Introduction
Performance Review in Local Government

Introduction
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Introduction

Why review performance?
Performance review in local government has developed as a result of two main types of pressure:

- the pressure for local government to be accountable for the services it provides
- pressures on public spending at a time of changing social and economic circumstances.

Accountability in local government
In the private sector, organisations producing goods and services are accountable to customers for quality, competitiveness and reliability. They are also accountable to those who have supplied risk or loan capital, and to the government for financial statements which demonstrate that the organisation's expenditure, income and assets are honestly accounted for.

Making a profit, or at least avoiding a loss, is thus a convenient performance indicator which covers efficiency, economy and effectiveness in one term. It may provide a powerful motivation to management and employees. Comparisons of profitability over time and with other organisations enable trends to be observed and judgements made about performance.

In local government, on the other hand, there is generally no profit motive to act as an indication of performance to those who pay for its services or to those who work for it. Local authority clients are rarely called on to pay the economic price for the services they receive and there is usually no alternative supplier. Even where economic prices are charged, for example for housing rents, their impact is often reduced by rebates, allowances and subsidies from the rate fund and exchequer.

Councillors are, of course, politically accountable, but interest in local elections is often quite low. Many electors do not pay rates – or at least not directly – so that the connection between policies and their cost is not made. Even those electors who are ratepayers do not pay the full cost of local services. Substantial contributions to local authority funds are made by government in the form of grants which vary from year to year, and these diminish rather than improve local accountability.

In recent years there has been a demand for the 'sharpening up' of accountability in local government. This is reflected, for example, in the requirement for local authorities to publish an annual report. However, accountability means more than that the accounts should be presented fairly and that councillors should present themselves periodically for election. There is a need for local authorities to check and to demonstrate that they are effective, efficient and economic. Auditors have a new responsibility to satisfy themselves that the authorities they audit can do this.

Performance review can enhance accountability by:

1. demonstrating success in achieving policy aims efficiently, economically and effectively
2. highlighting aspects of services where further enquiry and explanation is needed
3. making the responsibilities and achievements of staff explicit.
Change in local government

In addition to the requirement for increased accountability, pressures on public spending have meant a sharp decline in capital spending on the one hand, and the search for a greater efficiency in current services on the other. However, efficiency alone is not enough; it is essential to be committing resources to the right things. Local authorities need to be defining policy objectives and effectiveness, and checking that these are being achieved.

Pressures on public spending have coincided with other significant changes within the economy and the country. There have been major structural changes in employment patterns, resulting in high unemployment generally and particular problems in certain parts of the country. These have been made worse by a bulge in the number of people seeking work. Meanwhile other population changes are leading to declining school population and increases in the demand for social services. Increased leisure time, whether by choice or not, has led to increased pressure for recreational activities. In all services, maintenance has suffered and some of the effects of this are beginning to show in buildings and roads.

All of these changes put pressure for more expenditure on some services and pressure to manage changing demands on others. In both cases, this means ensuring that every pound spent gives corresponding value, however defined. Overall, there is a shift from growth in services to managing change within or between those services, and needing to get the same, or more, with less resources. In essence, this is a change from administration to management.

Performance review can assist in the change towards active management by:
1. providing a basis for policy planning and control
2. enabling activities to be monitored at various levels in relation to council policies
3. providing information for the review of policies, management practices and methods.

Support for local government

Reviewing performance will not prevent mistakes being made in service provision – decisions can only be made in the light of the information and perceived benefits at the time. Unfortunately, to date the issues that have been highlighted in the performance of local government are generally those where things have gone wrong. Thus the problems associated with system built high-rise blocks have received much greater publicity than the successes of the New Towns or of clean air legislation.

However, performance review can be used to demonstrate the success of service provision, as well as monitoring the problems. If properly applied, it should result in the best possible use being made of resources. At a time when local government is being criticised, it should lead to greater confidence within an authority that things are being run as well as they can be. It should allow an authority to go on the offensive to protect its activities, safe in the knowledge that services are high quality, resource use is being maximised, staff know what is expected of them and have the satisfaction of achievement.

