

aiming
to improve
the principles
of performance
measurement



AUDIT
COMMISSION

Promoting the best use of public money

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Andrew Foster, Controller, **The Audit Commission**,
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1. Introduction

1. Performance measurement is the essential foundation on which performance management can be built. It is, therefore, an increasing priority for all managers in the public sector. In local government, the introduction of best value means that authorities should develop local performance indicators and publish their performance against both these and nationally defined performance indicators. The Performance Assessment Framework (PAF) in the NHS and in social services in England, the NHS Wales Performance Management Framework (PMF), and Public Service Agreements (PSAs) in central government are encouraging all public service managers to develop their own performance measurement systems. In addition, the Government is committed to developing a performance information strategy bringing together all existing work on the design, usability and accessibility of performance measures and targets¹.

2. It is important that this investment in performance measurement delivers the benefits expected. This paper is aimed at helping public service managers to develop and use effective performance measurement as an important component of their overall strategic and operational management. It builds upon the lessons learnt by the Audit Commission, and the ideas of other experts in the field. Effective performance measurement usually requires good performance indicators. A companion paper, *On Target: The Practice of Performance Indicators*, has been published to give more detailed advice on devising performance indicators.

3. But although performance indicators are important, they are not the only way of assessing performance. Performance in some cases may be better assessed by external or internal inspection, often used in conjunction with quantitative indicators.

Performance measurement is... an increasing priority for all managers in the public sector.

¹ *Wiring it Up – Whitehall's Management of Cross-cutting Policies & Services*, Performance and Innovation Unit, January 2000.

2. Why measure performance?

4. The emphasis on performance measurement in the public sector carries with it the risk that the process becomes an end in itself. It is important that organisations do not lose sight of the fundamental objectives of performance measurement:

- **Improved public services.**
Performance measurement is one essential element in performance management to secure continuous improvement in public services.
- **Improved accountability.**
Clarifying the outputs and outcomes that are achieved for the resources used makes it easier to hold organisations accountable.

5. Performance measurement can help organisations improve performance by identifying good practice and learning from others. It can also ensure that the organisation is focused on its key priorities, and that areas of poor performance are questioned [EXHIBIT 1].

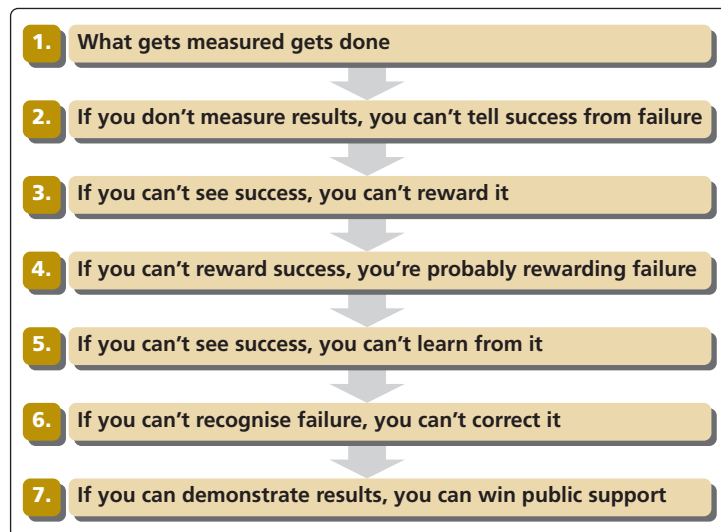
6. However, identifying opportunities for improvement is only a start. The choice of performance indicators will have a major impact on the behaviour of the organisation. It is therefore necessary to understand the processes that will have a beneficial impact on performance, and to choose indicators that reflect these. Organisations should develop their processes for reviewing

performance and ensure that the lessons learnt are fed back and used to review objectives and are included in their strategies for service development; and that they continue to monitor performance to ensure that the improvements are achieved.

EXHIBIT 1

Why measure performance?

Performance measurement can contribute to effective services.



