Measuring the Performance of Government Departments

executive summary

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**

A statement of who is accountable for the delivery of the Public Service Agreement

Department's aim providing an overarching summary of objectives

Department's objectives - bold aspirations of what it hopes to achieve

Performance targets for each objective.
These should be SMART - Specific, Measurable, Achievable, Relevant and Timed
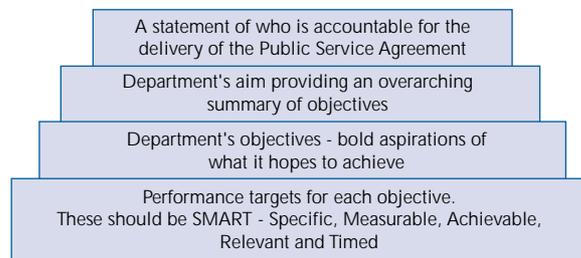
Source: *National Audit Office*

| 2 | Relationship between Inputs, Outputs and Outcomes |

This figure shows the relationship between inputs, outputs and outcomes
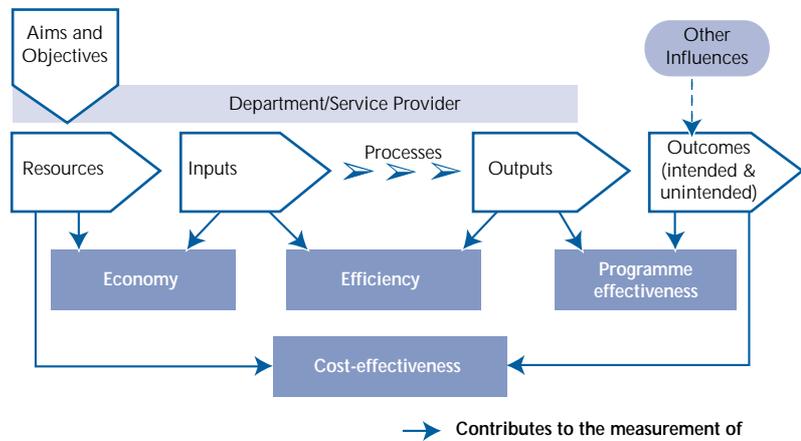
Source: National Audit Office

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.

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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).

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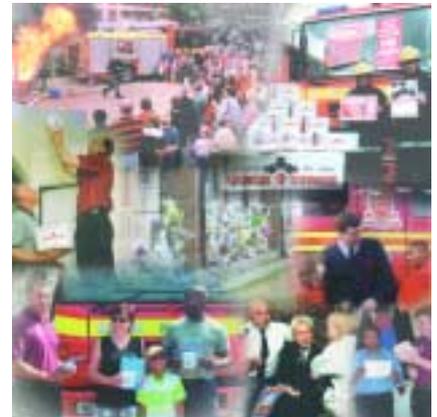
3 | Business Planning Model endorsed by the Civil Service Management Committee

ASPIRATIONS
To stretch and motivate the organisation

A COHERENT SET OF PROFERMANCE MEASURES AND TARGETS
To translate the aspiration into a set of specific metrics against which performance and progress can be measured

OWNERSHIP AND ACCOUNTABILITY
To ensure that individuals who are best placed to ensure delivery of targets have real ownership for doing so

RIGOROUS PERFORMANCE REVIEW
To ensure that continuously improving performance is being delivered in line with expectations

REINFORCEMENT
To motivate individuals to deliver the targeted performance

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).

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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.