New public sector performance management: making fiscal consolidation smarter

The current public spending crisis in the UK is not just a result of constrained finances, but has also been caused by a lack of strategic leadership and poor performance management practices. CIMA demonstrates how cost leadership and better management information will contribute to more informed decision making and a more effective programme to reduce government deficits and debt.

Discussion paper June 2010
Conclusions

1. **Importance of performance management.** Effective performance management is crucial to achieve sustainable and stable public finances and to gain the public’s confidence that tax revenues are being used effectively.

2. **Whitehall’s strategic gap.** The administrative centre of government – the Treasury and the Cabinet Office – does not effectively co-ordinate strategy across government, which impedes Whitehall’s ability to set effectively its overall priorities and translate those into desired outcomes.

3. **Response to the current situation.** The fiscal crisis is an opportunity to recalibrate what collective services the public want and are prepared to pay for. Using tools such as ‘lean thinking’ and ‘process mapping’, the public sector can define and redesign services to match specified user requirements.

4. **Design of performance management systems.** Performance management and accountability must be improved throughout the public sector. There is no 'one size fits all' performance management system, but if organisations follow general principles they can avoid effects such as gaming or dysfunctional behaviour. Some top-down targets are necessary to improve the relationship between measures and the implementation of strategy; but top-down targets should be kept to a minimum to avoid disproportionate effort collecting and reporting data compared to the effort invested in improving performance.

5. **Insights from the private sector.** The public sector is undoubtedly more complex than the private sector which has the luxury of a single dominant objective, that of profit maximisation, to focus its efforts. The public sector’s provision of services is hugely complicated by shared or sometimes conflicting objectives, the demands of stakeholders and the influence of politicians. But it is the relative simplicity of the private sector which makes it an informative environment (akin to a laboratory) to observe effective cost leadership or performance management practices.

6. **Accountability.** Targets alone are a blunt instrument for achieving improvement. A performance culture needs to permeate throughout an organisation; and individuals need to be held genuinely accountable for poor performance, understanding that demotion or dismissal may be a consequence.

7. **Skills and expertise.** The public sector should adopt a cost leadership strategy (the pursuit of the lowest operating costs in comparison to one’s peers). There are many approaches to cost reduction, including but not confined to process efficiencies, economies of scale and scope, standardisation, outsourcing, collaboration and instilling a culture of cost consciousness throughout an organisation. These will be vital competences for the public sector for the foreseeable future.
Recommendations

1. **Importance of performance management.** Every public sector organisation needs to be clear about its objectives, and its strategy to reach those objectives; and to develop powerful leadership supported by assertive finance staff.

2. **Addressing Whitehall's strategic gap.** Cabinet should agree a ‘whole of government strategy’, to which individual departments should align their business plans. The director general of finance in every government department should have full board membership, bestowing on them corporate (i.e. collective) responsibility and accountability. The equivalents in non-departmental public bodies (NDPBs) should likewise have a place on NDPB boards.

3. **Response to the current situation.** The new government must use the crisis as an opportunity for smarter fiscal consolidation. Incremental change is no longer appropriate. Traditional ways of working need to be tested and challenged and providers need to consider whether elements of their service are best provided by the public sector, the private sector or private/public sector alliances. The new government must resist the temptation to pursue a slash and burn approach to cuts or impose a ‘salami-slicing’ regime. Either would be a retrograde step.

4. **Design of performance management systems.** Wherever possible, targets should be the measures used naturally by those delivering services to monitor their effectiveness. Cross-departmental working and interdependencies between different elements of the public sector must be supported by appropriate governance and targets, to avoid ‘silo thinking’. Consideration should be given to amending in the Ministerial Code to make ministers personally responsible for value for money.

5. **Insights from the private sector.** The public sector should be open to learn from the private sector, whose cost leadership and performance management practices can be informative. There should be greater recognition of the contribution offered by new recruits with private sector experience, who can challenge long standing practices and bring some insight into the public sector or public/private partnerships. Recruitment practices in the public sector should recognise time spent in the private sector when specifying length of experience required; and mentoring programmes or work shadowing between public sector senior management and their counterparts in the private sector should be encouraged.

