

Performance Budgeting in the United Kingdom

by
Zafar Noman*

This article discusses the United Kingdom framework for performance budgeting and management and its evolution from 1998 onwards, primarily focused on the period 1998-2007. Public service agreements (PSAs) have moved away from inputs and processes to a focus on the outcomes that matter to public service users.

* Zafar Noman worked on performance measurement in Her Majesty's Treasury, London, until 2007. An earlier version of this article was published in *Performance Budgeting in OECD Countries*, OECD, 2007. The article covers performance management as it had been implemented up until that time; it covers briefly the latest developments announced shortly thereafter in the United Kingdom Government's 2007 Comprehensive Spending Review covering the period from the present up to 2010/11 (although they are briefly touched upon in the conclusion). For further information on the framework's latest evolution, please see the list of references and the United Kingdom Government's 2007 Comprehensive Spending Review pages at www.hm-treasury.gov.uk/pbr_csr/psa/pbr_csr07_psaindex.cfm.

1. Introduction

This case study defines performance information in line with the OECD: broadly speaking, “the term ... includes both evaluations and performance measures” (OECD, 2005, p. 58).¹

The use of measures and indicators for performance management and budgeting – in so far as it concerns HM Treasury in its role as a finance ministry – has been of greatest significance with respect to the public service agreement (PSA) framework. These agreements, overseen by HM Treasury, set out aims, objectives, targets, and efficiency savings for government departments in exchange for the resources committed.² The framework has been described by the OECD as being a top-down, total-system approach (OECD, 2005, p. 61).

Although the emphasis in this case study is on performance measures as related to PSA targets, two further comments can be made:

- Evaluations have also been integral to the performance framework and the setting of spending plans during spending reviews.
- Performance measures were used to assist HM Treasury and departments in collectively delivering over GBP 21 billion worth of annual efficiencies over the three years from 2005 to 2008.

This discussion focuses mainly on the United Kingdom framework and its evolution from 1998 to the end of the 2007/08 fiscal year, providing an overview and highlighting key successes and lessons learned. However, the framework has recently evolved further through: a Comprehensive Spending Review (CSR) which concluded in the autumn of 2007 (fourth quarter). The CSR constituted a fundamental review of the balance and pattern of public expenditure.

2. Description of the performance system

2.1. Background

Following the 1997 general election, the government conducted the 1998 Comprehensive Spending Review which introduced a modernised public spending and performance management framework in order to support the prudent and efficient planning of expenditure over the medium to long term. This 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. [These spending plans, set out initially in spending reviews (SRs), have to date occurred in 2000, 2002, 2004 and 2007; each SR included one overlapping year from the previous round.]
- 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 (PSAs), which for the first time set measurable targets for a wide range of the government's objectives for public expenditure programmes.

The stated aims of the 1998 CSR were to: reallocate money to key priorities; change policies so that money is well spent; ensure that departments work better together to improve services; and weed out unnecessary or wasteful spending.

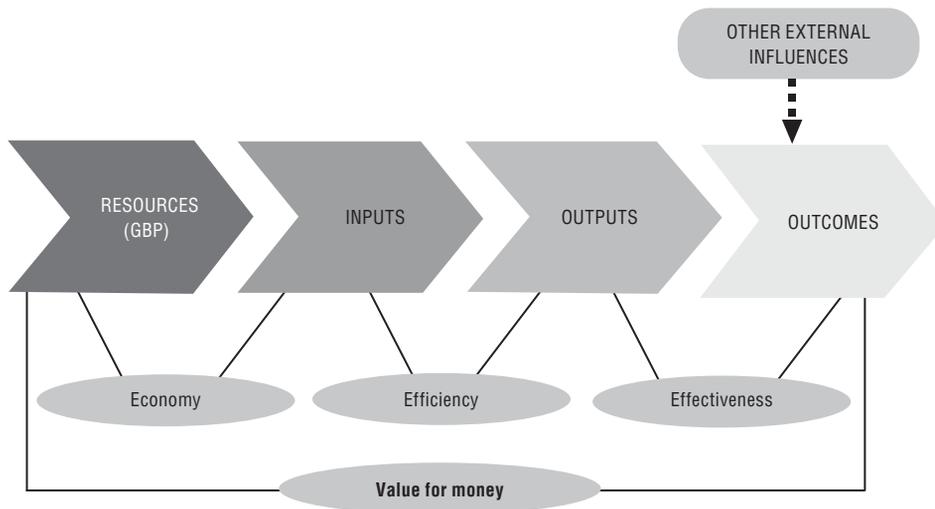
The context of these reforms was one where the political landscape had shifted following the start of a newly elected Labour government with manifesto commitments to reform. In terms of the wider economic setting, the government had inherited a historically unstable economy and recognised that a lack of end-year flexibility in budgeting had led to distortions in public spending patterns and a focus on the short term. Providing medium-term stability and commitment in spending reviews contributed to improvements on both these fronts.

