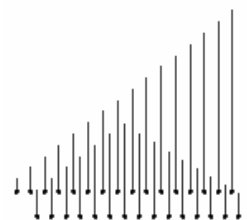


EVALUATING PERFORMANCE IN PUBLIC SERVICES

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National Institute
of Economic and
Social Research



HM TREASURY

**BACKGROUND PAPER:
THE UK GOVERNMENT'S PUBLIC SERVICE AGREEMENT FRAMEWORK**

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SUMMARY

This paper sets out the evolution and development of the UK's Public Service Agreement (PSA) framework, from its inception in 1998 through to the current thinking around the development of targets for the 2004 Spending Review. It examines the rationale for targets, and the principles and structure used in developing the PSA framework.

The PSA framework has attracted much attention both domestically and internationally. Recent reports by the Public Administration Select Committee and the Audit Commission have attracted a lot of press coverage, which has disproportionately focussed on the drawbacks of the targets system. However, these reports also highlighted many positive advantages of the current framework, and many of the issues raised in both of these reports are already being addressed in advance of the next Spending Review.

Since 2002, HM Treasury has welcomed over 25 parties from overseas, including Government ministers and representatives of international institutions, all of whom have been particularly interested in the UK Government's performance framework.

Introduction

Following the 1997 General Election, the government introduced a series of key public spending reforms as part of the 1998 Comprehensive Spending Review (CSR). These included:

Greater stability through **three year spending plans**, to allow departments to plan ahead and to provide a more stable foundation for managing public services

Separate capital and current budgets to ensure that **essential capital investment** is not squeezed out by short-term pressures.

The introduction through subsequent years of **resource accounting and budgeting** to improve the planning and control of spending and to increase the incentives to manage the asset base effectively

The introduction of Public Service Agreements, which for the first time set **measurable targets** for the full range of the Government's objectives for public expenditure programmes

Motivation for PSAs

The business of Government can be complex. In order to provide a framework within which to consider Government activity, it is useful to consider the inter-relationships of inputs, outputs and outcomes in delivering this activity. Inputs are those resources that contribute to production and delivery. Inputs commonly include things such as labour, physical assets, and IT systems (such as doctors, nurses, scanning equipment etc.). Outputs are the final products, or goods and services, produced by the organisation for delivery to the customer (for example, the number of effective medical treatments or operations that take place). Outcomes are the impacts or consequences for the community of the activities of Government, and normally represent what the organisation is trying to achieve (eg longer life expectancy and better health). It is these outcomes which, ideally, should be measured when setting the top-level targets for the organisation.

It is important, however, to recognise the influence of other factors on the overall outcomes that departments are working to improve. As a result, it may not be clear how much of a change in an outcome can be attributed to an organisation, and there may also be a delay between outputs being produced and the relevant outcomes being achieved. For example, a public health service initiative carried out now may lead to improvements in the health status of the population (or sub-groups of it), which only become clear and measurable in many years time. It is also possible that the initiative will not produce the desired influence on outcomes due to other lifestyle factors. As a result, in some cases, it may be necessary to use outputs as performance measures, but in these cases it is important to take quality considerations into account when

quantifying outputs, and to be clear about the anticipated linkage between outputs and outcomes. It is also worth noting that the outputs of one delivery body can be the inputs for another. The interlinkage between inputs, outputs and outcomes is shown in figure 1. More information on inputs, outputs and outcomes, and on performance measurement in general, can be found in “*Choosing the Right FABRIC: A Framework for Performance Information*”, produced jointly by HM Treasury, Office for National Statistics, National Audit Office, Audit Commission and the Cabinet Office.¹

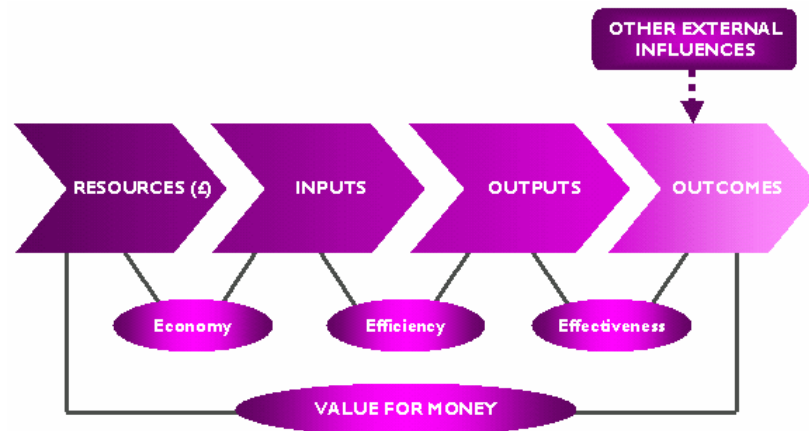


Figure 1 – Performance in context

The current departmental PSAs include targets about inputs (eg manning requirements of the armed forces), outputs (eg increasing school sporting opportunities) and outcomes (eg reductions in mortality rates from cancer and heart disease), and also include economic outcomes such as economic growth and low inflation. This mix will continue to be appropriate in future, but successive Spending Reviews have moved towards a higher proportion of outcome-focused targets.