6. **Skills and expertise.** The public sector, specifically Whitehall must gain more expertise in cost reduction. A culture of cost consciousness should pervade throughout every organisation, so that the entire workforce understand that cost control is the responsibility of all employees. The public sector should improve the financial literacy of policy and strategy teams at the highest levels.
About CIMA

CIMA, the Chartered Institute of Management Accountants, founded in 1919, is the world’s leading and largest professional body of management accountants, with 172,000 members and students operating in 168 countries, working at the heart of business. CIMA members and students work in industry, commerce and not-for-profit organisations. CIMA works closely with employers and sponsors leading-edge research, constantly updating its qualification, professional experience requirements and continuing professional development to ensure that it remains the employers’ choice when recruiting financially trained business leaders.

About the authors

Charles Tilley is CIMA’s chief executive. He chaired the best practice advisory panel which contributed to the 2008 HM Treasury publication ‘Doing the Business: managing performance in the public sector – an external perspective’; and holds non-executive directorships at Great Ormond Street Hospital and the Ipswich Building Society.

Victor Smart is CIMA’s head of profile and communications, and Louise Ross is CIMA’s performance management specialist.

We also thank the members of CIMA’s technical committee for their comments; and Nick Jackson, Head of Finance Professionalism HM Treasury for his valuable contribution.
## Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreword by Charles Tilley</td>
<td>1</td>
</tr>
<tr>
<td>1. Introduction</td>
<td>3</td>
</tr>
<tr>
<td>2. Issues and challenges</td>
<td>4</td>
</tr>
<tr>
<td>2.1 The financing challenge</td>
<td>4</td>
</tr>
<tr>
<td>2.2 Alternatives to ‘salami-slicing’</td>
<td>4</td>
</tr>
<tr>
<td>2.3 Impact of cuts on economic recovery</td>
<td>5</td>
</tr>
<tr>
<td>2.4 Specific challenges of the public sector</td>
<td>5</td>
</tr>
<tr>
<td>2.5 Private sector insights</td>
<td>6</td>
</tr>
<tr>
<td>3. Cost leadership</td>
<td>8</td>
</tr>
<tr>
<td>4. Strategy formulation</td>
<td>9</td>
</tr>
<tr>
<td>5. Performance management</td>
<td>10</td>
</tr>
<tr>
<td>6. Financial skills in the public sector</td>
<td>11</td>
</tr>
<tr>
<td>Appendix: Performance management in the public sector</td>
<td>12</td>
</tr>
<tr>
<td>References and other relevant CIMA publications</td>
<td>13</td>
</tr>
</tbody>
</table>

Foreword by Charles Tilley

The new Liberal Democrat-Conservative coalition takes power at the start of what promises to be an intensely difficult period for the public sector in the UK. In recent years, spending increases have been financed by debt rather than taxation. As a result, a huge structural rebalancing of the public accounts – known as fiscal consolidation – is imminent. The Lib-Con government has already planned £5.7 billion net cuts for 2010; and its Budget on 22 June clarifies how it intends to deal with the deficit in the long-term.

As the flow of public funds is trimmed back, weaknesses in Whitehall and the organisations delivering frontline services are likely to be further exposed. Already the rolling programme of capability reviews within the civil service, the first of which were published in 2006, has exposed substantial evidence of the systemic underperformance of government in Whitehall and beyond; and recent Institute for Government’s research1 has identified significant weaknesses in strategic leadership at the administrative core of government.

That said, not all is gloom. Spending on the public sector in the UK had reached a historic high. The National Health Service in particular had been the recipient of vast sums of taxpayers’ money (with uncertain productivity gains). Many priorities should have already been addressed; and careful judgments, coupled with a willingness to take tough decisions about where to cut, should mean that the impact of retrenchment can be moderated. Furthermore, Whitehall now has several decades of hard-won experience in delivery (and performance managing delivery) which should inform the process. Public service agreements (PSAs), departmental strategic objectives (DSOs), Whitehall capability reviews and so forth are in place.

Successfully implementing cuts requires an effective culture of performance management and accountability. Kneejerk reactions or ministerial initiatives focused upon the achievement of short-term electoral considerations will undermine the implementation of the overarching strategic plan. Above all, we should avoid a slash-and-burn response to public sector budgets, especially if that response is determined by Whitehall’s departmental silos.

