



National Audit Office

**REPORT BY THE
COMPTROLLER AND
AUDITOR GENERAL**

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Taking the Measure of Government Performance

Summary

1 Measuring Government performance is vitally important. A good framework of measures shows the taxpayer what they are getting for their money. It also enables the Government itself to assess whether it is achieving its key objectives and to learn how to achieve them more effectively and at lower cost.

2 In 1998, the then Government introduced a framework of Public Service Agreements (PSAs) as the primary means to set its key, top priority objectives and measure performance against them. This was a step-change in the systematic formulation and measurement of Government's objectives and performance. Through PSAs, the Government aimed to 'prioritise its interventions and secure the greatest possible efficiency for every pound of taxpayers' money it spends'¹.

3 Departments and the Treasury agreed PSAs as part of the Spending Review process held every two to three years. In return for funding, departments agreed to deliver key outcomes such as reducing child poverty, tackling climate change, and improving healthcare. Since 2007, all these key outcomes have cut across several departments. In 2007, the Government added Departmental Strategic Objectives (DSOs) to the framework, designed to formulate and measure specifically departmental objectives. Each PSA and DSO was measured using a small number of indicators.

4 Since 2003, the National Audit Office has examined the quality of data systems used to monitor and report progress against the PSA framework. This report takes stock of the PSA framework: we look at its main achievements and areas for improvement, in the light of the fiscal challenges the public sector faces in the coming years. Those challenges will place a premium on the ability to define top priority objectives, and allocate resources to the most cost-effective responses. We have identified, from our work assessing the data systems supporting the PSA framework and other audit work, four key issues relevant to this situation:

- Setting clear objectives which capture the outcomes that matter most to the Government.
- Distinguishing the Government's contribution to progress from other factors which the Government did not influence.
- Providing information that highlights the cost of progress and how to improve cost-effectiveness.
- Reporting reliable, easy to interpret progress information.

¹ *Working Together – Public Services on your side*, HM Government, 2009, p.13.

Clear objectives and suitable indicators

5 Over the series of Spending Reviews, PSAs became progressively more focused on key priorities, and better described. Under CSR 2007, each PSA included a Measurement Annex specifying how indicators would be measured and a Delivery Agreement setting out who would deliver the PSA and how. These helped to make the intention of the PSA clearer. In addition, the use of indicators to assess progress against each PSA better reflected the complexity of the outcomes sought. However, problems remained. For 9 per cent of PSA indicators, the data system did not measure an important part of the indicator. For 36 per cent of PSA indicators, we found the basis for claiming success was unclear or contestable. Such lack of clarity hinders not only accountability, but also the focusing of scarce resources on only the most pressing performance gaps.

Government contribution to outcomes

6 PSA indicators did not track the result of Government activity alone: for example, health outcomes may be the result of improved health services or reflect the influence of government health campaigns but may also be the effect of life-style choices over which the Government had limited influence. However, the PSA indicators generally did not make this distinction clear, rarely measuring the effect of what the Government did. There was no requirement to identify and report Government delivered or funded outputs that contribute to outcomes. As a result, movements in PSA indicators have not been a sufficient basis for assessing Government performance. This weakness hindered accountability as well as performance management, and meant there was no clear business model or set of assumptions to refine in light of experience.

Assessing cost-effectiveness

7 Financial information has been poorly linked with the PSA indicators. Annual departmental expenditure has been apportioned by DSO, but this apportionment is not broken down by the indicators used to report progress, and so is not readily usable for deeper analysis of the cost of progress. Separate value for money targets have been set in successive Spending Reviews, but these targets have centred on cost cuts and transfers, and have not been closely linked to PSA or DSO programme efficiency. This situation hinders informed strategic decision-making² because it is not clear what allocation of available resources could achieve the best overall results.

² National Audit Office, *Performance Frameworks and Board Reporting*, 2009.

Transparent and reliable reporting

8 Departments publish a lot of information on progress against PSAs and DSOs. The quality of data systems and of disclosures about measurement policies has risen. We assessed that 58 per cent of CSR 2007 PSA data systems were fit for purpose, up from 30 per cent for SR 2002 data systems. At the same time, a third of CSR 2007 systems needed strengthening either to improve controls or transparency. Ten per cent of systems were not fit for purpose – mainly because of mis-matches between indicator and data system, or because systems originally planned have proven difficult to operate. To aid decision-making, these top-level performance information systems needed to be more reliable, and the associated performance reports easier to interpret by external audiences.

Overall conclusion and recommendations

9 The PSA framework provided a clear focus on the objectives that mattered for Government, and was gradually improved over the years. Published Delivery Agreements and associated Measurement Annexes made it easier to understand the contributions expected from the various delivery partners and how they intended to assess progress. The clarity and presentation of PSA monitoring information also improved making it easier to understand the significance of performance issues arising. Weaknesses in the operation and design of the framework, however, mean that accountability has not been as strong as it should have been – particularly in the framework's ability to inform judgements of cost-effectiveness.

10 Performance measurement arrangements under the new Government will need to be tailored to its objectives and the delivery models it chooses to operate. Lessons from the strengths and weaknesses of the PSA system that it should consider in any new measurement systems include the importance of:

- clearly and unambiguously expressed objectives, indicators and success criteria;
- an explicit published 'business model' linking inputs (the resources used) through outputs (goods and services delivered) to outcomes (the impact on society), used as a basis for measurement and reporting. Such a 'clear line of sight' between inputs and outcomes should help interpret performance, and to promote lesson learning and the refinement of the model over time;
- firm integration of performance measurement into public bodies' management systems, such as budgeting, resource planning and allocation, programme evaluation and performance review processes – so that lower-level management systems feed into and support top-level objectives; and
- departmental information strategies that define the range of contextual and performance information needed to assess progress and value for money. The strategy should state data quality standards, and set up arrangements to provide assurance that those standards are met. This will enable Government to produce clearer and more robust performance information.