2.2. The motivation for public service agreements (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 interrelationship of inputs, outputs and outcomes in delivering this activity. Inputs are those resources that contribute to production and delivery. Taking the medical sector as an example, inputs commonly include things such as labour, physical assets and IT systems (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 or individual of government activities, and normally represent what the organisation is trying to achieve (*e.g.* longer life expectancy and better health). Hence outcomes should, where practical, be measured when setting high-level organisational targets. The interlinkage between resources, 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 in 2001 by HM Treasury, the Cabinet Office, the National Audit Office, the Audit Commission and the Office for National Statistics.

The departmental public service agreements for the 2005-08 period primarily included targets relating to outcomes (*e.g.* reductions in mortality rates from cancer and heart disease), although there were a small number of output targets. Successive spending reviews have moved towards a higher proportion of outcome-focused PSA targets, and for the 2004 spending review there was a substantial reduction in the number of input and process targets.

Figure 1. **Performance in context**

2.3. Content and approaches

2.3.1. Principles of public service performance

The framework for PSAs is based on four principles of public service performance, originally set out in Chapter 1 of the 2002 Spending Review White Paper (HM Treasury, 2002):

- Clear, outcome-focused national 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.
- Independent and effective arrangements for audit and inspection to improve accountability.
- Transparency about what is being achieved, with better information about performance both locally and nationally.

Further principles for targets were set out in Chapter 1 of the 2004 Spending Review White Paper (HM Treasury, 2004), which combined continuity of structure from previous spending reviews with improvements to targets, such that the targets agreed aimed to:

- be ambitious to meet the government's commitment to improvement and the public's expectation. Setting a target to deliver a 10% improvement and in the end delivering only 9% is a far better outcome than meeting an unambitious target;
- involve those responsible for delivering the outcomes sought to ensure a common shared agenda for improvement and reduce the risk of perverse incentives or distortions to delivery;
- integrate evidence, analysis and best practice in their selection, phrasing and measurement to maximise their impact on delivery.

2.4. Why set targets?

Since the introduction of the framework in 1998, targets have been used to give a clear sense of direction and priority to service delivery agents; used wisely, they provide a focus

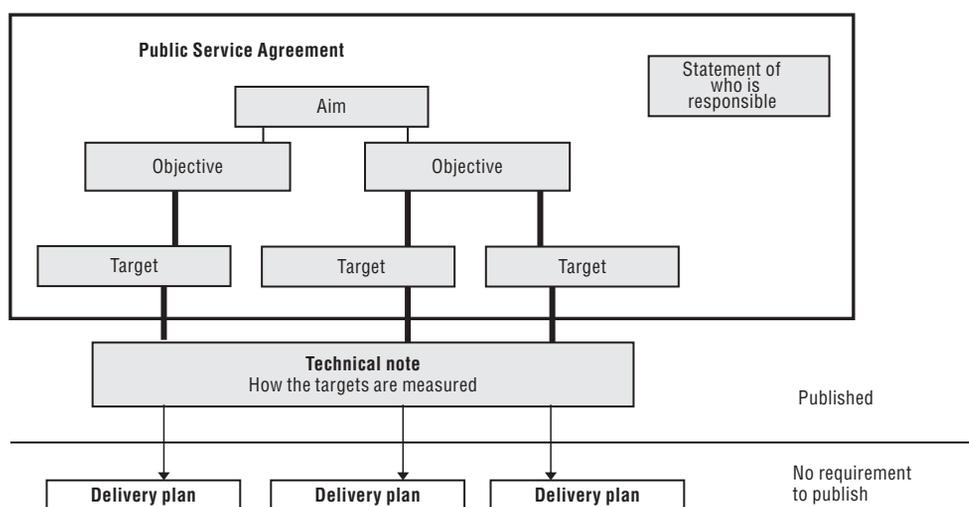
for delivering improved services. As part of a performance management system, the performance information underpinning targets can provide a basis for monitoring what is working and what is not, helps to ensure that good practice is spread and rewarded, and enables poor performance to be tackled.