Source: Extract from Osborne & Gaebler, *Reinventing Government*, 1992

3. The principles underlying effective performance measurement

7. An effective performance measurement system will be built around six key principles:

- **Clarity of purpose.** It is important to understand who will use information, and how and why the information will be used. Stakeholders with an interest in, or need for, performance information should be identified, and indicators devised which help them make better decisions or answer their questions.
- **Focus.** Performance information should be focused in the first instance on the priorities of the organisation – its core objectives and service areas in need of improvement. This should be complemented by information on day-to-day operations. Organisations should learn how indicators affect behaviour, and build this knowledge into the choice and development of their performance indicators.
- **Alignment.** The performance measurement system should be aligned with the objective-setting and performance review processes of the organisation. There should be links between the performance indicators used by managers for operational purposes, and the indicators used to monitor corporate performance. Managers and staff should understand and accept the validity of corporate or national targets.
- **Balance.** The overall set of indicators should give a balanced picture of the organisation's performance, reflecting the main aspects, including outcomes and the users' perspective. The set should also reflect a balance between the cost of collecting the indicator, and the value of the information provided.
- **Regular refinement.** The performance indicators should be kept up to date to meet changing circumstances. A balance should be struck between having consistent information to monitor changes in performance over time, taking advantage of new or improved data, and reflecting current priorities.
- **Robust performance indicators.** The indicators used should be sufficiently robust and intelligible for their intended use. Independent scrutiny, whether internal or external, helps to ensure that the systems for producing the information are sound. Careful, detailed definition is essential; where possible, the data required should be needed for day-to-day management of the services.

These principles are explored in more detail in the following paragraphs.

Clarity of purpose

8. A performance measurement system can have a multiplicity of users. These users might include:

- service users, and the general public, including interest groups and the media;
- central government;
- national and local politicians, local councillors, and non-executive directors of trusts and health authorities;
- managers at all levels in the organisation.

9. Each user may use the information in a different way, for example:

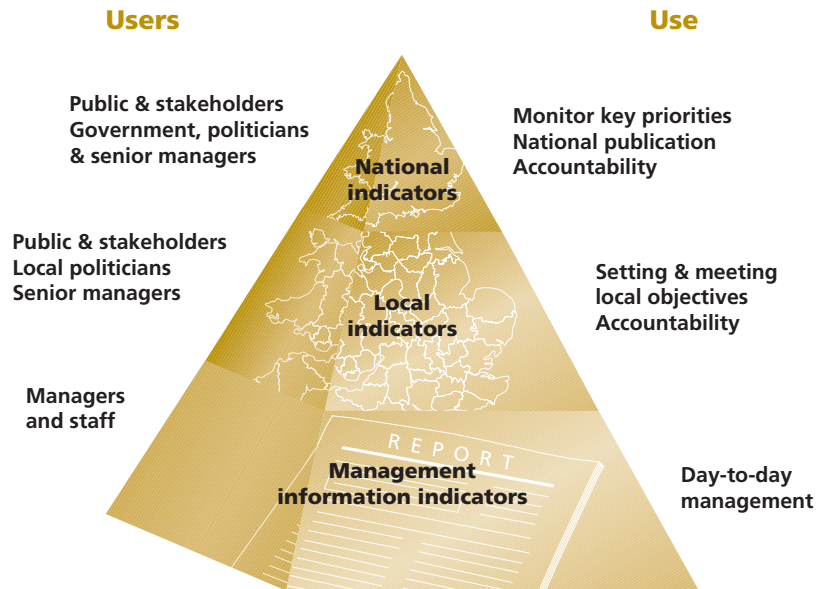
- service users and the public will want to know what service standards to expect, and to be able to hold the organisation to account;
- the government will want to improve service delivery by monitoring the achievement of national targets, publishing local performance information at the national level, identifying both poorly performing organisations and successful ones;
- local councillors, politicians and trust non-executives will want to ensure that strategic objectives are being met, and that service standards are being maintained; and
- managers will want to monitor and manage service efficiency and output in their areas of responsibility, and to benchmark their performance against others.

10. Each user of the performance measurement system therefore needs to be identified, and their information needs recognised [EXHIBIT 2].

EXHIBIT 2

The different users and uses of indicators

Indicators should form a coherent set, with operational indicators supporting the publication of local and national indicators.



Source: Audit Commission

Focus

11. Organisations need to be clear about their priorities. They should understand which objectives and activities are important, and establish success criteria.

12. Two problems may be encountered when considering an organisation's objectives. First, objectives may have been expressed in terms that do not lend themselves to measurement, and secondly, objectives may never have been set, or may be unclear.