The alternative, at its bleakest, is an authority where services are deteriorating, staff are frustrated, the needs of future client groups will not be met, and there is a lack of conviction that local government is worth having.
Responses to performance review

Both the Bains report and the Layfield Committee argued that performance review was essential to local government and that it should be carried out by elected members and chief officers. Despite these recommendations, many local authorities still:

- lack systems for drawing together information about operational activities so that service performance can be assessed
- fail to consider the effectiveness of services as well as their efficiency
- view performance review with caution, lack of enthusiasm or downright hostility.

Objections to performance review

Objections to performance review tend to fall into four main groups, to do with:

1 Outdated management attitudes. In the past, economic and social stability made it possible for authorities to continue year after year in much the same manner, with only basic monitoring of budgets and workloads. The expansion of local government services emphasised the management of growth of inputs. However, these days, local authorities need to be responsive to changing economic and social conditions; and with pressures on resources they need to get the maximum value from inputs.

2 Inadequate organisational arrangements and procedures. Typically in such instances, masses of data are collected but not used, performance review committees end up at odds with service committees, and lack of agreed procedures and terms of reference make it difficult to focus efficiently on the right issues. Clarifying the procedures for review may help them to achieve their purpose, which is the improvement of services.

3 Negative applications of performance review as a cost-cutting exercise. Staff may feel that their jobs are on the line, and members may resist changes in service provision. However, the essence of performance review is to make more effective use of whatever resources are available, creating different jobs and different patterns of service if necessary.

4 The process of measurement. Existing performance indicators tend to focus on what is easily quantifiable. Measuring the effectiveness, or quality, of services is much harder. Some people will argue that it is too difficult or too expensive, or that it is impossible in a changing world, or that it is irrelevant because nothing can be changed. It is true that some things never will be measurable; but it does not follow that nothing should ever be measured. However, the cost of measuring should not exceed the value of doing so.

Introducing a new approach inevitably creates uncertainty and risks. Whether these are seen as a threat or a challenge depends very much on the prevailing attitudes within the organisation. If performance review is part of the 'culture', officers and members will require little proof of its usefulness; and objections can be dealt with systematically, through innovations in management practice (see below and also 'Good management in local government', available from LGTB).

If the culture of the organisation is against such an approach, continuing objections will be placed in its way. Demonstrating how performance review can work in the authority's favour may be the best way of getting it accepted.
Auditors and local authorities
The introduction of a value for money approach may sometimes cause tensions between officers, auditors and members. Each of these groups may find something to discomfort them in this handbook:

- Auditors are asked to address the issue of effectiveness in services, which is far less amenable to measurement than efficiency.
- Officers will find the needs of the receivers of services are emphasised at the expense of the providers. They will also find that management is preferred to administration.
- Members will find that they have to 'bother with the facts' in order to create policies which effectively meet needs.

Performance review calls for a change in attitudes and a review of relationships. In the past:

- Auditors have sometimes been criticised as outsiders who don't have to manage, who don't understand the local situation, who aren't attuned to politics, industrial relations and the management of change, who don't understand the professional issues, who can only understand things which can be quantified.
- Managers have sometimes been criticised for being defensive, bureaucratic, slow to do things, better at their profession that at management, critical of low-level measures of performance while at the same time not prepared to grapple with the issues of defining quality in their services.

But both auditors and managers are changing. The old stereotypes of 'cost cutter' v 'service improver' have had their day. The real issue is how to make auditors more useful to local authorities so that their skills can help authorities to manage more efficiently and effectively.

Performance review and the management process
Ideally, performance review underpins a management process in which:

![Diagram showing the management process]

Such a process envisages that inputs and outputs are related to a named budget/service holder who will be responsible for and have a sense of ownership for both inputs and outputs.

This process can be applied to any service within local government. As a concept it is very simple. Unfortunately, implementation is not so easy. It depends on the acceptance of the need for the measurement of output, and the ability to control and plan inputs, both of which may have to be carried out in a highly charged political climate and with changing levels of resource.
Performance measurement and management information

Every manager needs performance information on activity, volumes, resources usage, elapsed time and results. The precise form of that information varies according to the nature and scale of the activity, its importance in terms of accountability, and the management level at which the information is required.

