

Setting Key Targets for Executive Agencies: A Guide

November 2003



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HM Treasury contacts

This document can be accessed from the Treasury Internet site at:

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For further information on the Treasury and its work, contact:

Correspondence and Enquiry Unit
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Tel: 020 7270 4558

Fax: 020 7270 4574

E-mail: public.enquiries@hm-treasury.gov.uk

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PREFACE

Executive Agencies have transformed the way Government delivers many of its services to the public, with the autonomy provided by the agency model leading to an increased focus on delivery. Agencies now perform a wide range of functions, many of which are key to the delivery of Government's priorities.

The Agency Policy Review in 2002 concluded that the agency model has been a success. However, it is essential that agencies continue to adapt and evolve to meet the rising expectations of their customers and reflect Government policy priorities. It is here that targets have an important role to play.

Over recent years, a new performance information framework has come into being, including the introduction of Public Service Agreements (PSAs) and delivery plans. This guidance reflects these and other developments, in particular the Agency Policy Review recommendation that agency targets should be aligned with parent departments' PSAs.

Transparency and accountability are fundamental elements of the Government's approach to delivering better public services. Targets and performance measurement are essential in this respect. They are also key to driving improvements in the services delivered to the public.

This guidance has been developed to help those involved in the process of agreeing targets for Executive Agencies set challenging targets that will help deliver the outcomes and the standard of service delivery the public expect.

The guidance has drawn on many contributions from staff working in agencies and departments – bringing together and reflecting the considerable experience, expertise and best practice that currently exists in this area.

EXECUTIVE SUMMARY

This guide aims to help agency and departmental staff improve agency targets by outlining key principles, bringing together existing examples of good practice, and by highlighting some of the potential pitfalls of target setting.

Key targets are important management tools for driving improvements in agency performance. They should represent the main business of the organisation, and be quite few in number. Between 5 and 10 key targets is typical.

Targets should also aid accountability. A good set of targets should help the parent department, Parliament, and the general public judge how well the agency is being run, and how well it is performing.

The target setting process

The setting of key targets should form part of the wider business planning process. Targets should be aligned, where appropriate, with the parent department's PSA, the agency's Framework Document and should be embedded in the agency's Corporate Plan.

Consultation throughout the organisation – with delivery staff, in particular – should occur early in the target setting process. Agencies should also involve customers and other stakeholders.

The overall set of targets should address issues of interest to customers. It is therefore important to be as clear as possible about:

- who your customers are
- what is important to them
- their needs – what do they want and expect?
- what drives a positive or negative customer experience.

It will often make sense for an agency to propose a draft set of targets in the first instance. Informed staff from the parent department should perform a challenge function, ensuring that the targets reflect agency and departmental priorities and that the performance levels set are sufficiently stretching. Non-executive directors should also play a full role in suggesting challenging and stretching targets for the agency.

Evidence and analytical support should be used, as far as possible, throughout the target setting process.

Deciding what to target

Agencies should consider:

- the best mix of volume, quality, customer service, efficiency and financial performance targets given their business priorities. A good set of targets can balance the pursuit of improved service delivery with the need to provide value for money;

- what will be the best measure of customer satisfaction;
- whether longer term targets – perhaps covering two to three years – are appropriate. They may be particularly valuable where there is a close link with a PSA target or objective or where the change in performance targeted is expected to take time to achieve;
- the respective merits of using outcome or output targets. As far as possible, key targets should avoid prescribing processes or actions to be taken. By and large, departments should seek to set out what they want the agency to deliver, and leave delivery agents to make decisions about how that is best achieved.

Key targets should not drive in-year performance at the cost of greater improvements in the longer-term. It is also important to recognise potential trade-offs between different aspects of performance such as the quality and quantity of outputs.

When selecting targets, you should be satisfied that the agency will later be able to provide a clear, comprehensive and reliable report as to their progress against the targets. Early consideration should be given to the performance information and data systems needed to underpin the measurement of a target.

In judging the performance of an agency, it is valuable to have a good run of comparable data – preferably over a number of years. However, a balance needs to be struck between continuity and the need to improve and amend targets so that they focus attention on priorities.

Targeting performance improvement

When setting performance levels, you should consider using tools, such as benchmarking against similar organisations, in addition to using historical performance. You should also consider the scope for the agency to improve performance by, for example, making greater use of technology or changing business processes.

Ultimately, an agency should be judged on the levels of service improvement delivered, not the aggregate number of targets it meets.

Every person in the agency should be clear about their role and their responsibilities in the delivery of targets – it may be appropriate to allocate the responsibility for the delivery of targets to individual board members.

Steps should be taken to identify and manage any perverse incentives created by targets.

Real-time data and regular in-year performance information are invaluable when managing performance against targets.

INTRODUCTION

Purpose

1.1 This guidance is aimed at civil servants involved in the process of setting targets for Executive Agencies – those based in the agencies themselves and those in the parent departments. It builds on the principles established in the previous guidance, issued in 1992¹, to reflect the key lessons that have since been learnt and the developments that have taken place in the performance management framework with the introduction of Public Service Agreements (PSAs) and delivery plans.

1.2 The guidance focuses primarily on the key targets that are usually agreed annually between Executive Agencies and their parent Departments and Ministers. However, many of the principles set out will also apply to the lower-level subsidiary targets that agencies often use to manage their performance. The guidance will also be useful for staff in other organisations such as Non-Departmental Public Bodies (NDPBs) and non-ministerial departments.

1.3 This document does not define a rigid framework for everyone to follow. The purpose of this guide is to bring together existing examples of good practice from agencies, and to highlight some of the potential pitfalls of target setting.

1.4 We have drawn extensively from the many contributions provided by agencies and departments. We have also included some generally accepted good principles of target setting and performance management, as set out in previous publications.

Background

1.5 Executive Agencies were first introduced following a report by Sir Robin Ibbs in 1988 - the underpinning principle being that the executive functions of government should be carried out by well-defined business units within a framework of accountability to Ministers.

1.6 Agencies have since transformed the way central government delivers many of its services, providing more of an outward focus towards customers than had previously been the case.

1.7 In the last eighteen months there have been a number of reports and studies that have stressed the role that well-set targets can play in reforming and improving public services:

- In March 2002, the Government set out its overall strategy for Public Service Reform². The strategy endorsed the setting of national standards that really matter to the public and the use of performance targets to measure how far these standards have been met;

¹ Executive Agencies: A Guide to Setting Targets and Measuring Performance, HM Treasury, 1992.

² Reforming Public Service: Principles into Practice, The Prime Minister's Office of Public Service Reform, March 2002

- In July 2002, the Treasury and the Cabinet Office published the Agency Policy Review report³. It found that some agencies had become disconnected from their departments. It recommended “*that Departments and agencies must together ensure that agency targets are real, challenging and responsive to customers. Departmental and agency target-setting must be aligned and timetabled to support Public Service Agreements and be supported by spending decisions. Key service deliverers should be fully involved in setting targets in Spending Reviews.*” The report has led to the introduction of landscape and end to end reviews which look across the piece at the effectiveness of delivery capability, and thus improve the links between departments and agencies;
- The National Audit Office has since published – “*Improving Service Delivery: The Role of Executive Agencies*”⁴. This highlights examples of how agencies have successfully used targets to achieve continuous improvement. It also identified areas where there is room for improvement. It argued that targets should reflect issues that are important to service users, and also opportunities for increased efficiency, such as those offered by new technologies and innovative ways of working.

1.8 In putting this guidance together, we have sought to address key issues and recognise the widely varied nature of agencies – from the UK Passport Service, which delivers clear and easily measurable outputs to the Small Business Service, which oversees advice and consultancy services for small businesses and is also concerned with policy development.

1.9 It is because of these differences that this guidance brings together examples of good practice, alongside some general principles, with the intention of helping agencies and departments to make decisions about what will work best.

³ Better Government Services. Executive Agencies in the 21st Century, HM Treasury and the Office of Public Services Reform, July 2002

⁴ Improving Service Delivery: The Role of Executive Agencies, HC 525 Session 2002-2003

THE PURPOSE OF TARGETS

2.1 Executive Agency targets are important management tools for driving improvements in service delivery. They perform a number of functions:

- They send out a **clear message about what the organisation is trying to achieve**. They set out priorities, and the outcomes/outputs you want to see delivered.
- They provide **ambition and a sense of direction**, concentrating efforts and resources on delivering the things that are important, and communicating clear messages to delivery staff.
- They provide a **focus on delivering results**. Good targets should drive agencies to perform effectively, and to deliver the key outputs and outcomes that underpin the aims of the organisation.
- They provide a **basis for monitoring performance**. By stating what you are trying to achieve, and by tracking how you are doing, you can make judgements about how well your organisation is performing.

