

Report by the
Comptroller and Auditor General

**Good Practice in
Performance
Reporting in
Executive
Agencies and
Non-Departmental
Public Bodies**

Ordered by the
House of Commons
to be printed 7 March 2000

Executive summary

“It is essential that all public sector organisations whether they are Non-Departmental Public Bodies, Executive Agencies, Government departments, the NHS or local authorities are transparent, responsive and accountable. The public are entitled to know whether their money is being well spent and what is being achieved with it. Consistent, clear reports of performance and publication of results, are important to record progress and exert pressure for improvement. Such transparency is essential to help ensure that public bodies are fully accountable”.¹

Introduction

1 This report is about good practice in performance reporting by Executive Agencies and Executive Non-Departmental Public Bodies (NDPBs) (collectively referred to as “agencies” in this report). Its purpose is to assist agencies to improve further their performance reporting by setting out guidance based on their own good practice in collecting and reporting performance information. This report has been prepared in consultation with the Cabinet Office, the Treasury, and the agencies concerned. The facts so far as they relate to these two departments and the agencies have been agreed with them. The opinions are those of the National Audit Office.

2 The report draws on the results of our work on agency performance, including validations of reported performance, and presents case study material alongside some more general statements about good practice. Having regard to Cabinet Office and Treasury guidance, the report sets out our recommendations to agencies which cover the quality of performance data and presenting results, against the background of relating reported performance to key activities.

3 This is our first general report on performance measurement and reporting in central government and it is designed to contribute to the debate in this developing area. As performance measurement evolves there will be further lessons to be learnt. We shall be monitoring these and aim to reflect them in further suggestions on good practice in the collection and reporting of performance information by agencies. The report has been written in support of the

1 Executive Non-Departmental Public Bodies 1998 Report, Cabinet Office, Cm 4157, December 1998.

Modernising Government agenda and in the context of the increased emphasis on using targets to improve performance and accountability through Public Service Agreements.²

Why performance reporting is important

4 Performance measurement and reporting are intrinsic to the whole process of public management, including planning, monitoring, evaluation and public accountability. Performance results included in agency annual reports provide an important record of an agency's progress towards meeting objectives and their publication makes it possible to exert pressure for improvement. Good reports can help Parliament and the public assess how well public money is being spent and what is being achieved with it.

Executive Agency and NDPB performance reporting

5 The Treasury³ require that agencies are set key targets covering their financial and operating performance. Treasury and Cabinet Office⁴ guidance requires agencies to disclose in their annual reports to Parliament performance against their key targets supplemented with other performance information.

6 Over 75 per cent of civil servants now work in Executive Agencies delivering a wide range of services to the public, to business and other parts of the public sector. In 1998-99 the 136 Executive Agencies and four departments operating on Next Steps lines were set over 1200 key targets. In the same period, the 91 large Executive NDPBs covered in the Executive Non-Departmental Public Bodies White Paper reported performance against more than 650 key targets.

7 As part of the Modernising Government agenda the Cabinet Office are discussing with Executive Agencies and NDPBs ways to further improve the existing good standards of performance reporting in their annual reports.

2 Public Services for the Future: Modernisation, Reform, Accountability. Comprehensive Spending Review: Public Service Agreements 1999-2002, HM Treasury, Cm 4181, December 1998.

3 For Executive Agencies, "Executive Agencies: A Guide to Setting Targets and Measuring Performance", HM Treasury, 1992. For Executive NDPBs, "Non-Departmental Public Bodies: A Guide for Departments", Cabinet Office and Treasury, 1992.

4 For Executive Agencies, "Next Step Agencies: Guidance on Annual Reports, Cabinet Office, October 1998". For Executive NDPBs, "Executive Non-Departmental Public Bodies Annual Reports and Accounts Guidance", HM Treasury, March 1996.

On relating reported performance to key activities

8 Agencies face a challenge to deliver performance reports that provide information on their key activities, whilst avoiding publishing information which goes beyond the needs of the reader and at the same time might be expensive to collect. From our examinations of agency performance measures, we have identified a number of case studies which show how agencies have improved their performance reporting, by:

- aligning measures with aims and objectives;
- reporting the outcomes of activities;
- considering the information needs of stakeholders; and
- providing a comprehensive view of performance (paragraphs 1.9 to 1.28).

