

# PERFORMANCE BUDGETING Seminar

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**UK Case Study:**  
The Public Service Agreements System

Presenter:  
Justin Tyson

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## This lecture will cover:

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- The Public Expenditure Management Framework
- Spending Reviews
- PSAs and Targets
- Delivery Planning
- Accountability and Transparency
- Going Forward

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## Public Expenditure Management Framework

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***To improve the quality and cost-effectiveness of public services whilst maintaining sound public finances.***

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## Public Expenditure Planning and Control

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**Achieving priorities** – is public service demand being met by supply?  
*Improving allocative efficiency*

**Value for money** – a framework to ensure that resources are used efficiently and effectively  
*Improving productive efficiency*

**Public finances and the wider economy**  
 – public spending is around 40% of GDP

**Real terms increases** in spending on public services of 5.3% (03/04), 3.3% (04/05), 5.0% (05/06)

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## Public sector reform (1998)

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- Introduction of three year spending plans
- Move to resource based accounting and budgeting
- Greater protection for capital spending
- Proper asset management
- Underpinned by outcome focused performance targets

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## The Framework (broad definitions)

Efficiency

Economy		Effectiveness
Inputs	→	Outputs
		→
		Outcomes

Types of efficiency gains:

- Lower prices for inputs (having regard to appropriate quality)
- Reduced quantity or different mix of inputs, for the same outputs
- Additional outputs for the same inputs
- Additional outputs for an increase in inputs that is less than the value of the increased outputs
- Change in balance of different outputs to increase overall output/income

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## The Spending Reviews

- 1998** Comprehensive Spending Review (CSR)
- 2000** Spending Review (SR2000)
- 2002** Spending Review (SR2002)
- 2004** Spending Review (SR2004)
- 2007** Comprehensive Spending Review

**2004 Spending Review**  
New Public Spending Plans 2005 - 2008  
 14 June 2004



Stability, security and opportunity for all:  
 Investing for Britain's long-term future  
 HM TREASURY  
 CIPR 4237

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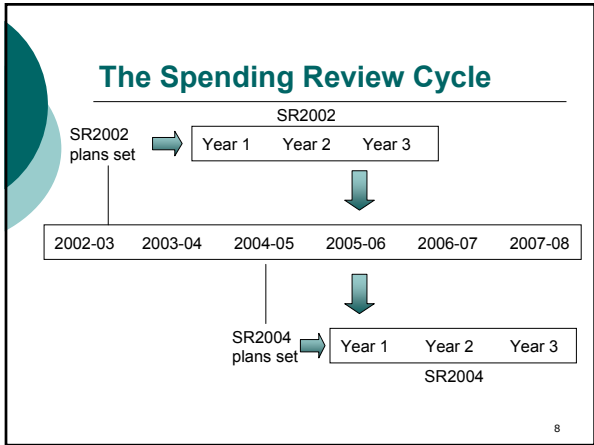
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## PSAs and Targets

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**Why set targets?**

- A statement of what government is trying to achieve - a clear sense of direction
- A focus on delivering results
- Indicates how well an organisation is performing against objectives
- A basis for monitoring what is and isn't working – and why
- Better public accountability

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**Choose the right targets**

- Not too many...
- Real measures of success...
- Which are owned by deliverers
- SMART and outcome-focused

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**SMART targets are...**

**Specific** – avoiding vague targets which might lead to uncertainty;

**Measurable** – underpinned by a sensible and reliable quantitative data source;

**Achievable** – whilst at the same time setting a stretch, or step-change in performance;

**Relevant** – to what the organisation is trying to achieve;

**Timed** – with a clear end date, and supported by timely data.

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## What is a PSA?

