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Performance Management in Whitehall

DSO Review Guidance

April 2008

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1 Introduction

1.1 Aims of Guidance

This guidance aims to provide practical information for departments on how to undertake an assessment of the effectiveness of their Departmental Strategic Objectives (DSOs) and how to use the DSOs to create stronger links between departmental costs and performance.

Building on the experience of a review of Department for International Development's DSOs, this guidance:

- Outlines how departments can undertake a DSO review to identify the strengths and weaknesses of their DSOs and identifies a number of challenges around the DSOs that will be common across Whitehall;

- Analyses how one of these key challenges, linking costs with performance, can be addressed through case studies from the Department for International Development (DFID) review.

1.2   Departmental Strategic Objectives and Performance Management

The 2007 Comprehensive Spending Review created a new performance framework for government, with the creation of the DSOs alongside a reduced set of cross-cutting Public Sector Agreements (PSAs).

The DSOs aim to bring greater coherence to departments' objectives, with each department's DSOs covering their wider work throughout the current spending period (2008-2011), including their contribution to PSAs.

The DSOs should therefore provide the core framework through which a department can assess how it is delivering against its aims and objectives. Accordingly, each department should be able to use their DSOs to drive the delivery of their priorities, with the DSOs placed at the heart of the performance management, budgeting and progress reporting processes in the department.

2 DSO Review

2.1 Why complete a DSO Review?

A DSO Review can help a Department gain a clear understanding of the strengths and weaknesses of its DSOs. This should enable the department to take action to rectify the identified weaknesses, thereby improving performance management in the department and supporting delivery of the DSOs.

2.2 How can DSOs be assessed?

A DSO Review should be structured around a framework that can provide a comprehensive assessment of the DSOs. The DSO Review at DFID was based around the FABRIC framework, a comprehensive performance information assessment framework which was developed jointly by the NAO, Cabinet Office, Audit Commission, and HM Treasury.

FABRIC provides a framework through which a thorough analysis of the DSOs can be completed. The analysis focuses on two core aspects of the DSOs:

1. **The DSO framework** – the effectiveness of the performance information systems and frameworks built around the DSOs;

2. **The DSO measures** – the effectiveness of any indicators or measures of success that are used to assess achievement of the DSOs.

In both of these areas FABRIC provides a comprehensive, consistent and repeatable framework for evaluating DSOs, which is easy to apply, and has clear criteria to measure the DSOs against. Accordingly, an analysis against the **FABRIC** framework will assess both the overall effectiveness of the DSOs and identify specific strengths and weaknesses.

Further detail on the FABRIC methodology can be found at: www.nao.org.uk/guidance/focus/fabric.pdf. This document also provides more general information on effective performance measurement in government.

2.3 How to approach a DSO Review

A DSO Review can be undertaken in a reasonably short timeframe with a limited amount of resource, and the approach can be flexed to meet the specific needs of a department.

In general, it is recommended that a DSO Review is structured around 3 high level phases, as outlined in the diagram below:
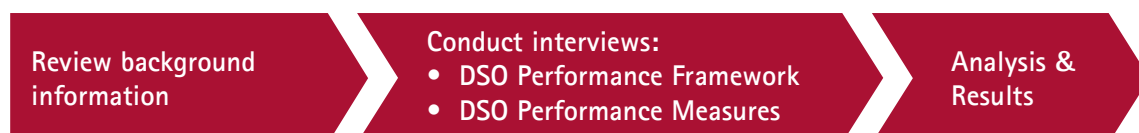

Review background information → **Conduct interviews:**
- **DSO Performance Framework**
- **DSO Performance Measures** → **Analysis & Results**

Diagram 2: DSO Review Approach

1. Phase 1: Review Background Information

This phase should be used to develop a baseline understanding of the DSOs and the core management processes that the DSOs should integrate with. This can be achieved through reviewing existing information on the DSOs, the DSO performance measures and any reporting, budgeting or planning documents.

2. Phase 2: Conduct Interviews

The aim of this phase is to develop a sufficiently detailed understanding of the DSOs to enable an analysis of them against the FABRIC criteria for effective performance information.

It is recommended that this detailed insight is developed through interviews with departmental staff. These interviews should focus on both:

- The DSOs and the individual performance measures that underpin these;
- The wider management processes (e.g. budgeting, planning and reporting) that the DSOs should integrate with.

Interviews should be semi-structured round a set of criteria for effective performance information. There are a number of frameworks for evaluating performance systems that could be used to evaluate the DSOs, and departments should assess which framework may be most appropriate for them. The section below, however, outlines how interviews could be structured around the FABRIC framework criteria, which may be used by any department.

