbers and targets for individual species will also continue to be monitored and published. b) A research project, due before December 2000, has been commissioned to produce a smoothed indicator of the populations of farmland birds to enable the underlying trend to be monitored as required by the target. This work will also determine how we measure whether we have reversed the long term decline by 2020. We will add the results of this research work to this technical note as soon as it becomes available. **Methodology:** The National Statistic is currently based on the Common Birds Census. After 2001 it will be based on the Breeding Bird Survey. The new data will be consistent with the historical data so the target will not be affected."

Source: Extracted from Ministry of Agriculture, Fisheries and Food's Agreements and Notes

c) Technical Notes

1.11 Technical Notes provide more precise details of how targets are to be measured. They explain exactly what is being measured and clarify terms and data definitions used in the published Public Service Agreements. The Technical Notes are available on the Treasury's and Departmental websites.

1.12 **Figure 8** provides an illustration of the contents of these agreements and notes for one Public Service Agreement target - the Ministry of Agriculture, Fisheries and Food's target for reversing the decline in the number of farmland birds by 2002.

Public Service Agreements and Service Delivery Agreements are designed to promote joined-up Government

1.13 Public Service Agreements and Service Delivery Agreements focus on the achievement of targeted outcomes under the responsibility of a given Department or group. But they also enable the contribution of other Departments and their priorities to be recognised and co-ordinated in support of high-level objectives. They provide a powerful tool for promoting cross-cutting working, both horizontally across Government Departments and vertically down to the service providers - Executive Agencies, Non-Departmental Public Bodies and local authorities. The example, set out in **Figure 9** overleaf, of the Home Office's arrangements, illustrates the key links between the Home Office's aim and objectives and the delivery of their targets by service providers. The Home Office are responsible for services delivered to the public

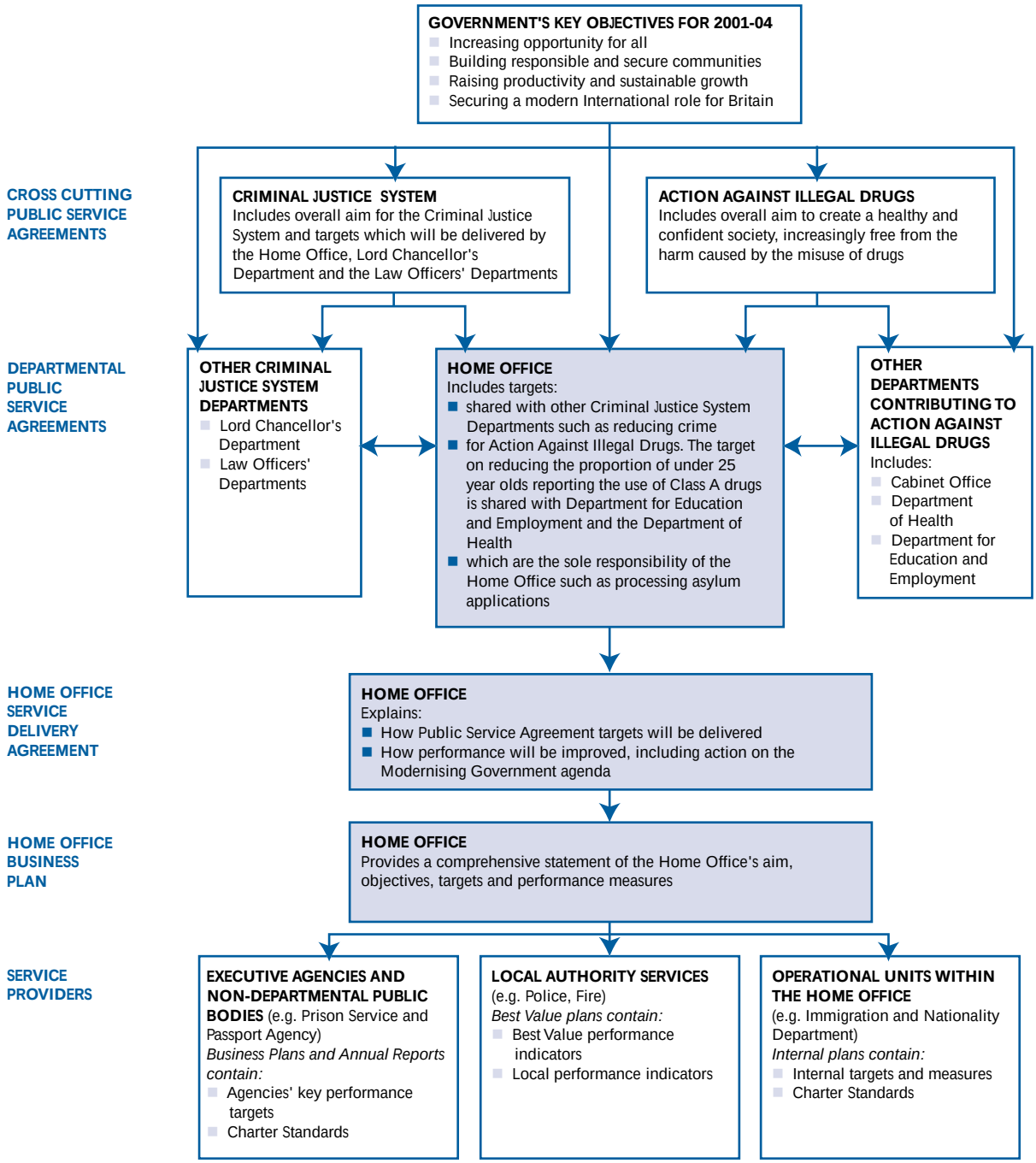
through agencies and local authorities (including police authorities) and are involved in substantial joint working with other Departments on cross-cutting activities. Figure 9 also illustrates the links between the Home Office and the cross-cutting areas Action Against Illegal Drugs and the Criminal Justice System.

Cross-departmental reviews

1.14 Figure 9 illustrates the fact that many government aims cannot be achieved by a single Department or Agency acting alone. In all the eight countries studied by our consultants, the need for 'cross-cutting', co-ordinated or 'joined-up' policies and services had been clearly recognised. In most cases, however, this had been addressed as an evaluative, management or

9 Links between the Home Office Public Service Agreement, other Departments' and cross-cutting units' Public Service Agreements and service providers

This figure shows how the Home Office Public Service Agreement links to other Departments' and cross-cutting Units' Public Service Agreements and the links to those who deliver services



Source: Home Office and National Audit Office

budgetary issue rather than one of performance measurement. Only Canada and, to a lesser extent, the United States had attempted to create more joined-up performance measurement systems.

1.15 In the United Kingdom, 15 cross-departmental reviews were established, to build on the January 2000 report - "Wiring it up" - by the Cabinet Office's Performance and Innovation Unit, which sought to improve the formulation and management of cross-cutting policies and services (**Figure 10**). These cross-cutting reviews resulted in an increase in joint working arrangements and additional resources to tackle the key issues identified. In some cases "pooled budgets" have been created, looked after by a single department but managed by a cross-departmental group of Ministers. Four of the reviews have associated Public Service Agreements - Sure Start, Welfare to Work, the Criminal Justice System and Action Against Illegal Drugs. In the other reviews, Departments are aiming to co-ordinate their policies and programmes by sharing targets in their Public Service Agreements.

10 **Cross-departmental reviews**

The following 15 cross-departmental reviews were undertaken as part of the Spending Review 2000:

- Government Intervention in Deprived Areas
- Sure Start and Services for the Under Fives
- Young People at Risk
- Welfare to Work and ONE
- The Criminal Justice System
- Crime Reduction
- Action Against Illegal Drugs
- The Active Community
- Care and Support for Older People
- Rural and Countryside Programmes
- Local Government Finance
- Science Research
- The Knowledge Economy
- Conflict Prevention
- Nuclear Safety in the Former Soviet Union

Source: Spending Review 2000

1.16 The Spending Review 2000 has increased the focus on joined-up working. The Welfare to Work cross-cutting review and Public Service Agreement is an example where the focus on joined-up working has resulted in improvements to the targets set. Traditionally the Department for Education and Employment had focused on unemployed people and the Department of Social Security on inactive welfare recipients. The Welfare to Work cross-cutting review enabled policies for these two groups to be considered together (see **Case study 1**).

The Treasury and Cabinet Office's roles

1.17 The Treasury's Public Service Agreement objectives include improving the quality and cost-effectiveness of public services. They lead on designing the Public Service Agreement target regime and work with individual Departments in selecting targets and monitoring progress. The Treasury devise guidance in support of the performance measurement regime and have communicated a strategy for developing performance measurement. In partnership with the Cabinet Office, they have provided Departments with guidance and advice on preparing Public Service Agreements, Service Delivery Agreements and Technical Notes. The Cabinet Committee - Ministerial Committee on Public Services and Public Expenditure - which monitors Departments' progress towards their Public Service Agreement targets, is supported by Treasury and Cabinet Office officials.

1.18 The Cabinet Office's aim is to ensure the Government deliver their priorities, and in particular the Modernising Government agenda which promotes quality, effectiveness, responsiveness, electronic service delivery and better policy making in public services. The Cabinet Office lead work on cross-cutting issues such as drugs, social exclusion and women's issues and also contribute to the development of policy on performance measurement issues. They work closely with the Treasury to ensure that Modernising Government commitments are taken forward by Departments' plans and share policy responsibility for Executive Agency and Non-Departmental Public Bodies' targets. Through the Civil Service Reform programme the Cabinet Office are working with Departments and agencies across government to improve their capacity to deliver better services. An important strand of this programme is improving business planning across the Civil Service and developing measures to evaluate delivery. Sir Richard Wilson, the Head of the Home Civil Service, reports directly to the Prime Minister on the delivery of the Civil Service Reform programme.

Case Study 1
Welfare to Work

This case example summarises how the coverage of the Welfare to Work programme in Public Service Agreements has evolved. The 2001-04 cross-cutting Welfare to Work Public Service Agreement provides a joined-up outcome focused statement of the Government's priorities for this programme.

The Government aims "to provide employment opportunity for all, thereby improving life chances, reducing poverty and allowing the economy to grow without running into skills shortages."

Delivery by:

Department for Education and Employment

HM TREASURY

1999-2002 Targets: The 1999-2002 Public Service Agreements for these three departments included targets covering employment and poverty alleviation. The targets, some of which were shared, covered a mix of inputs, outputs and outcomes. For example:

- The Treasury had a target to "put in place policies to reduce structural unemployment over the cycle"; and
- The Department for Education and Employment and the Department of Social Security had a joint target covering the numbers of lone parents and disabled people entering the New Deal.

Cross-cutting review: The review sought to find ways of increasing the labour supply by moving as many unemployed people and inactive welfare recipients, who could work, into jobs and active competition for jobs. It explored options for countering poverty and social exclusion by helping out-of-work benefit recipients facing the most severe disadvantages to compete effectively for jobs.

The review led to the first cross-cutting Welfare to Work Public Service Agreement. The Agreement builds on the existing joint work in this area, for example on the administration of Jobseeker's Allowance and New Deal, and provides the strategic direction for the new Working Age Agency due to be established during 2001-02 bringing together the Employment Service with part of the Benefits Agency.

2001-04 Targets: The Welfare to Work Public Service Agreement includes an outcome focused set of targets which build on the targets set in the 1999-2002 Public Service Agreement and reflect new initiatives and changes to policy.

Targets included in the 2001-04 Welfare to Work Public Service Agreement

1. Increase employment over the economic cycle. *An improved outcome target.*
2. A continued reduction in the number of unemployed people over the age of 18 over the three years to 2004, taking account of the economic cycle. *An improved outcome target.*
3. Reduce the number of children in households with no one in work over the three years to 2004. *Consistent with the thrust of "Opportunity for all - Tackling poverty and social exclusion"* [5].
4. Over the three years to 2004, increase the employment rates of disadvantaged areas and groups, taking account of the economic cycle - people with disabilities, lone parents, ethnic minorities and the over 50s, the 30 local authority districts with the poorest initial labour market position - and reduce the difference between their employment rates and the overall rate. *Consistent with the philosophy of the wider Government Intervention in Deprived Areas cross-cutting review.*

5 *Opportunity for all - Tackling poverty and social exclusion - CM 4445, September 1999*

11 **Core criteria for performance measurement systems in the public sector**

Criteria	Explanation
Focused	on the organisation's aims and objectives;
Appropriate	to, and useful for, the stakeholders who are likely to use it;
Balanced	giving a picture of what the organisation is doing, covering all significant areas of work;
Robust	in order to withstand organisational changes or individuals leaving;
Integrated	into the organisation, being part of the business planning and management processes; and
Cost-effective	balancing the benefits of the information against the costs.

Source: Performance information framework

1.19 The Cabinet Office's "Wiring It Up" report called for the development of a Government-wide performance information strategy. A group consisting of officials from the Treasury, who are in the lead, the Cabinet Office, the National Audit Office, the Audit Commission and the Office for National Statistics have taken this work forward and developed criteria for performance measurement systems and have improved public bodies access to expert advice on how they can develop their measurement systems. The criteria which are reproduced in **Figure 11** are consistent with the emerging good practices discussed in this report, and we make reference to them where relevant in this report.

The introduction of Public Service Agreements represents an ambitious programme of change

1.20 The greater focus on outcomes represents a major change in emphasis for many Departments. The analysis of the Spending Review 2000 Public Service Agreements identified a shift in emphasis of targets towards outcome focus. Departments are in the process of implementing their measurement systems to assist in monitoring the achievement of these outcome targets. Parts 2 to 4 of this report identify the challenges faced by Departments and illustrate how they are being met in the following three key areas:

- Selecting performance measures (Part 2);
- Implementing Public Service Agreement targets to improve performance (Part 3);
- Collecting good quality performance data (Part 4).

The reasons for undertaking this examination

1.21 Our work on performance measurement reflects its increasing importance within government, in mechanisms such as controls, Agreements and targets. This examination follows on from our report on "Good Practice in Performance Reporting in Executive Agencies and Non-Departmental Public Bodies"[6], extending our coverage of the topic into the broader and more strategic objectives of Departments themselves, where the challenges presented by performance measurement are generally reckoned to be most severe. In view of the challenges faced, and the novelty of the latest, outcome-based Agreements, we aim to find and highlight good practices which could be of relevance to all Departments as they develop and implement their Public Service Agreement targets. Given the relative infancy of the Public Service Agreement initiative, we were not able to examine in detail how departments had used the performance information they collect to monitor progress against their targets. The success of the initiative, however, will depend to a large degree on the extent to which departments can use this performance information to identify what works and why.

The methodology employed

1.22 In line with this objective we undertook a number of key exercises, explained briefly below (and in more depth in Appendix 1):

- A survey of the major Departments to identify the main challenges they were facing in measuring performance and to seek Departments' views on how they were overcoming the major difficulties;
- Interviews with those involved in developing cross-cutting performance measures;
- An examination of performance measurement methodology and practices used overseas; and
- An examination of performance measurement in local authorities.

6 *HC 272 Session 1999-2000, March 2000*

Part 2

Selecting and designing performance measures

2.1 In this part of the report we identify the main challenges that Departments have encountered and the approaches they have adopted in selecting and designing high-level outcome-focused measures. Good measures clearly demonstrate the achievement of objectives but also encourage the right behaviours and avoid distortions.

Measuring the achievement of objectives

"The starting point for the setting of targets should be the Government's overarching themes and the departmental objectives, from which they should flow.

An individual target should be directly linked to the delivery of a specific objective and each objective should normally be covered by a target.

Performance targets should as far as possible be an outcome."

Source: Spending Review 2000 Guidance, Treasury, Autumn 1999

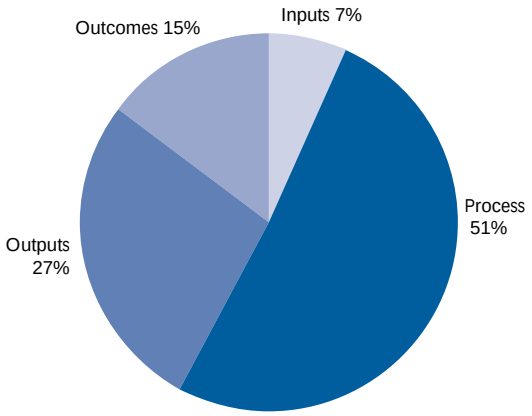
2.2 We analysed the nature of Public Service Agreement targets arising from the 1998 and 2000 spending reviews to see how far targets were directed at outcomes (**Figure 12**). The results show that there has been a significant increase in the proportion of outcome targets. The absolute number of outcome targets has increased too, demonstrating the increased focus on outcomes.

2.3 We asked Departments the extent of the challenges they found in selecting and designing high-level outcome measures. **Figure 13** overleaf shows their responses in respect of eight design factors. The results show that the design of outcome measures posed significant challenges - more so than those found in areas such as implementing targets or collecting suitable data.

12 Change in the types of Public Service Agreement targets

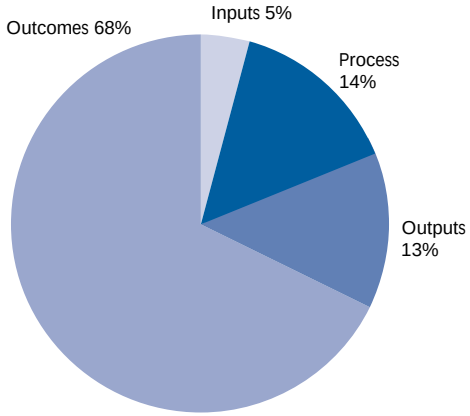
These charts show that the percentage of Public Service Agreement targets with an outcome focus have increased significantly

Public Service Agreement targets 1999-2002



Source: Professor Colin Talbot, July 2000

Public Service Agreement targets 2001-04



Source: National Audit Office

2.4 Through analysis of the results of the questionnaire, together with subsequent discussions with Departments, we identified four areas of most concern to them:

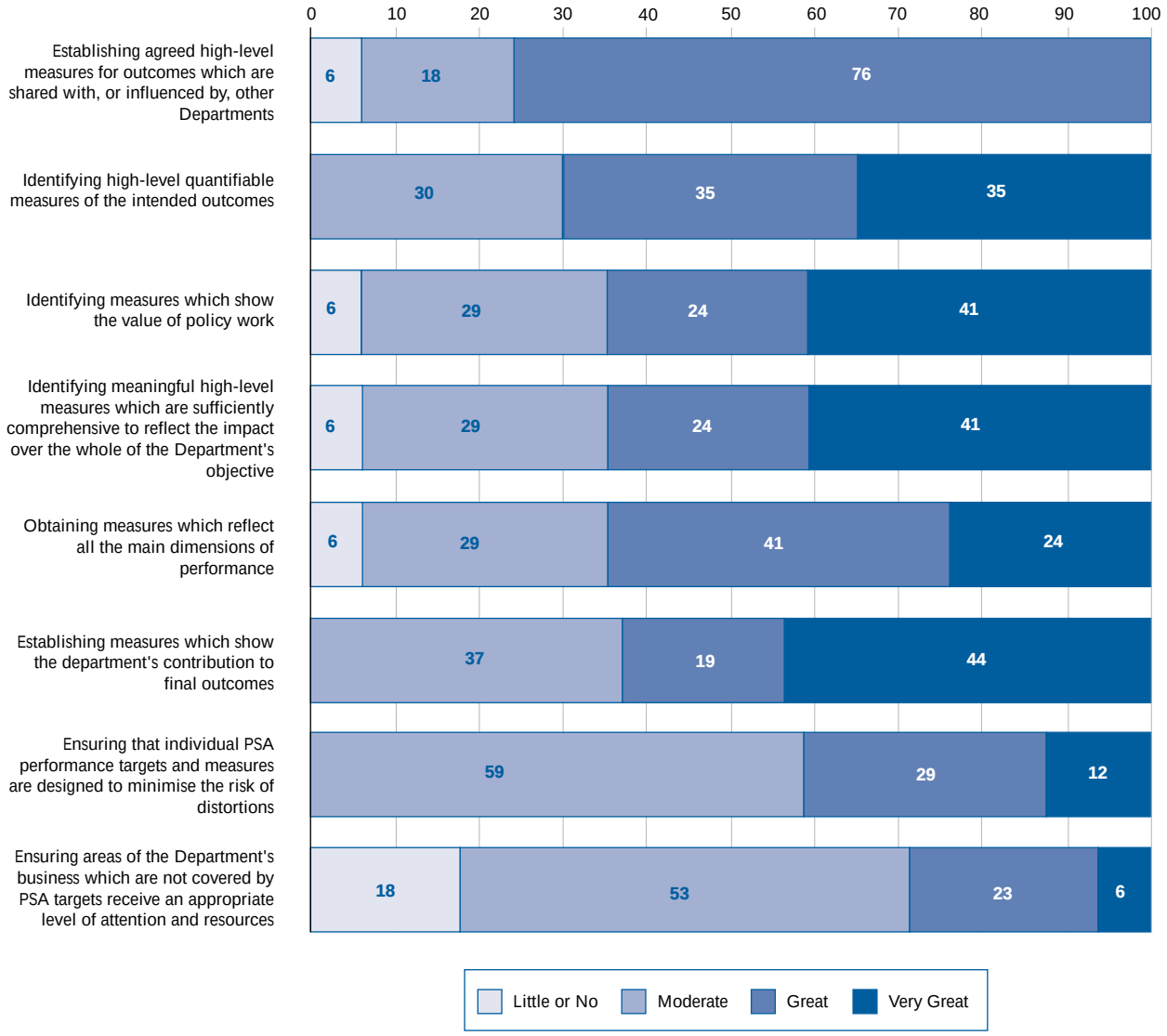
- Establishing suitable measures for outcomes and targets shared with other departments;
- Devising outcome measures that adequately explain what they want to achieve, in a succinct and measurable way;
- Identifying the Department's contribution to the achievement of desired outcomes, and the value of policy work; and
- Encouraging desired behaviours.