2.2 If an agency's key targets are to drive performance improvement they should represent the main business priorities for the organisation. They will not, therefore, cover every aspect of the business. If targets are to provide a focus on priorities and help communicate the direction of the organisation to staff and other stakeholders, then they should be quite few in number. Between 5 and 10 key targets is typical.

2.3 Agency key targets are also an important element of the agency accountability framework. The Chief Executive is responsible for reporting progress against these targets to the Minister and officials at the centre of the department and, each year, the agency is required to set out its performance against key targets in its annual report¹. These reports should be clear, transparent and comprehensive.

2.4 A good set of key targets which is representative of the main aims and priorities of the agency, and are underpinned by reliable data, should help the parent department, Parliament, and the general public make judgements about how well the agency is being run, and how well it is performing.

¹ Guidance on annual reports and accounts for agencies and NDPBs is produced by Cabinet Office and HM Treasury, respectively.

PRINCIPLES FOR AGENCY TARGET SETTING

3.1 There are a number of key overarching issues that you should consider when setting targets. If targets are to drive improvements in performance and accountability they should:

- be technically sound and take account of good practice criteria;
- be effectively integrated into the wider business planning regime;
- reflect the views of delivery staff, customers and stakeholders; and
- be subject to scrutiny before they are set.

Criteria for performance information systems and targets

3.2 In March 2001, The Treasury, Cabinet Office, National Audit Office, Audit Commission, and Office for National Statistics published *Choosing the Right FABRIC*¹. It set out some agreed principles for performance information systems, including the properties for a good overall set of measures - Focused, Appropriate, Balanced, Robust, Integrated and Cost-effective (FABRIC).

3.3 *Choosing the Right FABRIC* also established criteria for good performance measures (see below). A measure that meets these criteria may provide a suitable basis for a target.

Criteria for individual performance measures

A performance measure should be:

Relevant to what the organisation is aiming to achieve;

able to **Avoid perverse incentives** - not encourage unwanted or wasteful behaviour;

Attributable - the activity measured must be capable of being influenced by actions which can be attributed to the organisation, and it should be clear where accountability lies;

Well-defined - with a clear, unambiguous definition so that data will be collected consistently, and the measure is easy to understand and use;

Timely, producing data regularly enough to track progress and, quickly enough for the data to still be useful;

Reliable - accurate enough for its intended use, and responsive to change;

Comparable with either past periods or similar programmes elsewhere; and

Verifiable, with clear documentation behind it, so that the processes which produce the measure can be validated.

¹ Choosing the Right Fabric: a framework for performance information, March 2001 – www.hm-treasury.gov.uk/fabric

3.4 Agencies should set targets for those performance measures which cover their main business priorities. Each target should, as far as possible, be SMART:

- **Specific** - so it's clear what it is that you are aiming to achieve;
- **Measurable** - there should be a clear and transparent measure of success;
- **Achievable** - the target should be stretching, and reflect the Government's ambitions for improved standards of public services. However, it must be achievable. Preferably there should be some evidence that demonstrates what is possible (e.g. benchmarking with similar organisations).
- **Relevant** - the target should reflect what the organisation is trying to achieve - not simply what is easily measurable.
- **Timed** - it should be clear when the target should be delivered by.

Integrating targets into business plans

3.5 If agency targets are to drive the behaviours of staff throughout the organisation they need to form part of a coherent business planning and monitoring system which translates high-level objectives into action which will achieve the desired results. To do this you need to consider:

- what targets will best support the achievement of both the agency's and the parent department's long term objectives;
- how targets can be disseminated through the organisation in a way which communicates priorities and builds ownership;
- how performance improvements will be achieved. For example, do you expect to allocate additional resources, make better use of existing resources (such as a more efficient combination of existing resources) or achieve productivity improvements by introducing new technology or developing new skills?
- how progress against targets will be monitored and reviewed to ensure that targets are being achieved or appropriate remedial action is being taken;
- how good performance against targets can be incentivised and rewarded.

Consulting Delivery Staff, Customers and Stakeholders

3.6 Experience shows that consultation with staff throughout the organisation – delivery staff, in particular – during the target setting process can add real value to the effectiveness of targets. Consultation is likely to be most effective when it takes place early in the process.

3.7 You should also consider the most effective way of involving other stakeholders and customers in commenting on and improving targets. Targets should seek to improve performance in areas that are important to customers. It will be necessary, therefore, to identify which aspects of performance are critical to customers and what levels of performance they reasonably expect to receive. Ideally, consultation with customers will not be a one-off process undertaken solely for the purposes of target setting, but part of a continuing relationship in which the organisation monitors the experience and satisfaction of customers and their changing needs.

3.8 There are a number of benefits to consultation:

- **Increased buy-in and “ownership”** – For targets to be effective, it is important that they are “owned” by those charged with delivering them. If delivery staff do not feel a target captures what they think is important about improving services, or if they consider a target to be centrally imposed, it is unlikely to motivate them.
- **Reduced likelihood of perverse incentives / distorting effects** – Delivery staff will often be aware of how a target definition could drive unintended behaviours.
- **Better informed targets** – for example, front line staff will often be well positioned in terms of understanding customer concerns, and may identify opportunities for improved service delivery.
- **Increased understanding, at the front line, about what is trying to be achieved.**

NHS Purchasing and Supply - The objectives in the business plan were developed during a two-day workshop amongst 80 managers. This ensured that:

- they were representative of the business;
- there was clear and early understanding of objectives, so the dissemination process was quicker and easier;
- there was ownership of the targets amongst staff.

The Rent Service sent their draft business plan to major stakeholders including the Local Government Association and pressure groups, providing them with genuine influence over what was included in the plan.

Defence Vetting Agency held an autumn workshop with customer representatives and stakeholders, with the aim of endorsing and agreeing changes to key targets. The agency believes that this has been very helpful in raising new ideas and focusing attention on customer requirements.

3.9 The process of consultation needs to be carefully managed. It is important to manage expectations by setting clear parameters, where possible – i.e. what can be influenced by the consultation and what can not.

3.10 In developing targets, the views of delivery staff and stakeholders will need to be balanced with the overall needs of the agency and the department.

Who sets them?

3.11 Key targets will usually be set annually, and agreed with the parent department and Minister. It will often make sense for the agency to propose a set of targets in the first instance, and for these to be used as a starting point for negotiation between the agency and the parent department. In many cases, agency staff will be well positioned to make judgements about which are the priority areas for the agency and the levels of performance that the organisation can realistically achieve.

3.12 It will then be for the parent department to perform a challenge function, ensuring that the targets reflect and are aligned with agency and departmental priorities and that the performance levels set are sufficiently stretching. For this process to be effective the key staff involved - both in the department and in the agency - must be knowledgeable about the business of the agency.

3.13 Non-executive directors will usually prove to be a valuable source of external expertise on performance management and target setting, and should play a full role in suggesting challenging and stretching targets for the agency.

3.14 A different set of arrangements may be appropriate where a significant proportion of the agency's business is delivered for a government body other than the parent department.

3.15 Ultimately, the process for agreeing targets will be decided by the parent department and the Minister responsible. However, the arrangements should ensure that the development of agency targets takes into full account wider government objectives and priorities. Decisions on targets, must therefore, involve those with a good appreciation of the wider strategic and organisational context.

4.1 When setting key targets, you should begin by considering which performance measures should be used to judge the success or otherwise of the agency.

4.2 At this point, you should think about the fundamental purpose of the agency. What are its key aims and objectives? Why does it exist? Who are its customers? What do we know about their needs?

4.3 You will then need to consider what information would enable the department and the Minister to make judgements about whether the organisation is achieving those objectives. In other words, what are the areas of business that will need to be measured and covered by a key target?

4.4 To address these questions you should consider:

- how the agency's business relates to the parent department's PSA and delivery plans;
- the main purpose and responsibilities of the agency as set down in the Framework Document;
- the agency's strategy and longer term objectives as set out in the Corporate and Business Plans;
- the agency's position in the overall delivery chain which links inputs and outputs to the ultimate outcomes Government is seeking to achieve;
- the agency's customers – Who are they? What are their needs and expectations?