Principles of Public Service Performance

The framework for PSAs is based around the four principles of public service performance, as set out in Chapter 1 of the 2002 Spending Review White Paper²:

clear, long-term, **outcome-focused goals**, set by the Government;
devolution of responsibility to public service providers themselves, with maximum local flexibility and discretion to innovate and incentives to ensure that the needs of local communities are met;

¹ Available at www.hm-treasury.gov.uk/fabric

² 2002 Spending Review - Opportunity and Security for All: Investing in an enterprising, fairer Britain (New Public Spending Plans 2003-2006) (Cm 5570)

independent and effective arrangements for **audit and inspection** to improve accountability; and
transparency about what is being achieved, with better information about performance both locally and nationally.

The first of these principles is at the heart of the PSA framework – clearly defined goals focussed on key outcomes that matter to the public, delivered within a realistic time frame.

Furthermore, as set out in the 2002 PSA White Paper³, PSAs:

explain what departments plan to deliver in return for...significant extra investment
[set out] demanding national targets
[reflect] the Government's key priorities and [focus] on the outcomes that matter most to the public
represent an agreement between the Government and the public

Why set targets?

Targets are designed to provide a clear public statement of what the Government is trying to achieve. They give a clear sense of direction to service delivery agents and, used wisely, they provide a focus for delivering improved services. As part of a performance management system, they also provide a basis for monitoring what is working and what isn't; to ensure that good practice is spread and rewarded, and that poor performance can be tackled. The publication of regular reports of progress against targets also provides better accountability to the public.

Choosing the right targets

Targets need to be used carefully. In setting targets, it is important that a manageable number of priorities are given. The current set of PSAs contains around 130 targets for 20 departments – an average of less than 7 per department. Targets should be outcome-focussed and meet the SMART criteria, i.e. **s**pecific, **m**easurable, **a**chievable, **r**elevant and **t**imed. It is also important that the target represents a real measure of success – i.e. that if the target is achieved, there is a noticeable difference in the quality of the public services being delivered, or in the environmental or other impact of expenditure programmes. Finally, and perhaps most crucially, it is essential that a target be defined in such a way that it can be cascaded down through the delivery chain, and that it makes sense at the local level.

There are also pitfalls to avoid when setting targets, in particular with issues around measurement. For example, there has been much coverage in

³ 2002 Spending Review: Public Service Agreements 2003-2006 (Cm 5571)

recent press about the Department of Health target to cut maximum waiting times in Accident and Emergency units to 4 hours. The measurement of the target was defined in such a way that, in order to meet the target, A&E units had to perform to this standard for one week in which performance was measured. Whilst this may have led to a distortion of activity for the week that performance was measured, it is important to note that following that week, there was a noticeable step-change improvement in the length of waits in A&E. Going forward, the Department of Health will also exclude certain cases from the measurement of waiting times, where it may be necessary to ensure the clinical safety of the patient.

Evolution of PSAs

As noted above, PSAs were first introduced in the CSR, which set approximately 600 performance targets for around 35 areas of Government⁴. However, the majority of targets set in the CSR focussed on inputs or processes rather than the key outcomes and outputs of government. For Spending Review 2000 (SR2000)⁵, the number of PSAs was reduced to around 160. These targets also covered a reduced number of departments – 18 main departments and the Sure Start⁶ unit, accompanied by four other cross-cutting PSAs.⁷ Furthermore, the focus of these targets was more on outcomes and outputs, than inputs and processes. The National Audit Office (NAO) subsequently confirmed “*the percentage of Public Service Agreement targets that address outcomes increased from 15 per cent in [the CSR] to 68 per cent for [SR2000].*”⁸ At the same time as rationalising the number of targets, and improving their outcome focus, SR2000 introduced a **revised format** for PSAs, a more considered approach to **joint targets**, and **supporting documents** to the PSA architecture in the form of **technical notes** (TNs) and **service delivery agreements** (SDAs). The new format for PSAs gave them five distinct features, namely:

An **aim**, setting a high level statement of the role of the department

Objectives, setting out in broad terms, what the department is looking to achieve

Performance targets setting clear SMART outcome focussed goals under most, but not necessarily all, objectives

A **value for money** target for each department, focussed on improving the efficiency or value for money of a key element of its work, and

⁴ Public Services for the Future: Modernisation, Reform, Accountability (Cm 4181)

⁵ Spending Review 2000: Public Service Agreements 2001-2004 (Cm 4808)

⁶ A cross-Governmental unit that deals with policy on 0-4 year olds

⁷ Cross-cutting PSAs brought together selected existing targets from departmental PSAs

⁸ Measuring the Performance of Government Departments (HC301, 22 March 2001)

A statement of **who is responsible** for the delivery of these targets (usually the relevant Secretary of State)

TNs are detailed documents which set out exactly how the PSA targets are defined, which data sources are used to measure progress towards the target, and a definition of how the target can be judged as met or otherwise. SDAs were introduced as a lower level set of targets for departments with a PSA, to form a bridge to departmental delivery planning, and to provide a structure within which to retain some of the more important output and process targets. For some small departments without PSAs, SDAs contained the high-level performance targets for that organisation.

Another change to the characteristics of PSAs in SR2000 was the move to longer-term targets. SR2000 covered the period from 2001/02 to 2003/04 for spending allocations, and many of the targets reflect that time period. However, there are some policy areas where longer time periods are needed, and these are reflected in targets set for 2007, 2010 and in one case 2020.

The PSA setting process for the 2002 Spending Review (SR2002) reflected the significant developments made to the framework in SR2000, and there was much continuity. The number of targets was reduced further, from 160 to 130, and given the read-across between the two sets of targets a full reconciliation between the SR2000 and SR2002 targets was published on the HM Treasury website.⁹

⁹ Available at: http://www.hm-treasury.gov.uk/Spending_Review/spend_sr02/psa/spend_sr02psatargets.cfm

The Delivery Challenge

Early in 2001, the Government recognised the need to enhance the focus to ensure that priorities for delivering improvements in public services were achieved. The Government responded by setting up the Prime Minister's Delivery Unit (PMDU), within the Cabinet Office, to bring extra resources and focus to the PM's key public service outcomes on health, education, crime and transport, and a small selection of other domestic issues. Working alongside HM Treasury, the PMDU supports departments in an analytical, problem-solving and progress-chasing capacity, to ensure that key delivery challenges are overcome. HMT and PMDU have also produced joint guidance for departments on delivery planning and implementation, and have regularly reported back to departmental top-management on the progress being made, or the lack of it, using a 'traffic light' assessment framework. Over the next twelve months the PMDU will be prioritising and focusing its efforts on the very top priorities facing government.

One of the key innovations brought about by the creation of the PMDU was the **Delivery Plan**. This is a detailed working document drawn up by each "target owner" (usually a senior official in the lead department for the target) in collaboration with stakeholders in government and beyond, setting out the key strategies and challenges for the target concerned. In particular, the Delivery Plan sets out the key actions needed to deliver a target, the role of key delivery agents, the resources required and allocated, identified risks along the way, how interim performance is measured and monitored and the expected progress towards the target (the "trajectory").

The introduction of Delivery Plans has meant that SDAs have become less important. In order to ensure a full focus on the delivery of PSAs, SDAs will most likely be abolished for main departments for SR2004.

Following SR2002, and in light of the proposed abolition of SDAs, the current state of the PSA framework is shown in figure 2, below.

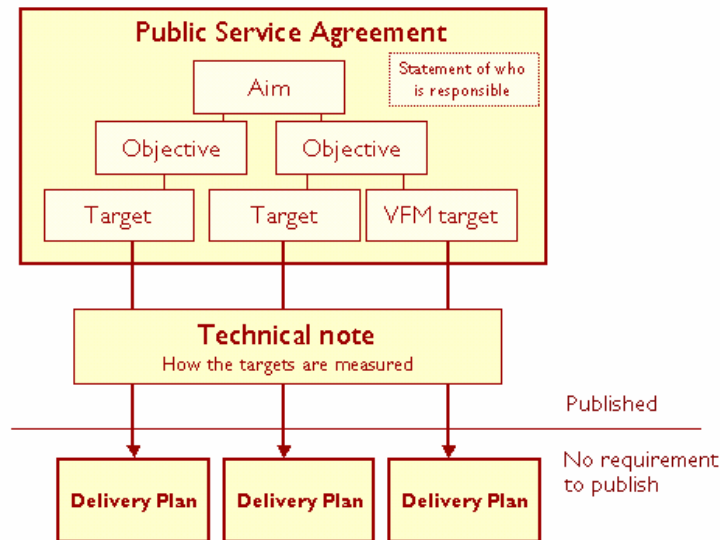


Figure 2 – The current PSA framework

The other key delivery challenge is ensuring that PSAs are agreed, and delivery plans formulated, on the basis of a sound evidence base. The *Integrating Analysis* agenda, led by PMDU, is also looking at ways to properly integrate departmental specialists, such as statisticians, economists, operational researchers and social researchers, into the PSA and delivery planning process.

