Calling the Tune

Performance Management in Local Government

AUDIT COMMISSION
The Audit Commission

... promotes proper stewardship of public finances and helps those responsible for public services to achieve economy, efficiency and effectiveness.
Calling the Tune

1. Getting the Best from People

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Preface

Following a survey of auditors in 1992, the Audit Commission found that the most requested subject for future studies was pay and performance of non-manual staff. In April 1993, the Commission consulted widely on a brief for People, Pay and Performance in Local Government. The study covers paybill and performance issues. It addresses three key questions which councillors, like other employers, ask concerning staff.

- Do we employ the right number and type of staff?
- Do we pay them the right amount?
- How can we get the best from them?

This report, Calling the Tune, responds to the third question. A companion report, Paying the Piper, deals with the first two questions, addressing paybill (Ref. 1). It is necessary to use both reports to gain maximum benefit from the recommendations. An associated management handbook (Ref. 2) backs up the reports, and a members' leaflet summarises the key findings. Local audits will take place in 1995. Although this study and its outputs are directed towards local government, its messages are applicable to any large organisation, particularly one which is coping with change.

Research includes data on staffing and pay levels for nearly 300 local authorities. This was supported by field visits to around 70 local authorities, covering all aspects of people, pay and performance management. Details of the research programme are contained in the companion management handbook.

The study was carried out by a team from the Local Government Studies Directorate, consisting of Michael Port, Ian Mackinder and Jonathan Star, under the direction of Jon Vaughan Jones. Others directly involved in the study included Clive Hall, who provided computing services to the team, Alan Fowler, a personnel consultant and formerly Chief Personnel Officer of Hampshire County Council, and Dr Clive Fletcher, Professor of Occupational Psychology, Goldsmith's College. Some elements of research were carried out on behalf of the Commission by Hay Management Consultants. Technical advice was provided to the team by Charles Nolda and Gordon Thomson from the Local Government Management Board (LGMB), Dr Stephen Bevan (Institute of Manpower Studies) and Dr Ian Kessler (Templeton College, Oxford). An advisory group nominated by the local authority associations, the LGMB and the Confederation of British Industry (CBI) met regularly. A parallel group of trade union representatives contributed on a similar basis.

Further comments and advice were received from over 30 individuals and organisations with a professional interest in the field.

The Commission is grateful to all who helped; however, responsibility for the findings and recommendations lies with the Commission.
Local government faces increased pressures and reduced resources. Councils need to deliver more and better services with less money. To do this they must improve the performance of their staff and link what staff actually do to policy objectives. Authorities must specify, communicate and evaluate aims and objectives at all levels - an approach described as performance management (PM).

1 Getting the Best from People
1. In 1993-94 local government spent about £10 billion to employ 700,000 non-manual staff. Paying the Piper, the companion paper to this report, describes a range of largely technical measures designed to improve the management of the overall paybill, and to help councils determine how many staff to employ and how much to pay them. But Paying the Piper does not address the strategy underlying the solutions, or tackle the third basic question of how to get the best from the staff who are employed (Exhibit 1). That is the aim of this report.

2. In reviewing their management structures councils must cope with an ever more turbulent environment. The Government will not fund increases in paybill for the next three years: pay increases must be funded from savings. A real-terms reduction in running costs of over 10% is expected – representing over £1 billion for the non-manual paybill. And local government will face other challenges in the next three to five years:
   - The way in which services are delivered will change because of the continuing impact of existing legislation such as local management of schools (LMS), grant maintained schools (GMS), the Children Act and care in the community.

Exhibit 1
So now that we’re organised - what do we do?

Paying the Piper provides some technical solutions; Calling the Tune addresses the strategic framework.

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External pressures

1. Those employees covered by national pay agreements for administrative, professional, technical and clerical (APT & C) staff and for staff covered by the joint negotiating committees (JNC) for chief executives and chief officers. Teachers, police and fire staff are excluded. The figure of 700,000 is expressed as full-time equivalents and includes employees in analogous positions in authorities which have withdrawn from the national agreements.

2. Further details are provided in People Pay and Performance in Local Government: a Management Handbook, which accompanies Paying the Piper and Calling the Tune.
Beginning in 1995, the introduction of compulsory competitive tendering (CCT) for some non-manual services will increase competitive pressures and reinforce organisational changes, in particular the client/contractor split.

Growing pressure to respond to the consumer, with demands to improve and tailor services to reflect public need rather than fit consumers into existing programmes.

Finally - and, for some councils, overwhelmingly - shire district and county councils face possible reorganisation over the two years beginning in 1995. This will involve authorities in initial external consultation, managing the transition from the old to the new council structure, and then organising the new authorities - all while continuing to provide uninterrupted services to the public.

**A strategic framework**

3. Local government faces many interrelated challenges (Exhibit 2). To achieve more and better services with less money councils cannot rely simply on technical improvements to paybill management. They must improve the effectiveness and efficiency of their staff. Councils must also improve the way in which they make and implement their decisions. They need to devolve authority, to internal purchasers where appropriate, or to staff at the front-line, thus winning their commitment to improved performance. Devolution must

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**Exhibit 2**

**Challenges for local government**

Local government faces many interrelated challenges

- Respond to external pressures and change
- Provide more and better services with less money
- Retain control and accountability in a fragmented environment
- Maintain staff motivation and commitment
- Get the best out of staff

Source: Audit Commission.
be balanced with necessary control and accountability at the centre of the authority.

4. These changes will not come about by accident. Authorities need to take control - to ‘call the tune’. This does not mean imposing rigid, authoritarian constraints and orders on people; rather, it means exercising clear and strong management in an increasingly fragmented environment. Improved performance requires greater flexibility and responsiveness.

5. Responding to the challenges will require high performance from staff. Councils can get the best from their staff through:

- improving understanding: Do staff know what to do, how to do it and do they receive the right support from managers?
- improving performance: Do staff have the right skills and training to perform the tasks expected of them?
- maintaining commitment: Are staff sufficiently well-informed, contented and confident to contribute to the best of their abilities and cope with the inevitable pressure that change and increasing demands will bring?