Aligning Key Targets with PSAs and Delivery Plans

4.5 The issue of better alignment between agencies' key targets and departments' Public Service Agreement (PSA) targets was highlighted by the Agency Policy Review. The review found that the link between PSAs and agency key targets is often unclear. It argued that:

“Without a clear line of sight to departmental objectives, there can be no real sense of joint ownership of programmes delivering outcomes to customers. An alignment is needed between Public Service Agreements and agency targets which strengthens the theme of end-to-end processes designed to achieve outcomes by ensuring that all key stakeholders understand the links and interdependencies.”

4.6 In order for the activities of agencies to reflect Government priorities, the setting of key targets for agencies should take account of, and follow on from, the Spending Review / PSA setting process. It should be noted that, as part of the process of agreeing PSA targets, central departments are encouraged to consult with their delivery agents. The timetable for Spending Review 2004 allows for such a period of consultation.

4.7 The strength of the relationship between an agency's key targets and the parent department's PSA will vary considerably, depending on the nature of the agency. In some cases, the main activities and purpose of an agency may legitimately bear little or no relevance to PSA targets. However, when negotiating key targets, staff – in the department and the agency - must always give thought to how the agency's business

relates to the department's PSA. Where there is a clear link to a particular PSA target, the agency's role should be reflected in the underpinning delivery plan. The agency's key targets should then be aligned with the PSA and the delivery plan.

4.8 Where there is a direct relationship between a PSA target and the business of the agency – i.e. the agency is primarily responsible for delivering the outcome expressed in the PSA - you should consider whether key targets can be expressed in the same terms and measured in the same way. Creating several similar but overlapping measures of the same outcome can be both confusing to staff and inefficient.

The business of **The Court Service** is directly related to the (then) Lord Chancellor's Department's (LCD) PSA.

In the past, the organisation has set separate Key Performance Indicators for the organisation, alongside the PSA and SDA targets. These have now been replaced with high level targets drawn directly from the PSA delivery plan. Therefore, the targets are a clear reflection of the Court Service's contribution to delivering the PSA, e.g.

LCD PSA Target 1	Agency High Level Targets
"Improve the delivery of justice by increasing the number of crimes for which an offender is brought to justice to 1.2m by 2005/06, with an improvement in all CJS areas, a greater increase in the worst performing areas and a reduction in the proportion of ineffective trials."	<p>"To support local Criminal Justice Boards in meeting their targets including:</p> <p>PSA1.1 – Overall national reduction in ineffective trials of from 24% to 17% by March 2006.</p> <p>PSA1.2 – The percentage of defendants/appellants whose cases start within target time – 78%</p> <p>PSA1.3 – The period from charge to sentence for persistent young offenders – 71 days</p> <p>PSA1.4 – Sitting days in the Crown court, facilitating the increase in the number of crimes for which an offender is brought to justice to 1.2m by 2005/06</p>
LCD PSA Target 4	Agency High Level Targets
"Increase year on year the level of satisfaction of users by taking speedy, high quality decisions, and by reducing unnecessary delay and cost, and by ensuring that outcomes are enforced effectively	<p>The percentage improvement in the level of satisfaction to court users (Measured by identifying 4 key areas of service delivery from the 2002/03 customer satisfaction survey and setting a target for each area:</p> <p>PSA4.1 - Knowledge of court staff at public counter – 80%</p> <p>PSA4.2 - Knowledge of staff on telephone service – 76%</p> <p>PSA4.3 - Speed of resolution of complaints – 40%</p> <p>PSA4.4 - Helpfulness of written communication – 72%</p> <p>PSA4.5 - Percentage of public law Children Act cases dealt with within 40 weeks – 70%"</p>

The Rural Payments Agency is directly responsible for delivering DEFRA's PSA target on reducing CAP payments and has adopted it as a long-term key target -

"Achieve a reduction of 10% of the unit cost of administering CAP payments by 2004-05 and an increase to 95% electronic service delivery capability for such payments by 31 March 2005."

4.9 PSA delivery plans should include trajectories, detailing the progress to be made over time in order to achieve the PSA target. When setting related targets for agencies, such trajectories should be taken into account. Where relevant, agency targets should be directly linked to PSA trajectories.

The work of the **Highways Agency** links to three of the Department for Transport's PSA targets – road congestion, road safety, and air quality environment. The agency's key targets in these areas are on a trajectory aligned with the department's ten-year plan. For example:

Key Performance Measure	03/04 target	Note
Agency Key target 5 – "Reduction in the number of people killed / seriously injured on trunk roads compared with the 1994-98 average of 4991."	"Reduce by at least 694 (to 4297"	Target is an interim milestone in the ten year plan underpinning the Department for Transport's PSA – "Reduce the number of people killed or seriously injured in Great Britain in road accidents by 40%, and the number of children killed or seriously injured by 50%, by 2010 compared with the average for 1994-98, tackling the significantly higher incidence in disadvantaged communities."

4.10 In some cases, there is a link between what an agency does and the parent department's PSA, but the activity is not representative of the core business of the agency. In these circumstances it may not be appropriate for the agency's contribution to be expressed as a key target. There are other vehicles that can be used to make the link between the business of the agency and the PSA, such as in corporate plans, in subsidiary targets or in agreements and contracts with customers.

The work of the **Defence Analytical Services Agency (DASA)** relates to the Ministry of Defence's (MOD) PSA.

The performance of DASA has been linked to MOD's PSA through the agreements they have with their MOD customers – Service Level Agreements (SLAs). DASA has a key target to meet 95% of timeliness and quality targets set in SLAs. The SLAs cover a range of services including, for example, manpower planning for the Armed Forces. This links to MOD's PSA targets on manning and readiness.

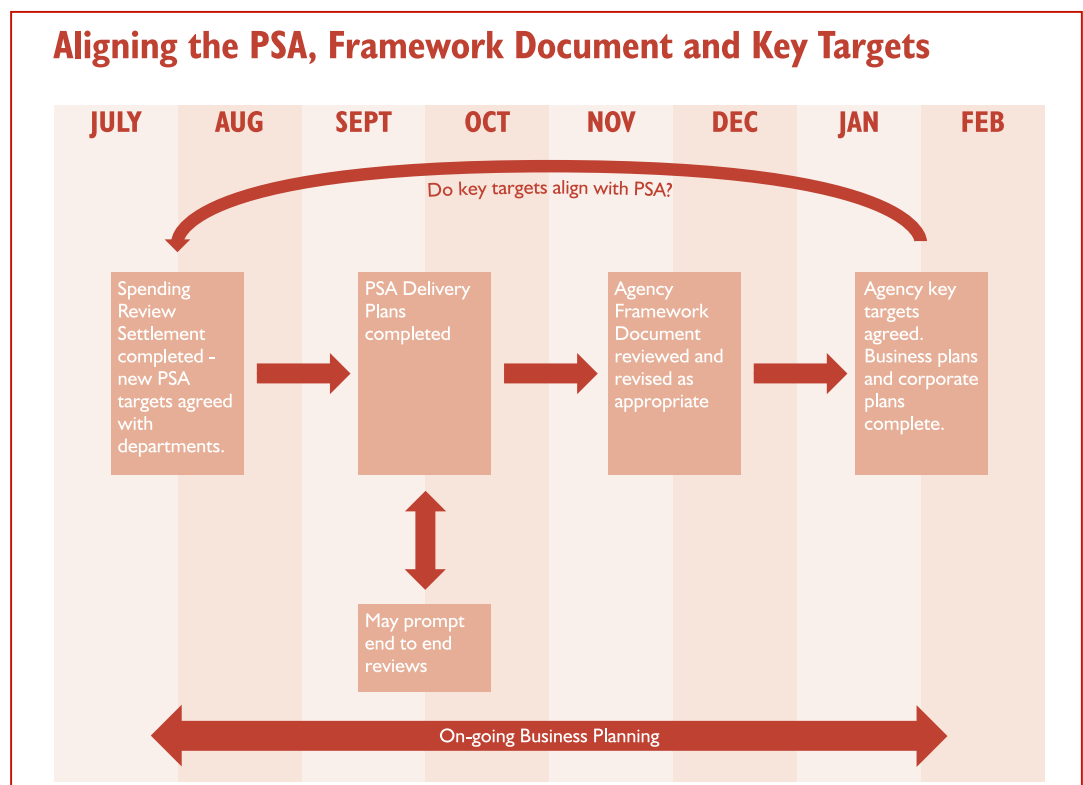
4.11 There are a number of planning tools now in use that should assist alignment between the priorities of departments and agencies, including:

- one-off landscape reviews. These reviews should provide a clear view of an agency's role in supporting individual departmental objectives and PSA targets;
- end to end reviews¹ of business processes leading to key outcomes. These reviews seek to improve results systematically, through better understanding of the business, its current performance and the challenges it is likely to have to respond to in the future, and to engineer and manage change accordingly.