Shared Outcomes and Targets

2.5 Significant outcomes cannot always be achieved by organisations working alone: partnerships with other Departments and agencies are often essential. Some Departments have been able to develop Public Service Agreement targets that contribute to cross-cutting objectives from existing sets of high-level indicators. In other instances Departments have worked together, sometimes as a result of cross-cutting reviews established by the Treasury, to establish joint Public Service Agreement objectives and targets.

13 Challenges in selecting and designing high level outcome focused performance measures

This figure shows how Departments rated challenges encountered in selecting and designing high-level outcome focused performance measures



Source: National Audit Office

2.6 The Government's high-level objective of sustainable growth is one of their cross-cutting objectives. It is supported by a comprehensive set of sustainable development indicators. These indicators were established by the Department for the Environment, Transport and the Regions as a way of focusing attention on sustainable development and promoting greater integration of policies, both within government and amongst industry and the general public. The sustainable development indicators have assisted Departments in selecting and designing targets for their Public Service Agreements. The Department for the Environment, Transport and the Regions' Public Service Agreement contains 19 targets - 18 of which are linked to the sustainable development indicators. In addition, the indicators are reflected in Public Service Agreement targets set for 11 other departments thus encouraging action which should promote sustainable development. **Figure 14** provides examples of how the sustainable development indicators have been reflected in Public Service Agreements.

2.7 This approach has worked well in helping to raise the profile of a cross-Government set of objectives, while recognising that attempting a full set of shared targets would have became unwieldy, and would have struggled to reflect the particular circumstances of individual Departments. One of the key factors underlying the success of this approach has been the work done by the Department for the Environment, Transport and the Regions in publicising their set of standard indicators, and their efforts in promoting the cause of sustainable development across government.

2.8 In other priority areas involving the possibility of joint working, cross-departmental reviews undertaken during Spending Review 2000 examined how Departments could work effectively together, for example, through the establishment of joint targets. Some 15 such reviews led to three revised cross-cutting Public Service Agreements - Sure Start, Action Against Illegal Drugs and Criminal Justice System - and a new cross-cutting Agreement for Welfare to Work. These cross-cutting Public Service Agreements, especially when under pinned by common planning arrangements, can effectively communicate Government priorities and encourage joint working amongst a small number of Departments. These Agreements encourage Departments to focus on shared priorities by establishing joint targets, considering how funding can be used flexibly and requiring Departments to jointly account for their performance.

14 Link between Sustainable Development Indicators and Departmental Public Service Agreements

Sustainable Development Indicator	Type of link	Department	Public Service Agreement Target
Homes judged unfit to live in	Direct	Department for the Environment, Transport and the Regions	Ensure that all social housing meets set standards of decency by 2010, by reducing the number of households living in social housing that does not meet these standards by a third between 2001 and 2004, with most of the improvements taking place in the most deprived local authority areas as part of a comprehensive regeneration strategy.
Expected years of healthy life	Direct	Department of Health	Reduce substantially the mortality rates from major killers by 2010. Narrow the health gap between socio-economic groups and between the most deprived areas and the rest of the country.
Road traffic Passenger travel by mode How children get to school Average journey length by purpose Traffic congestion	Indirect	Department for the Environment, Transport and the Regions	Increase rail use in Great Britain (measured in passenger kilometres) from levels in 2000 by 50% by 2010, with investment in infrastructure and capacity, while at the same time securing improvements in punctuality and reliability. Increase bus use in England (measured by the number of passenger journeys) from levels in 2000 by 10% by 2010, while at the same time securing improvements in punctuality and reliability. Double light rail use in England (measured by the number of passenger journeys) by 2010 from levels in 2000.
Emissions of greenhouse gases	Joint	Department for Trade and Industry/ Department for the Environment, Transport and the Regions	Improve the environment and the sustainable use of natural resources, including by reducing greenhouse gas emissions by 12.5% from 1990 levels and moving towards a 20% reduction in CO_2 emissions by 2010.

Source: National Audit Office

2.9 Where an outcome is influenced by a large number of Departments or the outcome is not one of the Government's main priorities a joint Public Service Agreement is less likely to be appropriate, but there can still be benefits from Departments taking a co-ordinated approach to target setting. The cross-departmental review of Government Intervention in Deprived Areas, for example, considered how best to achieve the Government's objective of narrowing the gap between the most deprived areas and the rest of the country. To support this objective the Department for Education and Employment have set a Public Service Agreement target for narrowing the gap between employment levels in the most deprived areas and the rest of the country, and floor level targets for the minimum level of education standards to be achieved at age 16 in each local education authority. The Department are also committed to setting floor level targets at Key Stage 2 (age 11) and Key Stage 3 (age 14). Similar targets have been set for each of three Departments responsible for health, crime and housing.

2.10 Departments, sometimes as a result of cross-cutting reviews, have worked together to establish a number of shared targets which cover more limited objectives which do not feature in joint Public Service Agreements. The co-ordination and collaboration between departments on the design of performance measures can help to strengthen relationships and focus on strategic goals. For example, **Case study 2** shows the value of close co-operation and the agreement of joint policy objectives between the Department for International Development and the Treasury on the development of debt reduction for heavily indebted poor countries.

2.11 This case study demonstrates the importance of gaining joint ownership for policy developments and agreement on common policy objectives. In this instance, agreement resulted in a more co-ordinated working relationship, mutual trust and more effective working relations and communication. Important linkages were also established with other programmes which could assist in achieving the government's overall objective.

2.12 Where Departments are working towards joint targets, it is important to ensure that overall responsibility for delivery of the target is clearly understood. Respective responsibilities can be documented in Service Delivery Agreements. For example, HM Customs and Excise have a Public Service Agreement target to reduce the availability of Class A drugs. This target is set within the Government's Drugs Strategy, is owned by the Anti-drugs Co-ordination Unit and is shared with a number of Departments and Agencies. Customs are working to ensure that each of the organisations involved understand that achievement of the objective can only result from effective co-operation. An inter-departmental operations management group has been

Case Study 2

Department for International Development and HM Treasury

Joint work on debt reduction objectives and targets

This case study shows how the Department for International Development worked with HM Treasury on debt reduction and the establishment of a joint Public Service Agreement target.

What are the Treasury and the Department for International Development trying to achieve in providing debt relief for poverty reduction?

The Treasury and the Department for International Development (the Department) have separate objectives relating to the UK economy and sustainable development, but share a common target. The Treasury's objective is "promoting UK economic prospects by pursuing increased productivity and efficiency in the EU, international stability and increased global prosperity, including especially protecting the most vulnerable". The Department's objective is "to promote sustainable development through co-ordinated UK and International action contributing to the elimination of poverty in poorer countries".

Some countries, through adverse economic factors, misfortune, bad spending decisions, corruption or unwise lending or borrowing, now have a level of debt that is too high for them to repay. Debt relief measures have been in existence since the early 1960s but the problem remains huge. The International Monetary Fund and the World Bank launched the Heavily Indebted Poor Countries (HIPC) Initiative in 1996 in recognition of the need to reduce the debts of some of the poorest countries.

To address the debt reduction issues, the Department and the Treasury established a shared target "to promote the inte-gration of developing countries into the global economy through co-ordinated UK and international action, including by the relief of unsustainable debt by 2004 for all heavily-indebted poor countries (HIPC) committed to poverty reduction, building on the internationally agreed target that three-quarters of eligible HIPCs reach decision point by end 2000".

What are the measurement challenges faced by the Treasury and the Department for International Development?

The Treasury and the Department can only achieve their shared target through working with other countries. The challenges they face centre around how they can influence multilateral and bilateral donors to raise the profile and priority of debt relief, in particular how to:

- co-operate with each other to agree an international target on debt relief;
- measure progress against the targets set for debt relief;
- assess the poverty reduction strategies of countries whose debts are being reduced.

How have the challenges been addressed?

a) By having ownership from the top to influence international partners

Close departmental co-operation since 1998 to increase the priority of debt relief policy on the international agenda resulted in joint ministerial agreement on the importance of

debt relief to the UK's international development programme. From this flowed senior management commitment, heightened interest and more effective joint working. Greater co-operation was also achieved in discussing and agreeing a strategy for influencing the direction of the debt relief programme. This in turn resulted in joint negotiations at international meetings dealing with the future of debt relief and the UK successfully called for a review of the initiative, which started in January 1999 and led to:

- the debt sustainability ratios (the targets for ratio of debt to export or fiscal revenues used to determine the amount of debt relief to provide) being reduced;
- countries being able to receive their debt relief after three years, rather than six;
- larger proportions of relief being provided in the earlier years.

The Initiative will now provide faster, wider and deeper debt relief to poor countries committed to eradicating poverty. Some $50 billion in debt relief should be provided - more than twice as much as under the original Initiative.

b) By strengthening the link between debt relief and poverty reduction to encourage relief countries to tackle poverty more effectively

The UK's joint working approach has given a higher priority focus on debt relief and its potential to reduce poverty. As part of the new approach to debt relief, governments are developing national poverty reduction strategies setting out how poverty will be tackled, and specifying how resources, including savings from debt relief, will be spent. To help countries to tackle poverty more effectively, the UK, in addition to its assistance through HIPC, now provides:

- debt relief on all Export Credits Guarantee Department and Commonwealth Development Corporation debt for qualifying HIPC countries to free up more resources for investment in poverty reduction;
- UK aid to help some countries service their debt ahead of HIPC qualification and technical assistance in debt management to enable countries to develop a better understanding of their debt position, and develop appropriate strategies on future borrowing.

c) By setting targets and monitoring progress

The poverty reduction strategies, on which UK and other international assistance will be provided, will contain important targets and timescales against which achievement will be able to be measured. The high-level target set, and agreed internationally, is for three-quarters of eligible countries to be assessed for debt relief by the end of 2000. The target represents an interim output measure that would allow the initial progress in providing debt relief to be measured. The challenge for the future is to measure the impact of debt relief. This will not be how much debt is cancelled, but how many people are lifted out of poverty.

established to oversee activities and Customs have been allocated lead responsibility for performance against the target, which will confer the necessary authority to question any activities which are out of step with its achievement. The Department's Service Delivery Agreement sets out the specific contribution made by them to the achievement of this target.

Devising suitable measures

2.13 Although a Department's aims and objectives may be clear, the way that programme activities generate outcomes may be complex. Moreover, they are rarely the only influences on relevant outcomes. Good performance measures capture not only the essence of the policy objective, but do so in a way that shows the contribution of programme activities to the outcome. Such knowledge can also help Departments allocate resources cost-effectively and identify intermediate measures which they can use to track their progress to the end outcome.

2.14 In order to improve their understanding of these factors, some Departments have begun to develop sophisticated models to demonstrate the relationship between their activity and outcomes and to help them to devise appropriate performance measures. **Case study 3** shows how HM Customs and Excise have developed a model to support their objective to reverse the trend of tobacco smuggling. The model draws on data from established and robust data sources and from research the Department commissioned on the extent of smuggling and the motivation and profitability of smugglers. From this strong evidence base the model can be used to estimate the current level and future growth of the problem and to predict the likely impact of their activities on the level of smuggling. The model assists the Department to assess the resources needed to achieve the Public Service Agreement target and helps them focus resources where they can have most impact. It also helps them select intermediate performance measures, such as the quantity of cigarettes seized and gangs disrupted, which can be used to show the progress they are making to the end outcome of reducing the level of smuggling.

2.15 Quantitative modelling can be expensive, however, and some Departments have used simpler approaches based on the mapping of influences on outcomes. The Department for International Development, for example, have begun to use information collected through their evaluations of the performance of individual country programmes to inform decisions about future disbursements of overseas bilateral aid. Research on the effectiveness of aid, carried out for the World Bank, showed that to maximise the impact of aid on poverty reduction, donors should target resources on poor countries and particularly those with good policy environments. The Department therefore plan to measure their success on the basis of how effectively they allocate their support, including the proportion of assistance going to low income countries, and the proportion going to low income countries with good policy environments. Using this framework, the Department can show that their expenditure on high poverty countries has risen from 83 per cent in 1996-7 to 89 per cent in 2000-01 while expenditure on high poverty/high policy countries has risen from 60 per cent to 67 per cent.

2.16 Modelling and mapping have the potential to help satisfy the best measures of desired outcomes, as well as facilitating resource allocation, monitoring and accountability. The choice of approach and level of sophistication depends on the costs and benefits of each approach. But without a good grip on the "programme logic" underlying an outcome, Departments will struggle to interpret actual outcomes correctly or to demonstrate cost-effectiveness in their choice of actions.

2.17 The way in which outcome measures are expressed also has implications for the interpretation of performance and the costs of performance measurement activity. We analysed the latest Public Service Agreement targets according to the format of the measure. The results show that by far the largest number of targets are on the production, maintenance or increase of a simple statistic.

2.18 In considering outcome measures, however, Departments have sometimes found it valuable to supplement measures of average performance with measures of variation in performance. As part of the Government's work to improve outcomes in deprived areas the Home Office, for example, have supplemented their target for reducing the number of domestic burglaries across the country, with a floor target. It states that no local authority should have a domestic burglary rate that is more than three times the national average by 2005.

2.19 A similar approach has been taken where Government set targets for local authorities. For some local authority Best Value indicators - aimed at securing best value for money from local services - the Government are requiring authorities to set targets consistent with reaching, over five years, the performance level of the top 25 per cent of authorities at the time the targets were set. This approach is intended to lift performance, particularly in those authorities that are performing poorly, narrow the range of performance and improve the level of performance overall. Those authorities that are already in the top 25 per cent are still required to seek continuous improvement.

Case Study 3
HM Customs and Excise

A clear understanding of the impact of programmes will assist in the selection and design of outcome based measures

This case study shows how HM Customs and Excise have developed a model of tobacco smuggling which enables them to estimate the current level of smuggling and the future growth of the problem and allows them to predict the levels of activity needed to reverse this trend and achieve the Public Service Agreement target.

What is the nature of the tobacco smuggling problem?

Nearly one in five cigarettes smoked in the UK are smuggled and, without action, this could increase to one in three, within a few years. The increased availability of cheap cigarettes undermines one of the Government's key health targets - to reduce smoking - and costs some £2.5 billion in lost tax revenue, around 25 per cent of all tobacco revenue due.

How do the Department propose to tackle this problem?

The Department recognised that achievement of the previous Public Service Agreement target, which was aimed at increasing the revenue value of seized cigarettes, might simply indicate an increase in the underlying level of smuggling. The Department's 2001-04 target requires them to:

"reverse the current trend in tobacco smuggling so that by 2004-05 smuggled cigarettes represent no more than 18 per cent of the market"

This new target was developed alongside the tobacco smuggling model, which provides the means of measuring the impact of the Department's programmes.

How do they plan to measure performance?

The estimate of overall tobacco consumption used in the model is the same as that used by the Department of Health. Consumption figures are drawn from the General Household Survey and supplemented by data from the monthly Omnibus survey. These figures are compared against data for legal supplies of tobacco, made up of UK duty paid supplies, taken from the Department's own statistics and the level of legal cross-border shopping, derived from the annual International Passenger Survey. All of these surveys are conducted by the Office for National Statistics.

HM Customs & Excise

How do they allocate resources to different anti-smuggling activities?

The Department commissioned research to establish the factors motivating smuggling and tobacco consumption more generally. They found that profitability was the prime motivation for smugglers, while price had an important role in reducing overall consumption. Measures which were aimed at maximising seizures and enforcing penalties would therefore be successful in both deterring smugglers while increasing the average price paid by consumers, and hence containing demand.

The Department then constructed a model, drawing on their experience of various anti-smuggling activities, to assess the sort of activities and resources needed to achieve their target. The model embraces activities and issues such as:

- intelligence gathering;
- investigation work and its targeting;
- human and technological resources devoted to detection and enforcement activity;
- asset confiscation and economic sanctions policy;
- joint working practices, with other agencies and countries.

The model was used to gauge the effect of increased or more effective activity in these and other areas, so that resources could be allocated cost-effectively in pursuit of the target. The model builds on the Department's analysis of the level and nature of risk at each major port, so helping them predict the additional level of seizures that might result from a given application of resources, and target resources accordingly.

The Department recognise that no model will ever be completely reliable but they believe that their forecasts are reasonably sensible and based on the available evidence, and the model will be refined and adjusted, over time, to reflect actual results achieved. They are now beginning to develop similar models for alcohol and oil smuggling.

2.20 In other cases, the issue has centred on ways to ensure that all parts of the country meet minimum standards of performance. The Department for Education and Employment, for example, require that by 2004 at least 38 per cent of pupils in every Local Education Authority should obtain five or more GCSEs (or equivalent) at grades A* to C, so setting a floor to the level of achievement acceptable anywhere in the country. In December 2000, the Government announced, for the first time, minimum standards of local authority performance in respect of two Best Value indicators, under the Local Government Act 1999. A standard has been set for the percentage of planning applications determined within eight weeks in 2001-02 and standards have been set for the level of household waste recycled and composted, the first of which is to be achieved in 2003-04.

2.21 In a few cases, Departments used more complicated indices of performance - which often permit broader coverage for a measure, but also raise questions of the weighting of individual elements within the index, and the ease with which variations in the index can be readily interpreted.

2.22 The existence of different formats of measures enables Departments to match the measure closely to policy objectives and their context. As experience with outcome measures grows, there may be scope to provide clearer guidance on the merits and drawbacks of each format.

Measuring the Department's contribution to the outcome

2.23 The desired outcomes of programmes can often be affected by factors outside the control of the Department(s) responsible for their delivery. The achievement of an outcome target could be coincidental to the effects of the programme or in some cases even in spite of them. In their guidance on the development of targets, the Treasury state that where the outcome is central to the delivery of a particular Government objective, for example, reduced crime, outcome targets should be set even though other factors will affect delivery. They also advise, however, that outcome targets should not be set where the Department have no leverage over the activities of external agencies that play a central part in delivery.

2.24 Where it is difficult to attribute changes in outcome to the effects of the programme specially tailored methods of measurement can help to overcome the problem. **Case study 4** shows how the Department of Trade and Industry's Small Business Service have developed a system which seeks to assess the contribution of the Business Links scheme to the profitability and productivity of assisted companies. It involves the use of a set of similar but unassisted companies against which the Small Business Service compare the results achieved by assisted companies.

2.25 Departments also saw great challenges in identifying the value of policy work in securing the desired outcomes - where the outcomes are several stages "down the line" and depend on the implementation of the policy as much as on the policy itself. Since policy work does not represent an "outcome" in itself, there need be no targets for policy work in Public Service Agreement targets. But being able to separate policy design factors from policy implementation factors is an important element in learning from experience. Some Departments and cross-cutting teams have started to orientate traditional policy and programme evaluation activity towards the needs of the Public Service Agreement system.

2.26 The Department of Trade and Industry, for example, have had a successful programme evaluation process in operation for some years - and Case study 4 evidences the expertise they have built up. In 1999, however, they began the development of a new Policy Evaluation strategy. In the past, evaluation within the Department had been largely aimed at assessing the cost-effectiveness of individual programmes. But the advent of outcome-based targets has led to some broader based evaluations, and to work aimed at assessing the relative effectiveness of activities that contribute to the same outcome objective. The Department of Trade and Industry hope this work will in time allow evaluation results to be combined with other research evidence to form a view on policy lessons learned. These lessons will be reported to the Department's Board annually, in time to influence the annual resource allocation exercise.

2.27 Evaluations can complement performance measures by providing a deeper view of performance. The cross-cutting Sure Start Unit have established an evaluation framework, which has just been commissioned. The first phase of the evaluation will begin in early 2001 and will run for approximately six and a half years. This work involves a long-term, wide ranging evaluation of the Sure Start programme in England and will look at the impact that Sure Start has had in the short, medium and long term on the children, families and communities it is intended to help. The evaluation will determine whether Sure Start works and also what works, under what circumstances it works best, and also establish how cost-effective it is. It will track a sample of Sure Start children over time, to see whether and how Sure Start has improved outcomes for them in later life. The evaluation will identify good practice and disseminate these findings to everybody involved in delivering services to children and families. In order to answer these questions, the evaluation will draw on information collected by local Sure Start programmes in relation to the Public Service Agreement targets and also undertake

Case Study 4

Department for Trade and Industry's Small Business Service

Assessing the added value of business support services provided by Business Links

This case study shows how the Small Business Service assess the added value of services provided by the national network of Business Links by contrasting the performance of companies receiving assistance with that of a comparison group.