The public sector can gain insights from the private sector, partly because its focus on a single goal of profit maximisation makes it a good ‘laboratory’ in which to observe and identify good performance management and cost leadership practices. The public sector is undoubtedly more complex and has specific imperatives such as equality of access to services which mean that indiscriminate comparisons with the private sector should not be made; but many performance challenges are common to both contexts. Successful private sector organisations demonstrate the necessity of a performance management culture that permeates the entire organisation, not just the finance function; the importance of key performance indicators that support the organisation’s objectives; and how cost leadership can drive improvements.

It is also informative to compare the transition to a new administration and a corporate takeover. Experience of the latter suggests that organisations only thrive after changes at the top when they have:

- absolute clarity about their objectives
- an understanding of the organisation’s strategy
- determined leadership linked with accountability about who is responsible for delivering what.

The new government cannot take any of these aspects for granted. In the private sector, takeovers often fail (that is, destroy shareholder value) because those involved are more preoccupied with closing the deal than with running the new merged business. So the incoming government must act decisively; and collectively. What is currently understood by the collective responsibility of cabinet, is that ministers maintain a united front once decisions have been reached. The convention is that ministers do not bring matters to cabinet which are entirely within their individual responsibility; or are otherwise felt not to engage collective responsibility (the ministerial code is somewhat vague on this criteria2). This reinforces the silo mentality which is so obstructive to effective performance management. We propose a different interpretation of collective responsibility – that cabinet should jointly agree a single overarching strategy for the whole of government, which specifies the key strategic outcomes ministers wish to achieve. Departments would publish their own business plans to align with this overarching strategy.
Departments must manage better against priorities. The capability reviews frequently found that staff in government departments didn’t feel that clear priorities had been set; that too often departments added new priorities to existing programmes, without deciding to discontinue areas of work that no longer met strategic priorities, or otherwise did not add value.

Another area of weakness is management information within Whitehall. Three months before the election, a treasury select subcommittee criticised most central government departments and their associated agencies for failing to provide the treasury with ‘accurate and timely’ monthly spending figures. A mere 13 out of 59 bodies provided adequate monthly data. The permanent secretary to the treasury responded to this criticism by commenting that these targets were new and had started an upward trajectory of performance management.

Whitehall and local authorities have been through crises before. Cost leadership will be key; and professionally qualified accountants in Whitehall will have a huge role as it is they, rather than economists, who are equipped to strip cost out of delivery. Accountants, especially in the middle ranks, to step up to the plate: they must be less self-effacing in their views and more assertive with ministers. They must show leadership, and acquire the soft skills of persuasion as part of their toolkit. They must demonstrably add value, rather than merely ensure compliance.

The role of the finance director will be increasingly important. To ensure the financial capability of departmental boards, improve the balance of power and encourage more financial input into strategy decisions, the spending review 2004 commitment – that finance directors should be appropriately qualified, hold board membership at a level equivalent to other board members, and report direct to the permanent secretary – should be implemented.

Government, with its complexity of aims, the array of agencies often required to deliver any single policy and its need to contest its ideas in the political arena, faces a multifaceted challenge. But far from absolving politicians from the need to lay out a coherent direction for their new administration, it makes it more vital than ever that incoming ministers hammer out a strategy and hold fast to it.

Few would have wanted to provoke a public expenditure crisis of the immense scale that now faces the public sector. Given that it is now inescapable, however, it can and should be viewed as a challenge to be met: the goal is to make retrenchment as rational and effective as possible. As Nick Ville, a former director of the prime minister’s delivery unit, asks: ‘How smart can we make fiscal consolidation?’

The answer depends on how smart the management of public service performance has become. That is the challenge this paper raises.
1. Introduction

Significant factors are combining to put the public sector under enormous pressure – not only the current expenditure crisis (see Fig 1), but also a lack of strategic leadership and poor performance management practices. Addressing all three issues represents a once-in-a-generation opportunity to craft solutions that not only ensure that expenditure is constrained within available resources, but which use these pressures creatively to rethink or consolidate services.

The lack of strategic leadership was a weakness identified recently by the Institute for Government (IfG), which characterised it as a 'strategic gap at the heart of government' which inhibits the government's ability to set overall priorities and translate these into outcomes.