The Framework Document

4.12 Given that an agency's key targets should reflect the main purpose of the agency, it is also necessary to draw on the Framework Document. This should set out the responsibilities of the Minister, parent department, and the chief executive and will describe the main activities of the agency, including the arrangements for performance assessment and reporting.

4.13 The Agency Policy Review found, however, that many Framework Documents had not been updated to reflect recent changes in ministerial direction or to reflect customers' needs, and recommended that the Framework Document be reviewed at least every three years. Departments should consider reviewing their agencies' Framework Documents after each spending review and the agreement of a new PSA – perhaps following the formulation of PSA delivery plans. The figure below sets out a suggested chronology.

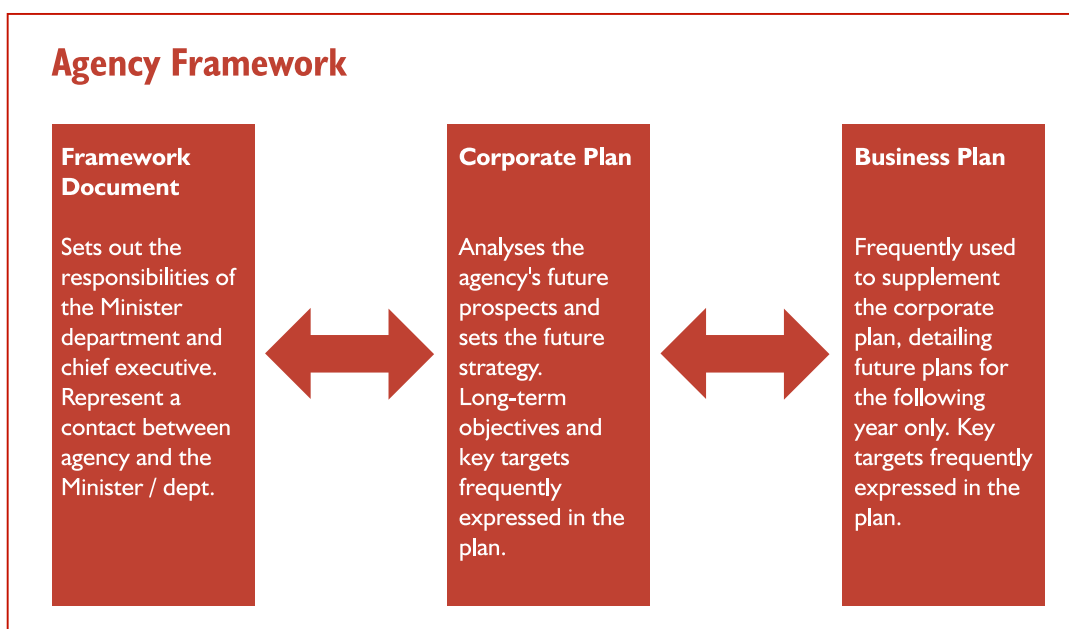


¹ Guidance on Landscape and end to end reviews can be found at www.cabinet-office.gsi.gov.uk/opsr/depcapland.htm

The Agency's Corporate and Business Plans

4.14 Every Executive Agency should produce an annual Corporate Plan, describing its future strategy over the following years – commonly the next three to five years. These Plans often include a set of longer term objectives and targets. It is therefore important that the agency's key targets are aligned with the Corporate Plan as well as the parent department's PSA and the agency's Framework Document. The corporate planning arrangements for your agency will usually be set out in the Framework Document.

4.15 The Corporate Plan should review past performance, set out the future prospects for the agency, and set the broad strategic direction for the future. The plan will frequently be supplemented by a more detailed business plan covering the following year only and may also be supported by the use of measurement frameworks such as the balanced scorecard.



4.16 The process of business planning should be an on-going one, which goes beyond producing a published plan once a year. Your Delivery Strategy² sets out the principles of good business planning in more detail.

4.17 Agencies' key targets will often cover the following year only. However, it is important not to drive in-year performance at the cost of greater improvements in the longer-term.

4.18 The need for long-term thinking is being increasingly recognised by agencies.

² Your Delivery Strategy – a practical look at business planning and risk. HM Treasury and Cabinet Office, September 2001

The Queen Elizabeth II Conference Centre has a 5-year corporate plan. They believe that it is important for in-year targets to be viewed in the context of the longer-term future strategy. A narrow focus on in-year performance can result in a lack of strategic direction and a lack of investment in the business (i.e. in capital, training & development etc.), to the detriment of the future health of the business.

Many agencies set annual key targets with longer-term objectives or targets being set out in a corporate plan. These include:

The Naval Recruiting and Training Agency;

NHS Purchasing and Supply;

Rural Payments Agency;

Ordnance Survey.

Treasury Solicitors has a 3-year corporate plan setting out its long-term objectives. This forms the basis from which the yearly business plans and key targets are set.

Treasury Solicitors recently changed a target that was focused on achieving year on year reductions in the rates charged to customers. This was because the previous target limited scope for investment in modernising systems in practice.

The Balanced Scorecard

4.19 Many agencies have adopted use of the balanced scorecard as a means of integrating short and medium term objectives across key aspects of their business. This approach was originally developed in the private sector, and aims to balance the short-term and long-term needs of the business. The balanced scorecard usually groups performance measures under four headings, such as: Business processes; Financial perspective; Learning and development (i.e. developing staff, taking on board technological developments); and Customers. More information about the balanced scorecard can be found in FABRIC and at www.balancedscorecard.org

Ordnance Survey has implemented a balanced scorecard approach. Some of the measures on the scorecard have been led by customers and stakeholders.

As part of their balanced scorecard, **The Valuation Office** has included a target on people satisfaction in order to demonstrate its commitment to staff.

UK Passport Service uses the balanced scorecard approach, focusing on customers, staff issues, business processes (including fraud prevention), efficiency and use of technology.

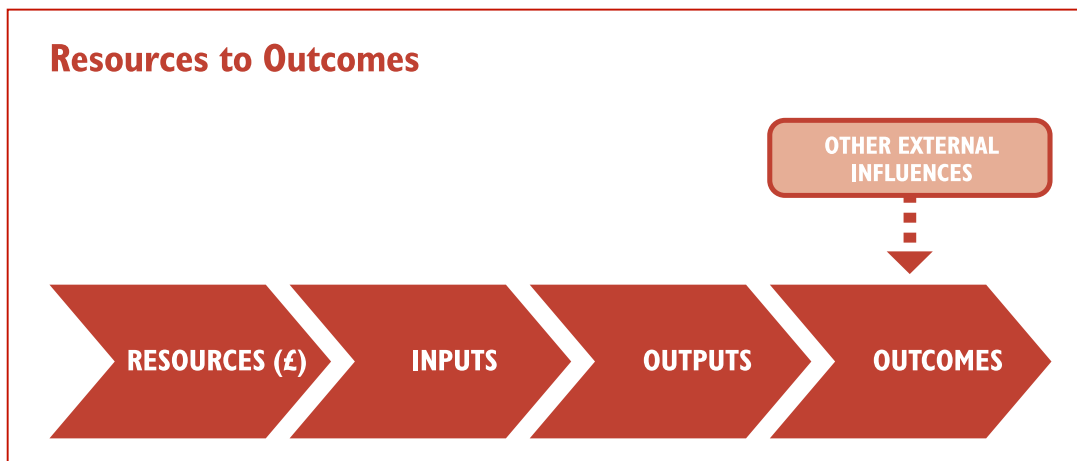
4.20 Other tools include the EFQM Excellence Model³ which is used by many agencies for the purposes of self-assessment.