What is the purpose of providing Business Support to small businesses?

As part of their Public Service Agreement objective "to promote enterprise, innovation and increased productivity" the Department of Trade and Industry, through their Executive Agency the Small Business Service, provide grants to Business Links - partnerships of local agencies. Business Links seek to improve competitiveness of small firms by providing co-ordinated business support, including information on business start-up, international trade services and consultancy on business growth and change management.

How is the impact of Business Links measured?

The impact of Business Links is difficult to measure as business support services are just one of many factors which will affect the performance and productivity of assisted companies. To overcome this problem the Small Business Service have developed a model which seeks to estimate the contribution made by Business Links. The model includes the following stages:

1. The Framework - this sets out the links between inputs, activities, outputs, outcomes and economic impact. For example, assistance by an Export Development Counsellor could be classified as follows:

Inputs	The resources devoted by the Business Link to help the business draw up a plan to improve the level of exporting or to export to new markets
Activities	The advice and consultancy delivered to the businesses to do the above
Output	The business increasing its export activities or breaking into new markets
Outcome	The impact on business performance occurring as a result of increasing export turnover or entry into new markets
Economic Impact	The impact on the local or national economy of any business performance improvements demonstrated by the assisted business

2. The key indicators of impact - these focus on the significant measures of a company's performance - productivity and profitability. The indicators are based on data that Business Links aim to collect from all those companies that they have given considerable assistance to. The data includes turnover; assets; employment; profits and exports.

3. The comparison groups - these are a key part of the process enabling the Small Business Service and Business Links to estimate to what extent changes in business performance of assisted companies is due to business support. Consultants have been employed to establish groups of business, which have similar characteristics to those who have received support. These groups provide a measure of what changes, for example, in productivity, employment or turnover, would have happened without business support - the counterfactual.

The first results from the comparison group were made available in January 2001. They will be used by the Small Business Service to inform policy and reports will be prepared with findings at local Business Link, regional and national levels for comparison purposes.

How will the framework be developed?

The Small Business Service will revise the framework during 2001 to take account of experienced gained so far in operating it and to extend it to the other services provided by the Agency.

a wide range of new data collection. It will also support, and be integrated with, the evaluations that each local programme must undertake. These local evaluations also build on the information programmes collect to monitor Public Service Agreement targets.

2.28 The Foreign and Commonwealth Office face a different set of challenges. Although some of the objectives, such as those referring to the economy, are similar to Departments who focus on the UK, there are also outcomes, such as those related to human rights and a stable world, which are different in nature. Moreover, the Foreign and Commonwealth Office have to cater for different circumstances, and differing particular objectives, in around 200 different countries. Very often, it will be difficult to disentangle the effect of United Kingdom Government action from other countries' efforts and the work of stakeholders within the country. And the timescales over which change takes place can be very long. The Foreign and Commonwealth Office's approach to performance measurement has been developed after working with other progressive Ministries of Foreign Affairs to find solutions to the difficulties they face in developing qualitative measures for foreign policy work.

2.29 For the Foreign and Commonwealth Office's non-economic objectives, formal policy evaluation or model building exercises are technically very difficult and therefore unaffordable across the range of their activities. Instead, the Foreign and Commonwealth Office have listed the key activities and outputs that are needed, in their judgement, to achieve desired outcomes. Activities and outputs are targeted under the SMART regime - specific, measurable, achievable, relevant and timed. **Figure 15** illustrates how the outcome-focused objective for the Overseas Territories is supported by a target and a series of activities and outputs.

15 Foreign and Commonwealth Office's objective and targets for the United Kingdom's Overseas Territories

The Foreign and Commonwealth Office's objectives for 2001-04 include:

- Secure and well-governed United Kingdom Overseas Territories enjoying sustainable development and growing prosperity.

This objective is supported by the following target:

- A new partnership between the United Kingdom and the Overseas Territories which yields improved standards of governance, human rights, the environment, sustainable development and the security of the territories.

The target will be measured by progress achieved against eight specified outputs and activities which include:

- Agree new Strategic Country Programmes in forty per cent of inhabited Overseas Territories to ensure sustainable political, judicial, economic and social development.
- Expansion of the economic base in six relevant Overseas Territories to reduce dependency on tourism and/or financial services by 2004.
- Slow the rate of degradation of key habitats/endemic species in all Overseas Territories by March 2004 to promote sound use of natural resources.

Source: Foreign and Commonwealth Office

2.30 This process helps focus internal discussions on priorities and resource allocation, while providing transparency to external audiences and a basis for monitoring and accountability. The approach has the merit that it retains a focus on outcomes, is affordable, permits a timely view of progress and makes explicit the assumptions about what is needed to achieve outcomes. While this approach lacks the full rigour of formal modelling or evaluation work, and depends crucially on the judgement of professionals in the field, it is hard to see how this could be avoided, and over time it should yield useful lessons about the type of activity that works in certain circumstances, although specific review exercises would be needed to capture all the information relevant to an outcome and to analyse it.

Encouraging the desired behaviour

2.31 Public Service Agreement targets, by their nature, focus on a relatively small number of operational priorities and are intended to steer the behaviour of staff towards achievement of the Department's key objectives. Such targets however, also present the potential for perverse outcomes and unwanted behaviour. Departments need to carefully manage these risks when designing and implementing their Public Service Agreement targets and measures. Our survey showed that Departments faced considerable challenges in:

- ensuring that individual targets and measures minimise the risk of distortion; and
- ensuring that areas of their business not covered by Public Service Agreement targets receive an appropriate level of attention and resource.

Avoiding distortions

2.32 The following paragraphs show examples of the potential for undesirable behaviour and distortion. These examples demonstrate the need for Departments to ensure that they fully understand the way in which their programmes achieve impact, and that they target, where possible, final outcomes rather than outputs.

2.33 The Department of Environment, Transport and the Regions previously set local authorities targets for increasing the proportion of recyclable household waste collected. The Department found that some authorities, having achieved this target, then incinerated the waste rather than recycle it. The Department have revised the target in the 2001-04 Public Service Agreement so that it measures the true outcome - increasing the proportion of waste recycled.

2.34 The Department of Trade and Industry also rejected a number of targets and measures for their 2001-04 Public Service Agreement which initially appeared to promote desirable outcomes but which in fact ran contrary to the Department's objectives. For example, the Department considered setting a target for reducing the number of small business failures as part of their objective to promote enterprise, innovation and increased productivity. The target was dropped because their economists argued that a high "churn" rate among small businesses was a sign of a healthy economy.

Ensuring that all dimensions of performance receive appropriate attention

2.35 Public Service Agreement targets focus on priorities and where possible relate to outcomes that are deliverable within the three-year Public Service Agreement period. Inevitably, there will be some areas of the Department's business which are not seen as immediate priorities and which are not covered by Public Service Agreement targets. This situation presents a number of risks:

- areas of business not covered by Public Service Agreement targets may receive inadequate attention or resources;
- staff working in these areas may not understand how their work contributes to the Department's objectives and may feel that their work is undervalued; and
- staff may focus on achieving shorter term Public Service Agreement targets rather than on long-term outcomes.

2.36 To reduce these risks Departments have used other performance targets and measures, for instance in their Service Delivery Agreements, to provide a more balanced and complete view of performance. For example, the Department of the Environment, Transport and the Regions have included additional outcome measures, related to objectives that either do not have, or which are only partly covered by, a Public Service Agreement target. Business planning systems, which are discussed in Part 3, can also assist Departments to ensure that all major areas of performance are covered by suitable targets.

2.37 Departments need to adopt a consistent and comprehensive approach to performance measurement across the range of their responsibilities - even if some measures are targeted and have a higher priority for resources than others. Without a consistent approach, important but non-priority areas may become neglected - only to be promoted to priority status as performance deteriorates. Then Departments may face an absence of performance information in which to frame objectives and measures, or to set baselines.

Part 3

Implementing Public Service Agreement targets to raise performance

3.1 In this part of the report we examine the issues faced by departments in implementing high-level Public Service Agreement targets so that they encourage service providers to improve performance.

Cascading Public Service Agreement targets to service providers is a key mechanism for raising performance

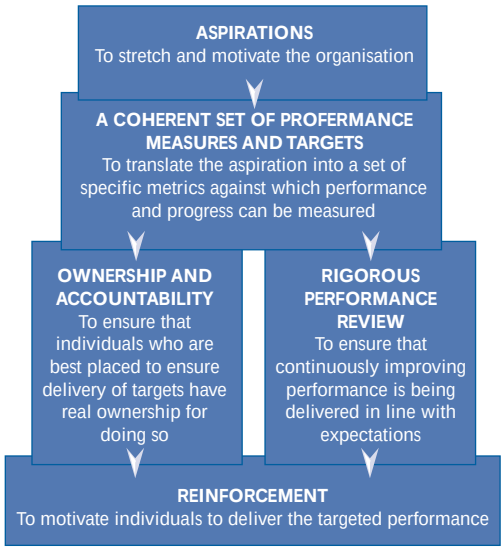
3.2 The achievement of the majority of Public Service Agreement targets will depend on the outputs of Executive Agencies, Non-Departmental Public Bodies and other bodies outside of central government, such as local authorities. If Public Service Agreements are to drive behaviours and stimulate improvements in outcomes they need to be translated into operational targets that will motivate organisations and staff delivering services.

3.3 During Spending Review 2000, the Treasury informed Departments that they should:

- establish clear and understandable links between Public Service Agreement outcome targets and related operational targets;
- be able to exert leverage or influence to ensure that targets are delivered at the ground level; and
- establish ownership at a local level by involving those who will deliver targets in their design.

3.4 The Public Services Productivity Panel have reinforced the importance of cascading high-level targets to service providers and establishing ownership. The Panel are a small group of senior business people and public sector managers that have been established to identify ways to help improve the productivity of the public sector. The Panel have developed a business planning model that has been endorsed by the Civil Service Management Committee which comprises the permanent heads of Government Departments. The model comprises five interrelated elements (**Figure 16**). It encourages Departments to establish reinforcement mechanisms, such as linking rewards to performance, which will motivate staff to deliver targets.

16 Public Services Productivity Panel Business Planning Model



Source: Public Services Productivity Panel

3.5 The process of making targets operational will vary from target to target. In some cases Departments can cascade Public Service Agreement outcome targets to an operational level. For example, the Department for Education and Employment, local education authorities and schools all have outcome-focused targets for raising the performance of 16-year-olds in GCSE and equivalent examinations. In other cases Departments set service providers targets for outputs or activities that define what is needed at a service delivery level to deliver the national target. For example, to help achieve their target for reducing the rate of reoffending among problem drugs-misusing offenders, the Home Office have set the Prison Service a supporting target for reducing the number of prisoners failing random drug tests.

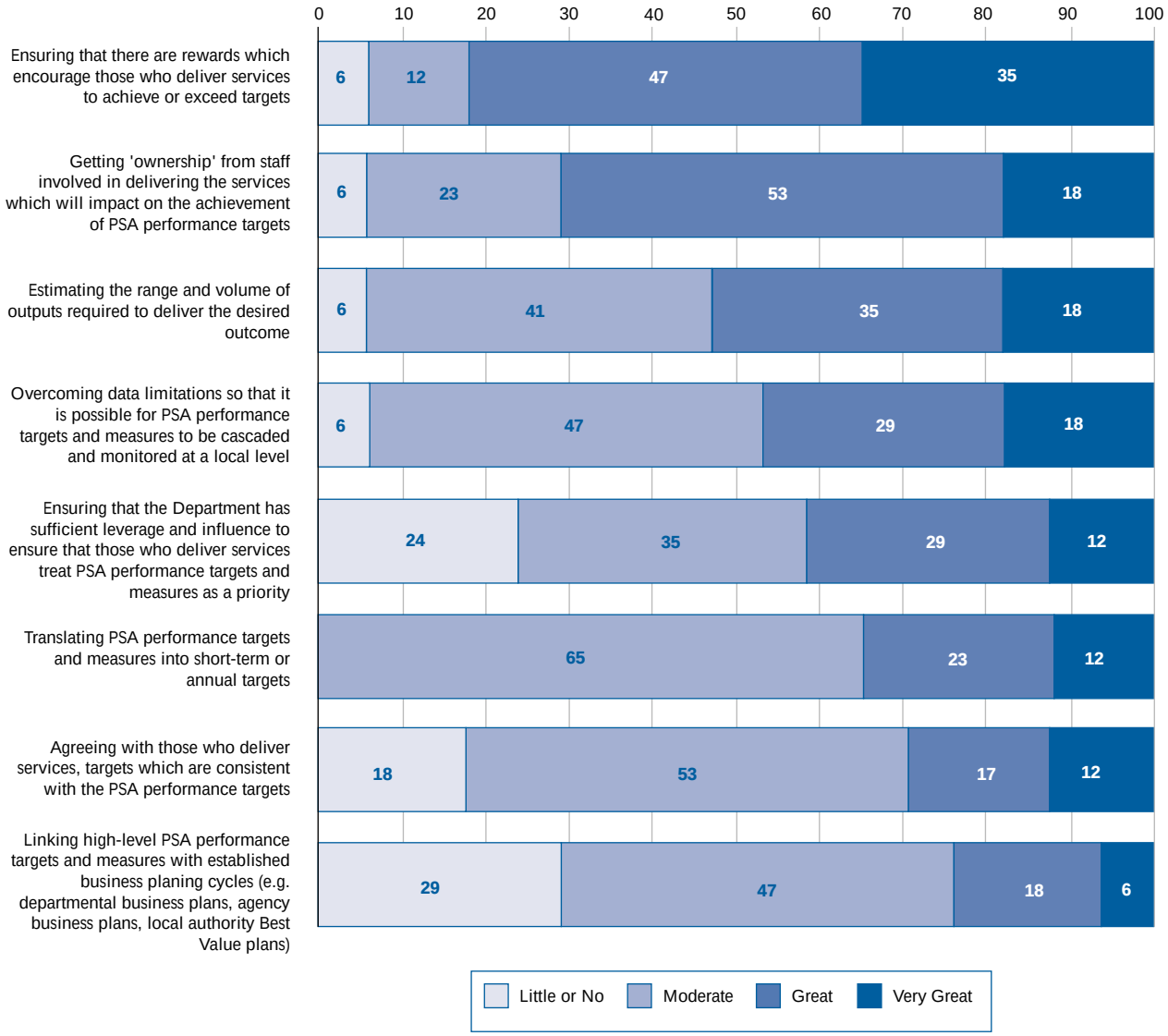
Departments face challenges in making Public Service Agreement targets operational

3.6 We asked Departments to assess the extent of the challenges they faced in cascading Public Service Agreement targets and measures to an operational level. **Figure 17** illustrates the ratings Departments gave to particular challenges. It shows that Departments face the greatest challenges in dealing with issues of ownership and reward for achieving targets, with lesser but still common challenges in influencing service providers' priorities and integrating Public Service Agreement targets into normal planning activity. We discuss some of the Departmental responses to these challenges under the following chronological stages of Public Service Agreement target implementation:

- translating Public Service Agreement targets into operational targets which are owned by service providers;
- linking such targets into business planning and monitoring systems; and
- influencing the priorities of service providers' through establishing appropriate incentives and rewards for success.

17 Challenges in cascading performance targets and measures to operational level

This figure shows how Departments rated the challenges encountered in cascading performance targets to an operational level



Source: National Audit Office

Translating Public Service Agreement targets into operational targets which are owned by service providers

3.7 Communication, collaborative working and support are key elements in securing service providers' ownership of operational targets. Thirteen Departments told us that consulting other stakeholders had helped them establish targets and measures which can achieve improvements in performance. Some had gone further by formalising the process of consultation. Others had provided a range of assistance to help service providers introduce new measurement systems and set effective local targets.

i) Bringing all stakeholders together in a single group can help secure common ownership of targets and performance measures

3.8 Whereas most Departments consulted stakeholders in specifying targets along the service delivery chain, some brought all the stakeholders together in a single group, so initially exposing any differences of view on best practices or priorities, but ultimately facilitating cohesion in target setting. The Home Office's work in developing Best Value performance indicators for the fire service provides an example of an inclusive approach.

3.9 The achievement of the Home Office's objective to reduce the incidence of fire and related death, injury and damage is crucially dependent on the services provided by the local fire authorities. The Home Office established a small formal group to ensure that this objective was supported by developments under the local authority Best Value initiative. The group comprised representatives from the key interested parties including Chief Fire Officers, the Local Government Association, Her Majesty's Fire Service Inspectorate, the Fire Brigades Union and the Audit Commission. The group agreed to develop an outcome-focused set of key service delivery indicators which would support the Department's Public Service Agreement, help fire authorities to secure Best Value and would be meaningful to the public.

3.10 Through face-to-face meetings the group members were able to explore each other's points of view and consider how existing sources of performance information could be developed. The group developed a common view of the Best Value performance indicators which would best meet the differing needs of those managing, inspecting and setting the strategic direction for the fire service. It would have been more difficult to obtain this degree of consensus and ownership through other methods of consultation such as bilateral or ad hoc discussions.

3.11 The proposed package of performance indicators drew heavily on established sources of data so that it did not add an unnecessary extra burden for fire authorities. It was endorsed by Home Office Ministers and included in a public consultation paper issued by the Government and the Audit Commission setting out proposals for all local authority services for 2000-01. A small number of minor changes were made to the package of fire service indicators to reflect the feedback received before they were formally adopted.

3.12 **Figure 18** overleaf shows how the fire service specific Best Value indicators support the Home Office's objectives and their 1999-2002 Public Service Agreement targets. For example, the Public Service Agreement target for reducing fire related deaths is mirrored by a Best Value indicator for the number of deaths. Best Value authorities are required to set improvement targets for the performance indicators and to raise their performance towards the standards of the best. The Best Value indicators also cover factors which are likely to influence the number of deaths such as the time taken by the fire service to attend calls and the extent of their success in confining fires in dwellings to the room of origin.

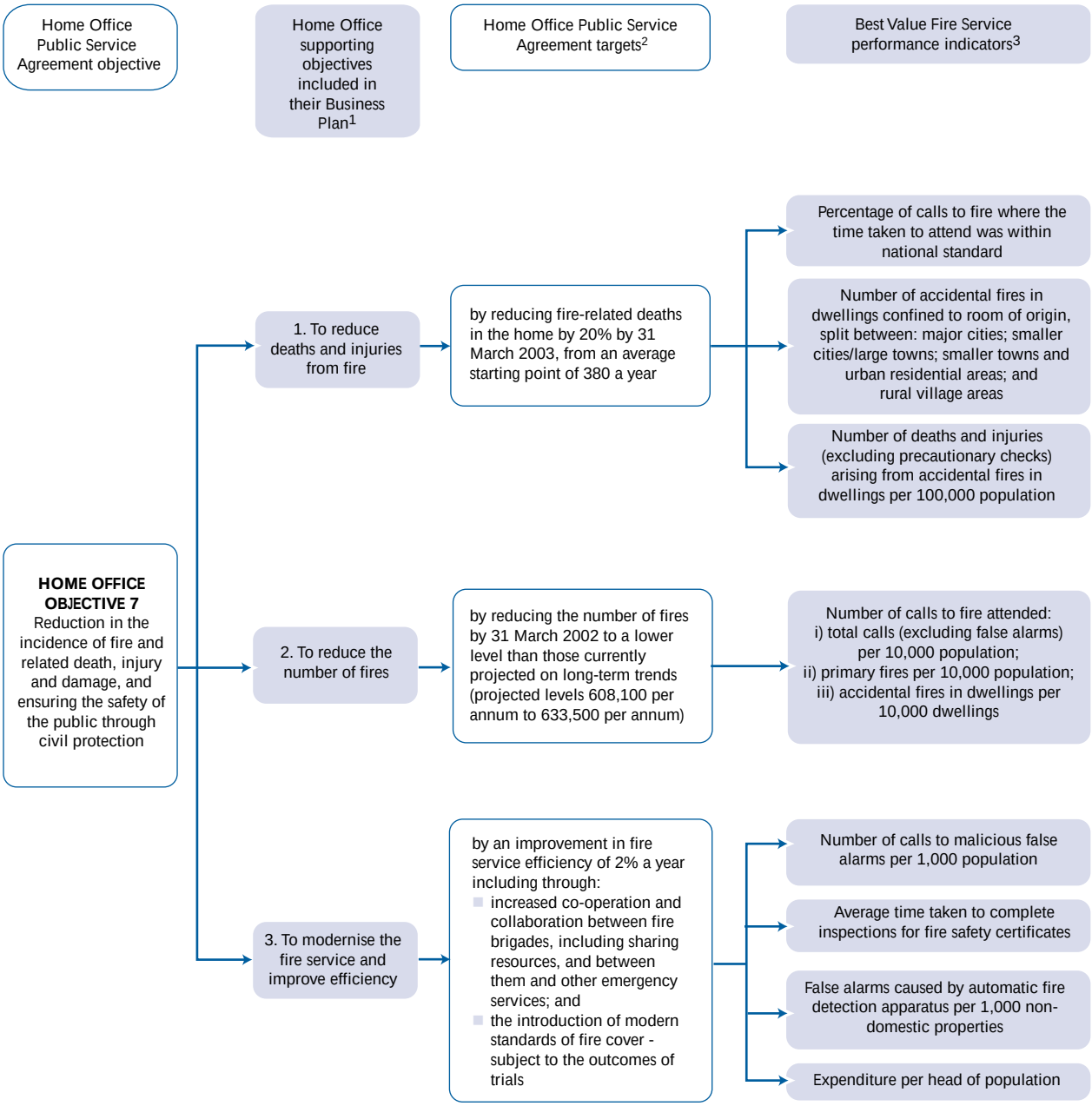
ii) Departments can encourage ownership by assisting local service providers to introduce new measurement systems and set informed targets

3.13 By translating their outcome-focused targets to an operational level, Departments may require service providers to develop new systems for setting targets and measuring their performance. Some Departments have encouraged local ownership of these new processes by assisting service providers to set stretching but achievable targets for improving their performance.