Interviews focused on the DSO framework, including the department's management processes, can be structured around the FABRIC criteria for effective performance information systems, as outlined below:

FABRIC criteria for effective performance information systems	
Focused	The DSOs should be focused on the department's core aims and objectives
Appropriate	The information being collected should be appropriate to and useful for the stakeholders who are likely to use it.
Balanced	The DSOs should give a balanced overall picture of what the organization is doing, covering all significant areas of work.
Robust	The DSO framework should be able to withstand organizational changes or individuals leaving
Integrated	The DSOs should be integrated into the organization, being part of the business planning process and management processes
Cost Effective	The resources put into collecting DSO performance information should be proportionate to the benefit which the information brings

Diagram 3: FABRIC Criteria for PI Systems

Interviews focused on the DSO indicators and measures of success can be structured around the FABRIC criteria for effective performance measures, as outlined below:

FABRIC criteria for effective performance measures	
Relevant	The measure should be relevant to what the organisation is aiming to achieve
Avoid perverse incentives	The measure should not encourage unwanted or wasteful behaviour
Attributable	The activity measure must be capable of being influenced by actions which can be attributed to the organisation. It should be clear where accountability lies
Well defined	The measure should have a clear, unambiguous definition so that data will be collected consistently, and the measure is easy to understand and use
Timely	Data should be produced frequently enough to track progress and quickly enough for the data to still be useful
Reliable	The measure should be reliable: accurate enough for its intended use; and responsive to change
Comparable	The measure should be comparable with either past periods or similar programmes elsewhere
Verifiable	The measure should have clear documentation behind it, so that the processes which produce the measure can be validated

Diagram 4: FABRIC Criteria for performance measures

The Annex of this guidance provides further detail on the key considerations that departments should take into account when assessing their DSO framework, as well as outlining the common challenges likely to be faced by departments in each of these FABRIC criteria.

3. Phase 3: Analysis and Results

These activities undertaken in Phases 1 and 2 should enable any department undertaking a DSO Review to produce an assessment of their DSOs against the FABRIC criteria outlined above.

The assessment should include a concise narrative which provides a summary assessment of the effectiveness of the DSOs and the key strengths and weaknesses.

For each of the individual FABRIC criteria, it is recommended that the assessment outlines:

- **Overview –** A summary of the current position;
- **Strengths of Current Arrangements –** Key areas in which the DSOs effectively support this FABRIC criteria;
- **Areas for Improvement –** Key areas in which the DSOs should be strengthened to meet the FABRIC criteria;
- **Recommendations –** Specific, actionable recommendations that can be taken to improve the effectiveness of the DSOs.

If a department wishes it could also rate, using a Red/Amber/Green methodology, its assessment against each of the FABRIC criteria. This will support a clear identification of the strengths and weaknesses of the DSOs and, hence, focus attentions on the areas that can be improved to strengthen the DSOs.

2.3.1 Resources and Timescales

The resources and timescales for a DSO Review can, to some extent, be varied depending on the needs of the department. In general, it is expected that a team of 2-3 people are needed to complete a thorough review over a 6-8 week period. Indeed, this is consistent with the experience of completing the DSO Review at DFID, a summary of which is outlined in the diagram below:
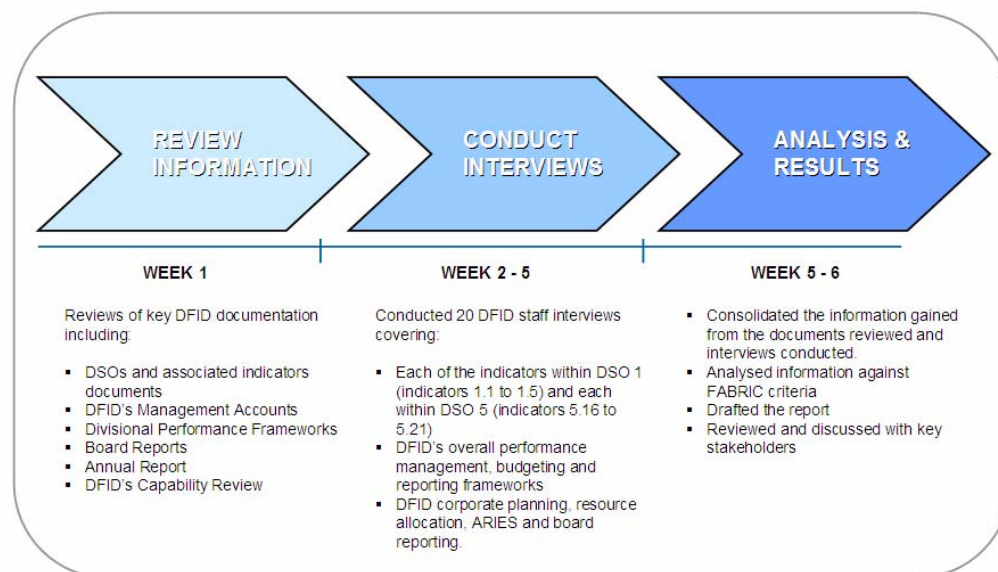

REVIEW INFORMATION	CONDUCT INTERVIEWS	ANALYSIS & RESULTS
WEEK 1	**WEEK 2 - 5**	**WEEK 5 - 6**
Reviews of key DFID documentation including: • DSOs and associated indicators documents • DFID's Management Accounts • Divisional Performance Frameworks • Board Reports • Annual Report • DFID's Capability Review	Conducted 20 DFID staff interviews covering: • Each of the indicators within DSO 1 (indicators 1.1 to 1.5) and each within DSO 5 (indicators 5.16 to 5.21) • DFID's overall performance management, budgeting and reporting frameworks • DFID corporate planning, resource allocation, ARIES and board reporting.	• Consolidated the information gained from the documents reviewed and interviews conducted. • Analysed information against FABRIC criteria • Drafted the report • Reviewed and discussed with key stakeholders

Diagram 5: DFID DSO Review Approach

There are, however, a number of factors that can be varied to reduce the resource and timescales required for the review:

- **Focus on subset of DSOs** – Instead of assessing all DSOs, the review can focus on a subset of the DSOs, providing these are representative of all the DSOs in the department. Indeed, at DFID the Review focused only on two of DFID's seven DSOs, but these were considered to be a representative subset of all the DSOs.