13. An organisation that has never formally identified its objectives, or is unclear what they are, should analyse the activities that it undertakes, challenge what it is doing, and ask 'What do we want to achieve?', 'Why are we doing this?' and 'Is this the most effective way of achieving our aims?' Such a challenge is an integral part of best value service reviews in local government, but can be applied with equal validity to any service.

14. The best way of measuring performance may not be easy to identify. This is particularly true where two or more organisations have to work together to provide a seamless service. In these circumstances it is better to focus on a few indicators initially and be prepared to improve them in the light of experience. In other cases it may be necessary to use other ways of assessing performance, for example through inspection.

15. A performance indicator can focus senior management attention on a particular service. This scrutiny can change staff behaviour and ways of working, leading to an improvement in performance. However, the rate of improvement will diminish over time. Once good performance has been achieved, it may no longer be necessary to report the performance measure to senior management, although operational managers should continue to monitor performance, reporting to senior managers on an exception basis to ensure that performance does not drift. This will allow senior managers to focus on current priorities. Management attention can also have an adverse effect, skewing performance to those services being scrutinised to the detriment of other services. Senior managers should be aware of this risk, and take steps to minimise it.

Alignment

16. Performance measurement should be at the heart of the organisation's management. Organisations will have general goals which will set the framework for their strategic objectives. These strategic objectives should be communicated so that each manager understands how the targets that he or she is working to contribute to the effective performance of the organisation. These will need to be co-ordinated with the operational service measures developed by managers to form a coherent whole. The performance measurement system will therefore have a hierarchy of objectives, action plans and indicators, reflecting the structure of the organisation.

17. It is often possible to 'cascade' core objectives into activities that can be measured. This can be done by repeatedly asking the question 'What will be done to achieve the objective?' [EXHIBIT 3, overleaf].

18. Alignment of performance measurement with the management of the organisation has two benefits. First, performance is more likely to be 'owned' by the managers and staff concerned, making it more likely that opportunities for service improvements will be identified and acted upon. Secondly, regular use of

the information will increase its reliability and accuracy. Not linking the performance measurement system to existing management and budgeting systems will create parallel, non-integrated and resource-consuming systems.

Balance

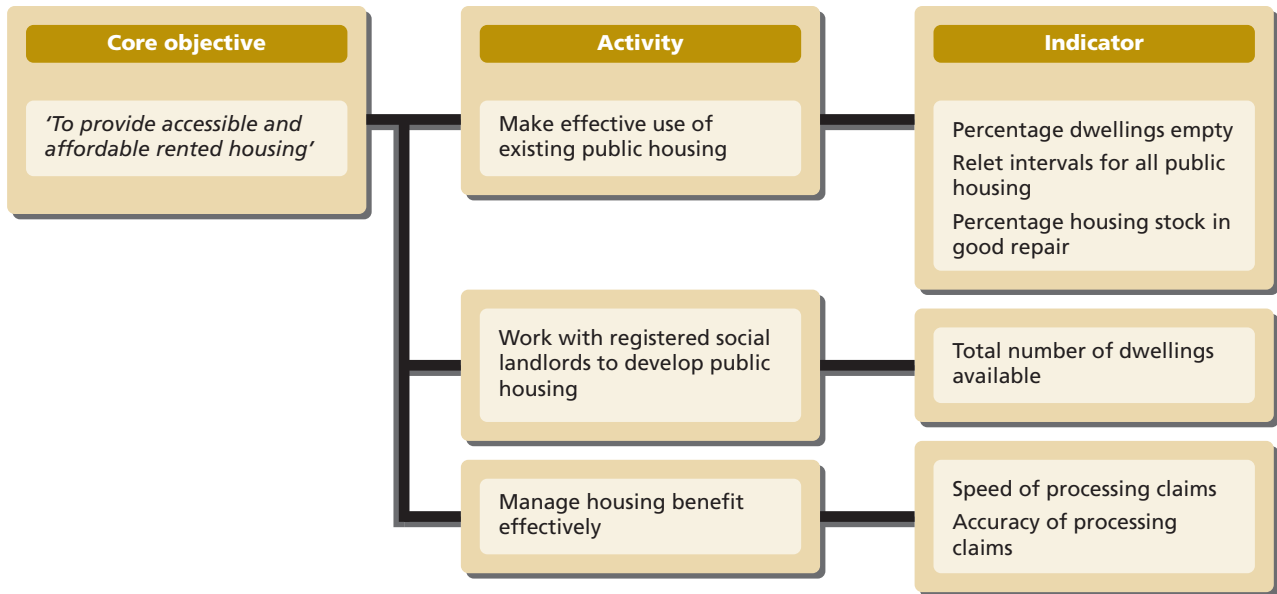
19. The performance measurement system should take a balanced view of the whole organisation. Systems that focus on only a part of the organisation's activities, or on a narrow aspect of performance such as cost, are likely to lead to distortions in service delivery. Managers will focus their attention on achieving a good performance on the measured part of the service, to the detriment of the remainder. There are a number of ways of measuring activities or services that can be used to develop a balanced set of indicators. These are described in *On Target: The Practice of Performance Indicators*:

- using economy, efficiency and effectiveness/outcome indicators, with a mix of financial and non-financial data;
- measuring cost, time and quality;
- the best value themes: strategy, cost/efficiency, outcomes, quality and fair access;

EXHIBIT 3

Developing indicators to support an objective

Indicators can be developed by asking ‘how will the objective be achieved?’.



Source: Audit Commission

- the NHS Performance Assessment Framework areas: health improvement, fair access, effective delivery of appropriate healthcare, efficiency, patient/carer experience and health outcomes;
- the 'balanced scorecard': looking at service user issues, internal management issues, identifying improvements, and financial issues.

Performance information should also seek to balance short- and long-term issues, and quantitative and qualitative data.

Regular refinement

20. Public services are undergoing continual changes due to both internal and external factors, and as a result of consultation with service users. It is important that performance indicators react to these changes. Change might occur if local or national political

priorities have changed, the demand for services has changed, or a programme or development has been completed. Changes or additional indicators may also be necessary if the indicators originally chosen are found to be flawed, or if consultation with key stakeholders has led to better indicators. Organisations also need to respond if the performance indicators suggest that objectives are not being met, by developing action plans which may require additional

performance indicators to monitor their implementation.

21. The performance measurement system should not only report performance but also incorporate an evaluation and review process to consider whether it is measuring the right things in the right way. But indicators should not be amended too often otherwise long-term trends and comparisons will be lost.

Robust performance indicators

22. An effective performance measurement system needs robust performance indicators. There are a number of general characteristics of performance indicators that should be checked to ensure that they will be useful, informative and effective. Indicators should:

- be relevant to the aims and objectives of the organisation;
- be clearly defined, to ensure consistent collection;
- be easy to understand and use;
- be comparable, and sufficiently accurate to allow comparisons between organisations and over time;
- be verifiable, by senior managers, auditors and inspectors. Independent verification of performance is required for national indicators, and reduces the likelihood that

organisations will risk trying to manipulate the data;

- be statistically valid, so that false conclusions are not made;
- be cost effective to collect, so that the benefits of using the information outweigh the cost of collection. This is most likely to occur when the information is used routinely for operational management;
- be unambiguous, so that it is clear what constitutes good performance;
- be attributable, so that the responsibility for achieving good performance is clear;
- be responsive, to reflect changes in performance clearly;
- avoid perverse incentives and the risk of skewing outcomes, and encourage behaviours leading to service improvement;
- allow innovation in service delivery; and
- be timely, so that the information is not out of date. This will depend on the use made of the data. Data used in operational management may be collected on a weekly or even daily basis, whereas data used for strategic and long-term planning may be collected only annually.

23. Many indicators will fail to satisfy all the characteristics. It may be necessary to begin with indicators that meet only some, and work towards improving the indicators as the process develops. However, the importance of each characteristic will vary according to the use being made of it. For example, while a clear definition is always important, an indicator published at the national level is likely to require a more precise definition to ensure fairness than an indicator for internal use. These issues are explored in more depth in the paper *On Target: The Practice of Performance Indicators*.

4. Making it work

The performance measurement process

24. In summary, there are certain key aspects that are required to make a performance measurement system work [EXHIBIT 4]. Firstly, clear strategic objectives are needed, based on knowledge of what improves services, and focusing on priorities for improvement. Indicators should be chosen and defined for these objectives, and targets for improvement set. Results need to be collected, verified and interpreted. Finally, the overall system needs to be evaluated, and improvements made to the system where appropriate (for example, to the definition of indicators).