3.14 The Department for Education and Employment require schools to set targets for the performance of children in national tests and examinations at ages 11 and 16 as part of a wider strategy to improve educational standards. At the time of this report, the Department are consulting on proposals to introduce statutory target setting for pupils aged 14 also, in the context of their 2001-04 Public Service Agreement targets; and for pupils with special educational needs whose levels of attainment are likely to fall below the National Curriculum levels. The Department want schools to take responsibility for their own improvement. They have therefore sought to encourage local ownership of the target setting process, by making schools responsible for setting target values and by giving them the freedom to set additional targets which reflect local priorities.

18 **How the Best Value indicators support the Home Office's 1999-2002 Public Service Agreement**

This figure shows how the Best Value indicators set for the Fire Service for 2000-01 support both the Home Office's objectives as set out in their 1999-2002 Public Service Agreement and 2000-01 Business Plan and their Public Service Agreement targets



Notes: 1. The Home Office have a fourth supporting objective to reduce the potential for disasters to impact on the community. This has been excluded from the diagram as this responsibility normally falls to local authorities, rather than fire authorities.

2. From April 2001 the Home Office will work to new high-level targets set during Spending Review 2000. The Home Office's 2001-2002 Public Service Agreement includes a target for reducing the incidence of accidental fire related deaths in the home. The Home Office Service Delivery Agreement includes targets for reducing the number of fires and improving efficiency of the fire service.

3. Like all organisations covered by Best Value, fire authorities are subject to Best Value Corporate Health Indicators. These are not included in this diagram as they are not fire specific. The indicators which include, for example, staff sickness rates, should assist fire authorities to modernise and raise their efficiency.

Source: Home Office and National Audit Office

Case Study 5

Department for Education and Employment

Department for Education and Employment

Assisting schools to set targets for raising educational standards

This case study outlines the package of support and information schools receive to help them set informed targets. It also explains how the Department have evaluated the comprehensive package of performance information they provide to schools each year.

What are the Department aiming to achieve?

The Department's objectives include "ensuring that all young people reach 16 with the skills, attitudes and personal qualities that will give them a secure foundation for lifelong learning, work and citizenship in a rapidly changing world". This objective is supported in their 2001-04 Public Service Agreement by targets for raising educational attainment of children at age 11, age 14 and age 16.

How do individual schools set targets?

Each autumn schools are required to set targets for the performance of those pupils who will take the National Curriculum Tests at age 11 or GCSE/GNVQ examinations at age 16 towards the end of the following school year, that is five terms later. To encourage ownership of the target setting process, each school's Governing Body sets targets on the advice of the Headteacher and after discussion with the Local Education Authority. Schools can choose to augment the statutory targets with others which reflect their own particular and local priorities. For example, additional targets may be relevant for pupils with special educational needs or high ability.

Since the target setting framework was established in 1998 the Department have provided a package of support which explains to schools why they have been asked to set targets and helps them to set informed ones. This now includes:

- The provision of funding to support training for teachers and governors in managing comparative data and target setting;
- The publication every year of the Autumn Package of Pupil Performance Information which provides schools with national comparative performance information, including value-added information and benchmarks, collected by the Department, the Office for Standards in Education and the Qualifications and Curriculum Authority;
- The dissemination of specific guidance material in both printed form and on the Internet. The Standards Website, for example, explains statutory requirements for target setting and provides guidance on what makes a good target and on how to use targets to improve performance;
- The work of Local Education Authorities. The actual services provided varies from authority to authority but includes disseminating and helping schools to analyse national information and providing training.

What performance information is provided to schools?

The Autumn Package helps schools to review their performance and set targets by providing three types of performance information:

- National summary results to enable comparisons of trends in the school's performance in the last five years against national trends and thus clarify understanding of the progress the school is making;
- Value added information to enable the relative progress individual pupils have made to be compared with progress made by other pupils from similar, prior attainment, starting points. This information shows, for example, the progress made by a representative sample of pupils between their performance in national tests at age 14 and their GCSE/GNVQ results two years later; and
- Benchmark information to help compare performance with other similar schools and to show what the best performing of these schools are achieving. Schools are grouped together based on the proportion of pupils known to be eligible for free schools meals as this is an indicator of the social disadvantage of each school's pupils. In addition, for performance at age 11 and 16 separate tables are provided grouping schools on the basis of their pupils' prior attainment in the previous national tests taken at age 7 and 14 respectively.

The Package also provides a number of tools to help schools examine the information and calculate the relevant figures for their own pupils.

The Package is issued to all schools in both "hard" paper and, this year, in "soft" electronic versions. The electronic, interactive version processes schools' own performance data for them and demonstrates it in the context of the national summary data. (This product is not yet free of technical snags: a further evaluation of the whole Package in the new year will help to inform plans for improved products for the 2001 version.) The Autumn Package can also be downloaded in both its "read only" and interactive forms from the Department's Standards Site, which also carries other relevant information.

An integral part of the Autumn Package is the Office for Standards in Education's Performance and Assessment Report, which aims to help schools see how their performance compares with others. Each school receives their own report which contains their individual performance data and makes a judgement on their performance.

How have the Department assessed the value of the Autumn Package to teachers?

In January 2000 the Department commissioned an external evaluation of the impact of the Autumn Package on schools. Questionnaires were sent to a sample of 1080 schools and 72 per cent responded. The schools were asked for their views on how useful they found the three types of performance information provided. They were also asked what changes should be made to the content and presentation of the Package and how the format and accessibility of the package could be improved.

By getting direct feedback from a large number of schools the Department have obtained assurance about the value of the Package in setting targets and they have been able to make informed revisions to the 2000 edition so that it will be easier for schools to use.

Case study 5 explains how the Department have provided a mix of funding, training and guidance to assist schools to benefit from the target setting process. It also shows how the Department have worked with other organisations to develop a substantial package of pupil performance information. This performance information enables schools to set informed targets by helping them identify how they are performing against both national standards and similar schools and assess the progress their pupils can make. By commissioning an external evaluation of this package the Department have captured the views of schools about its impact and as a consequence it has been revised to make it easier to use.

3.15 The Case study shows that by providing assistance to service providers Departments can explain and reinforce the importance of the target setting process and encourage ownership of local targets. Assistance should also improve the quality of targets, especially where Departments have access to information and skills, such as analytical expertise, that are not available at a local level.

Linking Public Service Agreement targets into business planning and monitoring systems

3.16 If Public Service Agreements are to drive the behaviours of service providers they should form part of a coherent business planning and monitoring system. This often requires Departments to translate the longer-term outcome-focused Public Service Agreement targets into the short-term annual targets which have more usually been used by public sector bodies. We found that Departments had started to integrate Public Service Agreements into their business planning systems so that they could communicate and monitor priorities, and some had done this in a way that gave them a balanced view of overall performance.

3.17 The Ministry of Defence, for example, are in the process of introducing a new performance management system which will enable senior management to focus on their strategic priorities, reflecting their Public Service Agreement and other key strategic goals. **Case study 6** overleaf explains how the Ministry are incorporating their strategic priorities within a "Scorecard". This covers performance from four different perspectives that show both what the Ministry have delivered and the progress they are making in developing their systems and people to meet longer-term objectives.

Case Study 6
Ministry of Defence

A clear and comprehensive set of strategic objectives is necessary for effective performance management

This case study shows how the Ministry of Defence have developed a new Performance Management system reflecting their Public Service Agreement objectives and targets and ensuring greater alignment of objectives throughout the Department.

Why did the Ministry develop a new Performance Management system?

In 1999, the Ministry concluded that their existing management plans and reports failed to focus sufficiently on the important performance issues. An analysis of the existing Departmental plans and policies revealed well over 100 strategic objectives, and performance reporting was, for the most part, neither sufficiently timely, nor robust enough to provide a basis for management decisions. The Ministry therefore set out to transform their existing performance reporting systems into a coherent performance management framework, which would enable senior management to focus on key strategic issues, based on a coherent set of objectives and targets throughout the Ministry.

How have the Ministry addressed this problem?

The Ministry's new system is based on the Balanced Scorecard technique developed by Kaplan and Norton at the Harvard Business School. The Ministry are using the Balanced Scorecard as a means of capturing the strategic intent of the Department in their plans, through the use of fewer, more strategic and integrated objectives. This will provide a sharper focus on results and a better alignment between their external Public Service Agreement objectives and those by which they manage themselves.

The key to the success of the system is that it must contain a unified and integrated set of objectives and indicators that measure the outputs and outcomes of the key processes. It takes a complete view of departmental performance across not only the traditional "hard" financial measures but also across "softer", more difficult to quantify measures. Elements of the Ministry's Public Service Agreement targets are reflected throughout the four perspectives covered by the Scorecard. For example, their targets on the readiness of military units and on military operations are addressed in the Outputs and Deliverables perspective, the target on recruitment and retention of personnel is reflected in both the Resource Management and Learning and Development perspectives

Defence Balanced Scorecard

Are we delivering what the Government expects?

Outputs and Deliverables
Objectives include:
- Conduct successfully all operations and other Military Tasks as directed by Ministers;
- Deliver military capability;
- Deliver force structure changes set out in the Strategic Defence Review.

How well are we planning and managing our resources?

Resource management
Objectives include:
- Construct a coherent forward programme to deliver efficient outputs against strategic objectives;
- Achieve broad manning balance with each Service and MOD Civil Service;
- Deliver the planned equipment programme.

Battle Winning Defence Capability

Are we organised as well as we can be?

Process Improvement
Objectives include:
- Improve joint and team working;
- Improve resource-based planning, budgeting and accounting.

Are we developing our people and organisations for the future?

Learning and development
Objectives include:
- Invest in personnel and their families, valuing and developing them;
- Optimise MOD's access to and investment in global research and technology with relevance to defence;
- Be a world class information and knowledge-based organisation.

whilst the Smart procurement target is covered by the Process Improvement perspective.

What progress have the Ministry made?

The Ministry see 2000-01 as a trial year, with the objectives and indicators still undergoing development and refinement. So far they have concentrated on redrawing the Department's Strategic and Corporate Plans in the form of a "Defence Balanced Scorecard", for use by the Management Board. This Scorecard reflects the Ministry's Public Service Agreement objectives as well as other strategic objectives such as Civil Service diversity and ethnic minority objectives. Separate individual scorecards have also been developed within each of the three Services, in order to align their objectives with the Ministry's overall strategic objectives.

Progress against the various indicators will be reported to the Management Board by means of a "traffic-light" system to highlight areas which are progressing well or where remedial action may be necessary.

What are the anticipated benefits of the new system?

The Ministry believe that the new system offers a number of potential benefits:

- it will provide a clear focus at Board level and lead to a greater corporate spirit throughout the Ministry;
- it will enable the strategic high-level vision of the Ministry to be translated into clear and easily understood actions at operational level;
- it will align effort at all levels within the Ministry behind the Board's strategic intent and deliver better performance.

3.18 The Ministry's organisational units are often part of a vertical chain supporting our Armed Service's front-line capability. But such units also have links with similar units in the other Armed Services, or with units, doing the same job, within the same Service but in other locations. So a standard approach to performance measurement will help both vertical and horizontal integration of units within the Ministry, and help to reduce the time needed to develop a suitable performance measurement regime for individual units.

3.19 Balanced Scorecard systems have also been adopted in other countries, most notably Finland where they have been used in conjunction with service charters and other quality or performance frameworks such as the European Foundation for Quality Management (EFQM) to make the administration more efficient, transparent and service orientated.

3.20 In other parts of the public sector Departmental planning and monitoring systems must encourage large numbers of local service providers to work towards national objectives, whilst giving them the flexibility to meet varying local needs and circumstance. The central Sure Start Unit, for example, have established a planning and monitoring system which uses high-level targets, such as reducing the percentage of children with speech and language problems, to communicate priorities to the partnerships who deliver services at a local level.

3.21 Before partnerships receive funding they must submit plans demonstrating how they intend to reach each of the national targets set out in the Sure Start Public Service Agreement and fulfil the national objectives. Local partnerships produce their own milestones for each of the national targets, with output related milestones for the end of each financial year of the programme, and with process related milestones for each quarter of the first financial year. The partnerships must provide certain core services such as home visiting and support for families and parents, but can supplement these with other services which reflect the specific needs of their local community.

3.22 The Sure Start Unit assess progress against milestones set by local programmes at regular intervals. The Unit assist local partnerships to improve their performance by, for example, identifying and disseminating good practice and by running seminars and meetings where partnerships can share their experiences with each other. The Unit have also established a financial model for relating expenditure incurred at a local level to the different national objectives and targets. This assists the Unit to identify variations at local level and to track total expenditure across all programmes on individual national objectives and targets.

3.23 The Sure Start planning model is particularly relevant to those services where local needs vary considerably from area to area and where it is desirable to give individual service providers the flexibility to innovate. The cascading of outcome targets communicates and focuses attention on priorities, whilst allowing local service providers to vary models of service provision and reflect these in their own output and milestone targets.

3.24 The Department of Health face a similar challenge in developing a performance management system which provides local flexibility, but they must also ensure that they collect performance information that meets the needs of a wide range of internal and external stakeholders. The Department have responded by developing a Performance Assessment Framework to underpin their management and reporting systems. **Case study 7** explains how this Framework provides a transparent and broad based outcome-focused approach to measuring the performance of health organisations, under six headings, which focus on the needs of key stakeholders. Each heading is supported by a set of performance indicators.

3.25 By providing a common definition of organisational performance the Performance Assessment Framework has:

- assisted the Department to develop their 2001-04 Public Service Agreement. Each of the Department's Public Service Agreement objectives are drawn from the Framework's headings;
- helped health organisations undertake benchmarking and identify successful practice that can improve performance. The Department of Health encourage health authorities and trusts to use the Performance Assessment Framework to compare their performance with others;
- enabled the performance of health organisations to be reported to stakeholders in a consistent manner. The Framework will underpin public reports on the performance of the Department and individual health organisations.

3.26 Performance frameworks, like the Performance Assessment Framework, are especially useful to Departments with a large number of different stakeholders and different organisational units as they help define, communicate and compare key components of organisational performance in a clear and consistent manner. A similar framework has been adopted for local government Best Value indicators which seek to provide a comprehensive view of performance covering strategic objectives, cost and efficiency, service delivery outcomes, quality and fair access. The indicators should assist local authorities to compare their performance and to set targets for reducing variations.

Influencing the priorities of service providers by establishing appropriate incentives and rewards for success

3.27 Responses to the questionnaire show that Departments have faced considerable challenges in influencing service providers. Eighty-two per cent of Departments rated the challenge of ensuring that there were rewards which encourage service providers to achieve or exceed targets as great or very great. Forty one per cent also said they faced a great or very great challenge in obtaining sufficient leverage to ensure those who deliver services treat Public Service Agreement targets as a priority. Not surprisingly, obtaining leverage was a particular challenge where services were delivered by bodies outside of central government.

3.28 Departments had begun to address these challenges by setting their Executive Agencies targets which support their Public Service Agreement targets, and by developing new funding systems to incentivise organisations outside central government. However, Departmental systems for rewarding staff remained in their infancy.

i) Departments have started to develop Executive Agency targets so that they provide incentives for the Agencies and staff to work towards priorities

3.29 Each year Departments, on behalf of their Secretary of State, set their Executive Agencies key targets. These targets are one of the main mechanisms for influencing the direction and behaviour of their Agencies, available to Departments. Some Departments have therefore revised Agency targets to ensure that they support the Department's Public Service Agreement objectives and targets.

3.30 The Home Office and Prison Service, for example, have worked together to establish a close link between the Department's Public Service Agreement and the key targets set for the Agency. The Prison Service's 2000-01 Business Plan showed that three of the five new targets set for the Agency in 2000-01 were linked to the first set of Public Service Agreement targets. During the course of 2000 the Home Office and Prison Service have reviewed and changed the targets set for the Prison Service and individual prisons to ensure they reflect the outcome of Spending Review 2000 which, for example, increased the focus on reducing reoffending by drug misusers.

Case Study 7
Department of Health

Using a performance framework to obtain a balanced view of performance.

This case study explains how the Department have developed a Performance Assessment Framework that provides a structure for obtaining a broad-based view of performance which meets the needs of different stakeholders.

Why was the Performance Assessment Framework developed?

In 1997 the Department of Health and the NHS Executive undertook a review of the existing performance management framework. The existing approach was seen by both parties as placing too much emphasis on efficiency measures, such as the number of patients treated. They wanted to develop a broader based approach to measuring performance which would focus on the perspectives of most importance for stakeholders, including those of users, carers, professionals and the public.

What is the Performance Assessment Framework?

After a consultation exercise in 1998, the Performance Assessment Framework was published in April 1999. The Framework breaks performance down into six key inter-dependent areas which are easy to understand (see Figure).

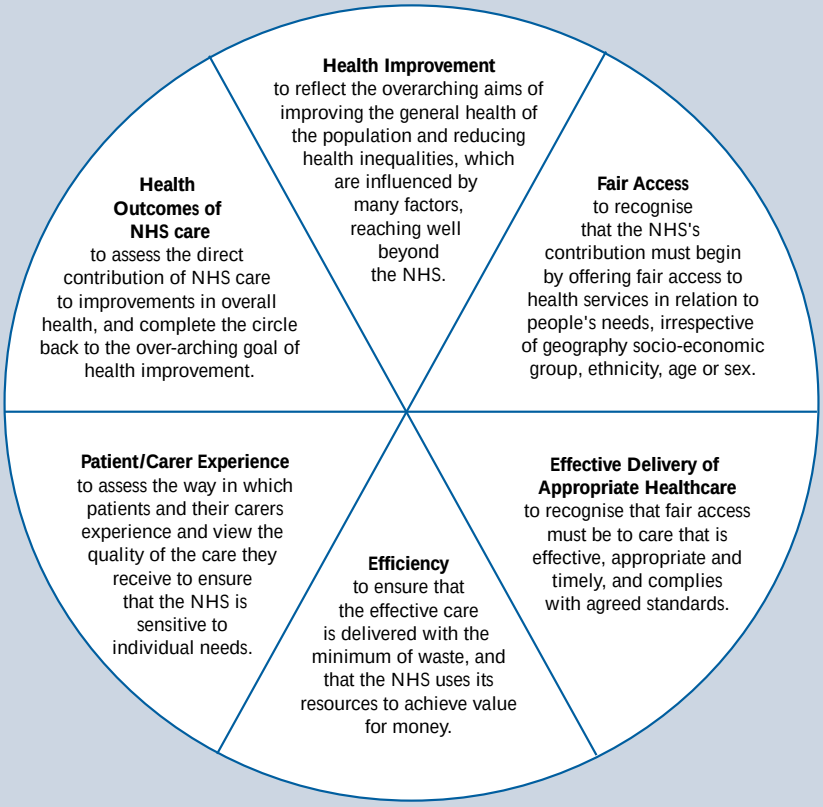
The NHS Executive explained the links between the areas as follows:

"From an initial view of the health of the diverse communities of the local population under consideration (Health Improvement), we need to ensure that everyone with health care needs (Fair Access) receives appropriate and effective health care (Effective Delivery) offering good value for money for services (Efficiency) as sensitive and convenient as possible (User/Carer Experience) so that good clinical outcomes are achieved (Health Outcome of NHS Care), to maximise the contribution to improved health (back to Health Improvement)."

Each part of the Framework is supported by a series of performance indicators. These currently focus on health authorities but the Department want to introduce a complementary set of indicators for NHS trusts, including primary care trusts. They have already established a Performance Assessment Framework for Social Services.

The Framework assists users to take a broad-based look at the performance. It reduces the risk that behaviour is skewed to a particular aspect of performance, at the expense of other areas.

The inter-relationship between the six elements of the Performance Assessment Framework is illustrated in the diagram below.