Linking the organisation and the individual

6. All too often, leading members and chief officers agree on a change of direction in the way the authority works only to find that real life at the front-line is hardly affected. It is usually front-line staff who are the first to discover how well council initiatives are working and to suggest improvements; but frequently their experience does not feed through to the decision-makers at the centre. Even where councils have superb policy systems, some still fail to achieve their objectives because of ineffective management arrangements. Councils must develop management systems which:

- identify priorities and convert pressures for change (for example, demands for services, political objectives, competition, legislative changes) into policy;
- put policies into practice (for example, by funding and investment, changing organisation and processes); and
- manage the impact of change on staff (for example, training and development, communication, performance).

To illustrate, social services departments are experiencing changes which affect all of these processes. Care in the community and the Children Act, combined with the requirement to contract out some services, are leading to a major review of policy in all county and metropolitan councils and London boroughs. Authorities need to account for changes to their funding and reorganise services to reflect client need and joint working with other agencies. A new purchasing function, based on needs assessment, is leading to new departmental structures and to staff learning new skills and methods of working (Ref. 3).
7. Councils can get into difficulties if they try to respond to change without addressing its impact in all three areas: devising policies, translating them into practical measures, and managing their impact on staff. Political programmes cannot be delivered if they do not take account of funding and practical constraints. Councils which are closed to the outside world find themselves reacting to problems rather than setting their own agenda. A ‘producer mentality’ can lead authorities to develop self-serving programmes that are unresponsive to the needs of the public. Staffing policies can become detached from the practical needs of service delivery. To avoid these problems councils must manage change in all three areas and provide mechanisms for integrating each element of policy.

8. Authorities have always had to deal with pressures of this kind. Traditionally, councils maintained control through extensive management hierarchies, departmentalised structures and a strong corporate culture. Lines of communication were largely vertical, and more often top-down than bottom-up. But this description of council structure and management is becoming redundant. As authorities divide into clients and contractors, structures fragment; there is growing pressure to become more responsive to the public and to push more responsibility down to the front-line.

9. By itself, changing the management structure is not enough. Leading authorities are managing internal relationships through a contractual approach. This reduces the day-to-day role of direct management and increases the emphasis on financial and service objectives which managers are required to implement, largely free of day-to-day intervention by senior officers and members. Such an approach is essential when delivering services through external providers, and will become more relevant as white collar CCT is introduced. Some authorities have used this approach to formalise the relationship between managers and staff; for example, in its staff handbook, Hampshire County Council describes the objectives and development needs of staff as ‘a contract between manager and employee’.

10. These changes to internal management have common features. Councils simultaneously aim to improve the performance of the organisation (whether council, department or business unit) and the contribution of individual members of staff (Box A). To achieve this councils must specify, communicate and evaluate aims and objectives at all levels: an approach sometimes described as performance management (PM).
Box A

Improving the performance of the organisation and the contribution of staff

(i) In order to maximise performance, focus the efforts of the organisation on explicit, challenging and realistic aims and objectives.

(ii) Target and improve the understanding, commitment and contribution of individual staff in the delivery of those objectives.

(iii) Support the delegation of responsibility to front-line staff by using management through objectives.

(iv) Provide quantitative and qualitative standards for judging individual and organisational performance.

(v) Provide feedback to the organisation and to individual staff about their actual performance.

(vi) Identify and implement training and other actions necessary to improve individual performance.

11. Whilst this report considers how to improve the contribution of individual members of staff, and also addresses the wider context of organisational performance, its main focus is to set out how PM can provide the link between the policy process and front-line service delivery (Exhibit 3). It describes the systems being used and their impact – or lack of it – and provides best practice guidance on their implementation. The report also draws attention to the role of training and development in effective PM.
PM specifies affordable aims and objectives for the council, which are passed down to each employee. Two-way external and internal communication is essential so that everyone understands the objectives and accepts them as appropriate. Evaluation is carried out through performance review, and personal appraisal of each employee. Councils vary in how well they apply these principles. Success takes time.

2 Performance Management: Theory and Practice
The structure of performance management

12. Recently, PM has become something of an industry in its own right, dominated by ‘industry experts’ and management consultancies. It has been variously presented as a management theory, a fad and, by the committed, almost a theology. Others argue that it simply uses new words to describe what they have always done. Some managers misrepresent PM as conceptual nonsense, while front-line staff are confused by jargon and ‘yet another modern management method’. This is unfortunate. Three points should be emphasised:

◆ There is nothing mystical about PM and it is not a universal panacea.
◆ It embraces a range of straightforward processes that are fundamental to good management – however they are labelled. These processes are universal and do not apply to any single management system.
◆ PM concerns both the ‘soft’ issues of staff motivation and the ‘hard’ issues of financial targets, thus linking individual and organisational performance together.

13. To improve performance and respond to the pressures of change councils should use PM, integrated with paybill management and personnel policies (Exhibit 4, overleaf). PM addresses three processes, applying two functions in each:

◆ Specification
  the heart of the system: a set of aims for the organisation which are translated into specific objectives for each employee. These are expressed as desired milestones and targets and are affordable within a business planning process and the annual budget. Specification helps councils to develop detailed and properly budgeted policies which respond to external pressures and provide better services for less money.

◆ Communication
  is of two sorts: external communication lets managers amend objectives in response to public needs. Internal communication allows staff to know their own responsibilities and influence detailed policy formulation. Good communication enables councils to recognise and respond to external pressures and equips staff with the skills and understanding necessary to give of their best; it also enables staff to give their own views on how managers help them achieve their objectives.

◆ Evaluation
  Performance review tracks the performance of departments and service units and identifies actions necessary for improvement. Personal appraisal extends this to the level of the individual employee. Good evaluation enables councils to maintain control and accountability and to explain the specification to staff members in individual departments.

To assess the impact of PM it is necessary to move from discussing the theory to reviewing the practice.
Recent experience

14. All councils address the issues of specification, communication and evaluation whether or not they pursue an acknowledged PM policy, but some do it by such obscure means that it is difficult to detect. A survey of 279 councils conducted for the LGMB in 1993 found that 44 per cent of councils had some explicit form of PM in place, and a further 14 per cent were planning to introduce a scheme. Only seven per cent of councils had decided not to pursue PM, and less than one per cent had withdrawn from PM after implementation.

15. To see how different approaches to PM work in practice, the PM policies were assessed in 25 local authorities. Council staff ranging from the chief executive to front-line managers were asked to describe their council’s PM...
policies. The Commission’s assessment was based on over 50 structured questions. It used two criteria:

◆ whether or not management processes were in place; and
◆ how well they were operating in practice.