2.5. Format

The format for public service agreements up until the 2004 spending review period (covering 2005/06 to 2007/08) gave them 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-focused goals under most, but not necessarily all, objectives. (SMART means specific, measurable, achievable, relevant and timed.)
- A statement of who is responsible for the delivery of these targets (usually the relevant Secretary of State).

Figure 2. **The PSA framework, 1998-2007**



Furthermore, as set out in the 2004 White Paper (HM Treasury, 2004), PSAs in this form included:

- “Floor” targets focusing in particular on areas of deprivation, ensuring that everyone benefits from improved public services.
- “Standards” ensuring that where previous PSA targets have been met or are about to be met, performance will continue to be monitored and reported so that the high levels of performance that have been achieved are maintained in the future. For example, standards have been introduced for the Department of Health, where a maximum four-hour waiting time in accident and emergency units has been achieved; but further improvements could only be delivered at significant cost (which would require diverting resources from other priority areas).

The 2004 Spending Review also set an efficiency target for each department – focused on improving the “value for money” of key elements of its work – with the aim

of achieving the government's ambition of over GBP 21 billion of annual efficiencies by the end of 2007/08.

2.5.1. Developing public service agreements

PSAs have been developed by departments in consultation with HM Treasury. An initial indicative list has been agreed midway through the Spending Review at ministerial level, which allows for further work by departments on the detail – including precise target levels, baselines, consultation with experts and the delivery chain, and an understanding of what must be delivered – in order to ensure that effective performance measures can be published at the conclusion of the spending review. This method has been described by the OECD as a “top-down and total system” approach (OECD, 2005, p. 61).

2.5.2. The legal and institutional framework

The performance framework has not been defined in law or regulation, although all departments must report on performance and delivery to HM Treasury. In addition, the government has committed to reporting performance information to Parliament, and did so on a twice-yearly basis.

2.5.3. Treasury involvement

Again, there are no legal requirements for departments to develop performance measures, conduct evaluations or develop mission statements, although all departments have been required to develop and commit to a PSA and all have participated in the Spending Review process. The PSA performance framework, including its development and evolution, has been led by the Treasury, with rigorous attention to performance measures and evaluations by dedicated teams. Additionally, the work of each department is overseen by Treasury “spending teams”. HM Treasury also works in conjunction with the Prime Minister's Delivery Unit – set up to bring extra resources and focus to those areas of performance that are key priorities for the Prime Minister – and the Office of Government Commerce, which worked with the Treasury in developing and improving performance measures for the government's programme to deliver over GBP 21 billion of annual efficiencies during the 2004 Spending Review period (covering 2005/06 to 2007/08).

The Chancellor of the Exchequer, the Prime Minister and ministers have all played key roles in ensuring the success of this framework by providing leadership and input. Parliament has also played a key role by providing oversight and accountability.

2.6. Scope and coverage

Performance measures as constituted by PSA targets covered a considerable portion of government expenditure, but by no means all of it. In some areas of government spending, target setting is not appropriate – for example, it is not suitable where outcomes or even outputs are difficult to measure – although the objectives set out in PSAs are intended to both drive and capture departmental activity.³ There were approximately 110 PSA targets in the last spending review period (covering 2005/06 to 2007/08), down from around 600 in 1998.

The recent Comprehensive Spending Review has been informed by an ambitious and far-reaching value-for-money programme to release the resources needed for the long-term challenges of the next decade. This involved further development of the efficiency areas identified as part of the 2004 independent review of public sector efficiency (Gershon,

2004), in addition to a set of zero-based reviews of each department's baseline expenditure to assess its effectiveness in delivering the government's long-term objectives. Whereas past spending reviews have traditionally focused on allocating incremental increases in expenditure, the process of setting new long-term objectives in the CSR provided an important opportunity for a more fundamental review of the balance and pattern of expenditure within and across departments. The aim of these zero-based reviews was to renew each department's baseline expenditure to reflect changing priorities ten years on from the first CSR.

3. Measurement and assessment of results

3.1. Setting goals

Ministers have had substantial input in departments' objectives, providing approval, challenge, and ultimate sign-off. For most PSAs, a specific relevant Secretary of State is accountable. Excluding exceptional circumstances, PSAs are not modified midway through the spending review but remain valid until the next spending review takes place.