³ See www.efqm.org

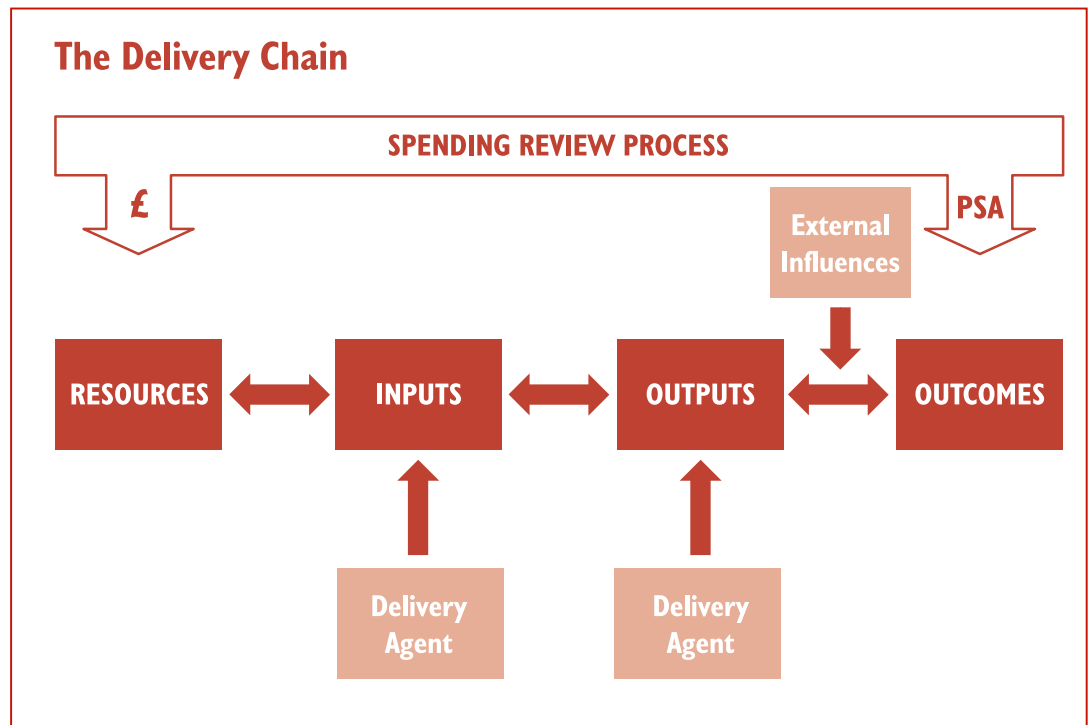
Inputs, Outputs and Outcomes

4.21 In addition, to considering how targets align with departmental priorities and the agency's own plans, it is also helpful to think about the agency's position in the overall delivery chain. This can be represented by:

- **Inputs** – These are the resources used to aid delivery, for example, labour, physical assets, IT systems etc.
- **Outputs** – These are the final products of the organisation, such as the issue of licences, number of appeals dealt with, etc.
- **Outcomes** – These are the final impacts and consequences of government activity. Ultimately, outcomes represent what is trying to be achieved. Examples include, longer life expectancy, improved air quality, better educated citizens etc.



4.22 Agencies may operate on different parts of the delivery chain. In many cases, positions on the delivery chain will be occupied by organisations other than agencies, such as private companies, or central departments. When thinking about inputs and outputs it is important to recognise that some agencies' outputs may be the goods and services (i.e. inputs) that the department or another organisation use.



4.23 Whatever the agency's position in the chain, some thought should be given about where the Government's end-outcome (which may or may not be a PSA) is best expressed – for example, in a key target, or as an objective in the Corporate Plan.

4.24 In some cases agencies can be set outcome-focused targets. Focusing targets on outcomes reduces the risk of perverse incentives, sends a clear message about what the agency is ultimately trying to achieve and may provide the agency with greater flexibility over how they deliver services.

4.25 For some agencies outcome-focused targets may be inappropriate and impractical. For example, a department may wish an agency to focus on delivering a particular set of outputs. Or, it may be too difficult to obtain the data necessary to track changes in the desired outcome and separate the agency's contribution from that of external influences. For such reasons there are currently few examples of agencies using purely outcome-focused targets. It will often be more appropriate to focus targets on the agency's outputs. But in targeting outputs, it will be important to take into account quality.

4.26 However, it is important to communicate to staff and other stakeholders what the intended outcome of the organisation's activity is. Where purely outcome-focused targets are not appropriate, you should consider setting the agency's output targets in the context of the eventual outcome. This can be achieved by expressing the outcome as an objective alongside the key target or by describing what is being worked towards in the actual definition of the target.

4.27 For the Highways Agency, one eventual outcome is more reliable journeys:

The Highways Agency has clearly set their Key Performance Measures in the context of their objectives (outcomes):

Objective	Key Performance Measure
“Making journeys more reliable through better network management and information.”	“Percentage of lanes made available in peak hours.”

Output focused targets in the context of the outcome:

Forest Enterprise – “Area of new woodland created in priority areas for improving the environment of disadvantaged urban communities.”

Driving Standards Agency – “Contribute to casualty reductions by delivering all tests fairly and consistently.”

4.28 As far as possible, key targets should avoid prescribing processes or actions to be taken. By and large, departments should seek to set out what they want the agency to deliver, and leave delivery agents to make decisions about how that outcome or output is best achieved.

DIFFERENT TYPES OF TARGETS

5.1 The types of targets selected by agencies usually fall within the following broad categories:

- Volume
- Quality of service
- Efficiency
- Financial performance

5.2 The mix of targets that should be set for an agency will depend on the nature of its business. It is not necessary for all agencies to have a target under each of the four categories.

5.3 Although the mix of targets used for an agency should enable stakeholders to assess the key aspects of its performance, it will seldom be appropriate for the key targets to cover all the activities of the agency. For those areas not covered, other tools can be used such as defining roles and activities in business plans, or using subsidiary targets and internal management information.

5.4 In addition to considering the right mix of targets, agencies should consider whether longer-term key targets – perhaps covering two to three years – are appropriate in some areas. They may, for example, be particularly valuable where there is a close link with a PSA target or objective or where the change in performance targeted is expected to take time to achieve. Interim targets, which set down the expected progress to be made each year, could underpin such multi-year targets.

5.5 Agencies should ensure, as far as possible, that their set of targets is customer-focused. Therefore, it is important to be clear about:

- Who your customers are;
- What is important to them;
- Their needs – what do they want and expect?
- What drives a positive or negative customer experience.

5.6 Such intelligence should be gathered by research; qualitative techniques such as focus groups to understand the nuances of the customer experience and mindset, and quantitative surveys for accurate measurement.

5.7 Other mechanisms for collecting the views of customers include customer advisory groups and analysis of customer complaints. When collecting information from customers, the agency should ensure that it will be able to act on the results. In other words, the information collected should make it clear why customers feel the way they do and what the agency can do to improve customer satisfaction.

Volume Targets

5.8 Volume-based targets can be conceptually the most simple for agencies to select and in many cases will be key measures of performance. The following examples illustrate.

Volume of output targets:

Highways Agency – “Treat at least 300 lane kms of concrete road surface with lower noise surfacing.”

Forest Enterprise – “Percentage of the annual timber increment which is harvested.”

5.9 However, the output of some agencies will be more difficult to measure than others, for example those agencies that perform an advisory or research function. The following example shows how one agency has approached volume-based targets in such circumstances.

Small Business Service – “Implement a new grant for research and development, support 700 projects under the new scheme, pilot a new grant for ‘innovation capability’ and reposition and increase the profile of the Smart Achievement Awards by March 2004.”

5.10 When setting targets relating to the volume of output, agencies should recognise the potential trade-off between quality and quantity. Volume-based targets will nearly always need to be balanced by a focus on quality issues or customer service.

Quality of Service and Customer-focused Targets

5.11 The quality of service being delivered to the customer is one of the most important aspects in assessing the performance of an agency. Therefore, it will usually be appropriate for agencies to have a key target relating to quality and customer service issues.

5.12 Quality can be assessed in terms of the technical aspects of a service or in terms of the customer’s perspective of the service they receive. The former could include measures of the quality of the output (e.g. accuracy) and the quality of the process (e.g. timeliness, turnaround, waiting times). Measures of the latter directly assess the extent to which a product or service meets or exceeds customer expectations.

5.13 Both approaches can be valuable although it is important that technical measures of quality are focused on customers’ priorities.

5.14 Measuring customer satisfaction in conjunction with other performance data (e.g. length of waiting times) can allow you to ascertain what are acceptable service standards to customers. Continually monitoring both customer satisfaction and non survey-based performance data allows you to measure whether customer expectations are rising.

5.15 Customer survey based targets may focus on satisfaction with the most recent service experience, satisfaction with the service overall, or other positive outcomes measures such as propensity to recommend the service to others. It is important to measure the strength of opinion and set greater weight by those who are completely or very satisfied than those who are fairly or quite satisfied.

5.16 The views of customers will need to be balanced against other issues, such as cost, and put in the context of government policy. For example, in some cases, particular customer groups may be given priority over others for legitimate policy reasons.

5.17 Guidance on measuring customer satisfaction is available at the website of the Prime Minister's Office of Public Sector Reform¹.

5.18 There are many good examples of customer-focused, quality targets.

Highways Agency target is based on the Road User Satisfaction Survey which was put together with stakeholders, including the AA.