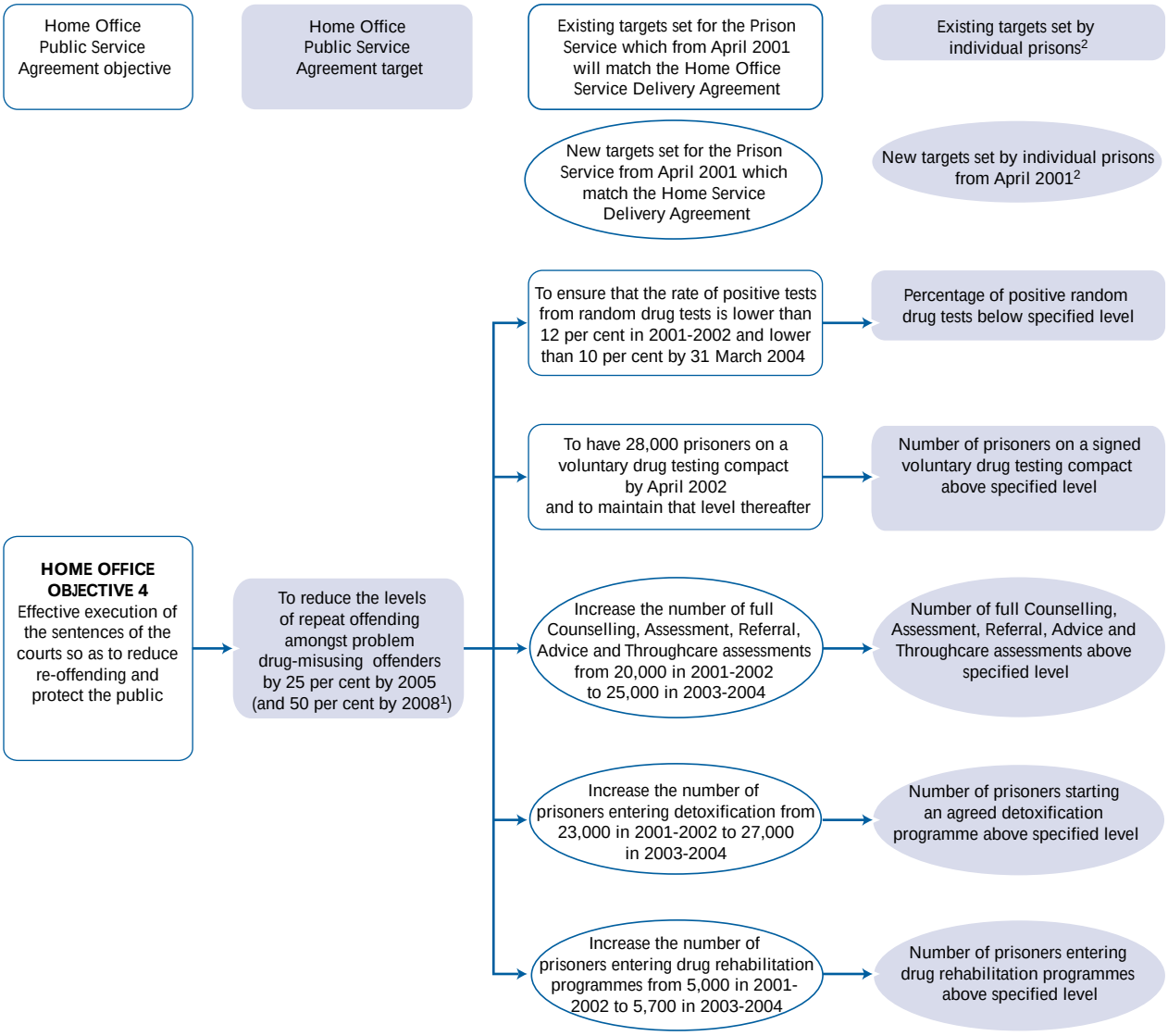
Source: NHS Executive

3.31 **Figure 19** shows how the Home Office's new Public Service Agreement target for reducing re-offending by drug misusers by 2005 is supported by targets requiring the Prison Service and individual prisons to tackle the level of drug abuse. It shows that from April 2001 the Prison Service and individual prisons will have to work to achieve three new targets for increasing the numbers of prisoners entering detoxification, drug treatment programmes and counselling, assessment referral, advice and throughcare programmes. All of the new targets were developed in conjunction with the UK Anti-Drugs Co-ordination Unit and appear in the Home Office's Service Delivery Agreement which supports their higher-level Public Service Agreement. In addition to the targets shown in **Figure 19** the Prison Service and prisons have also agreed a range of other targets covering their more general work to reduce the level of reconvictions amongst all offenders.

3.32 By promptly working through the implications of Spending Review 2000 the Home Office and Prison Service were able to establish firm proposals by December 2000 for new targets that should be set for the individual prisons. This ensured that the Prison

19 How the targets set for individual prisons and the Prison Service support the Home Office's Public Service Agreement: Reducing re-offending by drug missusing offenders

This figure shows how the 2001-04 Public Service Agreement target for reducing the level of re-offending is supported by targets set for both the Prison Service and individual prisons for their work to reduce drug abuse. From April 2001 the Prison Service and individual prisons will supplement existing targets for random and voluntary drug tests with new targets for prisoners in detoxification and drug rehabilitation programmes and the number of full Counselling, Assessment, Referral, Advice and Throughcare assessments.



Notes: 1. The Home Office's Public Service Agreement also includes a target to reduce the level of reconvictions of all prisoners. This is supported by a series of initiatives as well as related targets that are set for the Prison Service and individual prisons. The initiatives, such as improving educational standards, will help reduce the number of drug-misusers who re-offended.

2. Target values will vary from prison to prison.

Source: Home Office and the National Audit Office

Service and prisons had time to develop their plans for delivering new targets which support the Home Office's high-level priorities.

3.33 Within an Agency's package of targets there may be certain targets which are of particular strategic or operational importance. The Department for Education and Employment and the Employment Service agreed upon an innovative approach for communicating the relative priority of individual targets to staff.

3.34 Each year the Employment Service are set targets for the number of people they place into jobs. In 2000-01, they introduced a new nested target structure which used implicit weights to prioritise each of the five national targets for placing people into jobs. **Case study 8** shows how the targets were ordered and structured to give a clear sense of the priority of finding jobs for the most disadvantaged jobseekers - those participating in the New Deal and Employment Zones and those with disabilities. The order and structure of targets were cascaded down through the Service's regions, and targets that were set for individual offices reflected this prioritised, nested structure. The impact of this new system on staff behaviour will be examined at the end of the year as part of the process of setting targets for 2001-02.

3.35 The process of weighting targets has the potential to communicate priorities and provide appropriate incentives for staff. It could be particularly valuable when an Agency, such as the Employment Service, have been set a broad package of targets which are of varying importance in achieving the Department's overall priorities.

ii) Funding systems are being developed to incentivise organisations outside central government

3.36 Some Public Service Agreement targets will primarily be delivered through agencies outside of central government such as local authorities, voluntary sector and organisations based overseas. The Treasury recognised that it could be difficult to obtain adequate leverage over such organisations and suggested that Departments develop their existing performance management and funding arrangements. Some Departments have therefore started to develop systems for rewarding organisations which perform well against targets which contribute towards Departmental Public Service Agreements.

Case Study 8
Department for Education & Employment & the Employment Service

How weighting targets can communicate priorities

This case study shows how the Department for Education and Employment and the Employment Service introduced a system of weighting the Agency's job entry targets so that they communicate priorities to staff.

Targets set for the helping people into work

In 2000-01 the Department for Education and Employment and the Employment Service agreed the following five targets covering the Agency's work to help people without jobs into work:

1. To help 178,000 participants in the New Deals and all Employment Zones into work, directly or in partnership with others;
2. To help 100,000 people with disabilities into work, directly or in partnership with others;
3. To help 295,000 disadvantaged jobseekers into work, directly or in partnership with others;
4. To help 735,000 people from welfare into work, directly or in partnership with others;
5. To help 1,325,000 jobless people into work, directly or in partnership with others.

The targets were ordered to give a clear sense of the priority of finding jobs for the most disadvantaged jobseekers. The first two targets, therefore, cover the most disadvantaged - those people participating in the New Deals and Employment Zones and people with disabilities.

The targets were "nested" to reinforce priorities. The numbers for the first and second targets - covering people participating in the New Deals and Employment Zones and people with disabilities - also contribute to the third target covering all disadvantaged jobseekers. Similarly the third target contributes to the fourth target for all people on welfare, and the fourth contributes to the final target for all jobless people. A New Deal job entry would therefore count towards four targets.

3.37 The Department of the Environment, Transport and the Regions are piloting the introduction of Public Service Agreements for individual local authorities. These local Public Service Agreements focus on improving service delivery, partly through closer co-operation between central and local governments. They have been developed in close partnership with the Local Government Association and local authorities. Participating local authorities will agree to deliver targets for key national outcomes, in areas such as education and personal social services, and some local outcomes. Targets will exceed the levels that authorities had set themselves in their Best Value Performance Plans. In return the authority can apply for pump-prime funding of up to £1 million and the Government will relax a range of planning, operational and financial restrictions. If an authority achieves its enhanced targets it will receive additional funding of up to 2.5 per cent of budget. Through joint working with providers the Department have therefore developed a system which both helps authorities to raise performance by providing greater freedoms and flexibilities and provides incentives that the Local Government Association and local authorities view as effective and worthwhile.

3.38 Several other departments have or are establishing mechanisms for rewarding good performance. The Department for International Development have established a fund which will be used to give additional money to those countries that have a good record in poverty alleviation. And from 2001-02, the performance of NHS organisations will determine the level of autonomy they enjoy from, for example, their regional office and their access to a performance fund.

iii) Systems for rewarding staff for good performance need to be established

3.39 As part of the wider Modernising Government agenda, Departments have been asked to reform their systems for rewarding senior civil servants by April 2001 and for all other civil servants between April 2001 to April 2002. Departments have been encouraged to adopt systems which seek both to reward high performers better than average performers in cash terms and to incentivise people who are responsible for delivery key business objectives.

3.40 Our survey showed that Departments faced considerable challenges in developing systems for reinforcing and rewarding good performance, but Departmental responses did not offer examples of how they had tackled these challenges. In part this was because of the difficulties encountered in designing and resourcing equitable systems that effectively reward good performance, support team working, deliver sustainable improvements in performance and avoid perverse behaviour. But development work was often in hand: in November 2000, nine of the seventeen Departments summarised their plans for rewarding civil servants in their Service Delivery Agreements. These Departments were all planning to introduce new performance management and incentive pay systems for staff at various dates throughout 2001-02.

3.41 In drawing up and introducing these plans Departments are able to draw on the work of the Public Services Productivity Panel who have examined performance management systems, including systems for reinforcing good performance, in a number of Executive Agencies and Departments. The Panel have concluded that:

"this [reinforcement] is probably the area of performance management which the public sector has found most difficulty in developing to date. The link between pay and performance, in particular, tends to be extremely weak, although performance-related pay has the potential to be a critical factor in improving performance."

3.42 The Panel carried out an in depth study of the performance based incentives for staff in the four big office networks - the Benefits Agency, Employment Service, Inland Revenue and Customs and Excise.[7] The Panel argued that the right incentives can:

- clarify objectives and engage employees more directly with the goals of the organisation;
- motivate employees by linking an element of compensation to the achievement of targets rather than length of service;
- reward achievement and identify areas of under performance; and
- foster a culture based on teamwork and fairness.

3.43 The Panel proposed that "team bonuses should be paid to reward and encourage achievement of Public Service Agreement objectives. If targets are exceeded, the Government should use part of the savings from productivity improvement to fund bonuses." They argued that such financial incentives should be an essential part of a wider package which could include flexible working hours, development opportunities and non-financial rewards and prizes.

7 *Incentives for change: Rewarding performance in national government networks, Public Services Productivity Panel, January 2000*

Part 4

Collecting good quality performance data

4.1 This part deals with data collection and quality issues which underpin the design and implementation of an effective target regime. The part starts with a summary of guidance on requirements for good data systems and then moves on to tackle issues of sourcing data, ensuring that the system as a whole is cost-effective and securing the desired data quality. It highlights the need for a fresh look at the information requirements of an outcome-orientated target regime, and to make best use of existing streams of high-quality data.

The requirements for performance data

4.2 The Government have recognised the importance of the underlying streams of data used to fuel performance measurement. The performance information framework (see paragraph 1.19) aims to secure a degree of common understanding of key concepts and criteria across government as a whole. The framework suggests that performance information should derive from a strategy for performance measurement, and should provide, inter alia, for target setting, performance monitoring and verification. At a lower level, the framework lists criteria that help Departments to build effective information systems (see Figure 11) and criteria to create good individual performance measures. These criteria had not been finalised when we surveyed Departments, but we have borne them in mind when assessing good data collection practices. They encourage Departments to think about characteristics of performance data such as, reliability, comparability, timeliness, the ability to verify data and cost of collection.

4.3 We asked Departments to rate the degree of challenge they faced in obtaining and using appropriate streams of data to monitor their performance. **Figure 20** overleaf summarises Departments' responses. We address the major challenges faced by Departments under three headings:

- acquiring appropriate data;
- improving the cost-effectiveness of existing data systems; and
- gaining assurance on the accuracy and reliability of data.

Acquiring appropriate data

4.4 The move to outcome-focused Public Service Agreement targets has shifted the emphasis away from internal Departmental and Executive Agency management information systems - concerned with inputs, processes and outputs, for the most part - and onto sources of data tracking the impact of Government on the population overall. Such sources of data may be collected by Departments for example through surveys, or may be derived from external sources. We analysed the new Public Service Agreements and their supporting Technical Notes to form a broad view of the sources of data implied by the new targets. **Figure 21** on page 49 shows the results.

National Statistics

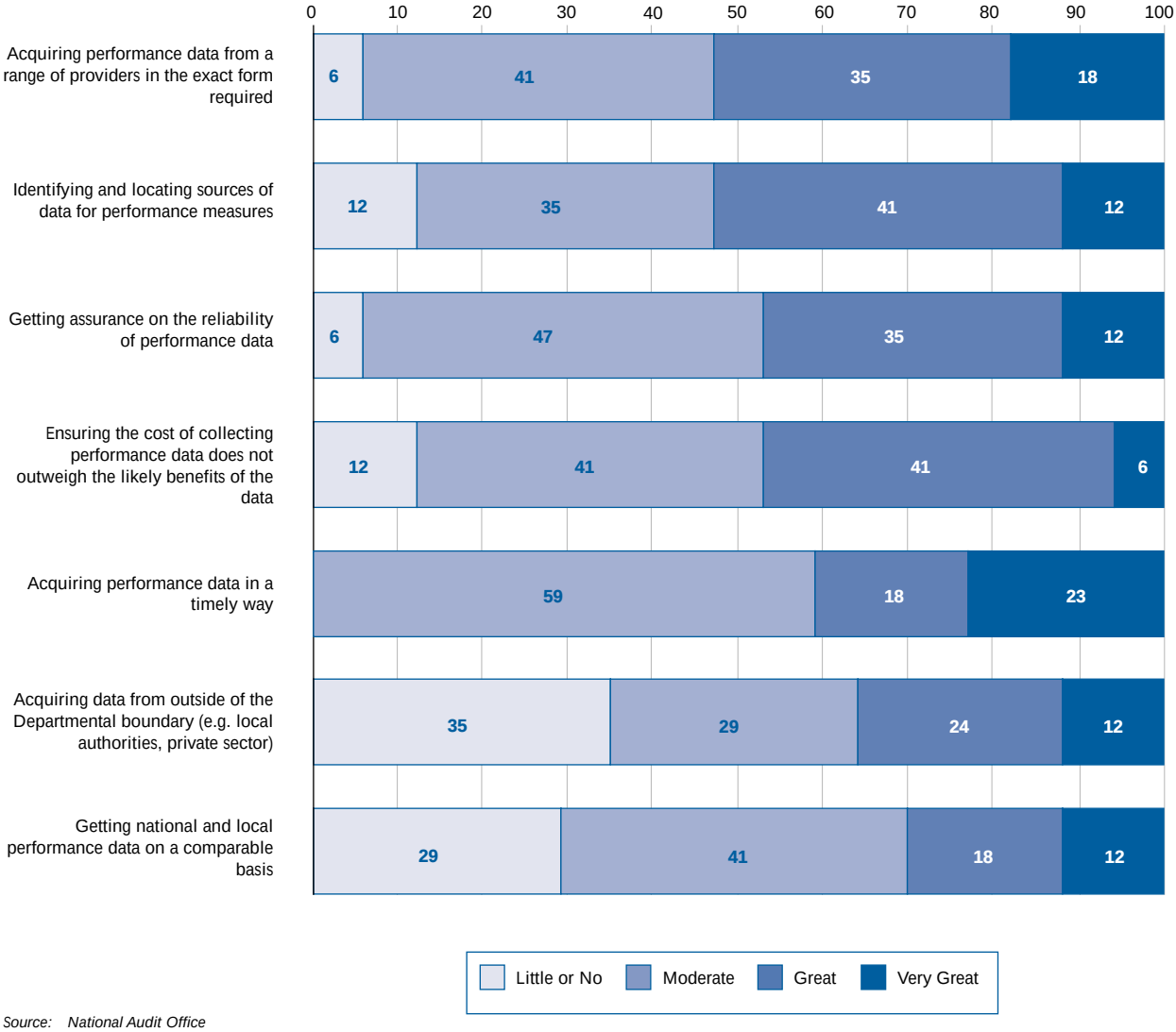
4.5 The figure clearly shows a key role for National Statistics in Departmental performance measurement. If National Statistics are suitable, then the Department benefit from the standards of professionalism and quality assurance associated with National Statistics. The arrangements for National Statistics provide added assurance of the relevance and accuracy of those statistics which are published under its banner. **Figure 22** on page 49 outlines the current structure.

Data collected by local authorities and the health service

4.6 Other important sources of external data are those from local and health authorities which do not form part of National Statistics. For local authorities, the Audit Commission have overseen the collection of two streams of data - those required from local authorities under the Commission's statutory powers, and those required from local authorities under the Department for the Environment, Transport and the Regions' Best Value initiative. Following consultation with local authorities and other stakeholders the Audit Commission have decided not to set separate statutory performance indicators for 2001-02: all indicators of interest will be brigaded under the Best Value banner.

20 Challenges in collecting robust and reliable performance data

This figure shows how Departments rated the challenges encountered in collecting robust and reliable performance data



Source: National Audit Office

4.7 In the health sector, the Audit Commission working with the Commission for Health Improvement have been charged with validating the performance indicators published annually under the Performance Assessment Framework, which covers all key areas of NHS performance (see **Case study 7**, page 43). This publication will be accompanied by independent commentaries from the two Commissions on local NHS performance. The aim is to demonstrate to the public that reported results are robust and reliable.

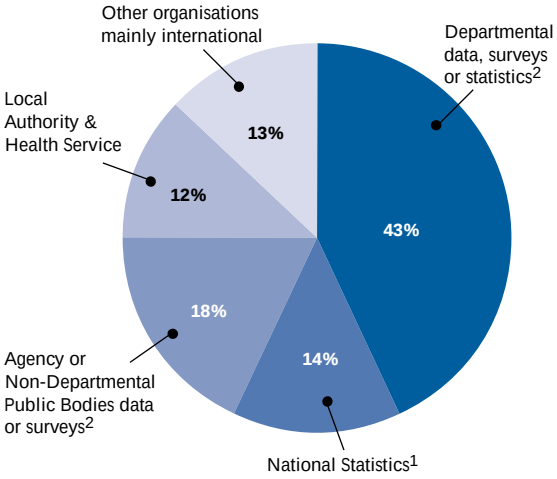
Data collected by parties outside of government

4.8 Departments also use data from sources which are not part of government, and which therefore do not have Government targets and monitoring in mind when managing data collection and collation. In these cases, Departments must be particularly careful to check on the accuracy and relevance of the data - although they may in practice have limited options even if they note problems with the data readily available.

4.9 For their Public Service Agreement, the Department for International Development, for example, rely on statistics produced by countries receiving aid to measure the impact of that aid. Statistics typically cover the main economic indicators and areas such as poverty, education and health. Where data are available, they may not precisely match the Department's requirements, and can be inconsistent or of varying quality. The Department's approach has been to provide technical advice and financial assistance to help develop adequate data systems through both bilateral and multilateral approaches. But the Department have no ultimate control over these systems, and little choice but to use the data produced - albeit with attention to known defects.

21 Data sources for 2001-04 Public Service Agreement targets

This figure shows the distribtuion of the sources of data used for measuring 2001-04 Public Service Agreement targets



Notes: 1 National Statistics are outputs which Ministers have decided should come within the scope of the new arrangements (for National Statistics), and for which the their professional quality and integrity are assured by the National Statistician. National Statistics may be collected by the Office for National Statistics, Departments, Agencies and Non-Departmental Public Bodies.

