



APPROACHING PERFORMANCE MANAGEMENT IN LOCAL GOVERNMENT

A GUIDE

What is performance management?¹

Performance management is the systematic approach to identifying, collecting and using performance data to improve standards of service provision. It particularly focuses on setting out key performance indicators in priority areas, agreeing minimum standards of performance and using the annual planning process to set and monitor targets to improve performance.

Performance management is a modern approach that is being used more and more by national and local government in Europe to drive up the standards of service provision.

Why is performance management helpful?

- Citizens deserve and expect services of good quality; performance management facilitates the setting of realistic targets for service performance that can be used to drive up service standards.
- Performance information is available to the public; local people can better understand the services being provided. They can see what services are performing well and where there are problems. This encourages local people to help look for solutions, thus strengthening local accountability.
- Performance information is available to managers and elected representatives. They can see the actual level of performance and how they might deliver better efficiency, effectiveness and value for money in specific services.

¹ This Guide draws on the work of Claude Jeanrenaud and Steve Martin for the Steering Committee of Local and Regional Democracy (CDLR) (April 2005); see also the earlier more detailed CDLR study 'The use of performance indicators in local public services' No 63 (1997).

- Performance information is available to the leadership of the local authority. They have responsibility for the quality of local government, and can use the performance information to celebrate success or take corrective action. Performance information allows them to identify more clearly their service priorities and therefore where resources should be allocated.
- The performance information provides a local authority with a basis for comparing its own performance in specific services both with best practice and with performance in other local authorities. This provides the leadership with the basis for rewarding and sharing their own good practice or introducing new initiatives to drive up standards even further.
- The performance information of local authorities can show regional and national authorities how they are performing and to what extent they are meeting national standards and delivering national targets.

If you don't measure results, you can't tell success from failure
If you can't see success, you can't reward it
If you can't reward success, you're probably rewarding failure
If you can't see success, you can't learn from it
If you can't recognise failure, you can't correct it
If you can demonstrate results, you can win public support
What gets measured gets done²

Risks of performance management

There are *risks* associated with performance management. The main risks relate to attitudes.

- The need to report on specific performance indicators can distort the behaviour of service managers. They might focus on those aspects of the service being measured (often inputs rather than outcomes) at the expense of other aspects. For that reason it is better to use 'baskets' of indicators so that data on all the main dimensions of a service are covered and to limit the number of indicators.
- Some performance indicators will be influenced by factors outside the control of the managers or the local authority (eg cuts in the overall budget). But in understanding performance, these factors must be taken into account.
- Some managers might take action, sometimes dishonest, to improve specific performance data where it is in their interest. Internal and external audit can reduce the level of dishonest reporting.
- Validation of performance data is important. But external audit can be expensive, and too much audit can reduce the local ownership of performance management. On the other hand, every local authority should have some internal audit capacity that can support (rather than control) the development of a robust performance management system without losing local ownership.

² Osborne and Gabler (2002) *Reinventing Government*

- Competent managers will want to add their own performance indicators in the light of local circumstances. It is important to keep the number of obligatory performance indicators relatively small (ie just limited to the most important priorities).
- Staff can be de-motivated where performance information shows that service provision is poor. Staff should see performance management as an opportunity to improve, to learn from others. In this way, they themselves learn and develop.

It is important to avoid these risks if local authority staff and elected representatives are to use performance management pro-actively to drive up the standards of service provision and not reactively merely as a paper exercise in reporting.

These risks highlight the need for performance management systems to be carefully designed and to be introduced with sensitivity. They have to be seen as a tool for local authorities to raise the standards of service provision and not as a mechanism for greater external control.