- **Conduct fewer interviews** – It is possible to conduct fewer interviews and base the assessment more on the knowledge of an individual or small group who have detailed knowledge of the DSOs. Indeed, at the highest level, the assessment could feasibly be completed by one person. However, this approach is likely to provide a narrow perspective on the DSOs and will not provide a balanced and objective assessment. Accordingly, whilst interviews can be minimised, it is recommended that any DSO Review involves discussions with a selection of individuals within the department that have specific knowledge of the areas of work covered by the DSOs, as well as discussions with those responsible for the core processes that support the DSO framework, such as corporate planning, finance and reporting. This is likely to be a minimum of 10 interviews.

2.4 Common DSO Challenges

The DSO Review undertaken in DFID highlighted many strengths of the performance frameworks that have been established in the department, particularly considering the department had only recently moved to the new DSO framework when the review was completed (April 2008). However, the review also exposed a number of key challenges that are likely to be faced by other departments across Whitehall, as outlined below:

1. Costing Performance (FABRIC criteria – Integrated)

The creation of the DSOs provides an opportunity to improve decision making in Whitehall by moving the focus away from inputs (*how much can I spend?*) towards measurable results (*what can I achieve with this money?*) through strengthening the links between costs and performance.

Most departments have reasonably well established mechanisms of performance information, however, it is less common that this information is linked to resource allocation and expenditure decisions. The following actions will support the establishment of a link between costs and performance:

1. Implementing a cost accounting methodology that enables costs to be considered in terms of the DSOs, in addition to traditional budget classifications, which have tended to focus on organisational units;

2. Establishing a clear 'line of sight' between a department's inputs and the outputs/outcomes, i.e. an understanding of what the money spent actually achieves

Whilst achieving this will be challenging for most departments, strengthening the relationship between costs and performance is a key step towards being able to demonstrate cost effectiveness within the department. This area is covered in more detail in Section 3.

2. Coherence (FABRIC criteria – Focused)

Since CSR2007 there are two key performance measurement frameworks used across government – the DSOs and the PSAs. The establishment of these two frameworks has the potential to improve performance management across Whitehall, however, it also creates an additional level of complexity. To address this, departments need to have a clear understanding of the relationship between the DSOs and the PSAs and, also, articulate this throughout the department:

- DSOs should underpin the achievement of the PSAs. Departments should therefore have a clear understanding of how pursuit of the DSOs will enable them to meet their PSA commitments.

- This relationship should also be communicated throughout the department, as staff are familiar with PSAs being the primary way of assessing the department's performance in delivering its objectives. The DSO Review in DFID highlighted that there may be some scepticism or confusion amongst staff as to how the DSOs support the PSAs. This should be addressed if the DSOs are to be the primary way of driving departmental performance.

3. Board Level Reporting (FABRIC criteria – Balanced)

The DSOs provide the framework for assessing how effectively the department is delivering its core aims and objectives. As a result the board level report should provide adequate reporting of progress against these objectives.

The board level report should provide a balanced view of a department's overall performance and should contain an appropriate mix of input, output and outcome measures.

Ultimately the report should enable board members and senior management to:

- Understand the progress the department is making in achieving its core objectives, highlighting any key areas of concern as well as intended action to rectify the issues identified;

- Take decisions, based on the information in the report, to actively manage the performance of the department;

- Hold the divisions within the department accountable for their contribution towards the attainment of the DSOs.

- Facilitate more informed decision making around optimal resource allocation.

Departments should review their current board level reporting and take action to ensure performance against the DSOs is well represented and can meet the criteria outlined above.

4. Data Availability (FABRIC criteria – Timely & Attributable)

The DSOs should provide a balanced picture of a department's achievements. The data collected should enable management within a department to both assess whether it is achieving its core aims and objectives and actively manage the performance of the department. To achieve this, the DSO performance measures should ideally contain a mix of output and outcome focused data.

Outcome indicators are crucial as they measure what the department is ultimately trying to achieve. However, there are usually challenges in attributing a department's contribution to the achievement of particular outcomes. There are also often delays between the activities of a department and its impact on outcomes. Therefore a department should also track its outputs, as a proxy for outcomes, as these tend to be more timely and attributable.

Where this balanced set of data is not available, departments should look to see how they can strengthen the data that is available. For example, DFID have developed a 'Results Action Plan' which will improve the use of data across the department, but, in particular, will significantly strengthen the availability of output data at the DSO level.

Additional common challenges that departments may face in establishing their DSO framework are outlined in the Annex to this guidance.