This research provides a ‘score’ or PM index for each element of PM in each authority ranging from one (well below average) to five (well above average), with a total possible score of thirty for the six elements. The objective was to provide a consistent, even if subjective, assessment of councils’ strengths and weaknesses.

16. There is wide variation between authorities in the scope and quality of their implementation of policies which cover the three processes of PM (Exhibit 5), but some major trends emerge:

◆ Many authorities are developing aims and objectives, especially at the corporate level. But the relevance of those objectives, particularly at the departmental level, varies between councils. It is difficult to link organisational with individual performance unless clear objectives are passed down to individual employees. Many authorities have yet to develop effective business planning. Frequently this is hampered by budgetary processes designed to provide financial reports for committees rather than detailed information for front-line managers.

◆ Most councils have improved communication, often in association with the Citizen’s Charter initiative, and in some authorities a consumer-first culture is emerging. However, this improvement is sometimes limited to external communication; the extent and quality of internal communication varies greatly. Communication is mainly top down; many chief officers’ perceptions of staff views are incomplete and over-optimistic. Front-line

More details of this methodology are contained in the management handbook.
Staff are often unaware of or misunderstand council policies, or believe the policies to have no relevance to their work.

Organisational performance review is often hampered by inadequate performance indicators (PIs) and supporting information. Monitoring and feedback work better at the departmental level, and councils do not often attempt a corporate overview of performance. Where adopted, personal appraisal of staff is normally good at evaluating performance. But many councils have either not yet developed procedures, or apply them only to senior posts. Staff reaction to personal appraisal is positive, especially when it is linked to training and development, as it is in the best authorities.

Messages also emerge concerning the implementation of PM:

- PM takes time to implement. Differences between authorities are often associated with the time their policies have been operating. Most councils require several years to develop PM fully. Those with most experience recognise the need to review their procedures after four or five years to ensure their continuing relevance and freshness.
- Among the study authorities, PM seems to be better developed in shire districts, where the size and complexity of activities is more limited, and in some counties, which have tended to rely on highly structured, corporately driven policies. Metropolitan districts and London boroughs generally score less well on the PM index, but in many cases this is because they have adopted PM policies only recently.
- Councils often begin with fairly formal and structured PM policies. But, with experience, front-line managers normally demand greater flexibility. In large authorities this can result in differences between departments, which may be no bad thing.
Some councils focus on the ‘soft’ elements of PM (communication, staff commitment and motivation); others emphasise the ‘hard’ elements (targets, objectives and financial management); few have balanced these elements into a fully integrated programme.

PM tends to be officer driven; often members’ interest is limited. Similarly, the development of PM in different departments depends on the enthusiasm of the chief officer and lead managers.

18. The experience of authorities in the implementation of PM policies varies widely. Some have embarked on extensive, fully integrated and long-term strategies designed to change the formal nature of the management process and to improve the performance of front-line staff. Others have adopted a more informal approach: grafting elements of PM on to their existing management practices, relying on the pragmatism of councillors, senior officers and managers to adapt to changing needs and generally avoiding systematic or bureaucratic procedures. Some authorities have largely ignored the potential of PM and maintain more traditional practices. Many more find themselves in a sometimes uncomfortable half-way house; several heads of department complained of being sandwiched between the traditionally-minded corporate core and front-line managers demanding more freedom of action. The impact which good PM can have on a council is considered in the next chapter. Then the report discusses how a council can achieve that impact.

More detailed descriptions of the elements that make up PM are contained in the management handbook.
Councils with good PM:
respond better to outside pressures

can cut spending while protecting services, where PM is combined with detailed review of what the council does and how it does it;

experience better staff understanding and commitment, especially where communications are good, and particularly for junior staff.

3 Assessing the Impact of Performance Management
Responding to change

19. All authorities are experiencing internal and external demands for change. PM provides a structured approach for responding to these demands: it offers an outward focus on customer needs and best practice in other councils, an inward focus on the merits of staff, and processes for converting demands into concrete policies. It is difficult to measure objectively an authority’s responsiveness to change, but councils with PM in place show a greater ability to recognise external pressures early and, more important, to develop responses before becoming overwhelmed by events (Box B).

Box B
Changing the culture: recognising external pressures and developing appropriate responses

Example: Fareham Borough Council

Issue: At the beginning of 1993 Fareham Borough Council embarked on a comprehensive programme of cultural change. They wanted to move from a traditional, centralist and static culture to one characterised by flexibility and responsiveness to the community.

Action: The Council pursued a wide range of initiatives:
- The values of responsiveness, partnership, openness, financial prudence and respect for the democratic process have been identified and promoted.
- Corporate and service strategic aims, particularly to promote customer responsiveness, have been identified.
- The authority has been restructured into client and contractor units across all services – not just those subject to CCT. For central support services, the roles of core client, user-agent, and service provider have been separated in line with the model in the Audit Commission’s report, Behind Closed Doors.
- A new financial management system has been introduced. Complaints procedures have been established. Contractor units have all developed business plans. Their activities are driven by client-produced specifications.
- Managers have been encouraged to adopt a participative management style.
- Staffing plans have been reassessed; one objective is to replace expensive professionals with technicians.
- Staff training is redirected to match their work requirements.

Result: The council measured progress with a diagnostic tool, consisting of paired lists of characteristics applying to an organisation.* The ‘Managers Group’ – all 40 third-tier managers together with the chief executive and the five directors - scored the authority against each pair of characteristics at the beginning of the programme, together with another score for where they thought the authority should be by March 1994. The exercise was repeated in March 1994 to assess the progress. Scores range between 1 (extremely static) to 5 (highly adaptable). At the beginning of the programme the overall mean score was 1.7. After 12 months this had risen to 3.3.

* A copy is contained in the management handbook.
20. Even if a council has not formally adopted an integrated PM system, it can apply the processes of PM - specification, communication and evaluation. In one authority with no overt PM the culture had yet to come to terms with the impact of blue-collar CCT; in another, with a rather informal approach to PM, there was sufficient confidence to arrange open meetings with staff to discuss the implications of white-collar CCT, even assessing the pros and cons of management buy-outs of services. In London, senior officers in one borough’s library department complained that a branch structure inherited thirty years ago was inhibiting service development. In a neighbouring borough, with PM in place, a clear strategy for libraries, developed through consultation with the public, members and staff, now forms the basis for a plan to improve the quality of the service and accessibility to the public.