### Public Service Agreements:

- "explain what departments plan to deliver in return for...significant extra investment"
- "[set out] demanding national targets"
- "[reflect] the Government's key priorities and [focus] on the outcomes that matter most to the public"
- "represent an agreement between the Government and the public"

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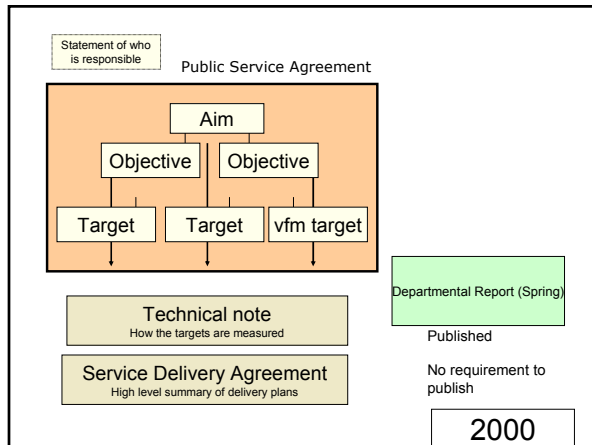
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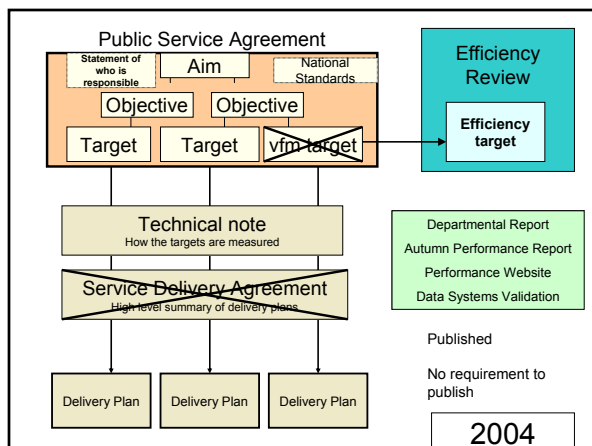
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## HOME OFFICE PSA

**AIM**  
Build a safe, just and tolerant society.

**OBJECTIVES AND PERFORMANCE TARGETS**

**Objective I:** People are and feel more secure in their homes and daily lives.

1. *Reduce crime by 15%, and further in high crime areas, by 2007-08.*
2. *Reassure the public, reducing the fear of crime and anti-social behaviour, and building confidence in the Criminal Justice System without compromising fairness.*

**Objective II:** More offenders are caught, punished and stop offending, and victims are better supported.

3. *Improve the delivery of justice by increasing the number of crimes for which an offender is brought to justice to 1.25 million by 2007-08.*

**Objective III:...**

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## HOME OFFICE TN (PSA 1)

- o **Scope and Responsibility** - This target applies to England and Wales. The Home Office is responsible for delivering PSA 1 although PSA 3 and PSA 4 also contribute to PSA1
- o **Definitions and Measurement** - Systems Crime levels are measured using the British Crime Survey (BCS)... The **high crime areas** are the 40 Crime & Disorder Reduction Partnership (CDRP) areas that have the highest rates of recorded crime per head of population plus highest crime levels (each being given equal weight), as measured using the BCS comparator in 2003/04...
- o **Baseline** - The baseline period is the year 2002/03, although 2003/04 will be used for the high crime areas...
- o **Success Criteria** - This target will have been achieved if, between the baseline year and 2007/08, both of the following are met: (a) nationally, the reduction in overall BCS crime is more than or equal to 15%; and (b) the average reduction in the 40 high crime areas is more than the average reduction in the remaining CDRP areas, as measured by the recorded crime BCS comparator...

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## Other existing PSA targets

**Examples**

**Health:** reduction in death rate from heart disease among under 75s by 40% by 2010

**Criminal Justice:** cut domestic burglary by 25% on 1998-99 levels by 2005

**International Development:** Progress towards the MDGs in 16 key countries [in Africa] demonstrated by [eg] an increase in primary enrollment from 58% to 72%