2 Excludes data collected by Departments, Agencies and Non-Departmental Public Bodies that have been classified as National Statistics.

Source: National Audit Office analysis of Technical Notes

Developing new streams of data

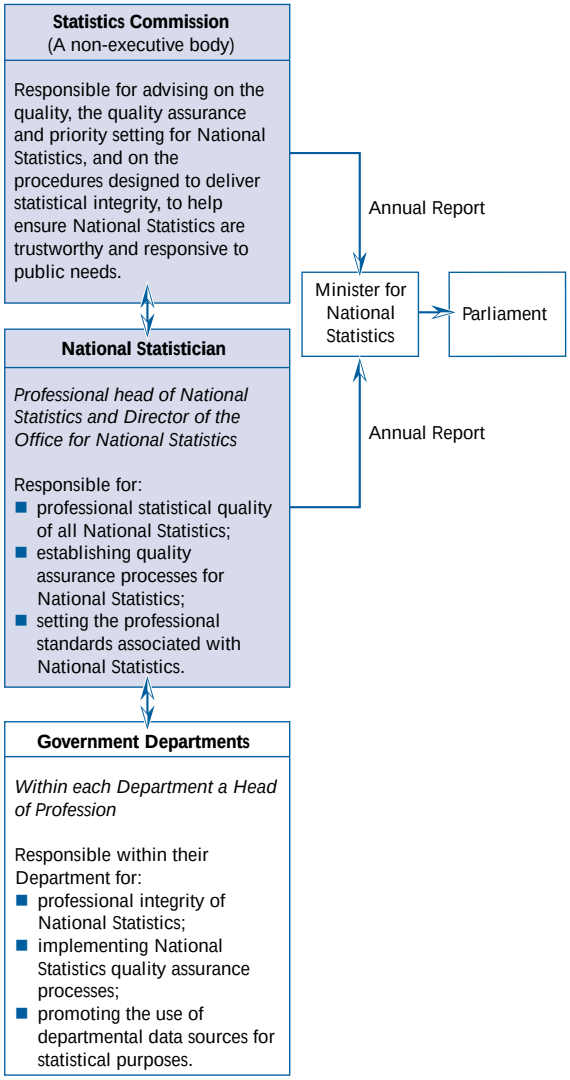
4.10 Where Departments must run their own data collection systems, then they have to satisfy the same sort of criteria that underlie National Statistics. Such a system can be expensive, and require skills and expertise that are often in short supply - especially in smaller Departments. The common mechanisms for generating such data are through surveys of the target group, or through local offices compiling data from their own information. The examples below highlight some of the issues arising in each circumstance.

4.11 The Lord Chancellor's Department found that they needed better information on the resolution of disputes. They propose to obtain such information through a baseline survey of those in dispute, which will then be repeated in 2003-04. Key factors of this survey include:

- the design of the survey instrument will draw on the work of academic research in this field, thus minimising development costs while increasing the relevance and validity of the survey instrument;

22 Roles and responsibilities for National Statistics

This diagram shows the responsibilities of the National Statistician, the Statistics Commission and Departmental Heads of Profession for Statistics in assuring the relevant, quality and integrity of National Statistics



Source: National Audit Office

- a two-stage sampling process has been devised, bearing in mind estimates of the prevalence of key features of interest in the population, to provide the desired degree of accuracy while minimising Departmental costs and burdens on respondents;
- the survey will be managed by the Research Unit within the Legal Services Commission, drawing also on the experience of academics in this field, so ensuring that appropriate expertise is brought to bear;
- survey mechanics will be undertaken by a major survey organisation, following a competition, thus minimising the production costs of the survey phase.

4.12 The Department have therefore taken steps to maximise the quality of the data they will collect, while minimising the costs - estimated at £1 million over the period. They have focused on the information necessary, while setting aside desirable factors, such as the commissioning of interim surveys for monitoring purposes.

4.13 The Department of Trade and Industry faced a different challenge when they introduced a new system for measuring the impact of business support services provided by the national network of Business Links. For the first time individual Business Links were required to collect and interpret information on the turnover, assets, profits and employment levels of the companies they had assisted (see **Case study 4,** page 29). The Department helped Business Links to introduce the system by providing a helpline and running workshops to explain their impact assessment model, to discuss the process of data collection and to obtain feedback and answer questions. They also established written guidance defining the model and the various performance measures.

4.14 The Department have provided ongoing support to encourage Business Links to make use of the new system. They continue to run annual workshops and have responded to feedback from Business Links by, for example, revising guidance and developing a new spreadsheet to assist Business Links collect data. This example shows that service providers may need a range of ongoing support to help them to collect new data and to make best use of new measurement systems. Departmental support may be particularly important where a service is provided by a network of organisations and where organisations have limited access to the analytical and other skills necessary to use data.

Improving the cost-effectiveness of existing Departmental data systems

4.15 Several Departments have taken the opportunity provided by the new outcome-orientated Public Service Agreements to review their existing information systems, to ensure that they were getting best value from them. The results included:

- making better use of existing information through closer alignment of stand-alone but related systems;
- aligning the data required for performance measurement and evaluation activity; and
- reducing data streams when the cost of collection outweighs the benefit of data.

Making better use of existing information

4.16 In the Department of Social Security, for example, the challenge is to provide coherent information from stand-alone systems covering different aspects of performance, or different client groups. In the long term, they plan to introduce an integrated system. But as **Case study 9** explains the Department have, as an interim measure, started to draw on existing systems to create a database of information which can be accessed across the organisation, and used, amongst other things, to monitor progress towards Public Service Agreement targets. In addition to improving the availability of information this project has the potential to reduce the cost of data collection and analysis by sharing information across systems and by reducing the time required to analyse the data.

4.17 In another initiative to make better use of existing information, the Youth Justice Board, working with consultants, have taken action to improve the information available to local service providers. The focus of that attention was the management of performance against a cross-cutting Public Service Agreement target to reduce the time to process the cases of persistent young offenders. National data are now provided to local areas each month, rather than twice yearly, and are accompanied by a report setting out trends and the performance of each of their individual courts. The reports also suggest action that might be taken to tackle any problems.

4.18 The Board have also developed easy to use performance management tools to assist local areas to interpret and use locally collected data on both cleared and uncleared cases. By working with local areas the Board have been able to develop these tools so that they tackle real problems and reflect the level of analytical expertise and capability within the youth justice system. In 1999, the Board introduced a tool to enable local users to obtain information quickly on how they had performed in clearing cases and the time taken at each key stage of the overall process so that they can identify any problem areas. This was followed up in 2000, by a system which monitors live cases and flags up long running cases which require review or action.

Linking performance measurement and evaluation

4.19 The link between programme evaluation activity and performance monitoring is another area where data requirements can be aligned. Several Departments have made sure that their planned programme evaluation activity is aligned with their Public Service Agreement targets, and that the insights into programme effectiveness provided by programme evaluation and evaluation plans are reflected in the design of targets and monitoring systems. For example:

Case Study 9

Department of Social Security

Improving the availability of data to support the management of the Department's business

This case study explains how the Department are developing a central source of information that should improve the availability of information throughout the organisation.

What are the challenges faced by the Department in managing information?

The Department have a large number of IT and clerical based systems that provide data on different aspects of performance. For example, there are a large number of stand-alone systems which collect a range of data on the timeliness, cost, accuracy and value of the claims paid by the Benefits Agency's national network of 400 plus offices where around 70,000 staff administer more than 20 benefits. The stand-alone systems result in a range of dispersed sources of data that can be difficult to use, inefficient to produce and can give inconsistent results.

What did the Department of Social Security do to improve data management?

The Department are drawing on existing data collection systems to develop a database which can act as a central source of reliable corporate information that can be easily accessed across the organisation.

The figure below demonstrates how the database seeks to organise and present different types of information, for example on human resources, finance and fraud, in a format that will support analysis by client group, geographical area and will enable managers to track progress over time.

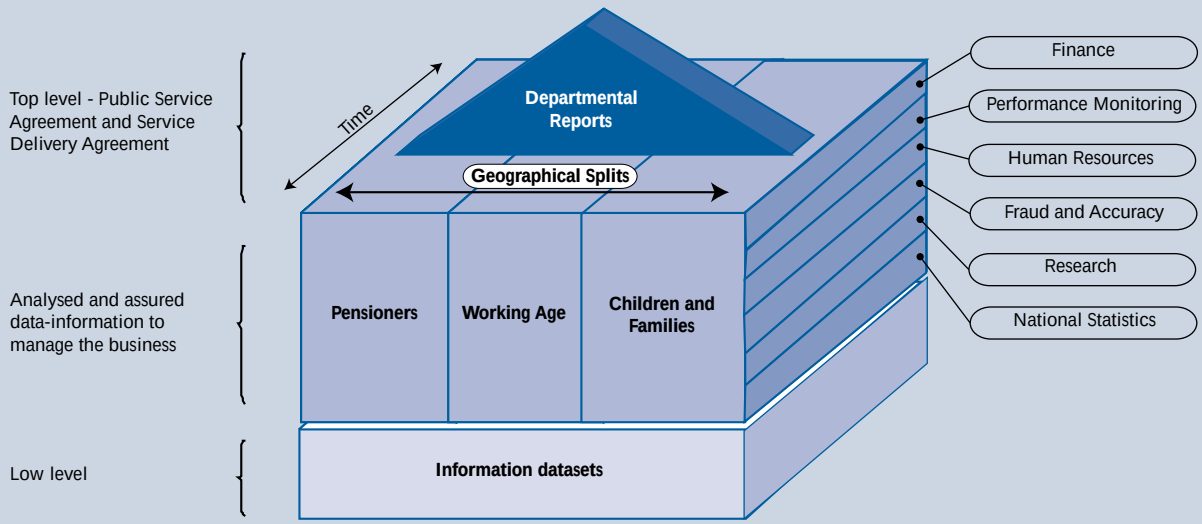
So far the Department have:

- Constructed an organisational map so information from different stand-alone systems can be defined in a consistent manner;
- Improved the quality of data. The team have compared similar data from different sources and used trend analysis to identify and rectify weaknesses and inconsistencies in source data. For example, the Department identified and corrected an error in the way their Payroll and Personnel system calculated the number of whole time staff;
- Started to bring together some of the key sets of data into a single place for the Benefits Agency. Managers at local offices can now, for example, access data from a single point which shows the time taken to clear claims, the cost of processing claims and the resources deployed on those claims. Some of these data were not previously available at a local level or were very difficult to access and use.

The project has the potential to rationalise the cost of data collection and analysis:

- Information from stand-alone systems can be shared to avoid duplication of data gathering;
- Time required to analyse data can be reduced. The bringing together of information for the Benefits Agency means that the time local units spend accessing and analysing data from stand-alone systems should fall, potentially enabling staff to spend more time interpreting and using data to improve performance.

Department of Social Security's Information Delivery Model



Source: Department of Social Security

- The Department for International Development re-assessed their evaluation arrangements to re-align them closer to the Department's requirement to measure performance against Public Service Agreement targets. Whereas current evaluations relate to individual completed aid projects, future effort will now be concentrated on evaluating the performance of the assistance provided to countries. This approach will enable the Department to monitor more closely the wider outcomes of their activities;

- The Department for Trade and Industry began to develop in 1999 a new policy evaluation strategy which seeks among other things to assess the effectiveness of policies and programmes in relation to Public Service Agreement targets; and

- The Department for the Environment, Transport and the Regions established an evaluation strategy at the start of 2000 and will review it annually. They have established a policy evaluation review committee to oversee and advise on the Department's programme of evaluations. Key criteria, which will guide the evaluation programme, include the cost of the policy to government or others, strategic importance identified by the Public Service Agreement targets and inherent risks.

Reviewing the cost and benefits of data collection

4.20 One of the advantages of reappraising data requirements is the opportunity presented to cut the collection of data no longer required, as well as making sure that the specifications for the data are accurately related to the Department's needs - so that resources are not wasted on collecting data in greater accuracy or scale than issues of management and accountability demand.

4.21 An example of decisions to cut data requirements is provided by the Crown Prosecution Service. In 1998 they identified that their area offices were being faced with too many requests for data and monitoring returns. They cut those burdens by reassessing the need for the data, and sought to avoid the problem recurring by introducing tighter controls over the introduction of new data requirements.

4.22 In 1998, when the Department of Trade and Industry introduced a new system for assessing the impacts of Business Links and Investors in People services, they also undertook a review of the other management information collected and reported by Business Links (see **Case study 4**, page 29). The Department employed consultants to examine the real value and usage of each item of management information. The consultants obtained the views of Business Links, the Department and other users of the management information. The review led to a reduction of 26 per cent in the items of management information that the Department required Business Links to collect.

4.23 More generally, some Departments have stated in their Service Delivery Agreements their intention to assess the scope for abolishing the data collection systems lying behind old targets as new targets are introduced. Tying such reviews to planning cycles should increase the chances of early action once a system becomes obsolete.

4.24 An example of viewing the costs of data against data specifications implied by draft targets is provided by the Department for Education and Employment. The Department wanted data on the percentage of 19-year-olds achieving National Vocational Qualification Level 2 (and equivalent) or above in each of the 100 or so local Learning Partnerships. The Department had such data at national level, through National Statistics, and so explored with the Office for National Statistics the possibility of extending their data collection activity so as to provide reliable information in the area covered by each Learning Partnership. In this instance, the cost of providing the data by building on existing National Statistics was too high. Instead the Department used four administrative data sources, removing certain duplications and inconsistencies, to estimate the educational standards of 19-year-olds. They also accepted a change in the format of Learning Partnership targets, which they had to express in terms of the absolute number of 19-year-olds obtaining qualifications, rather than the percentage. This example illustrates a sensible approach, exploring an option which could have yielded cost and quality benefits, and then trading-off costs of data collection against acceptable changes to the format of targets.

Gaining assurance on the quality of performance data

4.25 In the majority of the eight other countries examined by our consultants, there are formal arrangements for the validation of performance data. In four countries - Finland, the Netherlands, New Zealand and Sweden - the national audit office is responsible for the routine audit of performance measurement systems and data. In Australia, Canada and Denmark, although there is no general requirement for such validation, the audit office does examine performance measurement systems and data from time to time. Whilst in many United States departments, inspectors have taken responsibility for auditing selected performance measures.

4.26 The United Kingdom Government recognise in their guidance the need for performance data to be of suitable quality, and the need for internal controls over and validation of, data systems, as well as a role for independent validation. They have set up working parties to take forward questions of validation of performance data, and to review the quality of the Technical Notes that lie behind Departmental Public Service Agreement targets. Currently, however, there is no single set of criteria or practices which have common application across the public sector. But some streams of data have already been validated by reference to standards set by individual Departments, and in general Departments have been considering questions of controls over quality and validation in designing their own collection systems.

National Statistics

4.27 Targets drawing on National Statistics benefit from the quality assurance arrangements associated with these statistical outputs. These arrangements provide for the National Statistician to promote high standards and to maintain public confidence in all statistics and analyses produced in accordance with a professional Code of Practice which he or she develops and maintains. The key principles of the Code will underline the need for relevance, objectivity, impartiality, transparency, professional competence and quality standards.

4.28 The Office for National Statistics are themselves overseen by a Statistics Commission, comprising a panel of Commissioners appointed by Government and supported by a small staff, who report publicly on the relevance and reliability of National Statistics (see **Figure 22**, page 49). The Commission oversee the Office's quality assurance arrangements, supplemented by their own occasional spot checks on both the statistics and the audits undertaken by the Office for National Statistics.

Data collected by local authorities

4.29 Departmental targets drawing on statutory or Best Value local government indicators benefit from the reviews carried out by the Audit Commission (see Appendix 4). The auditors of each local authority appointed by the Audit Commission check that the systems used by authorities are robust enough to produce reliable information, and investigate any apparently large and unexpected rises or falls in established indicators. Where doubts persist over the accuracy of reported statistics, the Commission note a "health warning" against the relevant entry in published performance information tables.

Data collected by Departments

4.30 Where Departments collect their own performance data, they should note in their Service Delivery Agreements how they intend to gain assurance on the quality of such data. We found that some Departments did not cover this issue in their Service Delivery Agreements, while others provided only an outline of their intentions. But of those that did address validation issues:

- three Departments aimed to follow the National Statistics code of practice for data generated within their Departments;
- the Lord Chancellor's Department had set up a specialist Performance Review Board whose remit includes validation of performance information; and
- the Department for Education and Employment explained how Employment Service data on people placed into work are checked by regional validation teams who examine a sample of cases and how the National Audit Office carry out an annual examination of some of the job entries that have been validated. Data on job entries are used to measure the achievement of targets set for the Employment Service which support the Department's objective of helping people without work into a job.

4.31 In addition to these specific measures, the Treasury-led Technical Review Panel has offered comments to Departments on the quality of their draft Technical Notes - the documents which define the key terms used in Public Service Agreements. This process provides a means by which good practice can be shared, and helps to remedy any areas of ambiguity or vagueness in the use of terms. The Panel's comments have, however, the status only of advice: Departments may respond as they see fit. However, the Department's Treasury spending teams, who attend the Technical Review Panel, must clear the Technical Note before publication and they use the expert nature of the Panel to achieve improvements in the Notes.

4.32 This activity provides welcome assurance on the importance that the Government attaches to performance measurement, and on the quality of underlying data systems. We note, however, that validation is not yet consistently defined, and that important steps in validation, such as the calculation and reporting of performance information, are not covered at all.

Appendix 1 The methodology employed

To assess the developments in performance measurement within UK government and internationally and to identify the scope for learning lessons we undertook a number of key exercises, which are set out below:

Survey of major Departments

- We undertook a survey of the major Departments to obtain an overview of the progress Departments had made in developing their measurement methodologies.
- The survey was piloted with the Department of Trade and Industry and the Home Office and discussed with the Treasury, the Department for Education and Employment and the Foreign and Commonwealth Office.
- The survey was sent out to the 17 major government Departments. The main purpose of the survey was to:
  - Identify the main challenges Departments were facing in measuring performance to meet the requirements of Public Service Agreements;
  - Identify the approaches that Departments had adopted, or were adopting, to overcome these challenges.
- Responses were received from all 17 Departments and the key findings are included in the text of the Report.

Semi-structured interviews

- We undertook semi-structured interviews with the majority of the main government departments to:
  - Identify major developments in performance measurement;
  - Follow-up on successful practices identified in the survey responses to see whether they could be developed into case studies which would illustrate good and replicable methodologies and practices that may help other Departments to develop good performance measurement systems.
- We undertook interviews with key Departmental staff engaged in establishing cross-cutting Public Service Agreements and performance measures to obtain a more complete view of methodologies which touched on cross-cutting issues.

International comparisons

- We commissioned Public Futures Ltd. to carry out a review of how performance is measured in eight countries - Australia, Canada, Denmark, Finland, The Netherlands, New Zealand, Sweden, and the United States.
- We asked the Public Futures Ltd. team, led by Professor Talbot (University of Glamorgan) to gather comparative information on these eight countries to identify how the performance measurement activities within government were developing, under the following areas:
  - the general context within which performance measurement is operated;
  - responsibilities for performance measurement and reporting;
  - the high-level objectives and type of measurement;
  - the use of cross-cutting measures;
  - the methods for obtaining assurance on the quality of performance information; and
  - the reporting of performance.

Performance measurement in local authorities

- We asked the Audit Commission to provide a paper summarising how, in the light of Best Value, local authorities measure and report performance.
- We also met with the Local Government Association.

Reference Panel

- We set up a Reference Panel to provide advice and guidance during the study and to test and validate the emerging findings. Membership of the panel comprised the following experts:

Professor Colin Talbot
Professor of Public Policy and Management, University of Glamorgan and Director, Public Futures Ltd.

Professor Joseph Wholey
Senior Adviser for Evaluation Methodology, General Accounting Office, USA.

Jan Gower
Management Consulting Services, PricewaterhouseCoopers.