21. PM works by setting objectives for units and individuals. Like benchmarking or a service contract, it identifies where, by how much and sometimes how to improve performance, and produces action plans for improvement. But achieving that improvement in the form of more and better services depends on operational policies like those described in Paying the Piper, often supported by staff training and investment in information technology. The impact of PM on efficiency is indirect. To achieve savings and improve efficiency, a detailed review of the things the council does (activities) and how it does them (operations) is usually needed:

- Such a review works best where it is linked with PM (Exhibit 6). Of eight authorities where staff numbers went down, six used review and PM together.
- Failure to use review or PM is linked to substantial growth in staff. Of ten authorities where staff numbers went up by more than ten per cent, eight used neither review nor PM.

Exhibit 6
The impact on staff numbers of performance management and review of activities and operations

Review works best where it is linked with PM.

Source: Audit Commission.
PM used without review does not necessarily improve efficiency. Two of the ten authorities with the highest staff growth used PM without review.

PM can help to protect effectiveness when reduced funding leads to staff cuts. But reviewing activities and operations without PM can make it more difficult to protect services when funding is cut (Box C).

22. Identifying work objectives and staff skills for individual employees is essential to many of the measures for paybill management described in Paying the Piper. Matching staff to workload, flattening the organisational structure, job sizing and managing pay progression or performance-related pay benefit from, and in some cases depend on, PM techniques. Councils which delegate responsibility to front-line staff without using a PM framework can experience

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**Box C**

**Using review of services to help match resources to workload**

**Example: North Tyneside Metropolitan District Council**

**Issue:** In 1992-93 the Council faced an overspend on its SSA. The Council began to restructure management to achieve a £17m or 12½ per cent budget reduction for the year 1993-94.

**Action:** The restructuring programme included the following elements:
- a review of management arrangements in other local authorities;
- detailed review of each service area’s staffing, budget, activities and workload; and
- using this information to combine departments and to reduce the number of top managers.

**Result:** The Council has moved from the traditional concept of service departments to functional departments providing a range of related services (for example, child care now incorporates services formerly provided by the Education and Social Services departments). They have merged 209 separate service areas into 16 functional groups, leading to significant savings:
- ten per cent fewer council posts;
- 60 per cent fewer chief and deputy chief officer posts; and
- outturn for 1993-94 below the capping limit.

**Comment:** The Council made quick savings by reviewing activities. But not all of the staff reductions have been achieved without an impact on services.

Top management considers that if the Council had had the elements of PM in place, or had not had to react so quickly to a crisis, then the staff reductions could have been made with less impact on services.

The new structure has improved corporate working across functions but inexperience in service review, the speed of the process and the lack of a PM system has meant that some further adjustment of current staff numbers and skill mix will be necessary. This is now a priority for the Council.
loss of control and accountability. Both Wycombe Borough Council and The Royal Borough of Windsor and Maidenhead, for example, have delayered management structures; they used PM to identify the standards of services required, the numbers and skills of staff necessary, and the individual responsibilities of managers and staff in the new structure. By linking the specification of objectives to performance review, councils can monitor their performance and make further improvements (Box D).

The impact on staff

23. People, not policies, provide services. Good performance requires people who have the right skills, who understand their responsibilities and who are motivated and committed. Individuals respond well to realistic, clear objectives, are more innovative and concerned with quality if they are satisfied with their work and, unless pay or job security is particularly unsatisfactory, they respond more to recognition than reward. People also respond better if they are able to influence the decisions that affect their working lives.

24. PM has two effects on staff: it should improve staff understanding of their role – the ‘know-how’ factor – and indirectly improve job satisfaction and commitment – the ‘feel-good’ factor (Box E). It is difficult to measure how PM influences the performance of individuals, although many managers testify to the benefits, but it is possible to assess the overall impact on staff attitudes.

25. A staff attitude survey was carried out in 17 local authorities. A total of 2,250 staff (65 per cent of the sample), divided equally between senior and junior posts, returned questionnaires indicating their attitude to ‘know-how’ and ‘feel-good’ issues. The results are measured on an attitude index. There are two separate indices, one for ‘know-how’ and another for ‘feel-good’ issues. These can also be combined to provide a measure of staff attitudes across all factors.

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A copy of the questionnaire and details of methodology, which are based on a survey designed for the Institute of Personnel Management (IPM), are contained in the management handbook.

Senior posts were those graded at SO or above. Junior posts were those graded as scale posts. In Exhibit 7D, senior posts refer to staff on PO and above. Staff on SO grades are excluded from this exhibit.
Example: Swale Borough Council

**Issue:** The Council wished to develop a comprehensive system of setting objectives and assessing performance linked to the budget process. They wanted to publish response times and other performance indicators throughout the community.

**Action:** The system is passed down from the Council, through committees and services, to sections and individuals. It is set within an annually reviewed Corporate Plan. Each service or function has between three and seven major objectives each year, together with a number of specific performance targets. Performance is assessed by a wide range of indicators, which include (examples only):
- percentage of productive time for IT staff;
- collection costs of council tax per 1000 population;
- numbers of business re-location enquiries;
- car park revenue;
- cost per hectare of open space management;
- leisure centre usage;
- number of street cleaning complaints, and percentage responded to in the day;
- percentage of notifiable building control inspections completed within 24 hours;
- cost of personnel function as a percentage of net revenue costs.

The authority assesses the success of the system using external validators who check response and quality of its services - particularly through the Chartermark initiative. They also monitor their own performance targets. Methods of assessment include (examples only):
- surveys of user satisfaction;
- analysis of comparative data from other organisations;
- performance against deadlines or targeted durations;
- monitoring range and quality of media comment;
- accuracy of information and advice provided;
- surveys of public and business awareness of Council initiatives.