The main types of performance indicators

The model below identifies four main types of indicators:

INPUTS → **ACTIVITIES** → **OUTPUTS** → **OUTCOMES**
resources processes services community impact

The following are some examples of such indicators:

Input indicators provide information on the resources committed to a service in terms of finance, staffing, equipment, land and property	- unit costs - number of staff - area of property or land in use
Activity indicators provide information on the processes, systems, cultures and procedures needed to deliver a service	- trend in use of information technology - response times to complaints - speed of telephone answering
Output indicators provide information on the performance of the service provided in terms of, for example, capacity, through-put and service level	- no. of service users - no. of hours of service provided - passenger miles of transport services - level of awareness of service - proportion of service users to potential service users - books lent by the library - no. of diplomas awarded
Outcome indicators provide information on the impact the service has on users and on the wider community	- increased level of public participation - reduction in crime committed by young people - reduction in long term unemployment - trends in literacy levels

It is easier to measure inputs and activities than outputs and outcomes. The risk is therefore that there are more indicators for inputs and activities. Yet the most important indicators will relate to the outputs and outcomes. After all, the local authority will be judged on the impact it has in the community, on the results children get at school, for example, rather than the cost of maintaining school buildings.

For this reason it is important to identify a range of key performance indicators in the ‘basket of indicators’ of any one service or priority, including key performance indicators for outputs and outcomes.

The dimension of value

There can be different dimensions of ‘value’ in each of the above types of performance indicator. These dimensions are set out below:

- *Economy and efficiency indicators* measure value for money. Economy refers to the cost of the resource (eg staff costs). Efficiency is about the relationship between inputs and outputs (eg unit cost for delivering a service, no. of parking tickets issued per officer).
- *Quality and effectiveness indicators* measure how far the service achieves defined standards and objectives. They are about whether the service has delivered the intended outputs and outcomes (eg the average level of qualification of teachers). They can also include indicators of user satisfaction and community participation.
- *Impact indicators* measure the effect of the service on the wider community, such as the improvement in health as a result of reducing pollution through traffic initiatives.
- *Equity indicators* measure, for example, the accessibility of the service to all groups in the community. This is an important measure in areas where ethnic minorities live.

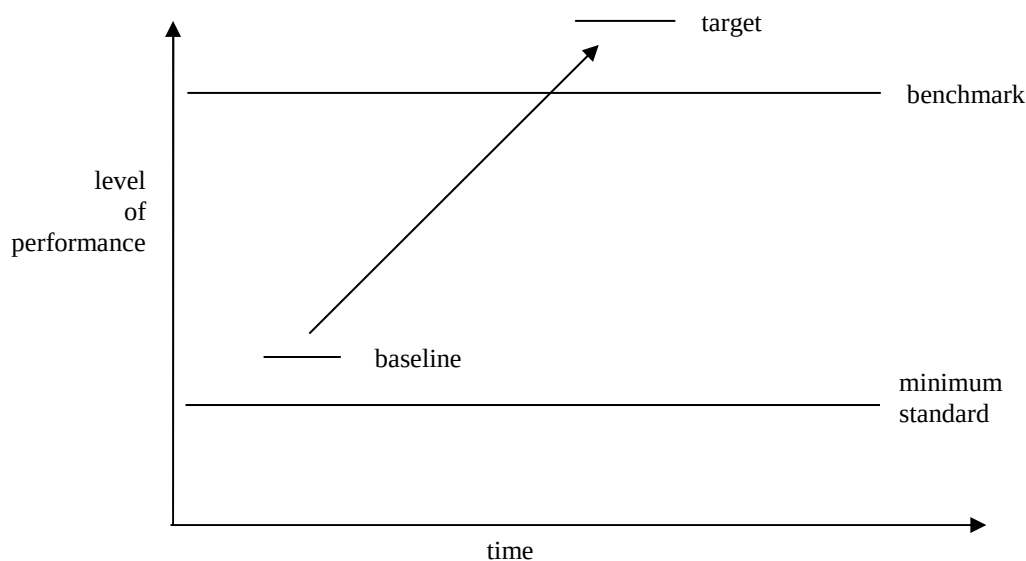
Summary:

Economy	What are the costs of the service?
Efficiency	What is the ratio of outputs to resource inputs?
Quality	Is the service achieving quality standards and user satisfaction?
Effectiveness	Do actual inputs and outcomes achieve our intended objectives?
Impact	What net improvement does the service make to the quality of life of the local community?
Equity	Is the distribution of benefits from the service equitable?