3.2. Performance measures: overseeing and monitoring delivery

As mentioned in Section 2, targets ideally should specify outcomes and avoid setting prescriptive input or output levels for the entire delivery chain. It is important, however, to recognise the influence of other factors on the overall outcomes that departments are working to improve. Thus it may not always be clear how much of a change in an outcome can be attributed to an organisation. For example, a public health initiative may not produce the desired influence on life expectancy due to other lifestyle factors. Moreover, measuring outcomes in public sector activity can be highly challenging: for instance, outcomes may only become measurable long after outputs (this holds for the health example above). As a result, in some cases it may be more practical to use outputs to underpin performance measures, but it is important to take quality considerations into account when quantifying outputs and to be clear about the anticipated linkage between outputs and outcomes.

Much emphasis is currently placed on the need to measure delivery success in terms of change on the ground: real-world improvements for people who use public services. Examples of the size of the challenge include rapid turnaround of patients in hospital accident and emergency units, motorway journeys that are less frustrating, or a sustainable rural economy. Because of the influence of external factors and the need for government departments to meet the challenge of delivering outcomes, there has been an increasing focus on delivery in recent years. The Prime Minister's Delivery Unit has worked, in conjunction with HM Treasury, to achieve substantial progress in this area. Notable changes to the framework include the introduction of delivery plans (as previously mentioned) to ensure that departments consider and plan how they will realise improved outcomes.

3.3. The evolution of PSAs

As noted above, PSAs were first introduced in the 1998 Comprehensive Spending Review, which set approximately 600 performance targets for around 35 areas of government (HM Treasury, 1998). However, the majority of targets set in 1998 focused on inputs or processes rather than on the key outcomes and outputs of government. By the time the 2004 Spending Review had concluded, the number of targets was reduced to

around 110. The four spending reviews until then (in 2000, 2002, 2004 and 2007) introduced a revised format for PSAs, a more considered approach to joint targets, and supporting documents to the PSA architecture in the form of published technical notes (TNs) – detailed documents that set out exactly how the PSA targets are defined, which data sources are used to measure progress towards the target, and a description of how the target can be judged as met or otherwise.

3.4. Setting targets

3.4.1. Choosing the right targets

Targets need to be chosen carefully. In setting targets for large organisations such as government departments, it is important to focus on a manageable number of priority areas. The last set of PSAs contained around 200 targets and sub-targets for 20 departments. Targets should be outcome-focused and meet the SMART criteria, i.e. specific, measurable, achievable, relevant and timed. 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 economic, environmental or other impact of expenditure programmes. Finally, and perhaps most importantly, 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 or “front-line” level.

There are also pitfalls to avoid when setting targets – measurement issues in particular. For example, there was considerable external comment about the Department of Health’s 2002 spending review target to cut maximum waiting times in accident and emergency units to four hours. A milestone towards the target was defined in such a way that the performance of the National Health Service Trust accident and emergency departments (A&E) was assessed for one week only. Some commentators wondered if this had led to a distortion of activity for the week during which performance was measured, but over the following weeks there was a noticeable and sustained step change in the length of waits in A&E (and the target has since been successfully met). This highlights the importance of considering incentives when designing measurement systems and, more generally, of consulting front-line workers (doctors, nurses) and other key stakeholders in the delivery chain if targets are to be used. In early 2007, the government announced that it would inform its priority setting for the years ahead through consultation with front-line professionals and the tertiary sector, and increase its focus on the needs and experiences of service users themselves. Consultation formed part of the “national debate” on the future priorities for public spending and public services that the government announced with the 2006 budget.

As part of the government’s response to Lord Sharman’s report on audit and accountability, it has invited the Comptroller and Auditor General to validate the data systems underpinning PSA targets.⁴ The National Audit Office (NAO) has validated the data systems underpinning each of the 2002 spending review targets and found that “77% of data systems provided a broadly appropriate basis for measuring progress” although it also said that “there is much opportunity for departments to take further action to ensure that data systems for all PSA targets are robust.” The NAO has validated the data systems underpinning PSAs from the 2004 Spending Review and published a full assessment in 2007, finding that 85% of data systems were broadly appropriate (NAO, 2007).⁵ Additionally, many PSA targets rely on national statistics, which will be independently

assessed if plans to create an independent board to govern the production and release of national statistics have been approved by Parliament and implemented.

4. Integrating performance information in the budget process

4.1. Linkage of performance information to budgeting decisions

Performance information is discussed as part of spending review negotiations between the Treasury and departments, although there has been no predetermined mechanistic relationship between past performance and resource allocation for the future. The Treasury is actively involved in the development of performance information and, as previously mentioned, technical notes have been published as part of the 2002 and 2004 spending reviews. Over time, departments have acquired greater capacity to develop effective performance information systems. This capacity has been supported by HM Treasury and other expert bodies, including the Audit Commission and the National Audit Office, the United Kingdom's supreme audit authorities. A further key challenge is ensuring that PSAs are agreed, and delivery plans formulated, on the basis of sound evidence.