**Result:** The Council is one of only two authorities to have been awarded three Chartermarks. Practical outcomes of the Council’s PM policies include:
- productive IT staff time up from 80 per cent to 84 per cent;
- number of employees per member of payroll staff up from 233 to 305;
- number of women in senior posts up from 18 per cent to 25 per cent;
- street sweeping complaints dealt with within one day up from 86 per cent to 95 per cent;
- proportion of building control inspections completed within 24 hours up from 90 per cent to 98 per cent, while staff numbers were reduced.
26. When differences between authorities' scores on each attitude index are compared (Exhibit 7) with differences in their PM policies measured on the PM index (Exhibit 5), four main findings emerge:

- if pursued over an extended period, PM has a positive impact on staff 'know-how' (Exhibit 7A);
- staff with strong 'know-how' also tend to 'feel-good' about their work (Exhibit 7B);
- good communication has the most impact on staff attitudes; developing clear aims and objectives is of little value unless they are communicated effectively (Exhibit 7C); and
- PM policies have a greater impact on junior than on senior staff. (Exhibit 7D).

27. PM policies contribute to staff 'know-how'; those authorities with the highest 'know-how' scores tend to have well-established PM programmes extending to all staff. Not surprisingly senior staff have more 'know-how' than junior staff. But, significantly, PM has a greater impact on the attitudes of junior staff. This suggests that authorities which do not extend their policies to all employees are failing to realise the full benefits of PM. Most important, although the setting of aims and objectives determines staff 'know-how', the impact of setting such objectives is undermined without good communications. Several councils in the Commission's survey have invested considerable time and effort into developing comprehensive aims and objectives for the council and for senior staff. But, without personal appraisal and good internal communication, the impact on staff below third-tier level has been negligible. PM in such authorities has failed in the central objective of engaging front-line staff.

28. PM policies also contribute to the 'feel-good' factor. Job satisfaction and commitment are more personal and individual than, for example, an understanding of work responsibilities. But it is striking that staff 'know-how', which PM directly attempts to influence, has a major impact on 'feel-good' factors. This confirms what good managers instinctively know: staff are more content when properly involved in and informed about what is happening in their place of work.
Exhibit 7
The relationship between staff attitudes and PM

A Staff ‘know-how’ is linked with good PM ...

B ...and feeling good is associated with high ‘know-how’.

C Good communication has most impact. Without this, aims and objectives have little effect on staff attitudes.

D PM has a greater impact on junior staff.

Source: Audit Commission.
Getting the benefits of PM depends on good implementation, which has three elements:

making it real, through consultation, clarification and credibility;

making it happen, through commitment, continuity, communication and conflict resolution;

making it work, through competence, control and consolidation.

Implementation is a long-term, coherent and cyclical process. It requires a tight-loose framework where devolution of responsibility is balanced with corporate controls.
29. PM can improve authority performance and staff attitudes. By linking organisational and individual performance, it helps to ensure that top-level decisions are translated into action at all levels of the authority, and it makes it easier for people at the front-line to pass on lessons to decision-makers. In addition it provides a strategic framework for techniques of pay management and productivity improvement to deliver benefits. Many councils will want to achieve those benefits by putting PM into effect. How should they go about it?

30. PM is often described in terms of its constituent functions such as cascading objectives, performance review, personal appraisal and so on. Each of these is separately valuable; but PM is most effective in councils which have applied all of its constituents as part of an integrated strategy. Successful PM depends less on the design of the individual components than on how councils put them into practice. Good implementation requires councils to:

- **make it real** – develop objectives that are realistic, relevant and responsive;
- **make it happen** – organise the authority to deliver those objectives; and
- **make it work** – ensure that staff are able to perform and that performance can be monitored and improved (Exhibit 8).

31. Achieving good implementation is not a one-off exercise – it requires persistence over time, and substantial commitment by senior management. Small district authorities can often tackle implementation on an authority-wide basis. Counties, metropolitan districts and London boroughs may find it more practical to implement PM in stages, beginning with those departments where there is a particular need, such as those facing competitive pressure, or where there is enthusiasm to get started. But councils should avoid implementing only the ‘organisational’ functions and neglecting the ‘individual’ functions, and should ensure that, wherever PM begins, it applies right down the organisation to the front-line, rather than being restricted to senior staff.

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**Exhibit 8**

Implementing Performance Management

Good implementation requires councils to make it real, make it happen and make it work.

Source: Audit Commission.
32. Many authorities are developing aims and objectives. Members should set them in accordance with their priorities and should make them meaningful to managers and front-line staff. To make it real, three factors are necessary: consultation, clarification and credibility.

33. **Consultation** helps to determine the right objectives and build a sense of ownership for them. Some authorities have adopted a largely top-down approach to PM; this results in little awareness and less commitment from front-line staff. But the attitude survey confirms the importance of staff participation. For example, the Borough Council of King’s Lynn and West Norfolk was the first local authority to obtain ‘Investors in People’ status; it also achieved the best staff attitude score in the survey. The Council operates an extensive and integrated communication and training programme, supported by personal appraisal of all non-manual staff. In spite of this record, when the Chief Executive was asked what he would do differently, he commented ‘consult and communicate even more with staff’.

34. It is also important that a council consults externally, both to get its message across and to respond to the views of the community it serves. Junior staff, in particular, are strongly influenced by the views of the public. Feedback of this kind is real to staff – it deals with services and customers with which they are familiar.

35. **Clarification** of objectives is equally important. Objectives should be integrated within the authority’s financial and business planning processes and must be expressed in specific, measurable terms that are relevant to managers and front-line staff. The staff attitude survey saw clear goal-setting as an important factor. But some authorities produce extensive lists of objectives which are virtually ignored at the unit level. Senior officers can use objectives to focus members’ attention on the important issues, leaving operational details to front-line managers. Members can use the same processes to help frame their relationship with senior officers and to evaluate performance.

36. Together, consultation and clarification should ensure **credibility** for the authority’s aims, and how it intends to pay for and achieve them. Some authorities find it hard to develop credible targets and objectives for junior staff, whose job is simply to carry out tasks that they are given. For these employees, a greater emphasis on quality standards and the development of skills is often more appropriate. For example a secretary finds it more meaningful to achieve technical skills - such as word processing or administrative duties - and the standards expected rather than hear vague references to their contribution to service objectives which are the manager’s responsibilities.

37. There can also be practical difficulties to overcome. Managers need to change their behaviour, working less by direction and more by setting objectives for their staff and monitoring their achievement through appraisals. One housing manager spoke of her efforts to complete personal appraisals twice yearly for 15 staff. Personal appraisal should lead to a redirection of effort rather than an increase in overall workload, and should not place an
excessive burden on managers’ time. However, if PM is to work, managers must find time to do the job – and do it well.