On the quality of performance data

9 Cabinet Office guidance⁵ states that performance information must be correctly calculated and reliable. From our work with agencies, we have found that systems for collecting and validating performance data are likely to be more robust where agencies:

- **define the quality of data in advance.** Performance information can be costly to produce. Agencies will therefore wish to consider how data will be used and the cost of collection, and to strike an appropriate balance between cost and the comprehensiveness and reliability of data. For example, Case Study 9 shows how the Benefits Agency have focused their data collection efforts on priorities for improvement (paragraphs 2.4 to 2.8);
- **seek advice from specialists.** The construction of complex measures or indices and validation techniques may require expert advice from statisticians, economists, operational researchers or other specialists.

⁵ Next Step Agencies: Guidance on Annual Reports, Cabinet Office, October 1998.

This will help secure sound methodologies for measuring performance and validating data. Specialists can also advise on the behavioural and incentive effects of measures (paragraphs 2.9 to 2.10);

- **establish clear performance measure definitions.** Documentation of definitions, the source of the data and the arrangements for their collection and analysis have been shown to facilitate a common understanding between those designing information systems and reporting performance and those collecting the data. For instance, Case Study 10 shows how the Defence Aviation Repair Agency have established common definitions of performance measures across their business units (paragraphs 2.11 to 2.14);
- **designate who is accountable for performance data.** Chief Executives have the prime responsibility for reliable performance reporting. Experience shows data are more likely to be reliable when managers are assigned responsibility for data collection and reporting. For example, Case Study 11 shows how the Executive Board of The Met. Office approve the definitions and responsibilities for all aspects of data quality, for each of their key performance measures (paragraphs 2.15 to 2.16);
- **managers are active in obtaining good quality performance data.** Managers need to ensure that appropriate resources are devoted to data collection and validation. Where managers actively monitor performance information, they are able to identify variations in performance which call for examination. Managers can conduct reviews to assure themselves that the agency's performance information systems are a reliable basis for capturing and reporting performance information (paragraphs 2.17 to 2.20);
- **develop and implement effective controls over the collection of data.** Performance data may be collected from the agency's information systems, surveys and external sources. It is important to establish controls which will ensure the reliability of data; the controls will vary depending on the source of data. Case Study 12 explains how the Benefits Agency require specific individuals or teams within the Agency to certify that they have undertaken predetermined checks covering the collection, review and verification of performance information (paragraphs 2.21 to 2.28);

- **establish and implement clear guidelines for the validation of performance data.** Validation can play an important role in:
 - assuring agency Chief Executives that the controls over the collection and analysis of data are operating effectively and that the data are reliable;
 - helping to identify areas for strengthening agency systems and improving the quality of performance data; and
 - demonstrating to users that the performance recorded against key targets in the annual report is reliable and fairly presented.

The Employment Service's system of validation, which is summarised in Case Study 13, has helped the Agency to improve significantly the accuracy of data on the number of unemployed people placed into work (paragraphs 2.29 to 2.34).

On presenting results

10 The Cabinet Office⁶ require performance information in agency annual reports to be fairly presented. Performance information disclosed in annual reports is likely to be more meaningful and useful to readers where agencies:

- **present information clearly.** Key performance information should be brought together in one part of the annual report and will normally be categorised, as efficiency, throughput, quality and financial performance. The use of graphs and charts can often help readers to understand complex data. For instance, Case Study 14 shows how the Maritime and Coastguard Agency used a range of techniques to present clearly information on the trends in shipping accidents in their 1998-99 Annual Report (paragraphs 3.4 to 3.7);
- **provide readers with sufficient information to enable them to make informed comparisons of performance achieved in different years.** Cabinet Office guidance requires agencies to show targets, outturns and achievements for at least three years. Where the performance measures

6 Next Step Agencies: Guidance on Annual Reports, Cabinet Office, October 1998.

concerned have been changed or updated, agencies have taken steps to assist the reader to follow trend performance. Case Study 15 shows how in 1998-99 The Met. Office restated prior years' data to reflect a change in how they measured return on capital employed (paragraphs 3.8 to 3.9);

- **provide readers with explanations of the activity being reported.** Although some readers will have a detailed understanding of an agency's activities, many will not. In reporting performance agencies may need to provide explanatory notes to enable all readers to understand the agency's performance. Additional commentaries of performance can provide the reader with a better understanding of the factors which have influenced the level of performance achieved and thereby evaluate its significance (paragraphs 3.10 to 3.13);
- **describe the quality of the performance information.** Readers can be given additional assurance about the reliability of data where the agency describes how it has collected and validated its performance information. For example, Case Studies 16 and 18 show how the Benefits Agency and Employment Service have reported limits on the scope and results of data validation and other factors which are relevant to the reader's understanding of the data (paragraphs 3.14 to 3.19).