In a given spending review, the targets set will be consistent with departments' overall spending envelope, rather than setting spending settlements according to the proportion of targets from previous spending reviews that a department has met. Mechanically penalising departments for failing to meet outcomes might not be efficient – for example, where external influences have impacted significantly on the outcome – and would focus on the past rather than looking to priorities and challenges ahead. However, in the past PSAs have successfully ensured returns in exchange for the incremental increases in expenditure that departments have collectively received over the past few spending reviews.

Most targets have been set with an end date around the close of the spending review period, beyond which departmental budgets are uncertain.

5. Incentives and reporting

5.1. Enhancing accountability

One of the key elements of a PSA was the statement of who is responsible for delivery. The relevant departmental Secretary of State (or Secretaries of State in the case of joint targets) was accountable for the delivery of the PSA and for performance against the targets therein. The Chancellor of the Exchequer chairs a subcommittee of the Cabinet on Public Services and Expenditure (PSX), which has met to hold ministers to account for their delivery of public service improvements and their use of public funds in delivering them. The Prime Minister's key priorities are focused on by the Prime Minister's Delivery Unit (initially part of the Cabinet Office, now part of the Treasury), and HM Treasury and the PMDU work closely with departments on delivery issues. Moreover, the principles of public service performance set out earlier (see Section 2.3.1) identified 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 (second quarter), 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 describe latest performance in relation to the department's PSAs. In 2002 the government increased the

frequency of PSA reporting to twice a year through the introduction of performance reports in the autumn (fourth quarter). As part of the 2002 spending review commitments, the Treasury maintained a single portal to all departmental performance documents on the web. These reports are used by and accessible to Parliament, parliamentary select committees (which focus on particular departments), the public and HM Treasury. Departments must account for the reliability of their performance information to Parliament and, as mentioned, data systems are validated by the National Audit Office.

This system of biannual reporting placed the United Kingdom at the forefront of reforms to put performance reporting and genuine accountability into practice.

5.2. Sanctions and rewards

There were no formal or legal sanctions for ministers and departments when they did not achieve their PSAs. PSA performance was reviewed regularly as outlined above, and ministers were held accountable through the PSX Cabinet committee and in particular through public reporting mechanisms. Increasingly, and with the help of the Prime Minister's Delivery Unit, departments have been adopting more formal programme and project methodologies in managing their PSAs, including designating senior officials who are accountable for performance.

HM Treasury looked at departmental performance against public service agreements in the context of the Comprehensive Spending Review, a fundamental review of the balance and pattern of public expenditure, taking stock of what the investments and reforms have delivered to date and identifying the further steps needed to meet the challenges and opportunities of the decade ahead. Through this process, the government set new objectives and priorities for the CSR period and beyond, with departmental allocations set accordingly. However, there is no mechanistic relationship between the proportion of targets from previous spending reviews that a given department meets and the expenditure that is allocated to it.

6. Key challenges, lessons learned, and ways forward

6.1. Delivery

Understanding the delivery chain at the target-setting stage is important for ensuring that any targets that the government sets are achievable and realistic. Almost all PSAs from the 2004 Spending Review were supported by a well-established delivery plan. The challenge towards the end of the last spending review period in 2008 was therefore implementation: delivering the irreversible step change in United Kingdom public services encapsulated by the PSA targets. This focus required ambition, focus, urgency and clarity. As the government strives to deliver increasingly complex outcomes that cut across organisational boundaries, understanding implementation and how a target will be operationalised becomes increasingly important. Likewise, it is important to have timely and high-quality information about developments in the delivery chain to enable monitoring and challenge by senior management. High-level leadership is yet another important factor in driving delivery: the profile of issues around public service quality and public management in the United Kingdom has helped increase the impetus stemming from the top, particularly at a time when public expenditure has risen significantly and improvements are rightly expected to match significant extra resources. This impetus has helped drive success within the United Kingdom's performance framework.

6.2. Measurement

It is crucial to ensure that departments have access to high-quality, robust and timely performance data that help the government relate resources to outcomes. Setting technical notes and considering measurement issues during spending reviews represented considerable advances. However, scope for improvement was identified: it was argued that further development could come from even greater attention to measurement issues at the stage when PSAs are set, careful consideration of data quality and related issues during the life of a PSA, enhancements to guidance to ensure consistency in data collection, further investment in measurement systems, and improvements in disclosing data weaknesses.