Poor performance management practices are evidenced not only by deteriorating performance against some high level targets – obesity, child literacy – despite the past decade of additional investment; but also by the criticisms by hospital, school or council executives of too onerous inspection regimes and measures of performance which drive dysfunctional behaviour.

This paper proposes better links between performance measures and strategy, and the devolution of target-setting closer to the delivery of services. It incorporates four themes (sections 3-6 below):

- cost leadership as the means to achieve the necessary efficiencies while minimising the impact on service levels
- a reconsideration of the shared responsibility for strategy formulation between the centre and government departments to address the strategic gap
- design of performance management systems to ensure targets encourage the right behaviour
- the need for more financial expertise in the public sector, in the form of both management accountants and financially literate policy officers and management.

Fig 1. Tax receipts and public spending as % GDP 1997-2015

Source: Public Sector Total Receipts: ONS (ANBT); Public Sector Total Management Expenditure: ONS (EBFT)
(2009-10 onwards are forecasts)
2. Issues and challenges

The current combination of challenges suggests what is needed is a strategy to restore sustainability and stability to public finances (a more normal debt-to-GDP ratio and a balanced budget); intergenerational equity (not treating preferentially the current generation at a cost to future generations); and demonstrable good management of current public sector services.

2.1 The financing challenge

Eliminating the deficit will require severe cuts in public expenditure. Staff costs account for as much as 80% of expenditure in some departments, so inevitably frontline staff will be affected. And with respect to non-staff costs, many public sector entities are committed to inflexible payments for public finance initiative (PFI)-provided infrastructure, thus reducing the proportion of controllable expenditure. The scale of savings required dictates that organisations need to think strategically – about how services should be provided, whether they should be provided by the private sector and whether they should be provided at all.

2.2 Alternatives to ‘salami-slicing’

Before the general election, Tony Travers of the London School of Economics predicted ‘an across-the-board, salami-slice cutting regime’. A more recent suggestion has been to achieve cuts by implementing a recruitment freeze. Both these approaches represent a crude or random approach to making savings, rather than a systematic evaluation of where cuts might best fall, and will not inspire confidence among the electorate and the credit rating agencies.

Figure 2 shows how the 2010 budget allocated resources to the different central government functions. If certain functions are ring-fenced (e.g. health or education) or protected by virtue of their relative inflexibility (Welfare benefits; contracted defence expenditure, PFI obligations) cuts will fall disproportionately heavily on other functions.

To make specific rather than indiscriminate cuts, management need sufficiently good information to understand how their costs behave and where they occur. Savings and efficiency improvements can be achieved by the application of cost leadership principles, a common strategy with a long history in the private sector.
Many of the easiest savings have arguably already been achieved in response to earlier efficiency reviews. If fraud, efficiency or procurement practices fall short of private sector benchmarks, these are obvious priorities. Collaborations and partnerships between different elements of the public sector, or between the public sector, the third sector and the private sector are already on the agenda. Further savings might need therefore to be identified by those visionaries confident enough to pose fundamental questions about the very nature of the public sector and accept that it cannot meet all the expectations of society.

2.3 Impact of cuts on economic recovery

Just over 20% of working adults in the UK are employed by the public sector, a figure significantly larger in certain regions. Almost 70% of the net jobs created in UK cities between 1998 and 2007 were public sector jobs, and 36% of civil servants are based in Scotland, Wales and the North of England. The wages of public sector staff feed into local economies, helping to redress what would otherwise be a more extreme north-south imbalance. Job losses in some regions are therefore both a political and an economic issue.

2.4 Specific challenges of the public sector

The public sector is a diverse and complex environment, which imposes some specific performance management challenges. Mechanisms for delivering services are often more complex than those in the private sector, both because of the relative complexity of service users’ demands, and because of a lack of commercial pressure and choice to influence the design of services or how they are delivered.

Many public sector bodies have to cater for a multiplicity of stakeholders and may suffer from reorganisations (political or structural) that lead to changing priorities. One only has to look at the history of the department for communities and local government (three secretaries of state, three local government ministers and four housing ministers in its first four years); or the transformations undergone by the business department between 2007 and 2009.