Making it happen

38. For those authorities which have succeeded in making it real comes the next step: making it happen. There are four factors: commitment, continuity, communication and conflict.

39. PM is a long-term strategy. It requires commitment and continuity in its application; a senior-level ‘champion’ is important. The commitment of the head of personnel is not sufficient by itself. If PM runs into problems, it does so most often if staff see it as being driven by the personnel department rather than by the chief executive and line management. A strong lead by the chief executive and the finance director is necessary. It is also important for members and, in particular, for the leader of the council to participate, not just in setting objectives but also in drawing up a scheme. Lower-level champions are important too, especially if an authority decides to begin implementing PM in selected departments. Commitment and continuity are enhanced if the council uses external validators through initiatives like Investors in People or applications for Chartermarks.

40. Once PM has been implemented it must be followed through. Some authorities begin with good intentions which subsequently lapse; for example, the attitude survey showed that 30 per cent of eligible staff had not received a personal appraisal interview in the past 12 months (Exhibit 9). In some councils, the shortfall was over 50 per cent. Frequently these councils look good ‘on paper’, but for them PM makes little contribution to real management decisions.

Exhibit 9
Commitment and continuity are sometimes missing

Of eligible staff, 30 per cent had not received a personal appraisal interview in the past 12 months.

Source: Audit Commission.
41. Good communication is required if PM is to maintain its clarity and credibility. Communication is not merely a question of newsletters and occasional seminars. Nor is it a one-way process from the top of the organisation to the bottom. At its most advanced, communication becomes indistinguishable from staff participation in management decisions and in their own development and training programmes. Leading authorities use staff appraisal, team briefings, quality circles, training cycles and open meetings with management and back them up with published material (Box F).

42. PM encourages an open culture; it can reveal and sometimes generate conflicts of interest. These occur at the authority and departmental level and concern service objectives, budgets, employee status and power. Conflicts can also emerge when responsibility is devolved to the front-line. The progress of PM can be undermined by internal conflicts. Resolving such difficulties requires:

- clarification of the roles of members, senior officers and front-line managers;
- recognition and enforcement of the standards and systems needed to maintain corporate responsibilities; and
- financial and business planning processes which provide an open system for reconciling service objectives with available resources.

Senior officers and members must intervene to clarify policies and responsibilities and to resolve conflicts before they reduce the effectiveness of the organisation.

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**Box F**

**Good communication is required for PM to maintain clarity and credibility**

**Objective:** Nottinghamshire County Council’s ‘TOO’ programme (Towards One Organisation) attempts to develop a common sense of purpose across all services - and 36,000 employees.

Actions have included:

- the issue of a TOO leaflet;
- an explanatory TOO video;
- distance learning resources for managers and service providers for working with black and ethnic communities;
- inclusion of TOO themes in recruitment and induction and management development activities;
- nine one-day cross-departmental programmes for staff;
- customer awareness days with the public; and
- a managers’ guide to cross-service working.

**Observation:** It is impossible to measure the direct impact of such measures on performance but it is noteworthy that Nottinghamshire County Council staff displayed positive attitudes in the Commission’s survey.
43. Many leading authorities have succeeded in making PM happen and are concentrating on making it work. They are addressing three issues: competence, control and consolidation.

44. PM normally results in some delegation of responsibility; it changes the way in which middle and senior managerial and professional staff operate, requiring them to learn new skills. Leading authorities use personal appraisal to highlight areas of competence, to identify training and development needs and monitor their fulfilment. Many have obtained or are working towards external accreditation such as Investors in People and Chartermarks. Most treat staff development as an ongoing programme linked closely to initiatives in communication, training, staff participation and changes to organisation structures.

45. Staff development is linked closely with a systematic system of appraisal. Personal appraisal systems are well developed in many authorities. These schemes should define work objectives and the skills and development needs of employees. This should be done on a joint basis, building a sense of ownership and reinforcing the essential partnership between employer and employee (Box G, overleaf).

46. Personal appraisal supports the development of competence and control of individual performance. Authorities are also developing a control system based on detailed standards and performance indicators (PIs). Linked to service and financial objectives, it monitors the organisation's performance. One striking difference between traditionally-managed and leading authorities is the attitude of members and chief officers towards PIs and their role in underpinning effective control. In leading authorities, PIs are now treated as useful tools for managing performance. Effective management requires a wide range of information. Leading authorities have developed their own PIs, particularly in areas of operational management (Box H, overleaf).

47. Performance review enables councils to monitor and improve performance. But it is also important that the PM system is itself reviewed and consolidated to reflect changing circumstances. Many leading authorities, with perhaps four or five years of experience with PM, are now involved in this process. They have found that achieving successful PM requires a coherent and continuous process of implementation which does not treat the various elements simply as a shopping list, but which fits them together into a systematic, persistent and cyclical approach (Exhibit 10, on page 32). Improvement is a continuing process. As PM systems get better and staff gain experience in their use, departmental managers begin to apply pressure for greater flexibility and variation. A less prescriptive approach to PM may emerge. Some authorities are implementing PM gradually, questioning whether processes are really necessary, ensuring that they do not become too costly or bureaucratic to manage.

48. PM must keep the commitment of staff at all levels without descending into routine ticking of boxes so losing its original purpose. Senior officers and members should work together to generate commitment for the changes on which they agree and to act to put them into effect. To help retain a freshness
Example: Lewisham Borough Council

Objective: As part of its performance management system, the London Borough of Lewisham has developed an employee development scheme (EDS) which includes individual objectives, performance assessment and the systematic identification of training and development needs.

Practice: Each department produces an annual service programme, setting out objectives and action plans. This is linked to the EDS which operates across all services and all staff, though the detailed paperwork is customised for each department. The EDS involves two formal meetings every year between each employee and manager. The principal characteristics of the scheme are:

- Appraisees must be given at least three weeks' notice of each EDS meeting.
- Managers must allow adequate time for each meeting – normally not less than two hours.
- Employee and manager are urged to prepare thoroughly for the meeting, and guidance notes and preparation forms are provided to assist them with this.
- The meeting itself must include discussion of past performance against previously agreed key tasks/objectives; agreement on new objectives and the action plans to achieve them; and the employee's current training and development needs and longer-term career ambitions.
- Managers must ensure that individual objectives support, or are consistent with, the departmental service programme.
- Managers are expected to encourage the maximum participation by the appraisees; appraisees are urged to use this opportunity to raise any matter of interest or concern. There is a strong emphasis on the meeting as two-way communication.
- Managers must produce a written record of the meeting within three weeks. They then meet briefly with the employee to agree and jointly sign the record.
- The employee has a right to discuss any related matter with the manager's manager.