6.3. Incentives

Failure to gain the support of key agents can lead to problems with perverse incentives and gaming. Solutions include consulting with staff at the front line of service delivery and other agents at key stages in the delivery chain, which is important for understanding how to create the right incentives when performance information is used for management and budgeting purposes.⁶ Moreover, if performance-based budgeting is to be used to create incentives, it is helpful if budgeting agencies understand and can predict the likely effects on agents' behaviour. For example, if performance and budgets are linked through pay, there is a risk that expenditure will be difficult to predict without this understanding.⁷ Solutions might include taking a cautious approach to activity-based budgeting, rigorous consultation and analysis, and "piloting" performance-based budgeting schemes.

6.4. Relevance

It is important to ensure that national targets remain relevant at the local level if local partners and delivery agencies are to continue to see national targets as a priority. Focusing on outcomes also helps to ensure that government outputs have relevance at the local level. For example, increasing the number of police on the street may have limited relevance in an area with little street crime; however, focusing on a reduction in crime allows local authorities to tailor their response to local needs. Moreover, targeting minimum standards or an improved national average allows more flexibility for local areas that already meet those standards or beat the national average compared to targeting an improvement in all areas, as such improvements might be a relatively low priority for some areas.

6.5. Decentralisation

Focusing on outcomes enables decentralised decision making by allowing other departments and agencies to decide what mix of outputs is best for achieving those outcomes. By contrast, input- and output-oriented targets can restrict delivery agencies in terms of what activities they focus their resources on.

6.6. Local involvement

In many instances, the outputs of local authorities and agencies play a substantial role in delivery. If performance management is to be successful, local organisations ought to be treated as partners and should be consulted (on how performance will be managed and what outcomes can be achieved), while recognising the legitimacy of central government in setting priorities and aspirations. Consulting local delivery partners and working with them to establish a performance framework and set targets are important for ensuring that

the performance framework has buy-in throughout the delivery chain and that any targets are ambitious but realistic. Moreover, ensuring open communication channels and a feedback mechanism that gives local agencies a voice in the centre enables the centre of government to take an overview as to how different central departments are impacting on and interacting with local partners.

6.7. What others think of the PSA framework

There has been much interest in the United Kingdom's framework for public service reform, both domestically and internationally. Regular media coverage occasionally portrays the system as centrally imposed control or "Whitehall bureaucracy". However, there has also been much parliamentary interest in PSAs which, while 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 government's approach to outcome-focused government and performance measurement in public services has also generated much international interest. Over the past few years, the Treasury has received visitors from more than 40 countries and institutions, including officials and representatives from governments, academic bodies, and international institutions such as the International Monetary Fund and the European Commission.

6.7.1. Other performance frameworks

One of the biggest criticisms of the PSA framework was the "plethora" of targets that dominated the public sector. While the PSA framework itself previously set an average of around six or seven targets per department, there were often other targets and measurement frameworks – operating within departments, and not led by the Treasury – within which local delivery agents are held accountable. These included best value performance indicators, which were a set of common performance measures that allowed 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 felt that anything that was measured was being targeted. It is important to consider the impact of "cascading" targets through performance measurement and assessment frameworks, and to identify how these impacts might be lessened by adopting a more careful and discriminating approach.

6.7.2. Impact

There have been significant achievements in key areas where PSAs have been set, including reductions in crime, improvements in hospital waiting times, and improved educational attainment.

Performance information in PSAs has given focus to management, provided a basis for making difficult decisions about priorities, and galvanised delivery agents towards delivering improvements in public service outcomes, thereby pushing the emphasis towards getting the most out of a given basket of resources. Since departments often had ambitious targets, their own finance divisions have to manage resources tightly in order to

achieve improvements on any one of those fronts. In that sense, the focus on producing significant improvements in outcomes also helps to place pressure on departments to use only those outputs that are most effective for achieving the outcome.

PSA performance information is not intended to help maintain aggregate fiscal discipline, which stems from the United Kingdom's fiscal rules.⁸

7. The way ahead

7.1. Looking back

The public service agreement framework has come a long way since its inception in 1998. Each subsequent spending review has seen refinements to its architecture, and since its implementation the PSA framework has ensured that incremental increases in public expenditure have met with real progress on the government's key priority outcomes.

PSAs have moved away from micromanaging inputs and prescribing processes to a focus on the outcomes that matter to public service users, enabling greater flexibility and innovation in front-line delivery. These continuing reforms and the evolution in the PSA framework have played a key role in driving significant improvements across public services (for example, in health, education and crime).