25. The principles set out earlier provide the overall framework for the performance measurement system. The following paragraphs set out some additional practical ways of making performance measurement more effective.

Report only relevant information

26. Some organisations include every indicator in their performance reports, regardless of whether it is used at an operational or strategic level. The CIPFA report, *Measuring Up*¹, argues that a good working

rule is to limit the number of indicators for any one user to no more than 10 to 20. Indicators should be tightly focused on the users' information needs, and on the decisions that they make. If the indicators suggest that there are problems in service delivery, users should demand additional, lower-level information on an exception basis, rather than receiving it routinely.

27. But most public service organisations provide a variety of services. So while the number of indicators for any one user should be low, the total number of indicators used to describe every service may be large.

Focus on actions

28. Performance information systems often accumulate unnecessary indicators on the assumption that 'it would be nice to know about...'. Such indicators distract attention from performance issues. A question that should be applied to every indicator is 'What action could the recipient of the information take on the basis of this information?' Indicators where the answer to this question is that the recipient would never take action on the basis of the

information should not be used for measuring performance. Contextual information (for example, local population data) should not be confused with performance indicators, but may be needed to help users interpret the information.

Demonstrate that the data are used

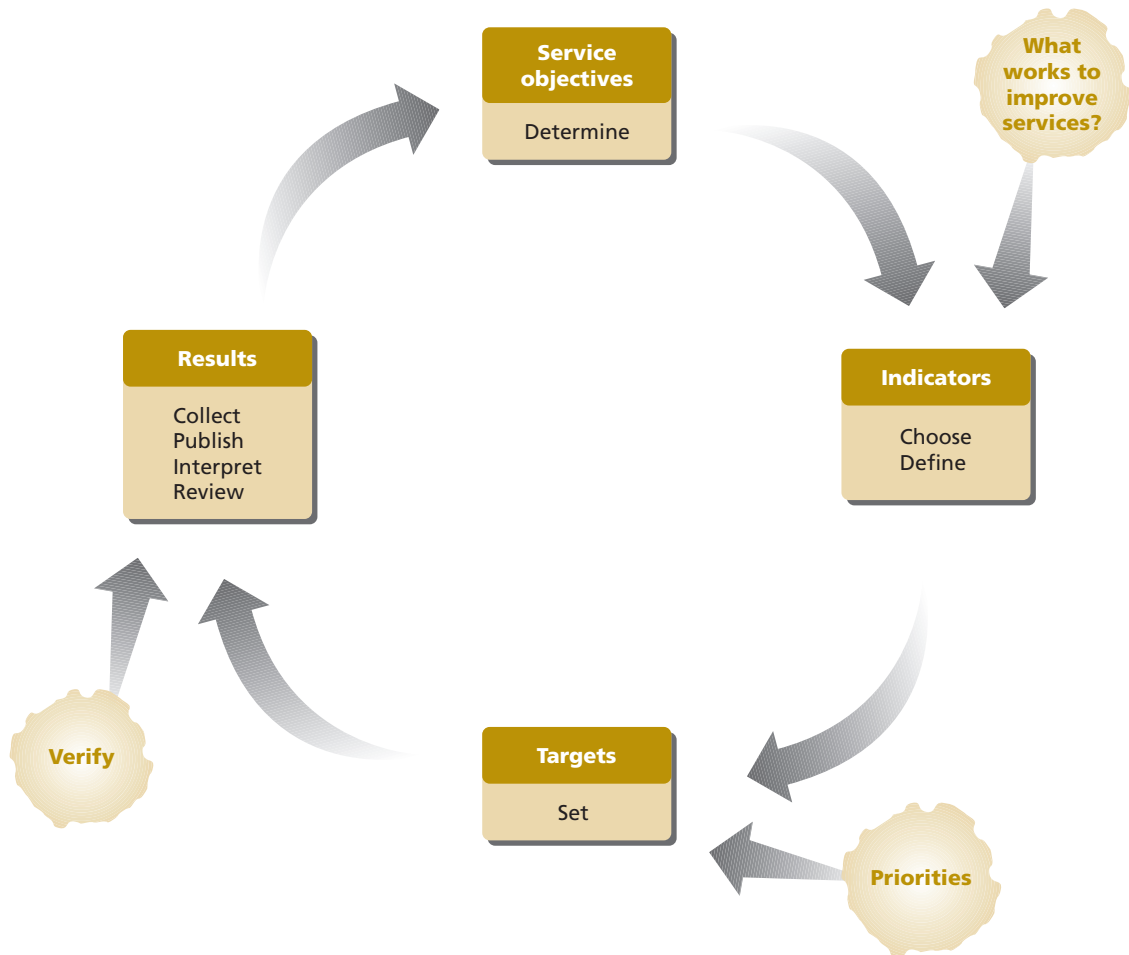
29. Managers at all levels in the organisation must demonstrate a commitment to performance measurement. Using the information in policy reviews and giving constructive feedback on achievement to the staff who provide the data will strengthen the credibility of the system. Giving no feedback at all is likely to create indifference and frustration, and giving only negative feedback can lead to an increased risk of manipulation of data.