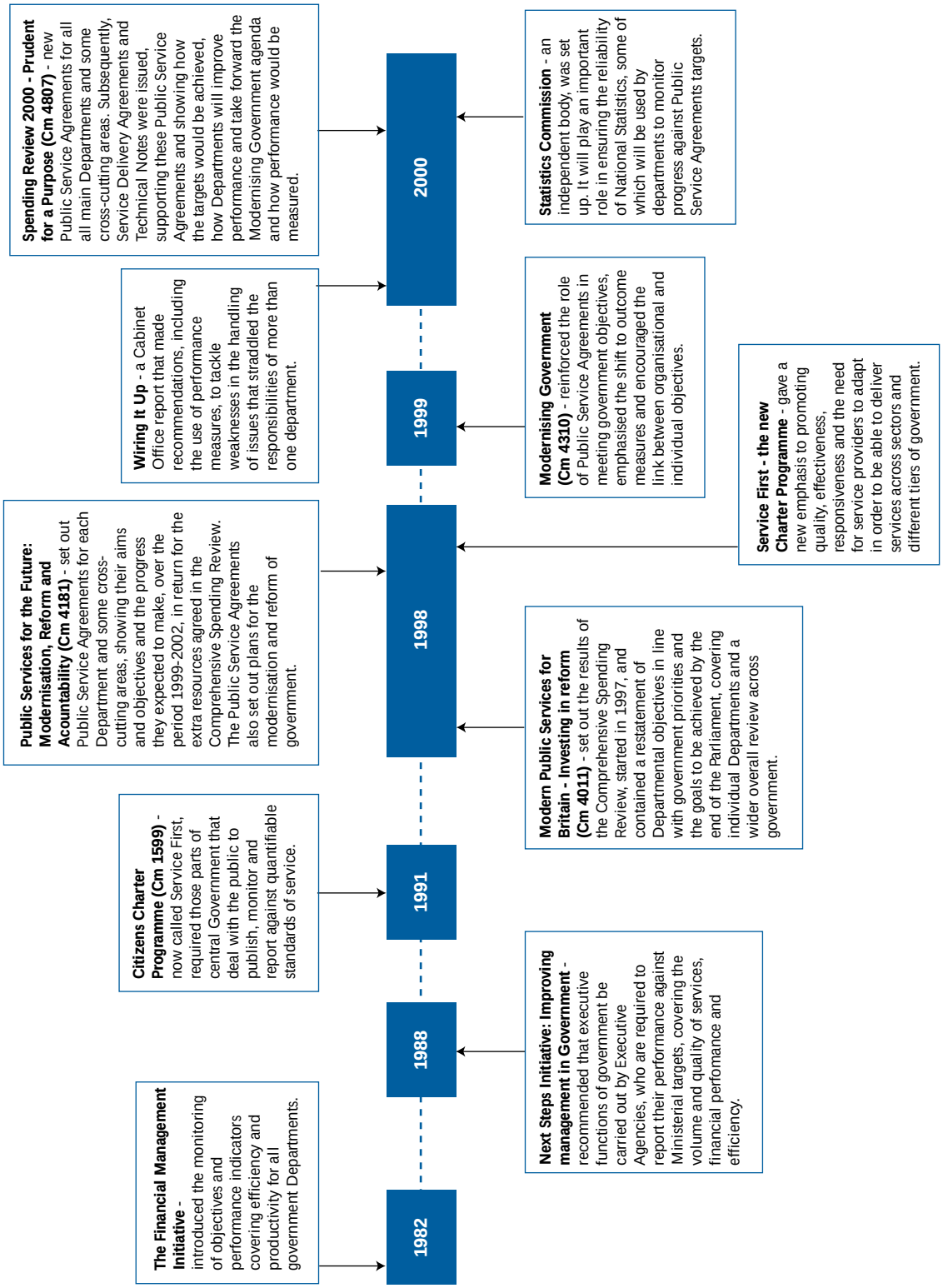
Steve Evans
Head of Performance Information, Audit Commission.

Tamara Finkelstein
Senior Advisor, General Expenditure Policy, HM Treasury.

Robert Fulton
Director, Strategy and Performance, Home Office.

Appendix 2

Chronology of key events in performance measurement in Central Government



The diagram shows the development of performance measurement in central Government since 1982.

Appendix 3

Performance Measurement - An International Perspective

Australia

Canada

Denmark

Finland

1. What is the general context within which performance measurement is operated?

The federal government have a long history of measurement and reporting of 'performance'. In 1988 they initiated a programme of evaluative reviews of all policy areas and ensured that the results were considered in budgetary decision processes.

More recently the introduction of accruals based accounting and budgeting has been aimed at providing high-level performance information about outputs and outcomes, linked to more accurate resource accounting, so that broad 'cost-benefit' judgements could be made.

The execution of audits has been outsourced, with the first task of examining the business risks associated with all Departmental programmes, including those associated with performance issues. A new branch has been established within the Department of Finance and Administration to deal with the whole range of risk management issues at Departmental level.

The Auditor-General has also argued for an integration of 'conformance and performance', drawing on traditional public sector values. Agencies are encouraged to report against performance indicators that cover conformance and performance. These are then considered together to give a more accurate picture of the Agency's success.

Public sector reform was initiated in 1994, by the 'Programme Review' - an examination of all government programmes to improve effectiveness and cost-efficiency.

In 1996, the 'Getting Government Right' initiative was introduced with the objective of modernising federal programmes. This initiative confirmed the change to a results or performance based management strategy. Departments and agencies were encouraged to identify result commitments, and to measure, report and use performance information.

The President of the Treasury Board's annual report to Parliament, originally focused on the structure of performance measurement in government, but now focuses on performance information itself.

In April 1999, the Performance Management Programme was implemented to provide a framework for equitable performance management of federal executives, and to reward the achievement of results linked to corporate priorities and public service leadership.

Denmark has a highly decentralised government structure, with most public services being delivered by local rather than central government. Public management reform has generally involved decentralisation, coupled with central guidance, advice and support in developing tools and concepts.

Performance management reforms have been central to the public sector since the launch of the 'Modernisation Programme' in 1983, and have included promoting performance measurement as part of the budget process.

The Service and Welfare project aims to create a framework for public sector learning and reform, and to promote debate on the future challenges of the public sector, which could potentially include results information.

Other initiatives include annual reports for Ministries, incorporating performance results with the final account, and surveys of user satisfaction and other issues used to benchmark between areas of the public sector.

Finland has a large public sector, similar to the Swedish central agency model, and like Denmark, has a large local government sector with significant responsibilities for service delivery.

Major public sector reforms between 1987 and 1997, introduced changes in financial management, including the adaptation of the results-oriented budgeting and performance system.

Since 1995, performance management has been applied across government, to emphasise outputs and to improve target setting and follow-up. Performance contracts have replaced compliance based control systems, making government agencies more cost-conscious and accountable. Performance management is considered as one of the main tools for enhancing strategic thinking and prioritisation among the Ministries.

Developments include the National Quality Initiative - to increase the use of Service Charters and the European Foundation for Quality Management's (EFQM) model among public sector organisations and central government reforms aimed at strengthening performance management.

2. Who is responsible for performance measurement and reporting?

Responsibility for performance management rests with the agencies, whereas the responsibility for performance information lies with individual public sector departments and agencies, which are statutorily required to produce it.

Changes to outputs, and performance information, are agreed with the relevant Minister and do not require clearance from the Department of Finance and Administration (DOFA). Changes to outcomes, require consultation with and approval from the DOFA.

The Treasury Board Secretariat (TBS) has the overall responsibility for performance management, with formal requirements also placed on departments and agencies.

The responsibility for reporting performance is shared between the TBS and federal bodies, with Departments and agencies reporting to Parliament through their Performance and Annual reports, whilst the TBS collates and reports specifically to Parliament via their Annual Report.

Overall responsibility lies with the Ministry of Finance. The Agency for Financial Management and Administrative Affairs have responsibility for reforms and developing initiatives.

Initiatives are implemented by persuasion and incentives rather than by command. Bottom-up initiatives are also supported by best practice guidelines and other assistance.

The Ministry of Finance is responsible for guiding the reforms and developing new methods and principles. The Public Management Institute provides consultancy and training support.

Annual results agreements between the Ministries and agencies set performance targets.

3. What are the high-level objectives and type of measurement?

The evaluation of policies and programmes goes back to 1988. More recently the focus has been on economy and efficiency. In particular, the most recent reforms have emphasised results based government and the development of business-like work practices including privatisation and outsourcing etc.

Although the Guidance issued by the DOFA stresses both outputs and outcomes, performance measurement largely concentrates on measuring achievements within an accruals framework. Outcome information is focussed on effectiveness and the achievements of objectives.

The emphasis on reporting to Parliament has provided a public accountability dimension to performance measurement, which is becoming more central to the decision making process, although there is still some way to go.

In 1999, the TBS Annual Report covered performance and:

- inter-departmental collaboration;
- comprehensive reporting, including outcomes; and
- improved accountability.

The system focuses on presenting a performance story, adding narrative to the data to provide a complete and understandable picture of the results.

The objectives have varied, with the early focus being on economy. More recently the emphasis has shifted to efficiency issues. Throughout there has been a concern to increase management capability and focus on service quality.

Reforms have focused on 'performance contracting' - regarded as "the most successful public management initiative of the 1990s".

Many agencies and other bodies have performance contracts, but there are differing interpretations of what 'performance' means, in this context. Most performance contracts have focused on process or output measures.

The focus of performance measurement has been the introduction of organisational and cultural change and to improve efficiency, transparency and service orientation. This strategy has been linked to the use of service charters and quality frameworks, especially the EFQM model and the Balanced Scorecard.

By the early 1990s, "the scope of performance management had narrowed to productivity and economy, despite the encouragement to agencies to develop a set of general performance measures covering economy, efficiency and effectiveness".

Netherlands

In the 1980s government reform focused on improved coherence and integration, with emphasis on new methods and structures for government planning and the co-ordination of decision making.

Current reforms are moving the focus of the 'Financial Statements' to provide a greater insight into the achievement of objectives and the performance delivered in return for resources. Ministries are working on the development of efficiency and effectiveness indicators and the establishment of information systems to enable them to monitor activities, performance and results.

The Ministry of Finance is responsible for co-ordinating performance measurement and reporting. The Ministry of Home Affairs initiates modernisation schemes and promotes performance in local government. Individual Ministries are responsible for measuring the performance of their policies, management and organisation.

In addition, there are other projects initiated on an ad hoc basis, many of which come from agencies or local government.

Performance measurement was seen as contributing towards improving economy, efficiency and effectiveness and to resource allocation and public accountability, and the Government Account Act of 1976, set out the requirement for performance information to be included in budgetary processes.

However, a study of the 1993 budget showed that performance reporting focused on input indicators, with some output but few outcome indicators.

The introduction, in 1999, of 'index indicators' in the budgets - showing the extent to which aims had been reached - moved the emphasis towards efficiency.

New Zealand

New Zealand public sector reform has involved widespread privatisation and 'corporatisation' of state owned bodies and radical economic, fiscal and welfare reforms.

In 1989, non-binding 'performance contracts' between Ministers and government Departments were adopted, which specify the outputs to be produced by each department and which are 'purchased' by the Government.

Under a new approach involving closer alignment of resources to strategic goals, the current 'departmental performance assessments' will be replaced by performance analyses and capability assessments. The EFQM model will also be used in some departments.

A review of accountability arrangements, including problems raised about performance compliance is underway.

Individual Departments and Crown Entities are responsible for publishing their performance results.

Departments are required to publish a detailed statement of objectives as part of their Department Forecast Report (DFR), which is scrutinised by the Select Committees as part of the Estimates Examination. They are also required to publish a Statement of Service Performance annually to show performance achieved compared to that forecast in the DFR.

The 1989 reforms required that estimates contain information about intended outcomes and how outputs contribute to them. Three year "Strategic Result Areas" (SRAs), covering whole policy areas, and providing a co-ordinated mechanism for government activities, were adopted in 1994.

"Key Results Areas" (KRAs), were also incorporated into their Department performance agreements with Ministers.

In 1998, SRAs were superseded by "Strategic Priorities and Overarching Goals" (SPOGs).

Sweden

Sweden has been trying to develop better quality and flexibility in public services and performance measurement is playing an important part in this process.

Swedish central government is based on the 'agency' form with small Ministries and large agencies. This is reflected in the way in which performance measurement has developed.

The autonomy of the administrative agencies is a key feature of the government system. In particular, agencies have great control over staffing, internal organisation, and investments in IT and premises. The creation of fewer, but larger, agencies has also enhanced the autonomy of these bodies.

There have also been moves to tighten some aspects of central control with financial controls and budget ceilings introduced in the new 'Central Government Administration in the Citizens' Service' Act of 1998.

The Ministry of Finance, with the assistance of the National Financial Management Authority, has overall responsibility for the development of performance measurement systems.

Performance measurement is an exception to the traditionally strong autonomy of the agencies. Individual Ministries are responsible for setting requirements on what should be measured. Agencies are responsible for determining how to measure these activities.

The objectives of performance measurement have been to:

- improve the quality and flexibility of public services;
- focus accountability relationships on results;
- achieve efficiency savings and reduce budget deficits.

Each agency produces an annual report including specific performance data, requested by the Government. Annual reviews by the national audit office have shown that reports tend to focus on workload, activities, measures of productivity and qualitative and

United States

The United States has very different constitutional arrangements (at the federal level) to those of the UK. The separation of powers between the legislature and executive leads to some interesting differences in budgeting and performance issues.

The USA's more transparent processes for budgeting and performance target setting are partly a result of the role Congress plays in authorising budgets proposed by the Executive.

The Government Performance and Results Act (GPRA) is subject to improvement through the scrutiny of performance reports by Congress and the General Accounts Office (GAO). Areas of improvement have included:

- identifying and addressing cross-cutting issues;
- showing how strategies are intended to improve results;
- improving the capacity to gather and use performance data.

The GAO reports cover topics such as the challenges agencies face in producing credible performance information (GAO/GGD-00-52), the link between evaluation and performance measurement (GAO/ GGD-00-204) and good practices in developing performance plans (GAO/GGD/AIMD-99-69).

Responsibility for target setting is shared between the government Departments and agencies, who propose their own targets; the Office of Management and Budget, who consult over them; and Congress who approve them.

The Office of Management and Budget also produce an annual, government wide, performance plan.

Reforms have centred on the 'reinventing government' agenda, and 'entrepreneurial' government. This meant deregulation, clearer focus on results, better customer responsiveness and improvements in efficiency.

Performance measurement was seen as a driver for change and a way of 'reconnecting' government agencies with the public, with the aim of shifting the focus of decision making away from the activities undertaken, towards a focus on results.

Australia	Canada	Denmark	Finland
3. What are the high-level objectives and type of measurement? (continued)			
Departments and agencies issue information on: ■ resources consumed; ■ outputs (including price, quantity and quality) they will deliver and the outcomes they contribute to; ■ actual outcomes and the contribution outputs made to them; ■ the distinction between outcomes produced by agencies controlled by, and those administered on behalf of government.	The measures are fairly comprehensive both in terms of inputs, outputs, outcomes, etc. and in coverage of the public service. However, concerns continue to be raised about: ■ the integration of results with management values; ■ more comprehensive and accessible reporting; ■ development of targets etc. linking federal, provincial and local agencies.	Recently, ministries have been developing output-focused measures. The Ministry of Finance have used satisfaction surveys for various services to benchmark and develop quality of service.	
4. Are cross-cutting measures used?			
Although it has become increasingly recognised that a number of agencies may contribute to a particular outcome, the issue of determining performance and accountability between them has yet to be fully addressed. The creation of 'Centrelink' in 1997 - an agency providing 'one-stop-shop' access to a range of government services - is an example of co-ordinating the delivery of public services. However this initiative does not seem to be linked to any wider consideration of 'joining up' policies, organisations and services.	The 1994 Programme Review provides for the 'pooling' of resources where better collaboration will lead to efficiency gains, and the TBS reports performance in such cases. The 1999 report contains joined-up performance targets at both inter-departmental and 'inter-governmental' (across layers of government) levels. For example the Great Lakes 2000 initiative brings together Environment Canada, six other federal departments and four Ontario Province Ministries in establishing 50 performance targets for environmental and health improvements.	It is considered that the continued success of the performance strategy relies on the development of tools that support the cost-effective provision of services and co-ordinated working. In late 1999 the Ministry of Finance initiated the 'Effective Public Processes' project to provide managers with the tools for process re-engineering and to facilitate the exchange of best practice. However, there was no evidence of 'joined-up' performance measurement as such.	A Ministry of Finance Working Group reported that the lack of co-ordination in evaluation within the state administration was a problem, particularly in inter-administrative programmes within the area of social policy. They considered that "it is important that the principle of comparison development is applied between and within the respective administration areas, both as a strategic method related to performance and focusing on processes". Again, there was no evidence of cross-cutting performance measures.
5. How is assurance provided on the quality of the information ?			
There is no general requirement for audit and validation of performance information, although the Australian National Audit Office (ANAO) carries out value for money audits of public sector bodies, including resource use, delivery of outputs and outcomes, monitoring systems and compliance. Agency audit committees are responsible for internal audit of performance information. In 1997, an ANAO examination concluded that around a quarter of the agencies examined did not have an audit committee and many did not have an internal audit function. There was also a potential problem because of lack of external representation on audit committees.	The Auditor-General's Office (OAG), does not automatically audit performance data, although they will do so as part of a value for money or other audit, or where they feel there is a specific need. They also review the fairness and reliability of performance information presented by three newly formed service delivery agencies. Recent concerns raised by OAG have included: ■ the lack of focus on outcomes; ■ the coverage of performance data; and ■ performance information from new forms of service delivery (i.e. delegated bodies; voluntary sector; out-sourced services, etc). Government departments adopt quality management as part of their overall strategy and conduct internal audits and evaluations of key policies and programmes.	The Office of the Auditor General (OAG) regularly reports to the Public Accounts Committee on performance information supplied by departments and agencies. The OAG also carries out specific performance audits. Many agencies have avoided introducing internal audit and where they have done, it is mainly restricted to financial audit.	The State Audit Office (SAO) carries out both routine audit of performance data supplied by agencies and Departments and periodic performance audits. Some Ministries have commissioned evaluations from independent bodies on their major functions. Programme evaluations are initiated on an ad-hoc basis by a number of organisations.
6. How is performance reported publicly?			
Performance is reported in individual agency Annual Reports to Parliament. Performance measures and indicators are developed in conjunction with advice from the Department of Finance and Administration. In addition, a "State of the Public Service" report is issued annually by the Public Service and Merit Protection Commission.	TBS have the responsibility for issuing overall guidelines, but are generally not involved in setting targets. Individual Departments and agencies are responsible for performance management. The responsibility for performance reporting, is shared between TBS and Departments or agencies. By 1997, all federal Departments were providing key result commitments and reporting performance to Parliament. The TBS annual report is split into two volumes, covering general issues about performance reporting systems and their development, and detailed performance reports from Departments and agencies. A central on-line database - the Results and Performance Database - has also been established.	Each Ministry generally consists of a Department and one or more subordinate agencies. Performance information is generally publicly available, including performance contracts and key results. Annual Reports are central documents that require a 'Results' section covering key activities and results to be published	Arrangements for publication of performance data are almost identical to those in Denmark, including both performance data in Annual reports, and in relation to performance contracts.

Netherlands	New Zealand	Sweden	United States
The issues of service quality and accountability have also been raised, the latter in response to criticisms of semi-autonomous public bodies. Contract management is now implemented nationally, and the Government aims to extend this initiative by more flexibility in payment of public sector managers.	However, studies have shown that: ■ linkages between outputs and outcomes have not always been sufficiently established; ■ output measures have not always been tightly defined or provided sufficient coverage of key priorities; ■ differences between public accountability and managerial uses of performance data are not distinguished.	descriptive material, although a shift has been achieved towards greater use of outcome and service quality measures.	Analysis, by the GAO, of the fiscal year 2000 performance plans suggests that whilst there was a move towards reflecting strategic objectives, the plans gave only a 'general' picture of performance, tended to under-report performance in cross-cutting areas and gave insufficient detail about resources. Performance plans generally covered both outcomes and process and output issues but not consistently or thoroughly.
The Ministry of Finance and the Ministry of the Interior look after general aspects of public administration such as effectiveness and human resources. However, their ability to impose measures on other ministries is limited and reliant on persuasion. Some performance measurement programmes, at central and local level, have elements of the benchmarking of results.	The introduction of SRAs in 1994 and then SPOGs in 1998 both provided high-level mechanisms for stating performance objectives. Specific reporting of cross-cutting performance has been tried, for example the 'Strengthening the Families' and 'Closing the Gaps' initiatives, but most performance reporting is still largely restricted within departmental boundaries and their outputs.	There seems to be no evidence that the issue of 'cross-cutting' measures has been raised as yet. However, better co-ordination of services and policies has been raised under the umbrella of concentration - the restructuring of public services (especially agency reorganisations and amalgamations).	Agencies have addressed the identification of cross-cutting issues and begun to adopt strategies to include complementary goals in their performance plans. The Social Security Agency and the Veterans' Administration are developing strategic issues which are shared or linked to co-ordination improvements. The Department of Health and Human Services is developing linked performance goals - for example on reducing tobacco use - for the Centres for Disease Control and Prevention and the Food and Drug Administration.
The Court of Audit has an explicit mandate to audit efficiency and effectiveness, including reviews of performance measurement, administrative systems, and programme effectiveness. Performance data produced as a consequence of the Government Account Act is not subject to separate audit by the Court but it may draw attention to inaccuracies where it sees fit. Each of the Ministries has its own Financial and Economic Affairs Department, who are responsible for the review of performance data.	The Audit Office is responsible for auditing performance information and other performance matters based on their assessment of the risks in the organisation, and can also carry out specific audits of performance information.	The Swedish national audit office has developed a strong system of performance auditing, and is also responsible for auditing performance information published by agencies in their annual reports. Sweden sees its performance audit system as sufficiently advanced to form the basis for a training and guidance programme for developing and transitional states. (Handbook on Performance Audit - Theory and Practice)	The GAO analysis of year 2000 performance plans concluded that there was only limited confidence that agencies' performance data would be credible. They stated that "few agencies provide explicit discussions of how they intend to verify and validate performance data". They also pointed out that this problem is linked to "persistent limitations in the availability of quality financial data". The GAO have however found that some agencies have used their Inspectors to verify the completeness, consistency and accuracy of data drawn from data systems in regular use.
Autonomous public bodies and agencies are individually accountable for their own performance. Performance information is contained in financial statements, Annual Reports and budget estimates, and Ministries include a list of performance reports and evaluations and the main conclusions of these in their budgets. Performance contracts also contain information but are not generally publicly available. League tables, providing comparisons of the quality and efficiency of local government performance, are published by the Public Services Quality Monitoring System.	Departments are accountable for their own performance through the performance contracting and reporting system and both Departments and Ministers are accountable to Parliament for their performance. Performance is reported publicly by individual Departments against the Estimates and their Department Forecast Report.	The agency system means that the responsibility for performance rests primarily with the agencies themselves, within limits laid down by Government. Agencies are required to publish performance information, as requested by the Government, in their annual reports. These reports are subject to scrutiny by the national audit office to determine whether the information published is true and fair.	Agencies report to the Executive branch, with 'oversight' by Congress. The GPRA system implies a type of quasi-contractual arrangement, which clearly links the allocation of resources by the Executive/Congressional appropriations process to performance targets. Individual agencies report their own performance publicly through their performance and annual reporting system. The GAO comments on individual performance reports and plans, and has also been asked to assess the performance reports for the financial year 1999. These reviews are carried out at the request of Congress each year and the scope therefore changes from year to year according to the nature of that request.