7.2. The 2007 Comprehensive Spending Review

With 90% of PSA targets coming to an end at the conclusion of the 2004 spending review period (covering the years 2005/06 to 2007/08), there was an opportunity to further develop the framework as part of the 2007 CSR. The delivery landscape is progressively more devolved to local government, the front line, executive agencies and other delivery units. As the framework evolves, it has become clear that objectives, targets and measures set at a national level do not exist in isolation, and that successful delivery of outcomes requires coherent alignment of all the levers, drivers and incentives that exist throughout complex delivery chains.

7.3. Driving forward the next stage of reform

Over the last decade, far-reaching social, economic and technological changes have transformed the environment in which public services operate. An ageing population, changing patterns of work and family life, globalisation, technological innovations such as the Internet and other developments are creating new and rising demands on a range of public services including childcare, education and training, and health and social care.

There have also been substantial changes in public attitudes and expectations. As real incomes have grown – the benefit of a strong and stable economy – so too have people's expectations of public services. Across the economy, standards of service have improved enormously, the result of rising disposable incomes and intensifying competition for businesses. Opening hours fit around the needs of the customer, new methods of payment and delivery have been created, and a much greater focus is placed on high-quality customer service.

People are therefore now accustomed to much greater choice and control over their lives. Higher educational levels mean they are better equipped to exercise this choice, less likely to accept advice without question and less likely to allow others to make choices on their behalf. With the advent of the Internet and other new media, people now have immediate and unfettered access to information on virtually any topic that interests them.

The old divides between producers and users, experts and amateurs, are being broken down and blurred. Public services need to be ready to respond to these trends.

Alongside these responsibilities for government, citizens will also need to take on a more active and responsible role themselves in order to fulfil their aspirations and meet the challenges of the decade ahead. For example, in order to tackle climate change, regulation and investment by the government will be crucial, but not sufficient unless individuals also act with greater environmental and social responsibility in the way they use resources. Likewise, public investment in education and training will not be enough to meet the challenges of an increasingly competitive global economy unless individuals also take responsibility for upgrading their own skills and seeking out new career opportunities. Collaborative action is a key theme for the government's policy and reform agenda over the period covered by the 2007 Comprehensive Spending Review from 2008/09 to 2010/11.

7.4. Principles of public service delivery in the next spending period: 2008/09 to 2010/11

In order to create the conditions in which better public service outcomes are forged in partnership with citizens, the government is building a new model of public service delivery for the next decade based on three key principles:

- **Setting a clear focus on ambitious priorities**, consulting with the public and professionals to define the key goals for the next ten years in order to respond to the challenges facing the United Kingdom, and ensuring that the resources and policies are in place to deliver these ambitions.
- **Putting users at the heart of services**, through new channels of engagement that help the public shape services; new mechanisms to deliver accountability, including greater use of real-time data; new opportunities for people to exercise choice in how to access and tailor their services, coupled with clear responsibilities for all.
- **Freeing up frontline public service professionals to drive public service improvements**, placing greater trust in those delivering services to respond to the priorities of individual areas, communities and citizens.

7.5. The new performance management framework

Since their introduction in the 1998 CSR, public service agreements (PSAs) have played a vital role in ensuring that the sustained increases in resources have been translated into higher standards across public services and led to major improvements in outcomes. But the challenges of the next decade are different; and so, following extensive consultation with the public and frontline professionals, the government has decided to make a decisive shift in the way it sets its priorities and drives performance.

The 2007 CSR therefore announced a new performance management framework, consisting of the following elements:

- **A streamlined set of 30 new public service agreements (PSAs)**, which articulate the government's highest priority outcomes for the CSR07 period and span departmental boundaries, setting out a shared vision and leading collaboration at all levels in the delivery system.
- **A single delivery agreement for each PSA**, published to strengthen accountability and ownership across organisational boundaries. These have been developed in consultation

with frontline workers and the public, and set out the role that each department will play.

- **New Cabinet committees** which will play a key role in driving performance on cross-government PSAs by regularly monitoring progress and holding departments and programmes to account. The government is also examining the scope for building PSAs explicitly into the performance management framework for the civil service – ensuring a relentless focus on PSA delivery in central government.
- **A small basket of national, outcome-focused indicators to support each PSA**, ensuring robust and transparent performance measurement alongside genuine rationalisation, with a significant reduction in the overall number of priority indicators attached to PSAs.
- Targets used where appropriate to deliver improved performance and accountability; with nationally set **targets reserved for a small subset of PSA indicators** that require firm central direction, and far greater space for increased local target setting.
- A more comprehensive approach to performance monitoring, with **each department publishing a set of departmental strategic objectives (DSOs)** for the CSR07 period, alongside the smaller, prioritised set of “cross-government” PSAs. This will for the first time **bring all performance monitoring into a single framework**, covering both the government’s highest priorities (PSAs) and the wider span of departmental business.
- Across the whole framework, a premium on the use of high-quality, timely data while freeing up the frontline by reducing low-value data burdens. To reduce unnecessary burdens on the frontline, the government announced **a commitment to reduce by 30% by 2010 the total amount of data** that central departments and agencies request from the frontline.