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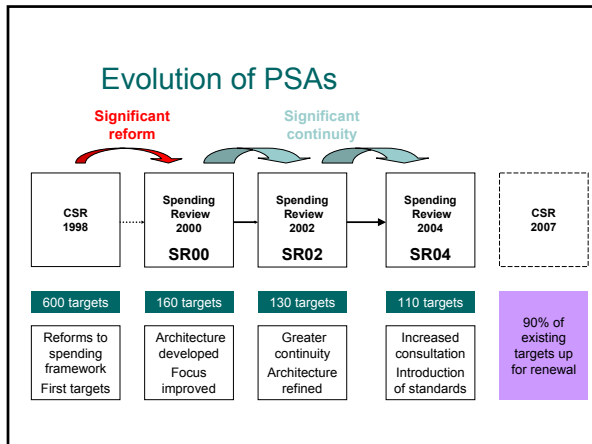
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## Delivery Planning

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- ### Spending team roles
- Ministry of Finance
    - ensure control;
    - increasing focus on financial management capacity
  - Ministry of Economy
    - policy and planning
    - know you area (external reviews, spending reviews, Productivity and Reform team, external groups/committees)
  - Tax-payer representative
    - value for money
    - scrutiny and challenge

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## Some tools/mechanisms

- Management accounting: good costing
- Benchmarking
- Delivery Planning and Delivery Chains
- Process Reviews
  - e.g. Turner in health
- Best practice agencies
  - e.g. Improvement and Development Agency for local government (IDeA)
- The Prime Minister's Delivery Unit
  - different role to spending team
- "Consulting" approaches
  - Business Excellence Model
  - Balanced Score-card

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## Delivery Plans

- Live Documents... (tend not to be published)
- Jointly, and regularly, reviewed
- Assign responsibilities
- Define delivery chain
  - (inputs - activities - outputs - outcomes)
- Address role of external factors
- Focus on actions, risks, strategy, and trajectories

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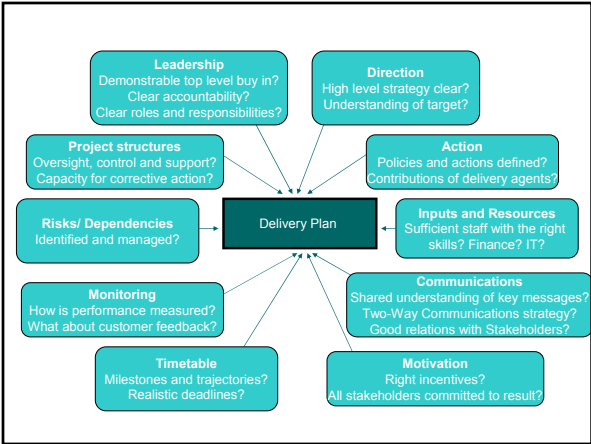
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## Accountability and transparency

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### Accountability of individuals

- Named Secretaries of State
  - including some joint targets
- Permanent secretaries
- Named target owners within departments

ie: Accountability rests with both politicians and officials, BUT...

**No mechanistic link between performance and resource allocation in Spending Review**

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### Target Monitoring

<p><u>Official level</u></p> <ul style="list-style-type: none"> <li>○ Departmental monitoring</li> <li>○ Monitoring by the centre           <ul style="list-style-type: none"> <li>● Treasury: "spending" teams</li> <li>● Cabinet: Prime Minister's Delivery Unit</li> </ul> </li> <li>○ Main tools           <ul style="list-style-type: none"> <li>● Delivery plans</li> <li>● Performance reports</li> </ul> </li> </ul>	<p><u>Political level</u></p> <ul style="list-style-type: none"> <li>○ Cabinet Sub-Committee (PSX)</li> <li>○ PM stock-takes for key areas</li> <li>○ Main tools           <ul style="list-style-type: none"> <li>● PSAs</li> <li>● Performance reports</li> <li>● Spending Reviews</li> </ul> </li> </ul>
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## Going Forward

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- ### CSR07 Context
- **Opportunity for systematic review:** 90% of PSA targets coming to an end in the next spending review period
  - Framework has been **successful in driving delivery** and focussing effort – needs to evolve and maintain strengths of the system
  - But, there are **weaknesses that need to be addressed**
  - PSA framework established when past investment in public services had been low & capacity was weak...
  - Now central government to focus on a progressively devolved delivery landscape where a variety of levers come into play to influence the way services are delivered at the frontline.
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**The current framework - issues**

- Central target-driven approach can skew services to focus on central demands - undermines frontline motivation and responsiveness;
- If targets haven't been well designed – can distort operational priorities and create perverse effects;
- Framework doesn't recognise the wide range of levers and drivers that affect delivery of complex outcomes;
- Central targets have led to a proliferation of underpinning measures, data requirements and sub-targets;
- Slow progress on many joint targets.