Changes of leadership (and indeed governments) can complicate another challenge, which is the allocation of resources between short-term priorities and longer-term investment. Ministers (or administrations) may allocate resources to win short-term successes, rather than laying the foundations for longer-term achievements which will mature long after their term of office.

Another factor is that the high level goals of the public sector – such as health, literacy, or security – cut across the boundaries of many public sector bodies. This degree of interdependence requires co-ordination and teamwork across departments and agencies, and a specific determination to avoid thinking in silos. In some cases this has been achieved – for example the 2007 comprehensive spending review focused on a suite of 30 top priorities for the period 2008-11 across the whole of government, each underpinned by a single delivery agreement shared across all contributing departments. However, this cross departmental approach is not pervasive: for example, cross departmental public service agreements (PSAs) coexist with department strategic objectives (DSOs) which are in effect silo based. Governance arrangements do not therefore support cross departmental thinking.

The following scenario illustrates both these tensions. A young offender might easily cost the public sector £1m by the time he completes his first prison sentence in an adult prison. Intervention of £15k or £20k at the start of his offending career could prevent the greater expenditure. This early intervention would come from the budget of the Department of Children, Families and Schools (DCFS), yet it would be the budgets of the Ministry of Justice and the Home Office that would benefit most.

Success in the public sector is measured by the relationship between inputs, outputs and outcomes. Inputs are relatively easy to measure and are often used as a measure of performance, for example in statements such as ‘we have invested £200m in education.’ Worse, increases in inputs are assumed to represent an increase in outcomes, for example that additional spending on policing produces a comparable increase in the measured outcomes of the police (to protect the public and reduce reoffending). The failure of government to distinguish sufficiently between outputs and outcomes
to inform policy was apparent in relation to identity cards. ID cards (an output) were presented by the previous Labour government as a means to crack down on crime and terrorism (outcomes). But it was not so much the ID card that would do that as the database (another output). Given that much of the projected expense of the system was the card, it was arguable that the same output could have been achieved more cost effectively. Note that the Lib-Con government has already fulfilled the promises in their respective manifestos to cancel both ID cards and the related database.

One theoretical advantage the public sector has is the absence of commercial competition, which should mean experiences can be shared freely across organisations. However, the civil service capability reviews found that good practice tends not to be replicated or shared between organisations or more widely across the civil service, but remains in pockets or silos of excellence. There is thus significant potential to share practices or benchmark.

2.5 Private sector insights

Private sector organisations often have simpler goals and more responsive control mechanisms than public sector entities, meaning that cause and effect relationships are clearer, and the impact of actions more quickly apparent. Thus private sector experiences can be informative for the public sector even if ultimately the public sector cannot exactly replicate private sector practice.

### Solutions proposed by other bodies

The CBI, the employers’ organisation, has set out a strategy for bringing the public budget into balance by 2016 by delivering savings worth £136bn\(^{10}\). It shares with CIMA the idea of applying lessons learned by the private sector in delivery of public services.

Much of CBI’s focus is on ways of involving the private sector more closely in the delivery of services through greater use of outsourcing and competition for contracts, as well as on attacking waste and duplication, and embracing new technology. Its report ‘Doing More with Less’ (Oct 2009) suggests that the next government finds ‘new ways’ of delivering public services. These include:

- radically redesigning the way that public services are delivered to achieve cuts of £63bn while maintaining quality. This includes improving productivity, introducing new technology and reforming the way health services are delivered
- reducing workforce costs by £27bn by learning from private sector practice such as pay freezes, pension reform and tackling sickness absences
- outsourcing ‘non-core’ activities to the private sector, saving £30bn
- saving at least £16bn by cutting waste on lengthy procurement processes, consultations and advertising
- greater use of ‘co-funding’, where users of services pay a share of cost – as happens with dental patients and university students.

The Institute of Directors, in partnership with the Taxpayers Alliance\(^{11}\), proposed the following strategies to save £50bn in preference to tax rises which it believes would be highly damaging to economic recovery:

- prioritising – stopping activities which are ineffective; and those which should not be undertaken by government
- flattening government
- making significant cuts in specific departments and freezing the grants awarded from others
- restraining public sector pay and benefits
- targeting benefits to those who need them.
The private sector recognises that performance measures influence behaviour. Targets such as the promptness of answering phone calls may encourage staff to terminate calls as quickly as possible, before they have imparted important information or collected essential data from customers. Another example of a target creating dysfunctional responses is the target for waiting times in A&E departments, which has encouraged some hospitals to transfer patients on trolleys to corridors or storage annexes that can only nominally be considered ‘wards’. Measures need to be carefully designed to encourage desired behaviour.