3 Costing Performance Management

3.1 Overview

With an ever increasing demand on public funds, the need for departments to demonstrate value for money cannot be over exaggerated. Departments should ideally be able to demonstrate a clear link between the outputs/outcomes achieved and the associated costs (inputs) as this not only facilitates effective performance management, but also enables the organisation to demonstrate its cost effectiveness to the public.

There are several approaches to linking costs to performance, which allows an organisation to improve its cost effectiveness. These include:

- **Presentational Performance budgeting:** At a basic level, costs and performance can be linked presentationally. In this case, budgets and expenditure are allocated and tracked against the DSOs, but the performance information does not play a role in budget or expenditure decision making. For many departments, achieving this link between costs and performance is challenging, as their DSOs cut across existing organisational structures, against which costs have historically been tracked. This area is covered in more detail in Section 3.2 below.

- **Performance Informed budgeting:** At the next level, there is a strengthened link between performance and expenditure, which enables performance to inform budgeting and allocation decisions. Achieving this requires a reasonable 'line of sight' between a department's inputs, i.e. what it spends on an activity to support a DSO, the outputs, i.e. what is achieved through this spend, and the outcomes, i.e. the impact of these activities. This information is then used in conjunction with other information to support decision making. Achieving this 'line of sight' can be challenging for departments. This is covered in more detail in Section 3.3 below.

- **Direct Performance Budgeting:** At the highest level, departments can directly link performance and budgeting, with resources based on results achieved. In this case expenditure is directly allocated to outputs or outcomes. Generally expenditure is linked to outputs due to the challenges of attributing a department's role in the achievement of outcomes. This is also covered in more detail in Section 3.3 below.

Most organisations are faced with two main challenges to overcome before they are able to produce performance information that links to costs. These are: -

1. Having a robust methodology in place to link cost to objectives;
2. Being able to have a clear 'line of sight' between these inputs, outputs and outcomes.

The next sections provide insights into how I and II can be addressed by using DFID as a case study. Though specific DFID examples are used, the lessons learned from these case studies should be more widely applicable across Whitehall.

3.2 Costing Objectives

3.2.1 Objective

DFID's new DSO framework has objectives that stretch across divisions, hence the standard costing by division will not give management a clear indication of how much activities cost. To enable this costs need to be allocated to DSOs. Possible options on how to do this are presented below.
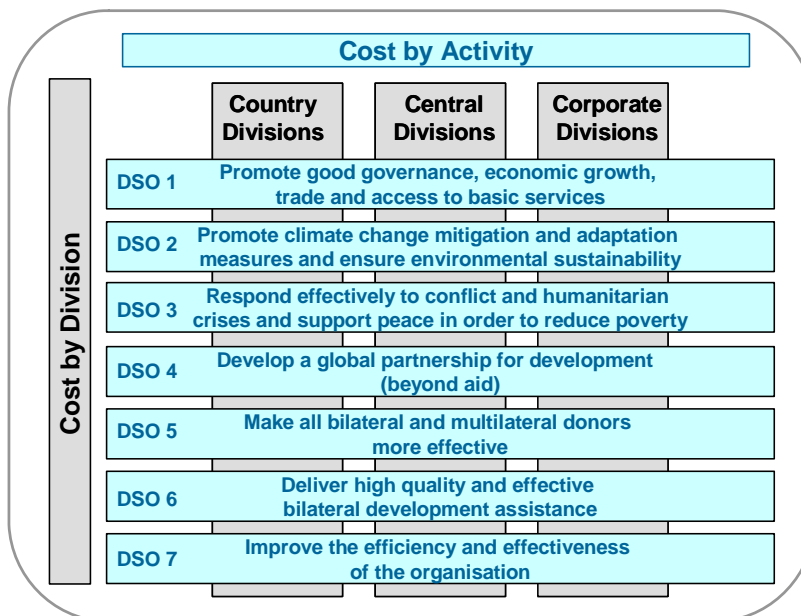

Diagram 6: DFID DSO/Division Structure

3.2.2 Options

Any organisation attempting to cost their objectives will need to consider establishing a cost accounting methodology. This is to ensure a reasonable level of consistency is applied between divisions and across planning periods. However, the methodology needs to be flexible enough to accommodate the specific needs of different departments. For example, the decision around the appropriateness of using a partner country's historical government's spend ratio for allocating budget support is a challenge specific to DFID.

There are three main cost accounting options to consider:

- **Standard Cost Accounting** – in this approach, all costs, including overheads, are fully absorbed in the products or services (in this context the DSOs). This approach is generally used by organisations that need to price their products or services in a way that guarantees they cover all their costs, but may not necessarily provide the most effective means of cost control. This is as fixed overhead costs would be allocated to individuals/departments who have no control or influence over them. For an organisation such as DFID, cost control may be more effectively achieved through allocating costs to individuals/departments where some level of control or influence can be applied.

- **Marginal Cost Accounting** – in this approach, only variable costs are allocated to products or services. All fixed costs are grouped together as overheads. This approach is more suitable for short term decision

making, e.g. an organisation can look at the marginal cost of an activity compared to the marginal gain to be achieved, than for an organisation like DFID. In DFID's case, a marginal cost approach will ignore overheads that can be reasonably attributed to particular DSOs.