The production of management information can get out of control. Great care needs to be taken in designing new systems and reviewing existing ones to ensure that the right balance is struck, based on the ability of managers to use the information and the cost of producing it. Management information should provide benefits which exceed the cost of providing it.

Managers' needs for information should be determined and they should receive regular, reliable and relevant information on matters which they can control. This information should allow actual events to be compared with those planned. Performance indicators should be chosen which:

- relate to the authority's aims and objectives
- motivate management and employees
- are easily calculable from readily available and reliable management information.

Performance indicators and other management information included in reports to members, managers, the public and the media should always be presented in clear and straightforward terms, with explanations, to minimise the risk of accidental misunderstanding or deliberate misrepresentation. Performance indicators should never be presented as an end in themselves; they should always be used as signals for action, or further enquiry, or both.

Making changes in services

The purpose of reviewing services is to improve them. This in turn requires generating and exploring a range of options for making changes.

A helpful review will open up a whole range of possibilities for change. These can then be assessed against explicit criteria: council policy, the resources available, etc. For example, the chart below summarises the main initiatives examined in local audit projects on value for money in further education. An authority could choose to pursue some, if not all, of these approaches.

![Diagram](image)

Change tends to happen most easily where value for money, professional satisfaction and political gain coincide. Two obvious examples of this are the increasing efficiency of refuse collection services, and the shift in child care services from institutional care towards fostering and adoption. In other services it may be more difficult to find ways of ensuring that all those involved gain from making changes; yet this is one of the keys to success.

**Performance measurement in local government**

Performance in local government has two key aspects: service efficiency and service effectiveness.

*Effectiveness* means providing the right services to enable the local authority to implement its policies and objectives. *Efficiency* means providing a specified volume and quality of service with the lowest level of resources capable of meeting that specification.

These ideas may be expressed visually as follows:

![Diagram of performance measurement in local government]

To these concepts may be added the third of the Audit Commission's three Es — *economy*. This means ensuring that the assets of the authority, and services purchased, are procured and maintained at the lowest possible cost consistent with a specified quality and quantity.

Specifying results and relating them to inputs can range from the simple to the difficult, and may sometimes be quite contentious. For example, output from the education service may range from the number of pupils per teacher through examination results to the quality of education itself. Different people will put different values on these outputs.

The chart opposite relates example inputs of resources to different levels of outputs. Results in terms of effectiveness are clearly more difficult to define and measure than inputs, or outputs in terms of efficiency and economy. The difficulty of separating the contributions of different local government activities to the achievement of particular aspects of effectiveness also becomes apparent. For example, how much is vandalism and crime actually reduced by attendances at leisure centres, and how much by the crime prevention and detection activities of the police, or the teaching of social responsibility in schools?

Outputs which cannot be quantified must still be taken account of in some way, otherwise the measurable (cost) will drive out the immeasurable (quality). The art in assessing performance lies in knowing when to allow political and professional judgement to extend, or counter, the objective measures available.
## Inputs and Outputs

<table>
<thead>
<tr>
<th>Service</th>
<th>Inputs</th>
<th>Outputs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing maintenance</td>
<td>Usually expressed by cost £ for</td>
<td>Efficiency and Economy: Jobs done</td>
</tr>
<tr>
<td>Development control</td>
<td>Labour</td>
<td>Numbers of applications: Numbers of visits</td>
</tr>
<tr>
<td>Environmental health</td>
<td>Capital</td>
<td>Numbers of visits: Attendances</td>
</tr>
<tr>
<td>Recreation</td>
<td></td>
<td>Tons collected: Passenger miles</td>
</tr>
<tr>
<td>Refuse collection/disposal</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public transport</td>
<td>Materials</td>
<td></td>
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### Monitoring and analysis

Performance measurement involves two distinct activities: monitoring and analysis.

**Monitoring** looks at what is done – at what level, at what cost, with what effect and how efficiently. It involves the regular and systematic collection of data, although the frequency of monitoring may vary from daily to annually, depending on what is being monitored. In order for monitoring to take place, suitable criteria of measurement must be defined. It is helpful if these are quantitative, although this is not always possible.