Valuation Office – “Improve customer satisfaction, as indicated by annual customer surveys, year on year. 2002/03 target – 85%”

Rent Service – “Housing Benefit determinations with an inspection – 87% within 15 working days.”

The Centre for Environment, Fisheries and Aquaculture Science –

“Throughput:

To give satisfaction to customers in the way that outputs are provided, taking account of the relevance, timeliness and value for money and the achievement of ROAME milestones.”

Driving Standards Agency –

- “Provide an internet booking service for practical tests;
- Achieve 90% satisfaction with theory and practical test candidates;
- Deliver a national annual average practical car waiting time of six weeks;
- Improve business customer satisfaction, including Approved Driving Instructors, above baseline of 65%;
- Increase the number of Approved Driving Instructor check tests conducted from around 7,000 to 8,500.”

5.19 Where relevant, agencies may also embed their customer focused key targets in the agreements drawn up with customers – such as Service Level Agreements. This practice is particularly common amongst Ministry of Defence agencies.

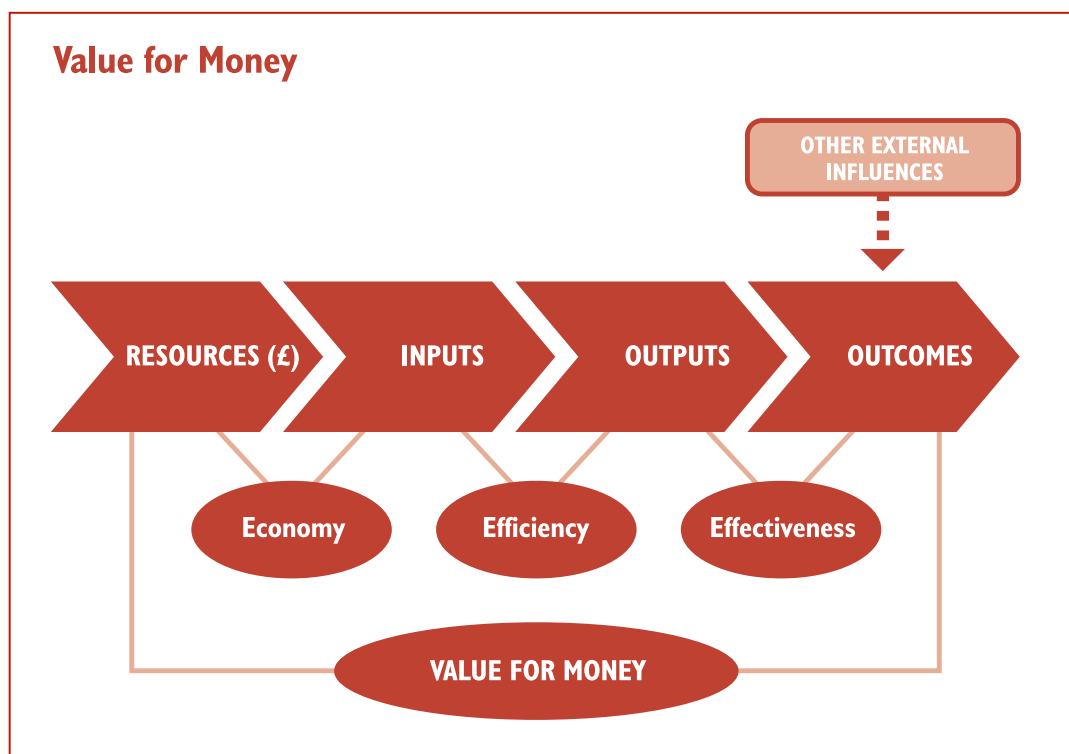
Efficiency targets

5.20 The pursuit of improved service delivery must be balanced by the need to provide value for money. Therefore, all agencies should have efficiency targets.

5.21 The term “efficiency” refers primarily to the relationship between an organisation's inputs and its outputs. Achieving greater efficiency can be about reducing inputs to achieve the same outputs, or cutting out wasted outputs. Efficiency can also be improved by increasing the volume and/or quality of outputs for the same cost.

¹ <http://www.pm.gov.uk/output/page261.asp>

5.22 The figure below² illustrates where efficiency sits in the overall value for money chain.



5.23 Reliable information on the costs of delivering services is of critical importance for an organisation to measure its efficiency. Agencies should ensure that they have comprehensive cost information to enable them to assess their efficiency. Information on cost forms an integral part of management information systems and should be a mark of a well managed organisation.

5.24 In developing efficiency targets, the agency should ensure that the method for allocating costs is clear and consistent over time. Activity-based costing methods may assist the agency in identifying links between particular outputs and costs (including overheads).

5.25 Targets relating to efficiency vary across agencies, depending on the nature of business and, in many cases, there may not be a single measure of efficiency. Typically, efficiency targets fall into two broad categories: unit cost targets; and efficiency savings targets. To support the achievement of efficiency targets and greater efficiency generally, organisations should also look at:

- budgetary constraints;
- leadership;
- staff incentives;
- market pressures;
- benchmarking processes;

² Source – Choosing the Right Fabric: a framework for performance information, March 2001

- reviewing and redesigning processes and systems;
- accountability and transparency – external inspection, public reporting etc.

Ordnance Survey has tiered levels of targets that contribute to improving efficiency. However, in addition to the targets, the organisation reviewed many of their existing processes. Staff are also encouraged to challenge managers if they feel they are being asked to do work that does not contribute to the agency's goals, and to challenge unnecessary costs and waste.

Unit Cost targets

5.26 Targets relating to unit cost can be an effective means of monitoring changes in efficiency. The concept of a unit cost is a simple one – the total cost of production is divided by the number of units of output produced. Such targets will often be appropriate for agencies with clear and tangible outputs. The output of some agencies, however, can be quite difficult to quantify - for example, those agencies producing advice or research.

5.27 When considering targets relating to unit cost it will be necessary to:

- forecast the future volume of output;
- consider the future costs of inputs;
- take into account any planned capital investments, such as IT.

5.28 Unit cost targets can be expressed in cash or real terms. Where targets are for the longer-term, adjusting costs for inflation³ will be more appropriate.

Defence Vetting Agency – “To reduce the unit cost of output by 2%”

Defence Aviation Repair Agency – “To achieve a reduction in unit production price of a representative basket of DARA outputs.”

Companies House – “Unit cost reduction on document registration in real terms.”

Forest Enterprise – “Cost per cubic metre of timber production.”

The Patent Office – “To increase output in relation to current operational expenditure by an average of at least 2% per annum measured over a rolling three year period.”

5.29 Designing unit cost measures can be a complicated process, particularly where an agency produces a range of outputs that are difficult to measure. Some agencies have applied a weighting system, based on the resources needed to produce outputs. For example:

³ Adjustments are usually made using the GDP deflator. For more information see

www.hm-treasury.gov.uk/Economic_Data_and_Tools/GDP_Deflators/data_gdp_index.cfm

Measuring unit costs for a range of complex outputs:

HM Land Registry processes a range of different land registry products. These have differing levels of complexity and some registrations take longer than others to complete. The agency compiles an overall unit cost measure by weighting the effort required to complete registrations of different types. For example, a single time consuming application such as a transfer of part of a unit of land (weighted 4.9) is equal to approximately five registrations of whole plots of land (weighted 1). The numbers of each category of product are multiplied by their weighted value. The overall costs of the Land Registry are divided by this total to provide a measure of the overall cost per unit.⁴

5.30 When measuring outputs in this way, the weightings should be regularly reviewed to take account of new ways of working, changes in technology and changes in the quality of outputs.

5.31 You may wish to focus on increasing labour productivity (i.e. output per staff input), as a means of decreasing unit cost. Staff productivity can be assessed by dividing the volume of output by the number of staff. Targets can be expressed in physical terms (e.g. the number of passports issued) or in financial terms.

Disposal Services Agency – Target focuses on sales per person employed.

The Rent Service has used efficiency targets with considerable success. The agency's Value for Money target is to "increase the number of cases determined per employee by a minimum of 1% whilst reducing the costs per case by a minimum of 1% (in real terms), and with improvements in the quality of service provided."

Over a period of 3 years, this target has contributed to the Rent Service increasing the number of cases determined per employee by 19% and reducing the cost per case by 11% in real terms, together with improvements in the quality of service.

5.32 However, care is required in using measures based on staff inputs because they may not take account for differences or changes in skills and abilities; cost/pay rates (and therefore total resource cost); the amount of overtime worked; the length of the standard working week; the extent of outsourced labour used. In order to make judgements about efficiency, information on productivity should be used in conjunction with other information – i.e. cost information and information on quality.