Reference points

To be useful, indicators of performance have to be compared against one or more *reference points*. There are four main types:

Baseline	A baseline is an established starting point. This allows a comparison of present performance over time. It answers the question: <i>‘How fast is performance improving?’</i>
Minimum standards	Minimum standards can be set nationally or locally. This allows a comparison of present performance with standards below which performance should never fall. It answers the question: <i>‘Are we meeting our minimum obligations?’</i>
Target	Targets can be set nationally and locally. They give staff a performance goal; performance information can tell them how far they have travelled towards that goal. They answer the question: <i>‘How much more do we need to improve in order to meet our objective?’</i>
Benchmark	A benchmark sets out the performance level of, say, a group of the best-performing local authorities or a set of agreed standards; this allows a local authority to compare its performance within local government or against a recognised level of performance. It answers the question: <i>‘How good is the service compared to similar services elsewhere or against the recognised standard?’</i>



Levels of performance indicator

Performance needs to be measured and managed *at different levels* within a local authority:

- community level
- corporate level
- service level
- team and individual level

The performance management system should link the different levels, and the objectives and performance indicators at the lower levels should reflect the objectives and performance indicators at the higher levels.

Type of indicator	Use of performance information
Level 1: Community indicators	Vision for locality Partnership with civic society Strategic objectives Democracy and sustainable development
Level 2: Corporate indicators	Strategic plans and priorities Performance management system Corporate services (HR, finance, IT)
Level 3: Service indicators	Service plans Service delivery Contracts Management
Level 4: Team / individual indicators	Staff targets Staff performance Staff appraisal

Example: performance indicators for reducing the level of homelessness

Community target	0% homelessness in the city in 2 years
Corporate target	Set aside 3% of budget in next 2 years for homelessness initiative
Service target	100% homeless households / individuals offered accommodation within 21 days
Team target	10 empty houses made available for re-letting every month
Individual target	Arrange refurbishment within 2 days of houses becoming vacant

Defining performance indicators

Performance indicators need to be carefully defined. The definition describes clearly what exactly is being measured and how. If the definition of a performance indicator can be interpreted differently by different local authorities, the value of using performance indicators *for comparison purposes* will be partly lost.

For example, when defining the unit cost of a service, it is important that the definition specifies what cost elements (eg overheads?) should be used to make up the unit cost. The definition should set out the mechanism for collecting the data where this is necessary to ensure uniformity.

National or local performance indicators?

The government will always have an interest in local government. This is partly because local government is responsible for a significant proportion of public expenditure, and the government is responsible to the tax-payer. It is also because the government has a national interest in the *standards* achieved in particular local services.

For example, a Ministry of Education has a clear interest in the quality of school results even where the local authority might be responsible for education. A Ministry of Economic Development may have an interest in the development of tourism and the investment it brings into the country, while local authorities will have responsibilities for the areas to be developed. *In such cases, the Government may set and monitor national standards for local public services.*

National performance indicators should facilitate *uniformity* by using standard definitions and procedures. This will enable robust *comparisons of performance* to be made between local authorities.

National performance indicators can *stimulate* local authorities into developing local performance indicators. However, it is important that local authorities are not swamped with national performance indicators. They should be kept to a *minimum*, for they begin to reduce the degree of autonomy and flexibility of local government.

Local authorities will want to develop their own local performance indicators to supplement national indicators and for local priorities. It is easier to secure local ownership where performance indicators are locally developed. If indicators are to be seen as more than a paper exercise, *local ownership* is essential.

Local performance indicators that depend on external comparisons to be useful (as opposed to internal trends for example) should be comparable with performance indicators in other local authorities. The National Association of local authorities and professional associations have key roles in ensuring standard definitions for local performance indicators where comparison with other local authorities is planned.