It is a tenet of management accountancy that financial accounting information, collected and published mainly for external users, is not adequate to run a business. Similarly, the data public sector organisations collect for oversight are not the same as those they should use to monitor their operations.

The competitive environment in the 1990s demanded flexible and agile companies, for which some previously popular performance management approaches such as management by objectives proved too bureaucratic. Performance management in the private sector thus developed rapidly in the 1990s, and performance management took its place as a business-wide rather than an HR process. This period of enthusiasm and experimentation generated several insights - that there is no single, generally applicable performance measurement system or standardised set of performance measures; and that measures must be meaningful to the organisation (or part of the organisation) to which they are applied. Organisations realised they must design their own performance management systems, guided by the principles of good performance management.

The private sector also demonstrates the value of a cost leadership strategy to ensure success or survival in a competitive environment, if sometimes only as a short-term strategy. Cost leadership is even more appropriate as a long-term strategy in the public sector context.

The private sector seems better at achieving productivity gains. Figures from the Office for National Statistics show that between 1997 and 2007 public service productivity fell by 3.4% whereas in the private sector, productivity grew by an average of 2.3% a year. According to estimates from the Centre for Economics and Business Research, this declining productivity in the public sector could be costing taxpayers £58 billion a year.
3. Cost leadership

Cost leadership is about achieving the lowest cost of operation in any specific sector. It is about exploiting economies of scale or scope; realising the benefits of the learning curve; addressing inefficiencies through lean thinking or process mapping; and achieving savings through collaboration or innovation. It represents a more considered strategy than just salami-slicing budgets, postponing capital projects or leaving random posts unfilled because of recruitment freezes.

Cost leadership is a core skill of the finance professional; but others also need to understand its principles and potential – strategists, policy officers and the executive need this competency to inform their decision making.

There is now agreement on the importance of financial literacy in public service delivery. If Whitehall has more or less caught up with local government in recognising the centrality of the professional finance function, central and local bodies have a long way to go to germinate the seeds of financial understanding among their staff at large. One element of this problem has been the respect afforded to the discipline of economics within Whitehall. Unarguably, economics has a significant influence on public policy, but economists do not have the accountancy skills to undertake cost cutting.

There have been significant efforts to improve the professionalism of the civil service over the past decade, with initiatives such as professional skills for government (PSG) setting out what is expected from the senior civil service. In 2004, then chancellor Gordon Brown set a target that all government departments should have a professionally qualified director general (DG) of finance, a condition that was finally met in 2009. The next most senior grade – heads of finance profession – is also now entirely staffed by professionally qualified accountants. The result of these drives is that many individuals have been brought in from other sectors - by 2007, 42% of DG appointments had been external.
4. Strategy formulation

Strategy must be led by the centre (Cabinet Office and HM Treasury) setting clear priorities from which funding plans can be developed. The centre must draw up work plans with departments on the most important goals but departments should be allowed to come up with the performance measures to monitor their own performance on those goals. CIMA proposes that:

- the centre of government – the Cabinet Office, HM Treasury and Number 10 – should become smaller, more strategic and better joined up

- government strategy be collectively owned by all the permanent secretaries, led by the Cabinet secretary

- a strategic board for the whole of government be formed from the most senior officials, to monitor the implementation of strategy.

It is an issue thought about more often than aired, that it is not entirely in minister’s interests to have good quality information to reveal the effectiveness or otherwise of their initiatives – a kind of ‘security through obscurity.’ One proposal which might convert ministers into champions for good management information would be to give them the same personal responsibility for value for money that heads of department and accounting officers have.

At the departmental level, the IfG concluded that despite the relationship between the board and the minister being crucial to the development of strategy, ‘this relationship remains at best uncodified and at worst cloudy in most departments’. It recommended each department be led by a strategy board, composed of top officials in the department, non-executive directors and the relevant ministerial team to develop policy and long-term strategy. This combined managerial and ministerial team should develop a clear leadership and oversight role, and focus heavily on performance management.