Efficiency Savings targets

5.33 Where outputs are more difficult to measure, it may be appropriate to set targets for efficiency savings – i.e. % annual improvements in efficiency - with savings subject to audit. Such targets may be disseminated through organisations with individual business units being required to identify a specified percentage saving.

⁴ Source – Improving Service Delivery – The Role of Executive Agencies. NAO, March 2003

Highways Agency – “To achieve administration efficiency savings of 2.5%”

British Forces Post Office - To achieve an overall 3% increase in efficiency. Supporting Performance Indicators -

- 2% increase in revenue from Defence Courier Service (DCS) and commercial receipts.
- A minimum of 1% reduction in input costs for each BFPO business area.

Maritime and Coastguard Agency measured the time spent on surveys and inspections. Then set a target to increase the amount of surveyor time spent on surveys and inspections and to decrease time spent on admin. Opportunities to shift resources and lighten admin were subsequently identified.

All agencies should regularly look at issues relating to economy – i.e. the costs of inputs. Specific economy targets – focusing on the cost of procurement or accommodation, for example – will probably not be appropriate to have as key targets. There are other mechanisms that may be more appropriate in this area, including subsidiary targets.

Financial Targets

5.34 Agencies where at least part of the organisation operates in a competitive commercial environment, such as a number of trading funds, will often be driven to be more efficient by market pressures. In putting together this guidance, we found that many trading funds felt that financial targets (e.g. rate of return) were often seen as the most effective means of driving efficiency.

5.35 Trading funds are required by statute to break-even and to meet “such further financial objectives” as set by the responsible Minister with Treasury concurrence. In most cases, the “further financial objective” is expressed as the achievement of a Return On Capital Employed (ROCE) although one or two have targets that relate to the surplus for the financial year. Such targets will often be one of the most significant measures of the agency’s performance.

5.36 Other agencies which are the sole providers of a service, either to the government or the public, or which operate where there is little competition, will often be set targets to break even after all costs have been met. Examples:

Forest Enterprise –

- “Profit/loss on timber operations;
- Rate of return from capital invested in Forest Holidays business.”

Defence Science and Technology Laboratory –

- “Achieve a Return On Capital Employed of 6.5% and MOD dividend of £3 million;
- Maintain the average charge rate for manpower for 2003/4 and beyond below that for 2001/02 uplifted by GDP deflator.”

Valuation Office – “Financial break even. Recover full resource costs, including a return on capital of 6%, from fees and charges.”

OGCbuying.solutions – “Agency will make a Return On Capital Employed of 8%”

Defence Aviation Repair Agency –

- “To achieve a minimum average Return on Capital Employed of 6% over the first three years of trading.
- To achieve order intake to the value of at least £60m.”

Companies House – “Average rate of return based on the operating surplus as % of average net assets – 6%”

Disposal Services Agency – “To achieve a disposal sales gross receipt from the sales of surplus Government owned equipment and stores of £25m (2002/03).”

Central Science Laboratory – “To recover the full costs of operation on a resource accounting basis, recognising the normal costs of operation.”

Subsidiary Targets

5.37 In addition to key targets or key performance indicators agreed with Ministers, agencies frequently use other targets or objectives, including subsidiary targets and internal targets. Such targets can provide valuable information for management purposes and, when included in annual reports, can help give Parliament and the Public a more comprehensive view of an agency’s performance.

The Appeals Service has Secretary of State targets (or key targets) that are underpinned by lower level internal targets covering the totality of the business.

NHS Purchasing & Supply Agency – Key targets focus on key areas of development. Below this lower-level maintenance targets exist.

Office of National Statistics – Lower level targets are set in Service Level Agreements with customers.

SETTING THE LEVEL OF PERFORMANCE

6.1 Having decided which aspects of performance you wish to target you will need to set the level of required performance.

Degree of challenge

6.2 Targets are tools for driving performance improvements. Target levels should, therefore, contain an element of stretch and ambition. However, they must also be achievable. It is possible that targets for radical improvement may generate a level of discomfort associated with change, but excessively demanding or unrealistic targets may have a longer-term demoralising effect.

6.3 When setting target levels, you should use evidence and analytical support as far as possible. Past performance can often be used as a starting point, and will often be an appropriate indicator. However, it has been recognised that an over-reliance on historical performance data has led to some agencies setting targets that lack the necessary ambition to drive forward significant change¹. The Agency Policy Review reported that only 30 per cent of the targets set for 1999/2000 aimed at an improvement over the level of performance achieved in 1998/99.

6.4 You will also need to take into account the current capacity of the organisation to deliver, the level of resources available, and any other issues that may drive improvements, such as changes in technology, organisational changes and the scope for improving business processes.

6.5 Cost effectiveness must be taken into account. For example, it may not represent good value for money to keep increasing the level of expected performance in an area where it is already considered high by customers. On occasions, it will be more appropriate to focus resources on improving performance in a different area.

6.6 There are, of course, risks involved in setting very challenging targets. No organisation wants to be seen as failing its targets. However, consistently setting targets that are easily achievable will not help the organisation to achieve the improvements in service delivery that it is likely to be judged on in the longer term - ultimately, an agency should be judged on the levels of service improvement it delivers, not the aggregate number of targets it meets.

6.7 To minimise the risk that targets are either set at levels that are not stretching or are too ambitious, they should be subject to some external challenge, for example, by involving organisations representing customers and, where possible, be set by reference to external benchmarks.

Benchmarking

6.8 Benchmarking is about sharing information, and comparing performance, practice and processes with other organisations. This has been an effective way for many organisations – public and private – to bring about significant improvements in performance by, for example, introducing recognised best practices.

¹ See "Improving Service Delivery - The Role of Executive Agencies." NAO, March 2003.

6.9 When setting targets, some consideration should be given to using the performance of a similar organisation as a benchmark.

Defence Science and Technology Laboratory – “Maintain and by the end of a three year period show an increase in scores for scientific and engineering capability in the technical benchmarking exercise.”

6.10 More information about benchmarking can be obtained through the Public Sector Benchmarking Service – www.benchmarking.gov.uk

RESPONSIBILITIES AND DISSEMINATION

7.1 The Public Services Productivity Panel has argued that clear accountability for results at all levels in an organisation enable public sector managers to exercise their responsibility to deliver with judgement, intuition and innovation.¹ The cascading of targets within an agency is a key element of the accountability framework and when done well helps drive performance improvement by establishing a common understanding and ownership of what is to be delivered and by whom.

7.2 Cascading targets requires time in order for staff to understand why targets have been set and what resources and freedoms they have to achieve the required improvement in performance. Staff at all levels should be clear about their role and their responsibilities in the delivery of targets, and be held accountable in some way, for example through individual or team performance objectives. In particular, the individuals who are best placed to ensure the delivery of a target must feel ownership and responsibility.

7.3 The importance of leadership from the top of the organisation cannot be overestimated. If the targets are not taken seriously at board level, it is unlikely that others will feel committed to achieving them. Some agencies have allocated responsibility for the delivery of targets to individual board members. Responsibility is then delegated downwards.

7.4 Alongside clear lines of accountability throughout the organisation, there should be regular reviews of progress, at all levels.

7.5 In order for responsibility and ownership to be cascaded downwards, it will be important for targets to be effectively communicated to staff. Ownership of targets will also be more likely to occur, where staff have had an input into the target setting process.

7.6 Useful guidance on ownership and accountability within organisations can be found in *Your Delivery Strategy*, *FABRIC* and *Accountability for Results*. The latter sets down a number of critical questions that organisations should address.

7.7 Agencies cascade targets in a number of ways:

Maritime and Coastguard Agency has a nominated director responsible for each target. Responsibility for the targets is then cascaded downwards throughout the organisation.

NHS Purchasing & Supply Agency uses an inter-relatedness matrix that increases ownership by clarifying responsibilities and contributions. The agency believes this has helped to eliminate duplication and gaps in responsibility. Targets are cascaded through to the individual performance review system.

¹ Accountability for Results. Public Service Productivity Panel, H.M. Treasury, March 2002.

HM Prison Service targets have enhanced performance management, with key targets being underpinned and cascaded by Service Delivery Agreements for each Governor.

At the **Rent Service** individuals' plans have a clear link to the organisation's business plan and targets. Performance information flows upwards through a clear management chain, with the management board monitoring progress regularly.

TARGETS AND RISK MANAGEMENT

8.1 The NAO found in their work on “Improving Service Delivery” that target setting was generally not clearly linked to agencies’ assessment of risks to service delivery. As a consequence, some internal and external factors which could prevent targets from being met might not be identified and managed.