Appendix 4 Performance Measurement in Local Government

Historical perspective

1 The first national set of performance indicators that local authorities were statutorily required to collect and publish were those specified by the Audit Commission for the financial year 1993-94. The Local Government Act 1992 had given the Audit Commission the duty to specify indicators to facilitate comparisons between authorities and comparisons of performance over time. Local authorities are required to collect the information and then publish it in an advert in a local newspaper. The impetus behind the legislation was a desire to help the public be better informed about the performance of local authorities, and hence increase accountability.

2 Each year since 1992 the Commission has set a legal "Direction", which sets out the titles and definitions of the indicators that local authorities are required to collect. Auditors of each local authority appointed by the Audit Commission check that the systems used by authorities are robust enough to produce reliable information, under statutory responsibilities reflected in the Commission's Code of Audit Practice. The Audit Commission has collated the information published by each local authority and produced a number of national publications setting out the indicators. Traditionally, each year the Commission has published a "compendium", containing tables of all the indicators for all authorities. In addition, a number of themed reports have been produced on topics such as housing, education, social services or on geographical groupings of authorities such as London and Wales (the themes vary from one year to the next).

3 The selection of indicators for each financial year has been made after an extensive consultation exercise, involving all local authorities, national and consumer organisations. Typically, about 700 organisations have been consulted each year, of which generally about 50 per cent responded.

Statutory performance indicators

Best Value Performance Indicators

4 The duty on the Audit Commission to specify performance indicators was maintained by the Audit Commission Act 1998. However, the legislation on statutory performance indicators was extended by the Local Government Act 1999, which introduced the regime of Best Value (The duty of best value requires that local authorities seek continuous improvement). Under this legislation the Government sets Best Value Performance Indicators. The Best Value Corporate Health Indicators provide a snapshot of how well the authority is performing overall. The Best Value Service Delivery Indicators reflect the national interest in the delivery of local services. It is expected that these indicators will reflect the Government's policy priorities and particularly those set out in the national Public Service Agreements between the Treasury and Government Departments. In Wales, policy agreements are being negotiated directly between the National Assembly and Welsh local authorities.

5 The Best Value Performance Indicators are designed to enable comparisons to be made between the performance of different authorities, including different types of authorities and within an authority over time. Authorities are required to set targets to improve performance against all indicators that are relevant to the services they provide.

6 In order to ensure that the Best Value Performance Indicators give a balanced view of performance, the Government has adopted five "dimensions" of performance to achieve a "balanced scorecard". This helps to ensure that the main aspects of performance, including outcomes and the users' perspective, are covered. Systems that focus on a narrow aspect of performance are likely to lead to distortions in service delivery.

The "dimensions" of the balanced scorecard for Best Value Performance Indicators

- Strategic objectives: why the service exists and what it seeks to achieve;
- Cost/efficiency: the resources committed to a service and the efficiency with which they are turned into outputs;
- Service delivery outcomes: how well the service is being operated in order to achieve the strategic objectives;
- Quality: the quality of the services delivered, explicitly reflecting users' experience of services;
- Fair access: ease and equality of access to services.

Audit Commission Performance Indicators

7 The Audit Commission's aim in specifying indicators has been to facilitate a rounded view of an authority's performance. The Audit Commission Performance Indicators for 2000-01 complement the Best Value Performance Indicators, covering activities not included in those indicators (such as environmental health) or providing information that will help in the interpretation of Best Value Performance Indicators.

8 The national indicators for the financial year 2000-01 were set by the Government and the Audit Commission after an extensive consultation exercise in the summer of 1999. In total, 170 Best Value Performance Indicators and 54 Audit Commission Performance Indicators were specified in England,[8] covering corporate health; education; social services; housing and related services; environmental services; cultural and related services; and emergency services.

Local performance indicators

9 Authorities are encouraged to develop and use local performance indicators, in addition to those specified by the Government and the Audit Commission. Local indicators are an important measure of local performance and of the responsiveness of the authority to meeting local needs. They allow authorities to reflect local priorities and tailor best value to suit local circumstances. They also provide managers with more detailed information.

10 To help ensure that clear accountability is achieved, authorities are required to publish details of their performance, as illustrated by performance indicators, standards and targets, in their annual "Best Value Performance Plan". The Best Value Performance Plan should also include a commentary on past, current and future performance. The first of these Best Value Performance Plans were published by 31 March 2000.

Performance targets and standards

11 The Local Government Act 1999 provides powers for the Government to specify standards of performance that must be met. Failure to meet a performance standard will normally be judged as a failure in a test of best value for that particular service. The Government has indicated that it will use performance standards sparingly. In the first year it specified no standards, but standards have now been set in respect of two Best Value Performance Indicators.[9]

12 The Government expects authorities to set improvement targets for the Best Value Performance Indicators. Authorities are not required to set targets against Audit Commission indicators, although in many cases this is good practice. Performance targets indicate to local people by how much an authority intends to improve its performance in the future. Targets need to be challenging yet realistic. All targets are set locally by authorities and the Government has issued guidance under Section 5 of the Local Government Act 1999 on factors which authorities should take into account when setting targets.[10]

13 For some indicators, the Government is requiring authorities to set targets that are consistent with reaching, over five years, the performance level of the top 25 per cent of authorities at the time the targets were set. Annual targets are still a matter for local authorities within this framework. This approach is intended to lift performance, particularly of those authorities that are performing poorly. It should, over time, narrow the range of performance and improve the level of performance overall. Those authorities that are already in the top 25 per cent will, of course, still need to seek continuous improvement.

Audit, inspection and intervention

14 Local authorities are responsible for ensuring that Best Value Performance Plans - and the performance information they contain - are accurate, and that targets have been set that are realistic and achievable. Auditors review whether the plans have been prepared and published in accordance with the statutory guidance and whether the systems in place are adequate for producing accurate information.

15 Under the Local Government Act 1999 the Audit Commission was charged with setting up a best value inspection service, to review the services not covered by existing inspectorates. The new inspection arrangements under best value have an important role to play in giving a clear picture of whether best value is being delivered. Inspections make use of performance indicators, but complement them with a wide variety of other evidence, such as reality checks[11] drawing on a range of qualitative evidence, as well as interviews with stakeholders and those accountable for service delivery. In addition, improvement plans will be examined for signs that the authority has the resources and commitment to improve. In the first year there are expected to be about 600 inspections.

8. This note concentrates on England. The regime in Wales is similar, but some differences are emerging.
9. Best Value Performance Indicators 2001-2002: Department of the Environment, Transport and the Regions, and the Home Office, December 2000.
10. Best Value and Audit Commission Performance Indicators for 2000-2001: Volume one, the performance indicators, Department of the Environment, Transport and the Regions, Home Office and Audit Commission, December 1999.
11. Seeing is believing, Audit Commission, 2000.

16 Where auditors and inspectors have concerns about poor performance, the legislation provides for recommendations to be made to the Secretary of State. The Secretary of State has powers of intervention that range from relatively minor action, such as requiring an authority to amend a Best Value Performance Plan, to removing responsibility for a function from an authority

17 Performance against the Best Value and Audit Commission performance indicators will also play an important and growing role in the selection of beacon councils, and in local Public Service Agreements. (The beacon scheme is split into two phases. The first phase focuses on recognising the best-performing councils and spreading best practice.)

How will national performance indicators develop?

18 In August 2000, the Audit Commission announced that it would not be setting statutory performance indicators for the financial year 2001-02. This decision followed an extensive consultation exercise with stakeholders, which had identified a desire by a majority of local authorities not to have two sets of national performance indicators. Instead, the Commission will be concentrating its effort on developing a voluntary set of cross-cutting and quality of life indicators. Cross-cutting indicators attempt to measure the experience of people when services are delivered by more than one council department or agency. The development of cross-cutting indicators was prompted by a realisation that more could be done to provide seamless services to the public. It was given particular impetus by the report of the Performance and Innovation Unit, "Wiring It Up". Quality of life indicators measure aspects of the social, economic and environmental well-being of the community that are influenced by local authorities and partner agencies.

19 The Government has announced that the set of Best Value Performance Indicators for 2001-02 will be reduced in number compared with the previous total of Audit Commission and Best Value indicators. In the future, the main focus will be on introducing more outcome performance indicators, with a reduction in the number of input and efficiency indicators. (Outcome indicators are generally more difficult to define than input or efficiency indicators.)

20 The Commission and the Improvement and Development Agency will be developing a "library" of definitions of local performance indicators. The use of a standard definition of an indicator for an activity in common with other authorities will help authorities to benchmark their performance against one another.

What has been the impact of performance indicators?

Authorities' use of performance indicators

21 Until the late 1980s, it was not common to find performance indicators in wide use by local authorities. Judgements about how well services were being delivered tended to be based on the professional views of chief officers and inspectors (in the case of those services subject to external inspection, such as social services, education, police and fire). The Audit Commission and the inspectorates encouraged a wider use of performance information by local authorities. For example, the Audit Commission launched the Quality Exchange, which encouraged local authorities voluntarily to benchmark their performance against one another. Her Majesty's Inspectorate of Constabulary developed a large "matrix" of performance indicators on police forces. National value-for-money studies by the Audit Commission identified the scope for better performance information in particular services and sometimes highlighted the dearth of management information available to service managers.

22 The attitude to performance indicators changed a few years after 1992, when the Audit Commission launched the national set of indicators under its statutory duty. Initially, the statutory indicators tended to be regarded by local authorities as something for accountability to the public rather than necessarily useful for management. However, as confidence in the reliability of the indicators developed, managers came to see them as useful information with which to monitor the performance of their services. Some local authorities began to monitor their performance against the indicators on a monthly or quarterly basis. In part, this may have been encouraged by council members' desire for more information about the performance of their council's services.

23 Although there have been many improvements in the use of performance information by local authorities, there is a need for further improvement in a significant number of councils. The Commission's review[12] of the March 2000 Best Value Performance Plans showed that some councils' systems were not robust enough to provide mid-term estimates, even for indicators that have been unchanged for some years.

12. A Step in the Right Direction: Lessons from the first year of best value performance planning and Best Value Performance Plans in England, Audit Commission, 2000.

The impact of publication of performance information

24 The Audit Commission has been publishing performance information on local authority services since the information for 1993-94. The annual publication of performance indicators by the Audit Commission identified councils that were performing less well than others, which encouraged them to see how they might improve their performance. Councils have also been mindful of the wide local media coverage of the Commission's annual publications. Despite the wide media interest, many councils remained sceptical about the level of interest the public showed in the publication of performance indicators in their local newspaper.

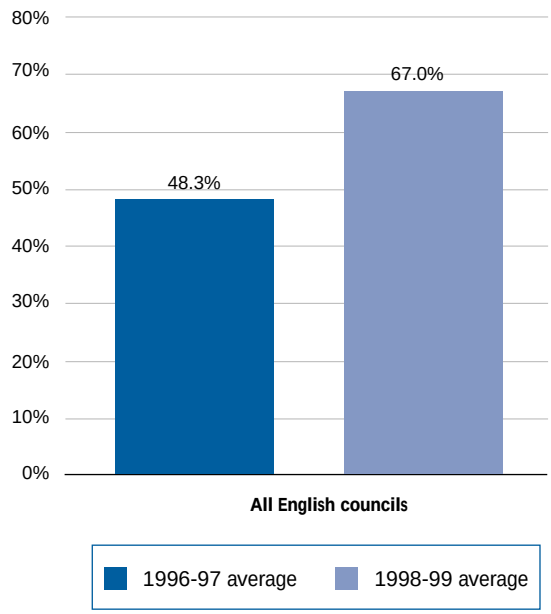
25 The annual consultation by the Commission with national and consumer organisations shows that the information is widely appreciated by them, because it gives information on how well councils are performing. Indeed, the Commission was frequently lobbied by national and consumer organisations to extend the number of indicators in their area of interest. There was often resistance from consumer organisations and interest groups when the Commission proposed to reduce the number of indicators in their area of interest.

Improvements in performance

26 The general trend over time in many council services is for an improvement in performance on average by authorities. For example, the commentary accompanying the publication of the compendium of Performance Indicators for 1998-99 for English authorities[13] highlighted 19 indicators, and showed that performance on average had improved compared with some years ago for about half the indicators. Performance had deteriorated on average for five indicators. Often, the greatest individual improvements occur in relatively discrete processes (e.g. the percentage of draft statements of special educational needs prepared within 18 weeks) (**Figure 1**). With these indicators, it is often possible for councils to achieve significant improvements quickly by a concentrated effort. Substantial improvements in output and outcome indicators often take more time to achieve (but, for example, the percentage of council tax due that is collected, and the percentage of pupils obtaining five or more GCSEs at A to C grades have both shown significant improvements).

27 In general, the most marked improvements are achieved by the councils that were previously performing the least well. The pattern is often that councils whose performance was in the poorest 25 per cent of authorities lift their performance out of the poorest

1 **Percentage of Special Educational Needs Statements prepared in 18 Weeks**



Source: Audit Commission

25 per cent, and are replaced by councils whose relative performance has deteriorated. The overall effect is generally to reduce the gap between the best and worst performance.

28 The targets contained in the March 2000 Best Value Performance Plans show that councils are planning for an overall improvement in services in the future, with slightly faster improvement promised by those authorities currently performing least well (**Figure 2** overleaf).

29 The publication of performance information is only one of the agents for change within local government. Since 1984, the Audit Commission has undertaken national studies to identify areas for improvement, and most of these are followed up at the local level by auditors to see the scope for improvement. Auditors track improvements made locally over time, and some topics are monitored by the Commission comprehensively about two or three years after the audits to identify what improvements have been made by the audited bodies. So far, all of the eight national studies covering local government tracked this way have shown improvements.

30 Best Value inspectors review both the quality of services and the scope for improvement. It is a vital part of the process that reports of inspectors are published in an accessible form, so the public has information on which to base a judgement of their authority's services.

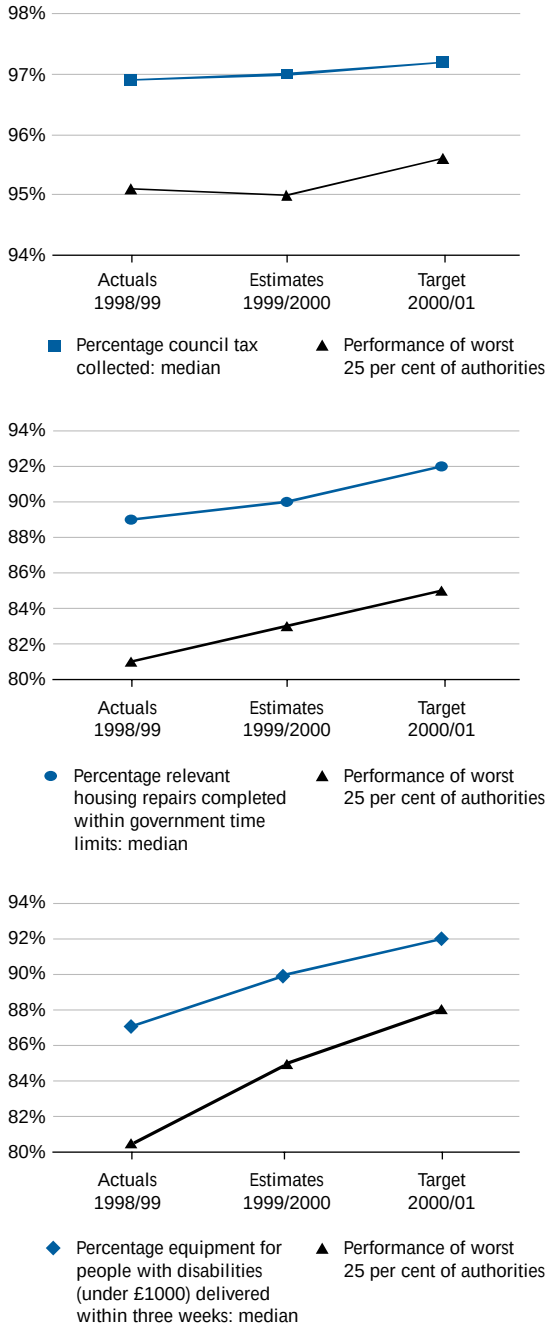
13. *Local Authority Performance Indicators 1998-99: Council Services Compendium for England.*

Conclusion

31 In the Commission's view, performance measurement is better developed in local government now than before the introduction of statutory performance indicators. Many council services have shown improvements in performance since the publication of performance information.

32 Future work will examine how the impact of Best Value inspection, with its aims of improving standards of leadership and developing capacity within local government, is reflected in enhanced performance and improvement of local services.

2 Estimates and targets for key Best Value Performance Indicators



Source: Audit Commission analysis of local authorities' Best Value Performance Plans, 2000

Glossary

Aim

A summary of the overall objectives. It provides a vision statement that embraces the desired future that the organisation is working towards.

Best Value indicators

Indicators set by the Government, which provide a picture of how well local authorities are performing overall, reflect the national interest in the delivery of local services and enable comparisons to be made between the performance of different authorities and within an authority over time.

Cost-effectiveness

The relationship between the resources consumed and the outcomes achieved. Cost effectiveness measures highlight how well the costs of interventions have been translated into desired outcomes.

Cross-cutting programme

A programme of activities aimed at a specific government aim, for example Action Against Illegal Drugs or Welfare to Work, which spans across the policy responsibilities of more than one Department or agency.

Input(s)

The resources that contribute to the production and delivery of an output. Inputs commonly include labour, physical resources, administrative services and IT systems, for example.

Objectives

A succinct statement of the key goal(s) being pursued over the medium to long term, reflecting the key components of the intended strategy.

Overarching objectives

The Government's overall key objectives, for example Increasing opportunity for all and Raising productivity and Sustainable growth, taken into account by all Departments when setting their Public Service Agreement objectives and targets.

Outcome(s)

The ultimate impacts on, or consequences for, the community of the activities of the Government. For example, reduced crime, higher educational attainment, improved health. Outcomes reflect the intended results from government actions and provide the rationale for government interventions.

Output(s)

The immediate result of Government activities e.g. numbers arrested, proportion of the population attending higher education, numbers treated by the NHS. Some Public Service Agreement performance targets may measure outputs, where outcomes are difficult to measure or are not sufficiently within the Department's control.

Performance indicator

Provides a proxy, where it is not feasible to develop a clear and simple performance measure.

Performance measure

Establishes the basis or means by which performance can be demonstrated against a robust scale.

Perverse activity

Activity which although it meets the individual target is contrary to the desired outcome, for example, the subsequent incineration of increased quantities of recyclable waste collected.

Pooled budget

A single budget relating to all the activities of a cross-cutting programme, managed by a committee of Ministers, but administered by one Department.

Process	An intermediate stage to the delivery of outputs and outcomes that should not be regarded as ends in themselves. For example, producing White Papers, passing legislation, setting up new programmes.
Programme	A basket of outputs that reflect a major strand of work. Programmes represent an amalgamation of related outputs that can be meaningfully classified together as a comprehensive and coherent response to one or more Departmental objectives.
SMART	Specific, Measurable, Achievable, Relevant and Timed.
Sustainable Development	Ensuring a better quality of life for everyone, both now and in the future. Sustainable Development is aimed at ensuring that increased productivity and economic growth is not achieved at the expense of the environment.
Target	The level of performance that the organisation aims to achieve for a particular activity e.g. a reduction of 5 per cent over a stipulated period. Such targets should be consistent with the SMART criteria.