Responsibility for specifying local performance indicators

An important issue is *who* defines local performance indicators. They can certainly be defined by the local authority leadership, by service managers or by experts. They can be suggested by the National Association of local authorities or by professional associations. Whoever puts them forward, it is always good practice to *consult* service users, local NGOs or whoever else might have a stake in them.

The advantage of involving the public in defining performance indicators is that they are likely to emphasise things that are important to local people. It also involves local people in the service itself, and such participation can have wider advantages.

Characteristics of effective performance indicators

It is important to take great care in developing performance indicators. They have to play a constructive role in service management and accountability. There are certain *characteristics* that will determine their effectiveness.

Criteria for effective performance indicators:

Relevance	Indicators should measure aspects of performance that are important to the local authority; they should reflect the interest of users and other key stakeholders.
Credibility	Data should be accepted as reliable and accurate by stakeholders and should be capable of being verified independently. It is important to consider carefully and in detail about how the data will be collected. Participation by relevant staff will help ensure this.
Timeliness	Indicators should be able to provide information to managers and policy makers when they need it, eg for budget decisions and for quarterly reviews of performance. The mechanism for collecting data, including timing and frequency, is important.
Clarity	Indicators should be simple, well-defined and easy to use; they must deliver clear messages.
Focus	A limited number of key indicators should be used that focus on the most important aspects of a service. Otherwise, performance management becomes a burden, not an opportunity.
Comparability	Performance data should be comparable over time and in comparison with other local authorities.
Attribution	It should be clear to what extent changes in performance data result from the local authority's own activities, and not from external factors. Where the local authority only has partial control, care should be taken in interpreting the performance information.
Cost effectiveness	It must be possible to collect performance data at reasonable cost and over a period of time.
Responsiveness	Indicators should not stifle innovation. They should be able to respond to change.

Making performance information available

Each year local authorities should set out their performance and plans / targets in an Annual Report. This should be published and made available for public debate and feedback.

Performance information should also be made available to elected representatives, staff and other stakeholders through information technology. The government or the National Association could develop the necessary databases on the internet to allow comparisons to be made in the relevant corporate and service areas. Each local authority should have its own website.

Information should be presented in a way that facilitates analysis and comparison, and simple techniques, like traffic lights, can be used to identify when performance is improving, steady or declining.

Performance management techniques

There is a wide range of *approaches* to performance management and measurement. They include:

- **Monitoring of corporate performance** – usually against the corporate strategies and key priorities of a local authority.
- **Monitoring of service plans** – which includes monitoring performance indicators over time and against benchmarks.
- **Performance reviews** – in-depth reviews of services / programmes to identify ways of tackling particular performance problems (see separate CoE capacity-building tool ‘Fundamental Performance Review’).
- **Performance audit** – in-depth assessment of the extent to which performance is achieving quality standards (eg on basis of user feedback and inspection).
- **Value-for-money reviews** – to identify ways of delivering services more efficiently, eg in response to the need for budget cuts.
- **Political scrutiny** – through committees making use of research or one-off inquiries; often used to secure high level support for improvements or change.
- **Benchmarking** – there are two types of benchmarking: process benchmarking and performance benchmarking. Both involve comparisons with standards developed by groups of local authorities or other organisations. Benchmarking clubs enable specific service managers of different local authorities to come together regularly to exchange and understand information and data on processes and performance from their respective services on a confidential basis; in this way they learn from best practice.
- **Complaints monitoring** – this can include the number of complaints over time and/or in relation to a target, and/or an examination of the content of complaints or the type of complainant.