8.2 Information about risk management in Government is set out in Treasury guidance on risk¹ OGC guidance² and also *Risk: Improving government’s capability to handle risk and uncertainty*³.

8.3 An assessment of the risks involved in the different options should inform agreement of broad target areas, and the nature and level of targets. This should support an early, mature discussion on the likelihood of delivery of targets, and how this can be improved. In areas of high risk, particular attention should be given to developing the capability to deliver successfully. You should also consider the overall profile of risk of your targets, seeking a balance of stretch and deliverability.

8.4 When setting targets you can consider the following questions as a way of starting thinking about the potential risks:

- What are the potential risks to delivery?
- What is the level of risk?
- What are the consequences of failure to meet a target?
- What arrangements can be put in place to reduce risk?
- What contingency arrangements can be put in place?

8.5 When planning for the delivery of your targets, you should include a consideration of the risks. For more information on the consideration of risk in planning contact risk-support@hm-treasury.gov.uk.

8.6 You should also consider the specific risks which are associated with target setting:

- Poorly designed targets can lead people to put effort into the wrong things, skew performance and generate perverse incentives;
- Targets that are too stretching can be demotivating, whilst targets set at too low a level may not generate incentives to raise performance;
- Poor targets may not provide clear accountability;
- If delivery staff do not feel the target captures what they think is important, it is unlikely to motivate them.

8.7 These risks can be managed and minimised by:

- **Being selective** about the use of targets. Ensuring there are **not too many**;

¹ Management of Risk – A Strategic Overview. HM Treasury, January 2001

² Management of Risk: Guidance for Practitioners, Office of Government Commerce, 2002

³ Risk: Improving government’s capability to handle risk and uncertainty. Strategy Unit, November 2002

- **Careful design** – with thought to the practicalities for front-line delivery staff;
- **Considering and addressing trade-offs** – improvements in one area might be achieved at the expense of another aspect of performance. For example, setting volume targets may reduce the quality of outputs, or achieving a target to improve the performance for 80 per cent of customers could lead to lower levels of performance for the remaining 20 per cent. Some trade-offs can be managed by using floor targets to set a minimum standard that should be received by all customers;
- **Involving delivery staff at the target-setting stage** – to help minimise the risk of perverse incentives, and to increase **ownership**;
- **Good measures of success** – would achievement of the target truly represent a step towards the intended outcome (i.e. an improvement in overall service delivery) or can it be distorted?
- **Focusing on outcomes, where appropriate**;
- Making targets operate as **part of a coherent package** of mechanisms to drive up performance. Particular care needs to be taken when direct links are established between targets and rewards or sanctions;
- **Actively monitoring** whether potential perverse behaviours have materialised and, where necessary, take action.

The Appeals Services set two ‘speed of handling’ targets. They balance each other to ensure that there is no perverse incentive to ignore old cases:

- “To reduce the time from appeal to first hearing.
- To reduce the number of unresolved cases outstanding after a defined period.”

8.8 A network of Risk Improvement Managers in government departments has been established and they may be able to guide or support you in ensuring risks are well thought through. You can contact the Risk Support Team in HM Treasury (risk-support@hm-treasury.gov.uk) for the name of the relevant Risk Improvement Manager.

9.1 Agencies need reliable, timely and comparable data so that they can track performance over time, identify the need for any remedial action to achieve targets and report clearly to external stakeholders on performance. You must therefore consider:

- How you are going to maintain continuity of measurement;
- How you are going to collect and report performance data.

Continuity

9.2 There are a number of reasons why continuity of measurement is important. Firstly, achieving performance improvement may involve serious and structural change of the kind that is unlikely to be delivered over the short-term. Such changes will usually take a while to “bed-in” and start affecting results.

9.3 Secondly, changing how performance is measured can lead to confusion and lack of focus amongst staff and uncertainty over what they are working towards.

9.4 Thirdly, in order to make judgements about how well agencies are doing, it is useful to have a good run of comparable data. If you constantly change what is being measured, it will be difficult to make year on year comparisons.

9.5 However, a balance should be struck between the need for continuity and the need to review and amend performance measures and targets as the agency’s priorities change. Sometimes, for example, a target may have delivered the necessary improvement and be deemed no longer useful. In other cases, a target may not have worked particularly well, and will need re-defining.

9.6 Targets must not be retained simply to provide continuity, if they are no longer appropriate. It is worth noting that the Agency Policy Review found many agency targets had grown old and worn.

9.7 Therefore:

- The detailed definition or measurement of a target should only be changed if the change will lead to a significantly improved target / performance measurement. Where changes are justified, the implications should be explained to users of performance reports;
- A target must be changed or dropped when it is no longer relevant (i.e. when it no longer reflects the priorities of the agency and the department).

Data systems & regular reporting

9.8 When you set key targets, you should be satisfied that the agency will be able to collect the data necessary to provide a clear and reliable report on progress¹. Early consideration should therefore be given to the data systems needed to underpin the measurement of a target. You need to develop robust systems without creating an excessive bureaucratic burden to staff or unreasonable cost to the organisation.

¹ See Cabinet Office guidance on annual reporting, and *Good Practice in Performance Reporting in Executive Agencies and NDPBs*, NAO, March 2000

9.9 Targets will be most effective when they can be tracked frequently. Real-time data and regular in-year performance information are invaluable when managing performance. Receiving regular data on performance will allow steps to be taken within the organisation when performance is off-track. If a target can only be measured once or twice a year, for example, the agency may need to support the target with other mechanisms to drive improvements and manage in-year progress.

The **Rural Payments Agency** uses a system of regular monthly management reporting of performance against the key targets. This enhances internal accountability, and the role of targets as a management tool.

The Patent Office publishes results against their targets quarterly. Again, this increases accountability and allows the agency to act on the information.

9.10 As with targets themselves, there are risks associated with the collection of data. It is important to be aware of any potential distorting effects. For example, where performance is only being assessed at certain times of the year, the data collected may provide a distorted picture – i.e. performance may naturally fluctuate throughout different times of the year. There may also be a risk that staff mobilise their resources accordingly, and improve performance for the period being measured only.

9.11 Data systems must be capable of providing reliable data. The box below sets down a series of high-level questions that will help agencies design and operate data systems. More detailed guidance is available from the NAO report *Good Practice in Performance Reporting in Executive Agencies and Non-Departmental Public Bodies*.

Key questions for data systems

Has the quality of data required to track progress against the target been considered?

Are performance measurement definitions clear and easy to understand?

Have responsibilities for data quality been allocated?

Are risks to data quality assessed?

Are controls designed which address key risks and are the operation of these controls actively monitored?

Are users of data made aware of any weaknesses in reported data?

9.12 Ideally, data systems and reported data should be validated externally. If not, a process of internal assurance of data systems should take place. Officials at the parent department will also have a role in scrutinising the agency's performance data.

The Veterans Agency – Key target 3, 2002/03

“To achieve an externally validated claims accuracy rate of at least 95%”

Defence Vetting Agency – Key target 1, 2002/03

“To achieve through external validation at least a 95% success rating with Specially Selected Cases, and Zero Serious Errors, that should have been identified at the time of vetting.”

9.13 Where the achievement of targets affects the pay of agency staff, or where non-financial targets are of particular importance, performance against targets must be subject to validation, external to the agency. This work could be undertaken, for example, by the parent department's internal audit service or the National Audit Office.

Publications

Choosing the Right FABRIC. A Framework for Performance Information, Cabinet Office & HM Treasury, March 2001.

Better Government Services. Executive Agencies in the 21st Century, HM Treasury and the Office of Public Services Reform, July 2002.

Improving Service Delivery – The Role of Executive Agencies, NAO, March 2003.

Your Delivery Strategy – a practical look at business planning and risk. HM Treasury and Cabinet Office, September 2001.

Management of Risk – A Strategic Overview, HM Treasury, January 2001.

Good Practice in Performance Reporting in Executive Agencies and NDPBs, NAO, March 2000.

Websites

Choosing the Right FABRIC
www.hm-treasury.gov.uk/fabric

End to end and landscape reviews
www.cabinet-office.gsi.gov.uk/opsr/depcapland.htm

Public Sector Benchmarking Service
www.benchmarking.gov.uk

National Audit Office
www.nao.gov.uk/guidance/topic.htm#performance

Cabinet Office
www.cabinet-office.gov.uk

HM Treasury
www.hm-treasury.gov.uk

PSA performance website
www.hm-treasury.gov.uk/performance

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