- **Activity Based Costing [Recommended for DFID] –** in this approach, direct costs are allocated to activities, followed by an apportionment of indirect costs, where a 'cause and effect' relationship can be established. This enables the organisation to allocate a portion of overheads to activities. However, where no 'cause and effect' relationship can be established, the remaining overheads are left unallocated. Further attempt to apportion these would be arbitrary and hence, would move away from providing useful information.

3.2.3 Applying Activity Based Costing (ABC)

Applying ABC costing will be challenging for most departments attempting it for the first time. The points below detail some of the key challenges in implementing this approach in DFID, however, some of these will be relevant across Whitehall. The main challenges include: –

- Allocating costs for aid provided via multilateral or other organisations / partner governments. DFID provides significant funds to multilateral organisations (e.g. EC, World Bank) and to partner governments through general budgetary support, but has limited direct control over what these funds are used for. Allocation therefore has to be calculated using an appropriate ratio, which apportions costs according to a historical distribution of spend.

- Allocating costs for activities focused on influencing other donors to increase aid / aid effectiveness. The 'intangible' nature of these activities makes it difficult to measure and monitor them. It is important for management not to lose sight of the cost of these activities as the impact on outcomes can sometimes be substantial, making this cost immensely cost effective.

- Introducing cost accounting into the organisation will involve changing the way people allocate costs and use information. This level of change may require a change management approach to ensure the organisation is ready and willing to accept a cost accounting methodology.

Recognising the above challenges, the table below sets out how ABC could be applied.

[Note: The below table refers to DFID's sector codes (which include specific categories, e.g. Education, HIV and AIDS, etc) which can be mapped directly to DSOs. This gives an opportunity to cost the DSOs at a lower level, thereby making it possible to allocate costs to sub sections within DSOs, e.g. HIV and AIDS].

Cost Type	Description	Accounting Treatment	Examples (Illustrative)
Programme	Costs that can be directly linked to a sector code	<u>Allocate</u> 100% of the cost to the applicable sector code	Project to train teachers should be assigned to 'Education'. E.g. Cost of trainers, cost of hiring training centre, etc.
Programme	Any costs directly linked to more than one sector code	<u>Apportion</u> the costs between the sector codes by applying an 'appropriate' percentage split.	Project to improve sexual reproductive health will impact both health and HIV and AIDS sectors. The allocation method used should take into account; the expected output for each category, and the relative cost involved.

Cost Type	Description	Accounting Treatment	Examples (Illustrative)
Programme	Funds given to Multilateral donors, e.g. World Bank, EC etc.	<u>Apportion</u> the costs to sector codes using an appropriate ratio.	Funds given to World Bank should be allocated using last year's actual spend ratio as long as this trend is expected to be relatively constant. (This ratio will need to be adjusted for any 'one off' items that cause the ratio to be non-representative of the usual spend).
Programme	Funds given to partner countries as general budget support	<u>Apportion</u> the costs to sector codes using an appropriate ratio.	Contribution to Malawi government's aid budget. This should be allocated using Malawi government's spend ratio.
Admin	Overheads that have an established 'cause and effect' relationship with frontline activities (activities involving providing aid in one or more sectors)	<u>Apportion</u> the cost to sector codes using a reasonable 'weighting'	Local office accommodation costs, local office staff costs, Donor Relations Division costs, etc. These can be classified as 'Programme funded' admin costs
Admin	Overheads that are not directly impacted by any frontline activity	<u>Allocate</u> 100% of these to DSO 7 (Improve the efficiency and effectiveness of the organisation)	Head Office accommodation costs, depreciation/capital charges, NAO fees, etc.
	Total Cost		100% of Admin and Programme

The following example demonstrates how above methodology can be applied to HIV and AIDS, which is a sub indicator within DFID's DSO 1.

DSO 1.4(iii) – 'Percentage of most-at-risk populations reached with HIV prevention programmes'

The total cost for HIV and AIDS can be derived as follows:

	£ Million
Cost of DFID's own managed programmes for HIV and AIDS	120
% of total budget spend based on partner government's spend ratio for HIV and AIDS	84
% of total multilateral spend based on historical spend on HIV and AIDS	31
% of admin spend apportioned to HIV and AIDS	<u>5</u>
Total HIV and AIDS spend	**240**

The figures used are for illustrative purposes only

3.2.4 Conclusion

Costing objectives can be challenging for most organisations, however, as outlined above, it is possible to get a reasonable sense of what it costs to meet an objective. The more tangible the activities to fulfil the objectives, the easier it is to cost. In DFID's case, where the activities are carried out by a third party multilateral organisation/partner government, then historical information has to be used to provide an estimate of the costs.

Costing the objectives enables an organisation to adopt a <u>presentational performance budgeting</u> approach. However, as mentioned above, this does not necessarily impact decision making. For this to happen, there needs to be a reasonable 'line of sight' between inputs, outputs and outcomes so cost effectiveness can be assessed. The following section looks at this in more detail with a view to ascertaining if <u>performance informed budgeting</u> or <u>direct performance budgeting</u> can be implemented.

3.3 Inputs, Output, Outcomes

3.3.1 Objective

The purpose of this section is to evaluate the extent to which 'line of sight' can be achieved as this will provide the basis on whether to apply performance informed or direct performance budgeting approaches.