The changes represent a new balance of accountability where central co-ordination works in synergy with greater direct accountability to service users and local communities; **citizens’ personal experiences** of services will increasingly shape design, delivery and **measurement of success**; and staff in the public sector will be empowered – respecting their skills and professionalism – to respond to citizens’ needs.

Alongside reforms to the national framework, the government has agreed **a single, aligned framework for the performance management of outcomes delivered by local government** working alone or in partnership, with a much smaller and more focused set of 198 performance indicators, down from an estimated 1 200. The new set of indicators includes all relevant PSA and DSO outcomes that are delivered at the local level, reducing the reporting burden for local authorities.

Notes

1. The OECD publication also informs our interpretation of performance information as it applies to management and budgeting processes.
2. Unless otherwise specified, references to public service agreements here and elsewhere refer to those set at the 2004 spending review and the overall framework since 1998, rather than the PSAs that have been set as part of the 2007 Comprehensive Spending Review and come into effect for the spending period from 2008/09 to 2010/11.
3. Hence spending reviews have taken a comprehensive (rather than a partial) approach to performance budgeting as broadly defined. One of the definitions of performance budgeting describes it as “any budget that presents information on what agencies have done or expect to do with the money provided” (OECD, 2005, p. 59).

4. The Comptroller and Auditor General is the head of the National Audit Office, the United Kingdom's supreme audit authority for central government. Local government falls under the remit of the Audit Commission. Copies of Lord Sharman's report, and the government's response, are available at www.hm-treasury.gov.uk/documents/public_spending_reporting/governance_risk/psr_governance_sharman_report.cfm.
5. The NAO's latest validation can be accessed at www.nao.org.uk/publications/nao_reports/07-08/070822es.htm.
6. Note the example provided in Section 3.4.1 above.
7. This is a specific example of "activity-based budgeting".
8. More information on the fiscal rules can be found at www.hm-treasury.gov.uk/documents/uk_economy/fiscal_policy/ukecon_fisc_index.cfm.

References

- Gershon, Sir Peter (2004), *Releasing Resources to the Front Line: Independent Review of Public Sector Efficiency*, July, Crown copyright, Her Majesty's Stationery Office, London.
- Government of the United Kingdom (2002), *Audit and Accountability in Central Government. The Government's Response to Lord Sharman's Report "Holding to Account"*, March, Cm 5456, London.
- HM Treasury (1998), *Public Services for the Future: Modernisation, Reform, Accountability (Comprehensive Spending Review: Public Service Agreements 1999-2002)*, presented to Parliament by the Chief Secretary to the Treasury by Command of Her Majesty, December, Cm 4181, London.
- HM Treasury (2002), *Opportunity and Security for All: Investing in an Enterprising, Fairer Britain (New Public Spending Plans 2003-2006)*, 2002 spending review presented to Parliament by the Chancellor of the Exchequer by Command of Her Majesty, July, Cm 5570, London.
- HM Treasury (2004), *2004 Spending Review: Public Service Agreements 2005-2008*, Cm 6238, London.
- HM Treasury (2007), *2007 Pre-Budget Report and Comprehensive Spending Review*, Cm 7227, London.
- HM Treasury (2007), *2007 PBR CSR: Public Service Agreements*, London, www.hm-treasury.gov.uk/pbr_csr/psa/pbr_csr07_psaindex.cfm.
- HM Treasury, Cabinet Office, National Audit Office, Audit Commission and Office for National Statistics (2001), *Choosing the Right FABRIC: A Framework for Performance Information*, March, www.hm-treasury.gov.uk/media/EDE/5E/229.pdf, London.
- National Audit Office (2007), *Fourth Validation Compendium Report*, The Stationery Office, London.
- OECD (2005), *Modernising Government: The Way Forward*, OECD Publishing, Paris.
- Sharman, Lord of Redlynch (2001), *Holding to Account: The Review of Audit and Accountability for Central Government*, February, London.