Enhancing accountability

One of the key elements of a PSA is the statement of who is responsible for delivery. Ordinarily, the relevant departmental Secretary of State (or Secretaries of State in the case of joint targets) is accountable for the delivery of the PSA and for performance against the targets therein. The Chancellor of the Exchequer naturally takes a keen interest in public service delivery and the outcomes of public expenditure programmes, and chairs a sub-committee of Cabinet on Public Services and Expenditure (PSX), which holds ministers to account for their delivery of public service improvements and their use of public funds in delivering them. The Prime Minister, through the PMDU also takes a keen interest in the delivery of key public service improvements, and HM Treasury and the PMDU work closely with all departments on these issues. This is reflected in a joint HM Treasury / Cabinet Office PSA target to “ Improve public services by working with departments to help them meet their PSA targets, consistently with the fiscal rules.” The Chancellor of the Exchequer and the Minister for the Cabinet Office are jointly responsible for the delivery of this target.

Moreover, the principles of public service performance set out earlier identify an essential role for PSAs in providing transparency and

accountability to the public about what is being achieved. Departments have accounted for themselves annually in **departmental reports**, published in the spring, since the beginning of the 1990s. The reports set out expenditure plans and performance, including a number of tables summarising how the department is resourced and staffed to deliver its objectives, and reports of latest performance against the department's PSA targets. In 2002, the Government increased the frequency of PSA reporting to twice a year through the introduction of **Autumn Performance Reports** (APRs). APRs are published by departments either as standalone documents or in other appropriate reports, such as departmental resource accounts. As part of the SR2002 commitments, the Government also introduced a single portal to all departmental performance documents¹⁰ in November 2002, followed in April 2003 by a single website setting out the latest performance against all the SR2002 PSA targets¹¹. Discussions with colleagues in other countries suggest that this system of biannual reporting, supplemented by the performance website, puts the UK at the international forefront of implementing reforms to performance reporting practice.

As part of the Government's response to Lord Sharman's report on Audit and Accountability, the Government has invited the Comptroller and Auditor General to validate the data systems underpinning PSA targets¹². The NAO will validate the data systems underpinning each of the SR2002 targets once during the lifetime of the PSA, whilst recognising the independence of National Statistics and Best Value Performance Indicators.

Sanctions and rewards

There are no direct sanctions for ministers and departments who do not achieve their PSAs. PSA performance is reviewed regularly as outlined above, and ministers are held accountable through PSX, and through public reporting mechanisms. Furthermore, previous departmental performance is taken into account when considering allocations in Spending Reviews. Decisions about remuneration of senior officials in departments are increasingly informed by the department's performance against its PSA targets.

¹⁰ Key Performance Documents : www.hm-treasury.gov.uk/performance/docs

¹¹ PSA Performance Website : www.hm-treasury.gov.uk/performance

¹² Copies of Lord Sharman's report, and the Government's response, are available at http://www.hm-treasury.gov.uk/Documents/Public_Spending_and_Services/Audit_and_Accounting/pss_aud_sharman.cfm

Going forward – Devolved Decision Making

Many PSA targets rely on successful “cascading” through the delivery chain – i.e. ensuring that national targets can be disaggregated and interpreted sensibly at the local level. As part of ongoing work to improve and enhance the PSA framework, the Budget in April 2003 announced the Government's intention to investigate *“devolving decision-making from the centre - to examine how best to achieve decentralised delivery and responsive local and regional services in a way that is consistent with equity and efficiency, against a clear framework of national standards. This will consider the way in which targets are set and the flow of information on performance”*.

The study will cover areas such as increasing autonomy, guaranteeing minimum national entitlements and greater involvement of front line delivery agents in target setting. This will conclude in time to influence the setting of PSAs in the 2004 Spending Review.