The performance information presented to boards must:

- allow the board to focus on the issues which matter most

- enable the board to comprehend and agree what the organisation needs to do to implement strategy

- provide a comprehensive picture of performance and support decision making

- clearly indicate if the organisation is fulfilling the expectations of service users

- link cost and performance information.

The best boards focus heavily on performance management and meet regularly with ministers to shape joint strategy… all boards should place greater emphasis on performance and financial management.
5. Performance management

Appropriately designed and effectively implemented performance management systems will significantly improve organisational performance. Performance management systems that suffer from rigid top-down control, whose measures are poorly aligned to strategy, and which encourage gaming, are failures.

Organisations should design their own performance management systems to reflect their own priorities and drivers. Any system should incorporate a feedback loop, so that performance measures monitor the implementation of strategy and, crucially, feed back into strategy formulation. Only then can management ensure the organisation has the capability to deliver strategic plans; to connect up goals with outcomes.

The prime minister’s delivery unit required those involved in planning to undertake just such a feedback cycle. Professor Michael Barber (who ran the unit from 2001 to 2005) referred to this connection of current performance to future targets as trajectory. Its purpose was to focus officials’ attention on the relationship between actions and outcomes, and as more evidence was gathered, to review and refine their analysis.

In 2007, several panels of senior advisory professionals worked together under the oversight of the Cabinet Office, HM Treasury and the National School of Government to deliver their collective views on performance management in the public sector. They agreed a high level framework to express the elements of the organisation that must work together to achieve good performance, which is summarised in the appendix to this paper. The diagram representing this framework illustrates the fundamental importance of two elements – culture and leadership, what the model refers to respectively as the DNA of an organisation, and how that DNA evolves through changes in leadership. The advisory panels commented that only if full attention is given to culture and leadership will the full potential of performance management be realised.

The role of departmental boards and Whitehall is shaped by the nature of the public sector – it is they who must act in place of competition and choice to both encourage innovation and improvement, and weed out poorly performing organisations. Some top-down measures are therefore needed to support benchmarking. It took targets for waiting times for surgery to reveal significant inequalities between health authorities and common Ofsted standards to highlight the best and worst performing schools. And as Michael Barber points out, before 2002 no data at all was collected from police forces, which meant the government had no idea which were doing well or badly.

But fewer top-down targets are needed than Whitehall supposes. We agree with the IfG that they should be limited to perhaps 20 across the whole of government. This would release the effort currently spent in collecting, analysing, reviewing, benchmarking and publishing data to satisfy top-down targets, to be directed towards the indicators set by operational teams themselves.

CIMA proposes a simple solution to achieve improvements in services and increased accountability: better alignment of performance measures with strategy at all levels of the organisation; very few top-down targets (focused on outcomes, not outputs); and most targets set as close as possible to the front line. The aims are to pare down the central determination of outcomes to the minimum necessary to ensure achievement of joint and complex targets; and to increase local autonomy.

This solution entails strategic leadership from the centre (Cabinet Office and HM Treasury) as mentioned above, to set clear priorities from which funding plans can be developed. The most important goals are agreed with departments, who are then allowed to come up with performance measures to monitor their own performance on those goals. There is real value in organisations which deliver similar services sharing best practice, learning from each other’s successes and failures; and granted, to do so requires identification of those teams which operate significantly above or below the average performance. But there are other ways of identifying such outliers than crude league tables.

This approach demands more from frontline staff. It appeals to them to take ownership of the quality of service; it relies on their pride in their work and recognition that they make a contribution towards improving service users’ lives, security, prospects or health. We believe those values exist in the distinctive culture of the public sector and can be re-energised once those staff are no longer frustrated by the waste in the system introduced by poorly designed performance management systems.
6. Financial skills in the public sector

Our final theme is about the financial skills needed to underpin the proposals above. Whitehall’s achievement of professionally qualified departmental FDs and heads of finance profession is commended (see section 3). Yet although it is government policy that these FDs (known as directors general of finance) report directly to permanent secretaries, and have a seat on departmental boards with a status equivalent to other board members, this does not always happen. Without board membership these FDs will not have the influence and access they need; neither will they be able to take on the full corporate (in the sense of collective) responsibility and accountability which is part of their role. The most senior finance professional in any public body (whether government department, NDPB, health authority, police authority or local authority) should have a full seat on the appropriate board.