3.3.2 Achieving 'Line of Sight' – Example 1: HIV and AIDS (DSO 1.4(iii))

In this example, the DSO objective is to 'increase the percentage of most-at-risk populations reached with HIV prevention programmes'. The corresponding inputs to meet this objective falls into three main areas; programmes managed by DFID directly, programmes funded by DFID but managed by other multilateral organisations/ partner governments and overheads (admin expenditure). The table below summarises how the inputs, outputs and outcomes could be linked under each category.

Category	Inputs	Outputs	Outcomes
Programme costs (DFID's own managed projects)	Cost of running HIV prevention programmes, cost of condoms, etc. These costs will be allocated to HIV and AIDS sector code directly.	Number of HIV prevention programmes run and number of people in attendance should give percentage of most-at-risk populations reached. N.B. There will also be other outputs of HIV and AIDS spend, e.g. treatments, building clinics etc.	The outputs could be broadly linked to a reduction of HIV. However numerous other factors outside of DFID's control will also contribute, including: other donors, overall economic situation, education levels, etc.
Programme costs (Aid provided via multilateral donors)	Costs allocated to HIV and AIDS by using historical spend ratio. This figure may not be an exact representation of DFID's contribution to the total HIV and AIDS spend by the multilateral donor.	DFID's shareholding can be applied to the multilateral donor's total outputs for HIV and AIDS. This will not be an exact representation of DFID's contribution to overall output.	Similarly, DFID's shareholding can be applied to overall impact on outcomes, i.e. the reduction in HIV and AIDS prevalence. However this will be arbitrary and potentially misleading considering DFID's proportion of the total multilateral donor's portfolio is c.10% and numerous other factors impact this outcome.
Programme costs (Aid provided via partner governments)	Costs allocated to HIV and AIDS by using partner government's historical spend ratio.	DFID's relative percentage of the partner government's total output, e.g. % of total no of people attending HIV prevention programmes etc.	Same comments above apply.
Admin costs	Apportionment of costs that can be associated with HIV and AIDS. E.g. cost of policy research into HIV prevention. Percentage of overseas office accommodation cost based using a reasonable ratio, e.g. percentage split of total programme spend per sector.	Output for direct admin costs, e.g. research in HIV prevention, can be tracked. Linking outputs to inputs for apportioned admin costs would be arbitrary.	Outcomes for direct admin costs could be linked, e.g. impact of policy research into HIV. Attributing outcomes to portions of admin outputs will be arbitrary.

Looking at the above example, achieving 'line of sight' for all of DFID's activities at the DSO level would not be possible. This is due to the following challenges: –

- **Non-Standard Outputs:** There is a wide variety of potential outputs of DFID's work in this area, including the likes of condoms distributed, treatments delivered, clinics built, education programmes delivered etc. Whilst it is feasible, and DFID do, track achievement against the broad variety of outputs, a set of standard output measures are required to be able to aggregate the outputs of DFID's work at the DSO level. Whilst a suite of standard output measures are planned, given the potential outputs of DFID's work on HIV and AIDS are so varied, it would not be feasible to implement a suite of standard output measures that would capture the entirety, or even the majority, of DFID's outputs in this area. Therefore, whilst it is feasible to directly link inputs and outputs within specific programmes, it is not practical to do this at the DSO level.

- **Limited control of outputs for aid provided via multilaterals or other donors / partner governments:** DFID provides a significant, and increasing, amount of aid via multilateral organisations and partner governments through general budgetary support. However, it does not have direct control over how these funds are spent. It is feasible to attribute a portion of the outputs/outcomes achieved by the organisation to DFID (where the organisation tracks its outputs/outcomes), based on the proportion of funds it provides. This is as good an estimate of the outputs/outcomes as can be achieved, but it is not an exact representation of how funds were spent or what was achieved. Despite the challenges of achieving a direct 'line of sight' in these circumstances, it should be noted that there are significant benefits and synergies achieved from pooling resources managed by organisations such as World Bank. This is deemed a more effective approach to providing aid as 'the whole is expected to be more than the sum of the parts'.

- **Linking inputs to outcomes:** It is virtually impossible to link inputs to DFID's outcomes as a large number of factors outside of DFID's control have a significant influence on outcomes, e.g. the actions of other donors, partner governments, economic boom / bust cycles, act of war, natural disasters etc.

3.3.3   Achieving 'Line of Sight' – Example 2: Gleneagles Commitments (DSO 5.17)

In this example, the objective is to work with other donors to '*increase global official development assistance (ODA) by £50 billion by 2010 from 2004 levels*'. Compared to the first example, the activities to support this are much less tangible, which makes achieving 'line of sight' even more challenging. The corresponding inputs to meet this objective fall into two main areas; programmes managed by DFID directly and overheads (admin expenditure). The table below summarises how the inputs, outputs and outcomes could be linked under each category.

Category	Inputs	Outputs	Outcomes
Programme costs	Any direct programme spend, e.g. cost of running campaign / seminar to increase profile of Gleneagles commitments.	Outputs will be defined as per specific programme. Using the input example possible outputs would be; number of campaigns / seminars, number of donors in attendance, etc.	Using this example, outcomes can be linked to these outputs by looking at donor spending commitments as a result of attending campaigns / seminars. Ascertaining the above may be difficult as other factors, e.g. politics, will also have significant influence.