What others think of the PSA framework

There has been much interest in the UK's framework for public service reform, both domestically and internationally. Regular media coverage often portrays the system as centrally imposed Stalinist control, or Whitehall bureaucracy with orders dictated from an ivory tower. However, there has also been much parliamentary interest in PSAs which, whilst identifying some concerns and weaknesses within the framework, has recognised the need for performance measurement to play a significant role in improving public services. The NAO has endorsed the framework, saying *“The introduction of Public Service Agreement targets, and in particular the move to outcome-focused targets, is an ambitious programme of change which puts the United Kingdom among the leaders in performance measurement practice”*. The Treasury Select Committee also recognised the importance of the reforms, noting that *“After our visits to overseas Treasury Ministries and our meetings with experts on the Treasury Ministries in Australia and New Zealand, we are aware that the UK Treasury is one of the world leaders in implementing reforms such as resource accounting and budgeting, the private finance initiative, and Public Service Agreements”*.

In 2003, two detailed reports into targets were released, including the Public Administration Select Committee (PASC) report *“On Target? Government by Measurement”*¹³ and the Audit Commission's *“Targets in the Public Sector”*¹⁴. The PASC report conclusions and recommendations

¹³ Available at <http://www.publications.parliament.uk/pa/cm200203/cmselect/cmpubadm/62/6202.htm>

¹⁴ Published 15 Sep 2003, and available from <http://www.audit-commission.gov.uk>

focussed on two key themes - decentralisation and better reporting. On the whole, the conclusions around decentralisation align with the thinking that Government has already undertaken ahead of the next Spending Review. Furthermore, the Audit Commission report, whilst recognising the need for greater local involvement in target setting, concluded that local organisations should recognise the legitimacy of Government in setting national minimum standards and aspirations.

The Government's approach to outcome focused government and performance measurement in public services has also generated much international interest. Over the past 18 months, the Treasury has received visitors from around 25 countries and institutions, including officials and representatives from governments, academic bodies, and international organisations such as the IMF and European Commission. Furthermore, HM Treasury officials have been invited to America, Asia and Africa in the past year to present on the UK framework.

Other performance frameworks

One of the biggest criticisms of the PSA framework is the “plethora” of targets that dominate the public sector. Whilst the PSA framework itself sets an average of around 7 targets per department, there are often other targets and measurement frameworks within which local delivery agents are held accountable. These include Best Value Performance Indicators, which are a set of common performance measures that allow relative comparison of Local Authority performance across the full range of services delivered. One consequence of such a suite of measures is that front line agents often feel that anything that is measured is being targeted. The current review of devolved decision-making will be examining the impact of different approaches to “cascading” targets through performance measurement and assessment frameworks, and identifying how these impacts might be lessened by adopting a more careful and discriminating approach.

The PSA framework is also cascaded down to Local Authorities in the form of **Local Public Service Agreements (LPSAs)**. These LPSA agreements allow Local Authorities to negotiate stretching performance targets based on the national PSA set. Defined freedoms and flexibilities can be agreed as part of the LPSA to assist in achieving the stretch target, and financial incentives for performance (“reward grants”) also form part of the arrangements.

Conclusions

The target framework has come a long way since its inception in 1998. Each subsequent Spending Review has seen refinements to the architecture, and SR2004 should realise improvements both in the way

that targets are set at the national level and cascaded through delivery chains, and in the approaches taken to performance measurement in the context of more open and frequent performance reporting. The UK remains amongst the world leaders in its implementation of public sector performance management, particularly in the measurement of the outcomes for public service users and the general public of public expenditure programmes.

ANNEX: Useful reference material

Spending Review material

http://www.hm-treasury.gov.uk/spending_review/spend_index.cfm

Public service performance - supporting documents

http://www.hm-treasury.gov.uk/performance_docs

PSA Performance website

<http://www.hm-treasury.gov.uk/performance>

“Choosing the right FABRIC: A Framework for Performance Information”

<http://www.hm-treasury.gov.uk/fabric>

“On Target? Government by Measurement”

(Public Administration Select Committee, 22 July 2003)

<http://www.publications.parliament.uk/pa/cm200203/cmselect/cmpubadm/62/6202.htm>

“Targets in the Public Sector”

(Audit Commission 15 Sep 2003)

<http://www.audit-commission.gov.uk>

“Holding to Account”

(Lord Sharman’s Report)

http://www.hm-treasury.gov.uk/Documents/Public_Spending_and_Services/Audit_and_Accounting/pss_aud_sharman.cfm

“Audit & Accountability for Central Government”

(The Government Response to the Sharman Report)

http://www.hm-treasury.gov.uk/Documents/Public_Spending_and_Services/Audit_and_Accounting/pss_aud_sharman.cfm

**“Measuring the Performance of Government Departments”
(National Audit Office, 22 March 2001)**

http://www.nao.gov.uk/publications/nao_reports/00-01/0001301.pdf