In an explanatory leaflet, the benefits of EDS are described as:

For employees to:

- be able to express views about their work,
- discover strengths and weaknesses,
- look at development needs and develop personal effectiveness and potential,
- be clear about the department’s objectives and how to contribute;

For departments to:

- ensure each employee is contributing to objectives,
- hear employees’ views,
- ensure employees have the guidance and support needed to do their jobs effectively, and
- ensure employees understand what is expected of them and what they can expect from their managers and the authority;

Observation: Lewisham now has considerable experience in operating performance management; it introduced systems in the late 1980s, setting general principles corporately, but encouraging each service to develop its own detailed approach.
Box H
Reviewing performance through performance indicators linked to service and financial objectives

Example: Redditch Borough Council

**Objective:** Redditch defines the objectives of its performance review system as being: ‘To measure council services objectively through a set of numerical indicators and relate these to a set of policy objectives and core values laid down by Members’.

**Practice:** Redditch introduced a system of performance monitoring in 1989. The system has been kept under review and developed; it now covers all the Council’s activities, and integrates corporate, service and individual performance targeting and assessment.

About 1,000 performance indicators have been identified at corporate and service level, including ‘satisfaction quotients’ obtained from the analysis of periodic questionnaires issued to a panel of over 500 Redditch residents. The Council selected a much smaller number of key indicators to enable members to focus on the strategic aspects of each service. These include the Audit Commission’s statutory PI s.

The system is set in the context of a statement of the Council’s ten corporate core values and objectives which have been widely publicised, internally and externally. For each service there is a set of:

- Policy objectives, which are subject to review but may remain relevant for a period of years.
- Annual key tasks – specific projects or achievements to be completed by set dates. A lead officer is designated for each key task, so providing a link between the tasks and targets of individual managers.
- Targeted performance indicators, both for the key tasks and for the costs and quality of the service as a whole. These performance indicators are also reflected in the appraisal process for individual employees.

There is a strong emphasis on quantifiable indicators together with a distinction between indicators of service activity or demand (e.g., the size of the housing waiting list) and indicators of service performance (e.g., the rate at which people are rehoused from the list). The system focuses on the latter, as volumes of demand are not within the authority’s control.

An explanatory document for members, managers and staff, explains the emphasis on numeric indicators thus:

‘If it is not possible to express an indicator in numeric terms, it is not possible to set targets. Performance review is about numerical analysis, though the numeric expression of the qualitative aspects of services (such as customer satisfaction) requires a more imaginative approach. . . . If a service cannot be quantified at the point of delivery, then service outcomes can be quantified by measuring user satisfaction . . .’

In selecting each indicator the authority applies five tests:

- Is it relevant as a useful guide to aid efficiency and effectiveness of the service?
- Is it measurable, and are any new information systems necessary to produce the required data?
- Is the indicator ‘pure’, so that it really measures what it seems to indicate?
- Is the target realistic, while still aiming to stretch and improve the service?
- Does it reflect the authority’s core values and policy objectives?

**Observation:** Redditch has substantially reduced total expenditure in recent years. Performance review has played an important part in monitoring the impact of these reductions and in helping to preserve front-line services.
of impact members and senior officers should monitor PM by asking key questions at regular intervals (Box J).

49. PM works by empowering front-line staff through the decentralisation and devolution of management. But devolution must be accompanied by appropriate systems to maintain control and accountability at the centre. Finding the right balance is not easy. Paying the Piper identified the difficulties of balancing the need for more responsiveness and flexibility in paybill management with traditional concerns for control and accountability. Calling the Tune recognises that different decisions need to be made at different levels of the council, but that these must be integrated. Many authorities face problems in deciding how far to devolve responsibility yet maintain corporate controls that do not undermine front-line managers' room for manoeuvre. The Commission and others have already addressed some of these issues in previous publications (Refs. 4-10).

50. This report does not discuss in detail the management of the client and contractor role. Nor does it define prescriptive organisation structures. Individual authorities must develop arrangements that reflect their own needs and culture. They must determine explicit policies addressing which functions should and should not be devolved, and to whom (Exhibit 11).
Many of the measures described in *Paying The Piper* and *Calling The Tune* require devolution of responsibility to maximise efficiency and effectiveness. In particular, managers of direct service organisations (DSOs) often argue that, in a competitive environment, heavy-handed central control is harmful and unnecessary. But councils retain a wide range of financial, legal and regulatory obligations. A tight-loose balance is required, combining control with flexibility. Some councils have no clear approach for managing devolution; others have lost corporate control in key areas, exposing them to risk. The London Borough of Brent argues that the tendency to centralise is so strong that it is necessary to have an explicit policy to decentralise. To quote the authority, ‘Devolution is about giving power and letting go...you need to start from the premise that everything should be devolved unless there is an irresistible argument that it should be retained as a corporate responsibility.’

Box J
**Key questions for members and senior officers in monitoring PM**

- Are the core elements of PM – specification, communication and evaluation – in place?
- Are they a key and relevant part of day-to-day management processes?
- Are they generating challenging but realistic targets and standards to guide management?
- Are these targets and standards being met?
- What benefit is PM delivering to the council?
- Is the cost of maintaining PM commensurate with the benefits being achieved?
- If not, what should be done? Improvements to PM, to strategic management or to operational management?

Exhibit 11
**Maintaining control and accountability in a devolved environment**

Authorities should decide which functions should and should not be devolved.

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Source: Audit Commission
PM can help councils respond to change, involve staff and link organisational aims with individual performance. It provides a framework to combine devolution with control and accountability. Delivering the benefits requires action from elected members and from management.

5 Conclusions
PM is the title given to a broad range of measures that help councils to focus their efforts. It helps authorities respond to change by developing policies that reflect public need and by working in ways that target resources more efficiently. It involves staff in the process, improving their skills, understanding and commitment. At a time when good management requires responsiveness, flexibility and delegation, PM provides a framework to combine devolution with control and accountability. Most important, it helps councils to link their strategic aims with individual performance, so that they can develop and carry out coherent policies in an environment that is becoming more fragmented and complex. PM reinforces many of the processes necessary to support the division of client and contractor functions and a contractual approach to management.