Category	Inputs	Outputs	Outcomes
Admin costs	Costs of donor relations Division. Apportionment of other divisional expenses where link to Gleneagles work can be established.	Specific outputs may be outlined in business plans, e.g. communiqués published or seminars attended/. Business plans should also outline key activities that will be undertaken to achieve target. Whilst not aggregate outcomes this should provide a measure of success.	Divisional business plans should state intended outcome for specific outputs. Will be difficult to establish linear relationship with overall outcome of increasing ODA. Any figure calculated will be arbitrary.

Linking inputs to outputs and outcomes is even more difficult for more intangible activities such as this. This is due to:

- Programme costs only cover a small amount of the total cost of 'influencing' activities. Most of these activities are not recorded explicitly as they form part of the normal day to day interactions with these organisations, and hence will not be costed explicitly in this area. It is worth noting that some of these activities can have a significant impact on increasing aid, yet at minimal cost.

- One way to introduce output measures would be to identify specific activities that DFID intends to carry out in order to meet the objectives. For example, to increase ODA by £50 billion, DFID may decide to hold a seminar once a quarter to improve the profile of the Gleneagles commitment. Holding these seminars become measurable outputs for DFID to assess, as could other activities detailed in the business plan.

- Due to the large number of organisations involved in campaigning for increasing aid and aid effectiveness, attributing the specific contribution of individual organisations to overall increases in world aid can only be arbitrary at best.

3.3.4   Conclusion

As outlined above, it would not be possible for DFID to have a clear 'line of sight' between all of its inputs, outputs and outcomes. This means, a direct performance budgeting approach cannot be applied to DFID as a whole or at the DSO level. However, departments' do not necessarily need to adopt a 'one size fits all' approach when it comes to costing performance management.

In DFID's case, it would make sense to use a direct performance budgeting approach where a strong 'line of sight' can be established, e.g. within some of DFID's own managed programmes where there is a clear link between inputs and outputs. In these circumstances it may also be necessary to establish some 'interim' outcome measures that are directly within DFID's control, but with a clear link to the overall outcome.

Where the 'line of sight' is more difficult to establish, e.g. when delivering aid through multilateral organisations, it will make more sense for DFID to adopt a performance informed budgeting approach by assessing the multilateral organisation's overall cost effectiveness by looking at its performance information.

4 Guidance Conclusion

This guidance has been developed to support departments in using the new DSOs to drive an improvement in performance management and strengthen the relationship between costs and performance. In setting out the approach that was followed at DFID, the guidance aims to encourage other departments to undertake a similar assessment of their DSOs.

The common challenges exposed through the DSO Review and the case study examples of how DFID could approach the challenges of more closely linking costs to performance are intended to provide insight to other departments as to how such challenges may be tackled, whilst recognising that specific solutions will need to be tailored to each department.

Whilst the examples analysed have demonstrated that creating direct links between costs and performance may not be feasible in all circumstances, the guidance has also shown that the new DSOs can be used to strengthen this relationship, improving the 'line of sight' between inputs, outputs and outcomes. Departments should use the DSOs to move to a focus on results, as opposed to inputs, which would represent a significant strengthening of the performance management arrangements in Whitehall.

Annex: DSO Framework FABRIC Assessment

The table below sets out the 6 Fabric criteria which Departments can use to assess the effectiveness of their current arrangements and the implications for change in light of the introduction of DSOs. The table shows the key questions departments need to ask when assessing themselves against each of the FABRIC criteria and some of the most common challenges, in this case exemplified by DFID.

Table 1: FABRIC Criteria for effective performance management systems

FABRIC Criteria	Key considerations when assessing DSOs	Common Challenges for departments
Focused Performance information system should be focused on the organization's aims and objectives	• Do the DSOs link to the department's broader political objectives? • Is it clear how the DSOs tie in with relevant PSAs? • Are any DSOs focused on objectives that may change during the spending period?	• **Mapping DSOs to achievement of PSAs:** The relationship between the DSOs and any PSAs should be clearly articulated. Achievement of the DSOs should support achievement of all PSAs led by the department, plus any other PSAs the department contributes to. • **Reflecting other priorities:** The DSOs should also clearly reflect other, non-PSA related, organisational or political priorities. For example, in DFID, 'Making bilaterals and multilaterals more effective' has been set as a DSO to ensure this organisational priority, although not included in the PSAs, receives a suitably high level of focus during this spending period. • **Relevance for the duration of the spending period:** Given that the DSOs should reflect the wider work throughout the spending period, they should not be focused on areas or objectives that are likely to be subject to significant change during this period.
Appropriate The information being collected should be appropriate to and useful for, the stakeholders who are likely to use it.	• Are the needs of all stakeholders clear? Have the board identified how they will use DSO information? • Do the DSOs enable the department to assess if it is meeting its core outcomes? • Does the information provided enable effective performance management of the department?	• **Competing needs of stakeholders:** DSO information is likely to be required by numerous stakeholders across the department, as well as externally. The information made available will need to balance the needs of these stakeholders. • **Assessing achievement of core objectives:** The DSO information should enable the departmental board to assess whether the department is meeting its core objectives. The DSO framework in DFID explicitly supports this as it is strongly outcome indicator focused, which enables the department to assess the progress it is making in achieving its core objectives. • **Managing departmental performance:** The DSO framework should also be used to enable the departmental board to effectively and actively manage the wider business of the department. To achieve this, the DSO framework should ideally contain a balance of output and outcome data. DFID's DSO framework focuses primarily on outcomes, so the department are therefore developing frameworks and processes round the DSOs so that output data and information on the department's own progress can be captured. • **Reporting:** Given that the DSOs should be used to drive the overall performance of the department, board level reporting should generally be restructured to focus around the DSOs.