¹ *Measuring Up*, CIPFA, 1998.

EXHIBIT 4

Performance measurement system

The performance measurement system underpins continuous service improvement...and itself needs to be continually improved.



Source: Audit Commission

Set targets

30. Performance measurement can only quantify the performance of an organisation; setting targets can challenge the organisation to do better. It is crucial that the targets are realistic (not a 'wish list') but at the same time challenging for the organisation and its staff. Good targets will be SMART: Specific, Measurable, Achievable, Relevant and Timed.

Ensure ownership

31. Staff should ideally 'own' their indicators, particularly where operational and local measures are concerned, and should be able to understand and accept the validity of corporate or national indicators and targets. They should understand the link between the indicators they use and corporate objectives, and be consulted so that they can bring their detailed knowledge to bear on definitions and data collection processes. Managers at all levels are more likely to feel motivated by the performance measurement system if they are able to identify the impact of their efforts. The way in which information is presented can also have a significant impact on the way in which managers – and senior managers particularly – understand the performance information, and 'buy in' to the findings.

Relate measures to responsibilities

32. Some indicators can be significantly influenced by other agencies. A well-chosen cross-cutting indicator, which all parties accept as relevant, and which all can influence, can have a powerful effect in improving joint working and achieving better service delivery. For some cross-cutting indicators, all the organisations involved may need to accept 'joint and several' responsibility for improvement in performance. In other cases it may be possible to allocate responsibility to individual organisations more precisely.

33. Within an organisation, indicators and targets should be related to the authority of the manager concerned.

Balance short- and long-term objectives

34. Pressure for immediate good performance can lead to attention being given to short-term targets at the expense of long-term objectives. Lack of clear objectives can also lead to the wrong things being measured or a data-driven process.



Avoid manipulation of data

35. Manipulation of data to raise the measured performance is a risk, especially when performance is published, ownership of the indicators is weak, or staff reward and censure depend on the indicators. Independent verification can guard against manipulation, as can robust data collection systems.

Measure what you value: don't just value what you measure

36. Avoid just measuring things that are easy to measure, for example, routine work, rather than those that have the greatest potential value, such as the outcome of services.

Interpret information thoughtfully

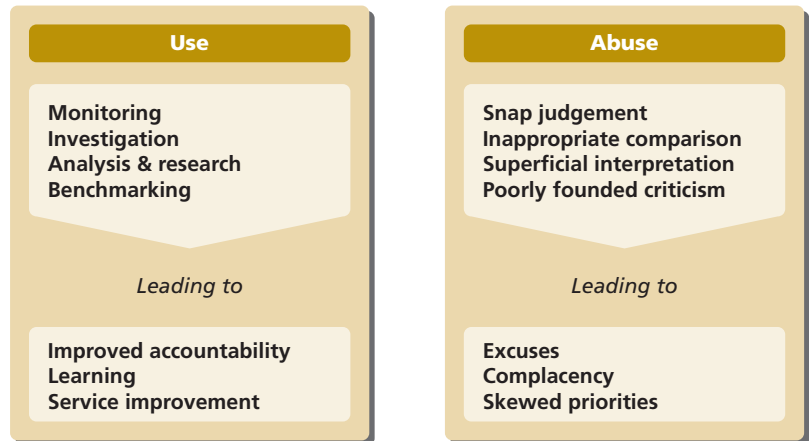
37. Do not assume that indicators provide answers to why differences exist. Indicators should raise questions and suggest where problems may exist or emerge (acting as a 'can-opener'). Performance measurement should be used within a framework of public, political and professional judgements, and in the context of other sources of information, such as inspection reports or direct observation of service delivery. It is essential that all users share the same understanding and

expectations of what a performance indicator can be employed for in order to avoid misuse. Misuse of performance information, such as making unfounded criticisms, can reduce its potential for service improvement [EXHIBIT 5].