PM provides the framework within which the policies described in the companion report, Paying the Piper, should operate. Members have a particular role to play (see Actions for Members on page 37). The key elements of PM are well established (more best-practice guidance is contained in the management handbook). They provide answers to councils who want to develop local solutions to local problems (see 20 Questions for Councils on page 38). In many cases different patterns will emerge, even within the same local authority. This is preferable to a rigid and bureaucratic system, perceived to be irrelevant and consequently unused. Much of the value of PM occurs in the learning experience associated with implementation. Councils should avoid over-elaborate systems that become a triumph of presentation over substance.

This report has concentrated on what today’s authorities should be doing now. But between 1995 and 1997 many new authorities will be established and many of those which continue will be reorganised radically. Such authorities will be able to make a fresh start. PM principles will help new authorities as they design their management arrangements, and will assist continuing authorities to transform management if they take on the responsibilities of the other tier of local government. The key principles - specification, communication and evaluation - will be essential for them to tackle their responsibilities effectively. They will need to apply these principles to develop good paybill management systems which integrate people and pay. Such initiatives will help them to maximise their available resources for their citizens.

PM has sometimes received a bad press. Some members and senior officers regard it as a waste of managers’ time. This can be true where PM is badly implemented or where it becomes remote from service aims and the real management processes of the council. But many councils which have rejected PM have failed to develop an alternative approach. Many of these authorities are unresponsive to the pressures confronting them and risk falling further behind their more dynamic neighbours. They should reconsider their position. PM policies bring benefits when implemented well, as the staff attitude survey makes clear.
56. Central government statements make clear that overall growth in local
government spending has ceased. Resources are falling and are set to fall
further over the next few years. Councils need to achieve more and better
services with less money. There are many tools and techniques available to
improve efficiency but applying them effectively relies on common-sense
principles – the foundations of good management. Councils should be
pursuing these principles whatever labels they choose to employ for them.
## Actions for Members

**Members’ role in improving the management of people, pay and performance through their management of their most senior staff**

1. **Set aims and objectives** for the council and each service, linked to available resources and defining measurable outputs.

2. **Align key resource areas** of human resources, property, finance and information systems to support the objectives.

3. **Specify regular reports** on progress against the aims and objectives.

4. **Set targets for the chief executive and chief officers**, including responsibility for cascading the aims and objectives to all staff.

5. ** Decide how to set and report on top salaries**, including working with neighbours to track the pay market.

6. **Adopt action programmes** to help achieve the aims and objectives.

7. **Monitor progress** through regular reports on the action programmes, covering:
   - *communications*, inside and outside the council, including the need for joint discussion and agreement as appropriate;
   - *devolution*, specifying responsibilities at each level;
   - *productivity*, including choice of benchmarks, reports on performance, delayering and workforce flexibility;
   - *rational pay management*, covering job sizing, market-tracking, pay progression, and key indicators of staff satisfaction;
   - *information and training* needs to support the action programmes, including introduction of personal appraisal for all staff.

8. **Step back from detailed decisions** on staff numbers, pay grades and individual posts below chief officer level.

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*Note: This list addresses issues covered both in this report and in the companion report, Paying the Piper.*
## 20 Questions for Councils

### Specification

1. Towards what measurable objectives are the Council and each department working?

2. For how many of these objectives is there explicit financial provision in the current revenue or capital budget?

3. How many surveys of citizens’ views on services have we undertaken in the last three years?

4. How have we responded to the surveys?

5. Which of our departments use personal appraisal, quality circles or feedback meetings with staff to learn what staff think about objectives?

6. Where these techniques are not in place, what alternatives do we use?

### Communication

7. How often do we give formal briefings to staff to inform them about our objectives?

8. What methods do we use to tell citizens of our objectives?

9. In how many departments do we hold training sessions to inform staff about changed objectives?
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Glossary

Business planning: A process which identifies and describes what an organisation seeks to achieve (its core values, aims and objectives) and how it intends to achieve it (resources, time scales and constraints). In particular it links objective-setting with financial planning.

Communication: Using a variety of methods to make citizens and staff aware of the council's objectives and to encourage the expression of views from citizens and staff about the objectives and their practical application.

Culture: The pattern of working methods and personal relationships which characterise an organisation, whether a work unit, a department or a whole local authority, and which is best summarised in the phrase 'the way we do things here'.

Empowerment: A process which combines the devolution of responsibility to staff with the provision of the training and support necessary to enable them to fulfil their extra responsibilities.

Evaluation: Systematic review of how well the organisation and individuals are achieving their objectives and of how far those objectives should be updated.

Performance management (PM): An approach to management based on combining clear specification, communication and evaluation of aims and objectives at all levels of the authority. Its purpose is to improve the authority's performance in meeting its objectives by linking its policy objectives more clearly with what staff actually do.

Performance review: The way in which evaluation is applied to the organisation, covering service units, departments or the whole authority.

Personal appraisal: A two-way process between employee and manager, involving a formal meeting, held once or twice a year, to review the employee's performance against their existing objectives, to set objectives for the next period, and to identify training and development needs. It is the way in which evaluation is applied to individuals.

Specification: A set of financially realistic, strategic and functional aims and objectives for the organisation which are translated into specific objectives for each employee.

Tight-loose balance: A combination of maximum discretion for front-line managers and staff with a framework for control and accountability.
References


6. We can’t go on meeting like this: The changing role of local authority members, Audit Commission Management Paper no 8, HMSO, 1990.


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District Auditors were first appointed in the 1840s to inspect the accounts of authorities administering the Poor Law. Auditors ensured that safeguards were in place against fraud and corruption and that local rates were being used for the purposes intended. The founding principles remain as relevant today as they were 150 years ago. Public funds need to be used wisely, as well as in accordance with the law. The task of today’s auditors is to assess expenditure, not just for probity and regularity, but for value for money as well. The Audit Commission was established in 1983 to appoint and regulate the external auditors of local authorities in England and Wales. In 1990 its responsibilities were extended to include the National Health Service. For more information on the work of the Commission, please contact:

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