FABRIC Criteria	Key considerations when assessing DSOs	Common Challenges for departments
Balanced The performance measures should give a balanced overall picture of what the organization is doing, covering all significant areas of work.	• Do the DSOs cover all aspects of the department's business? • Is there any departmental expenditure not related to achievement of the DSOs? • Does the DSO framework provide balanced data, e.g. covering inputs, outputs and outcomes? • Is it clear how the DSOs relate to other performance information that is captured by the department, e.g. PSA performance, financials, customer feedback etc.?	• **Comprehensiveness:** The DSOs should cover the wider work of the department for the spending period and, as such, should provide a comprehensive set of results-focused performance data for the department (N.B. This is likely to be supported by other data in the performance framework, e.g. customer feedback or financials). • **Output vs Outcome:** The DSO framework should provide a balanced picture of the department's achievements across both outputs and outcomes. Outcome indicators are crucial as they measure what the department is ultimately trying to achieve. However, there are usually challenges in attributing a department's contribution to the achievement of particular outcomes. There are also often delays between the activities of a department and its impact on outcomes. Therefore a department should ideally also track its outputs, as a proxy for outcomes, as these tend to be more timely and attributable. If possible, a department's DSO framework should thus include a mix of output and outcome data.
Robust The performance information system should be able to withstand organizational changes or individuals leaving.	• Are the DSOs aligned with current organisational structures? • If the structure of the department changes, how will this impact on the DSOs? • Who 'owns' the DSOs in the department? How widely is the DSO framework understood? • Are there systems in place to ensure the quality of DSO data?	• **Organisational Changes:** The DSOs and overall performance framework should be designed so as to withstand organisational changes such as internal departmental restructuring. DSOs that tie in to current organisational structures are less likely to be able to withstand such changes, as any new structures will no longer relate to the objectives. At DFID, this risk has been minimised by setting objectives which cut across many divisions, as opposed to being directly aligned to them. • **Personnel Changes:** DSOs should also be able to withstand changes in personnel, so responsibility for managing the DSOs should sit with a well established and large enough group/unit to withstand any normal personnel changes. • **Communicating the DSOs:** Helping the Department, at all levels, understand DSOs will assist their robustness by ensuring the DSOs have a wider 'ownership' throughout the organisation. • **Data Robustness:** Departments are generally collecting a significant amount of data to support their DSOs. For the data to be able to support effective decision making, systems should be put in place to ensure its robustness.
Integrated The performance information system should be integrated into the organization, being part of the business planning process and management processes.	• How are the DSOs integrated into the departments management systems? • How has responsibility for achieving the DSOs been cascaded through the organisation? • Are there delivery plans and owners responsible for achieving the DSOs?	• **Cascading responsibility for the DSOs through the department:** Ideally the DSOs should build on existing departmental performance management data and processes. This would enable the DSOs to be reasonably simply integrated into the department, through a mapping of the DSOs to existing performance measures, and use of existing performance management arrangements. However, it is recognised that at some departments the DSOs are significantly different to previous performance measures and, hence, a more detailed exercise may be required to cascade responsibility for achievement of the DSOs through the department.

FABRIC Criteria	Key considerations when assessing DSOs	Common Challenges for departments
	• How have budget allocations been linked with performance? • Can expenditure be directly linked to performance? • Is expenditure tracked against the DSOs? • How is progress reported upon? • How are those responsible for delivery of the DSOs held to account for progress?	In DFID a joined up business planning and resource allocation process was completed, through which divisions set out their contribution to DSOs and were allocated funds broken down at DSO level. The joining up of these previously discrete processes has strengthened DFID's ability to embed and integrate the DSOs in the department. • **Costing Performance:** The DSOs should enable departments to create a stronger, and potentially direct, link between costs and performance, moving the focus away from inputs towards results. Section 3 has outlined in more detail how these links may be strengthened, as well as some of the challenges in doing this.
Cost Effective The resources put into collecting the performance information should be proportionate to the benefit which the information brings	• Are existing data sources used to collect DSO information? • If not, could they be? • Is the burden of data collection on the organisation and the delivery chain well understood?	• **Value add vs cost to collect:** The costs to collect the DSO data should be in proportion to the value it brings. Ideally, data from existing sources should be used, thereby minimising costs. For DFID itself it helps that the data for the core DSO indicators are obtained from existing sources (UN, World Bank etc.), which have minimised direct costs attached to the collection of DSO data. There will, however, be costs attached to developing improved output performance information, however, it is generally recognised that there will be significant benefits attached to this.

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