Checklist

- 11** A summary of some of the key issues that Chief Executives may wish to consider when setting up and reviewing their performance measurement systems and presenting results is set out in the following checklist. The report explores these issues in more detail and illustrates the practical application of some of the underlying principles of good practice with case studies.

Checklist

This checklist provides a summary of some of the key issues Chief Executives may wish to consider when setting up and reviewing their performance measurement systems and presenting results.

Good quality performance data

Issue

Has the quality of performance data been considered?

Has specialist advice been sought on the design of performance measures?

Are there established performance measure definitions?

Things to consider

Are there established criteria or characteristics for assessing the quality of data? (Table 2.1 on page 30)

In designing and refining data collection systems have management;

- taken account of the benefits and costs of different levels of data quality;

- considered the full range of data that are available from management information systems;

- considered the benefits of using information which management rely on as part of their routine supervision and monitoring of agency activities? There may be stronger incentives in place to ensure the accuracy of such data;

- considered how performance measures will be used by the agency? Different levels of quality may be needed if the agency wishes to monitor local as well as national performance;

- considered the views of other stakeholders, including Ministers, departments and other agencies, who may wish to use data? (paragraphs 2.4 to 2.8)

Have specialists been consulted on the construction of measures which use formulae such as indices, the selection of samples, or the use of forecasting models? (paragraph 2.9)

Have specialists been consulted about the behavioural and incentive effects of measures? (paragraph 2.9)

Are there definitions for each measure including statements of what the measure shows and how data are collected? (Table 2.2 on page 33)

Are definitions communicated effectively to those involved in collecting, analysing, reporting and using performance information? (paragraph 2.11)

Are definitions updated to reflect changes to performance measures? (paragraph 2.14)

continued ...

Good quality performance data (continued)

Issue

Things to consider

Is there clear accountability for performance data?

Has the agency agreed responsibilities for the key steps involved in collecting, processing, reporting and checking data? (paragraph 2.15)

Does management play an active role in ensuring data quality?

Does management foster commitment to good quality data by, for example, providing incentives for staff to collect reliable data, holding managers accountable for data quality and providing technical and financial support to those involved in collecting data? (paragraph 2.18)

Does management use its routine monitoring of performance data to help ensure data quality by, for example, seeking explanations of variations between outturn and target? (paragraph 2.19)

Does management assure itself that performance measurement systems are operating effectively and consistently? (paragraph 2.20)

Are there effective controls which reflect the type and source of performance data?

For data collected through the agency's own systems, have controls been established and operated over:

- initial capture or recording of performance data;
- processing and aggregation of performance data; and
- monitoring of the quality of data? (paragraphs 2.20 and 2.22 to 2.25)

For data collected through surveys, have experts been consulted about the use, design and application of survey techniques? (paragraph 2.26)

For data collected from external sources, has the quality of data been established by, for example, confirming:

- the original purpose of data collection;
- whether the external party is a recognised provider of data; and
- the quality controls exercised by the external provider? (paragraph 2.28 and Table 2.4 on page 41)

Have the benefits of validating performance data been considered?

For each of its performance measures, has management considered how it could validate recorded performance and the benefits that this would provide to the agency and external stakeholders? (paragraphs 2.29 to 2.32)

Have the options for validation including using internal audit, the parent department's internal audit or the NAO been reviewed? (paragraphs 2.31 to 2.34)

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Presentation of results

Issue

Does the annual report present performance information clearly?

Does the annual report present performance over time?

Does the annual report explain performance measures?

Does the annual report describe the quality of data?

Things to consider

Has Cabinet Office guidance been followed in presenting performance against key Ministerial targets? (paragraph 3.4)

Has the best use been made of diagrams, for example, to show trends over time? (paragraphs 3.4 and 3.5)

Where diagrams are included in published reports are these reviewed to ensure that they meet good practice? (paragraph 3.5)

Where measures have been revised, does the report explain both the change and its impact on recorded performance? (paragraphs 3.8 to 3.9)

Does the annual report give information so that the reader can understand:

- the broader environment surrounding an agency's activities including those factors that influence an agency's inputs, outputs and outcomes;
- the performance measures and related terminology;
- the level of performance achieved and the significance of underlying factors that affect reported performance; and
- the actions that have been taken or are being taken in response to reported information, particularly for unexpectedly high or low performance? (paragraphs 3.10 to 3.13)

Does the annual report inform readers about the quality of performance data? For example, does it explain:

- sources of data collected by external parties;
 - actions taken by the agency where data are unavailable or poor;
 - survey methodologies; and
 - the approach to validation? (paragraphs 3.14 to 3.19)
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