**Analysis** looks at how things are done. Implicit in this is the idea that it might be done better in a different way. Programme analysis takes the process further and asks 'Is the service still required?'; 'Can its objectives be satisfied by a different means?' Unlike monitoring, analysis of performance is likely to be an occasional and ad hoc activity which arises when officers and/or members become concerned about levels of performance. Bringing in the specialist skills of operational research, statistical analysis and social research may be valuable in more ambitious reviews. However, many reviews can be carried out more simply, without the use of any special techniques, drawing on the knowledge and experience of senior management and of the staff in the department under review.

### Measuring inputs and outputs

Some of the most common forms of measurement are:

- **Cost indicators** The actual cost of providing a service or unit of service, preferably compared to a unit, standard or target cost, for example cost per place in homes for the elderly.
Performance Review in Local Government

Productivity indicators The amount of useful work done by staff in a defined length of time, for example number of library books issued per staff hour.

Utilisation rates The extent to which available services are used, usually expressed as a percentage, for example occupancy rate of places in schools.

Time targets The average time taken to complete or carry out defined units of work, for example the time taken to process appeals against school place allocation.

Volume of service A crude measure of work performed, for example the number of housing repairs completed.

Demand/service provision indicators Usually a crude measure comparing volume of service provided against some broad concept of potential demand, for example acres of open space per 1000 population. In some cases, there are more precise measures of 'demand', for example nursery school places available compared to the relevant child population.

Few of these measures provide an absolute statement of the efficiency or effectiveness of performance. Rather, they provide a comparison with something else. Generally, five types of comparisons are used in local government:

1 Time – for instance, comparing this year's performance with last year's.

2 Standards – comparing actual performance with some standard which may be locally or nationally derived.

3 Intra-service – comparing the performance of a number of units or sections within a department who provide the same service, for example homes for the elderly.

4 Private sector – comparison with private sector provision, where such comparisons are possible, for example in legal and architectural services.

5 Inter-authority – comparisons can be made with:
   • all other authorities
   • all authorities of the same type
   • specially selected authorities which have similar characteristics
   • neighbouring authorities.

Difficulties can arise in the use of comparative inputs/outputs as between authorities, unless performance has been measured in exactly the same way and the authorities' circumstances are reasonably comparable. Nonetheless, the range of performance indicated by comparative statistics, particularly when structured in the form of logic trees such as the Audit Commission's Annual Profiles, makes comparison an extremely useful tool for the manager and the auditor.

The use of input costs, and other performance indicators based on resources usage, is absolutely vital to good management and to policy review and decision making. Accurate, complete and consistent accounting is therefore essential. This involves the use of well-understood and uniform principles and conventions, whether accounting is in financial or other terms. For example, the use of budget/responsibility centres, the consistent allocation of central establishment charges, the uniform determination of full time equivalent staff.
Problems in performance measurement
Consistency of input over a period of years may present some difficulties. However, generally, the measurement of inputs within an authority presents less difficulty than the measurement of outputs.

Three major problems in identifying and measuring outputs are:

1. Effectiveness outputs are subject to differing interpretation, and the time scale for validation and assessment of many effectiveness outputs can be several years. Such outputs are also often inherently unquantifiable, for example 'improved environment'.

2. Other outputs may be difficult to measure because volume statistics are not be available (for example numbers using parks and open spaces), or because inputs of resources have not been established on a consistent basis. In many cases surrogate outputs and sometimes surrogate inputs may have to be used, for example '1000 population', 'hereditament', 'lecturer contact hours'.

3. There is often no single output for the service which can be sensibly looked at in isolation. A number of different indicators may need to be taken into account when assessing performance. For example, in development control, productivity in terms of man-days might be accompanied by measures of the time over which planning applications are determined, the level of appeals and complaints, and the effects on planning aims.

These points, and the need for constant review and development, should be borne in mind when attempting to measure outputs. However, at a time when things are hard in local government, more effort rather than less – which sometimes appears to be the case – is needed to tackle the problems of performance measurement.
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