Arguably, it is the responsibility of the accounting officer (the CEO) to manage expenditure within budget which has tended to exclude the FD equivalent from the board. The FD’s support of the accounting officer is assumed to be sufficient. But CIMA argue that the FD can contribute so much more when directly involved in strategic decisions; and when resources are restricted and shrinking, the involvement of the FD is even more imperative.

Professionally qualified finance staff make a contribution to performance management at all levels of the organisation. Therefore they should not be confined to the top nor to the finance function, but should also be included in other functions, such as policy and strategic planning. This dispersion of financial expertise outside the finance department contributes directly to effective performance management, especially the balancing of different elements of organisational performance so that success in one dimension does not come at the expense of another.

An alternative to ‘seeding’ non-finance departments with professionally qualified finance staff is to improve the financial awareness and breadth of experience of non-financial staff. Such staff would benefit from capability-building skills to enable them to better understand financial management, IT and HR; and may also find secondments to other functions – for example procurement – would give them invaluable experience.
This diagram was developed to represent the elements of the public sector organisation that must work effectively to ensure good performance. Further detail on this framework can be obtained from the 2008 publication *Doing the Business*[^12].

**Leadership and direction** – the executive and top management must guide the organisation, and enable it to perform. They must set and communicate a clear vision and strategy for the organisation.

**Systems and information** – how the organisation uses technology to support its processes and its delivery of services; how it facilitates the collection, analysis and presentation of information both for internal decision making and for various stakeholders.

**Processes** – how policies are translated into processes and procedures; ways of working; frameworks, tools and methods used to support evidence based decision making.

**People** – how people are acquired, valued, managed and developed. How the necessary skills and competencies are identified, assessed and accessed. How incentives are used to motivate people and align their objectives with the objectives of the organisation.

**Organisation** – how the organisation is managed, structured and governed. How internal and external relationships are managed. How strategy is set and cascaded throughout the organisation.

[^12]: Doing the Business (2008)
References

1. ‘Shaping Up: A Whitehall for the future’ Institute for Government, January 2010
2. ‘Ministerial Code’ Cabinet Office, July 2007
4. ‘Administration and expenditure of the chancellor’s departments 2008/09’ HC 156 House of Commons Treasury Committee, February 2010
5. ‘Shaping Up: A Whitehall for the future’ Institute for Government, January 2010
6. ‘Tales of the unprotected’ T. Travers, Public Finance, 18 February 2010
7. ‘Bridging the gap’ C. Webber, Public Finance, 29 January 2010
8. ‘Civil Service Statistics 2009 Tables’ Office For National Statistics, January 2010
10. ‘Doing more with less: A credible strategy for restoring the public finances’ CBI, October 2009
11. ‘How to save £50 billion: reducing spending for sustainable public finances’ Institute of Directors & The Taxpayers Alliance, September 2009
12. ‘The Front Line’ Reform, December 2009
15. ‘Shaping Up: A Whitehall for the future’ Institute for Government, January 2010
16. ‘Instruction to Deliver: Fighting to transform Britain’s Public Services’ M. Barber, Methuen, 2007
17. ‘Shaping Up: A Whitehall for the future’ Institute for Government, January 2010
18. HM Treasury website, Public spending and reporting, as at June 2010

Other relevant CIMA publications

• CIMA, ‘A picture of health Service cost data in performance management in the NHS’ October 2009
• C. Fisher and B. Downes ‘Performance management and metric manipulation in the public sector’ CIMA Research Executive Summaries series, Volume 5, Issue 3, April 2009
• A. Macnab, F. Mitchell and C. Carr ‘Garden designs to improve the line of sight: implementation of the balanced scorecard and an alternative costing system at the Royal Botanic Gardens Edinburgh’ CIMA research executive summaries series, Volume 6, Issue 7, June 2010

Available from www.cimaglobal.com

To comment on this report, e-mail cimaknowledgeunit@cimaglobal.com