EXHIBIT 5

The use and abuse of performance information

Inappropriate use will not generate service improvement.



Source: Audit Commission

5. The way ahead

38. Performance measurement is not an end in itself, but a vital tool to improve public services. The current initiatives to develop top-level performance indicators in best value performance plans, the Performance Assessment Framework, and Public Service Agreements provide an opportunity to improve performance measurement throughout the public sector. Managers should seize the opportunities presented to develop performance management within their organisations to the long-term benefit of public services.



CHECKLIST

Principles of performance measurement

Clarity of purpose	Have the stakeholders with a need for performance information been identified?
	Have the information needs of each group of stakeholders been identified, and indicators devised?
	Have the indicators been justified by linking them to the decisions that the stakeholder or user might make?
	Has a coherent set of indicators been developed?
Focus	Does the performance measurement system incorporate clear top-level objectives?
	Does the organisation develop action plans to meet its objectives?
	Have indicators or success criteria been devised for each objective?
	Does the organisation have a balanced mix of long-term and short-term objectives?
	Has the impact of other organisations' performance on the corporate objectives been identified, and cross-cutting indicators agreed?
	Are the organisation's performance indicators used in service reviews?
	Are the behavioural implications of performance indicators assessed?
Alignment	Has the organisation differentiated between performance indicators and contextual data?
	Are performance indicators used throughout the organisation?
	Do managers understand their organisation's strategic objectives, and do their performance indicators relate to the strategic objectives?
	Does the organisation set SMART targets?
	Does the organisation have a systematic follow-up process if it finds that objectives are not being met?
	Have managers contributed to the design of their performance indicators?
	Does every user of the information have no more than 20 indicators for one area of responsibility?
Balance	Is there a scrutiny process to reduce the risk that organisations will manipulate the data to enhance their reported performance?
	Is there a balanced set of indicators for each service, and for each management level in the organisation?
Regular refinement	Does the set of indicators use one or more of the suggested frameworks to ensure balance?
	Is there a regular review of corporate objectives and performance indicators to keep all indicators up to date?
Robust	Is there a process to critically review the accuracy and relevance of indicators?
	Are all indicators used by the organisation checked to assess their strengths and weaknesses?
	Does this assessment include an analysis of the use of the indicator, to determine which characteristics are important?

The Audit Commission has produced a number of studies covering related issues. The following may be of interest to readers of this report:

Planning to Succeed

Service and Financial Planning in Local Government

Management Paper, 1999, 91 pages, 1862401683, £15

A Measure of Success

Setting and Monitoring Local Performance Targets

Management Paper, 1999, 60 pages, 1862401462, £15

Worth More than Money

The Role of the Local Government Finance Director

Management Paper, 1998, 35 pages, 186240058X, £10

Listen Up!

Effective Community Consultation

Management Paper, 1999, 51 pages, 1862401969, £15

Better by Far

Preparing for Best Value

Management Paper, 1998, 104 pages, 1862401292, £15

A Fruitful Partnership

Effective Partnership Working

Management Paper, 1998, 52 pages, 186240075X, £15

Local Authority Performance Indicators 1998/99

Housing Services in England

2000, 112 pages, 1862402124, £20

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2000, 64 pages, 1862402086, £20

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Performance measurement, including the use of performance indicators, is an essential tool for improving public services. But the full benefit of using performance indicators will be achieved only if the indicators are devised carefully, and used appropriately. This paper, and its companion paper, *On Target: The Practice of Performance Indicators*, are based on the lessons learnt from the development and use of performance indicators by the Commission and other experts in the field over the past decade.

This paper provides an overview of performance measurement for policy makers and senior managers. The companion paper is aimed at managers who are responsible for devising performance indicators.

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