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**Aims for revised framework in CSR**

- Maintain the strengths while tackling the problems:
- PSA outcomes placed in context of department's own strategic objectives for the spending period
- PSAs underpinned by small basket of national-level indicators
- Engagement and collaboration with the public and service professionals early in the process
- Delivery Agreements clearly set out level of ambition, strategy for delivery, and role of each organisation involved
- Removing inefficient and duplicative data collection processes, and sustaining that reduction.
- Systematic use of mechanisms that enable citizens to hold public services more directly to account

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**Annex - education**

**CSR (1998)**

..an increase in the proportion of those aged 11 meeting the standard of literacy for that age (level 4 in key stage 2) from 63% to 80% by 2002

..an increase in the proportion of those aged 11 meeting the standard of numeracy for that age (level 4 in key stage 2) from 62% to 75% by 2002

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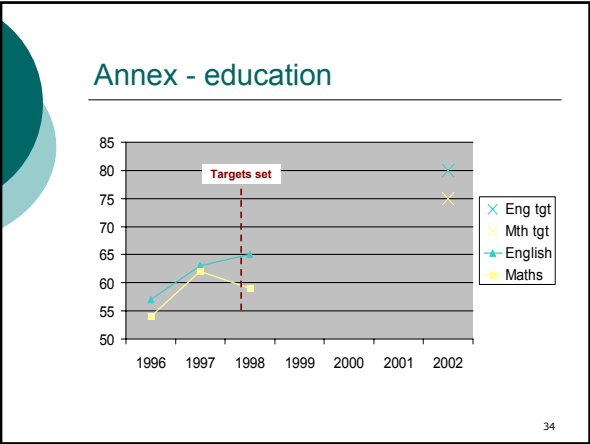
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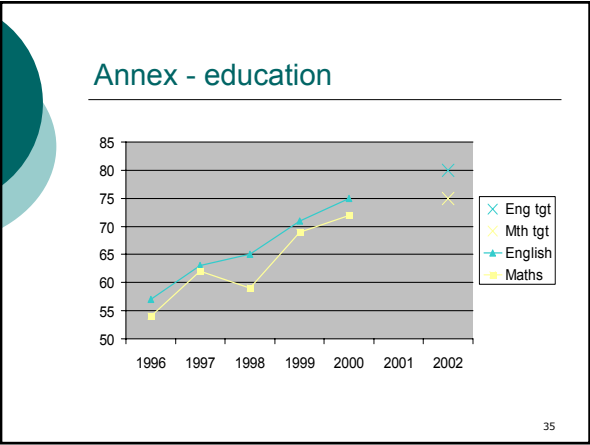
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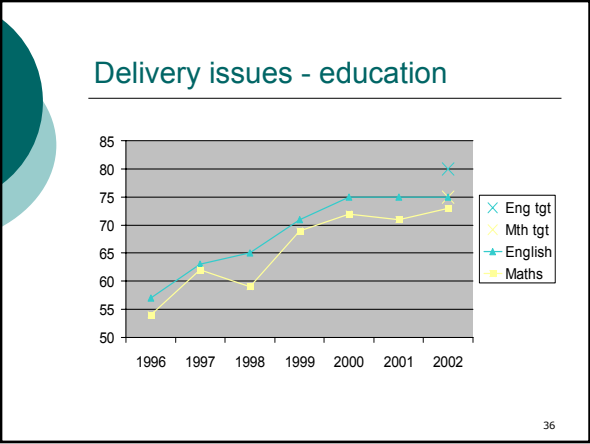
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