- **Public consultation** – feedback from service users and residents is increasingly important in public service management. A wide range of techniques can be used: suggestion boxes, regular or occasional surveys by telephone, post or face-to-face, user panels, focus groups, tenants’ associations, citizen juries, neighbourhood forums, on-line bulletin boards. Local authorities may consult both citizens and civic organisations. Consultation can cover strategic issues or individual service performance.
- **Staff satisfaction** – staff satisfaction is an important factor in delivering good performance; it should be monitored regularly through confidential staff surveys. Staff, users and residents usually have good ideas for service improvements.
- **Staff appraisal** – this should take place annually on a formal basis with an informal mid-year review. It links personal objectives and targets to service plans and the performance management system.
- **Internal audit** – this is an important service that can review arrangements for securing value for money. Internal audit is not only about control after the event but also about good preparation before the event. Internal auditors can work with managers on processes to improve performance. They have good ideas on how to improve performance based on their professional experience.
- **External audit** – this involves reviews of financial probity, management arrangements and performance in line with national guidelines and regulations by an independent body, and can be a powerful stimulus to better performance.
- **Formal systems** – these include schemes such as the EFQM Excellence Model, ISO 9000 and 14000, Investors in People and competitions to identify best practice (see separate capacity-building tool on Best Practice).

Introducing performance management

a) Systems, process and technical expertise

If performance management is to work well, it needs to have good design and technical expertise. Good training for all those involved in performance management is important.

The National Association should develop consensus among local authorities that a performance management approach should be introduced. It can publish a Guide to Performance Management. It can run pilots to ensure that the systems and processes are robust before going nation-wide. It can develop training programmes. It can set up national working groups to recommend a relevant ‘basket of performance indicators’ in specific policy areas. It can create a pool of performance management ‘experts’ who can be used to provide training and consultancy support to interested local authorities.

b) Culture

But performance management must also be embedded in the *culture* of the leadership and management of the local authority. It must be part of their thinking, of their every-day approach to their work.

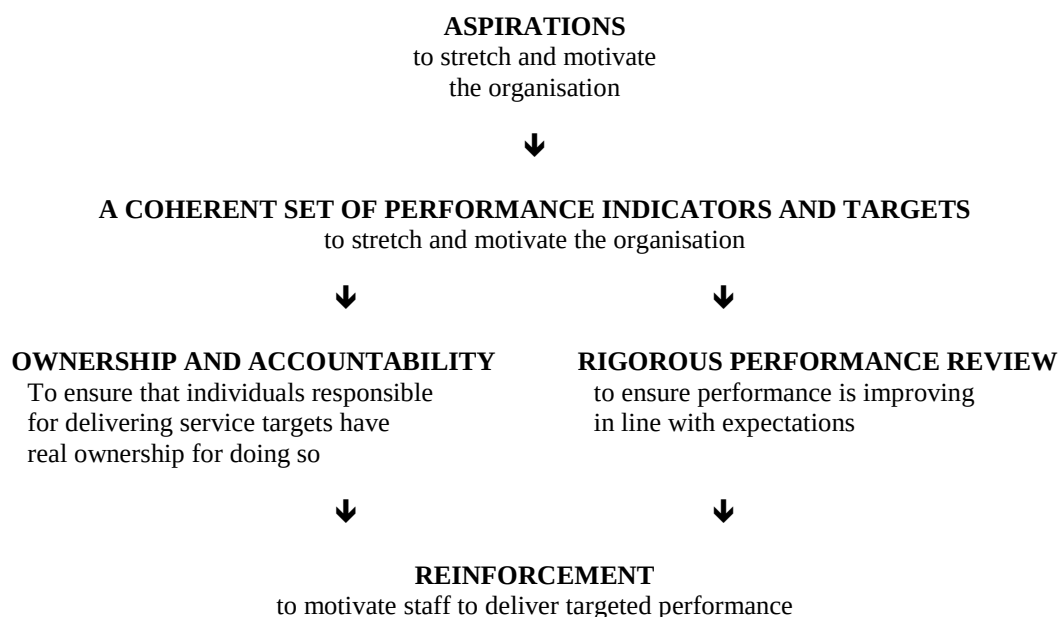
The leadership of the local authority and the managers who are responsible for service provision must *want* to improve performance, not because they have to but because of their professional pride. They must see in performance management a tool to help them deliver better services.

The leadership of the local authority must seek to develop a *culture* conducive to performance management. The National Association can help local authorities understand the importance of performance management culture.

It is possible to identify key elements in a performance management culture:

- A commitment by the leadership and managers to effective strategic planning and service planning.
- A willingness by the leadership and managers to accept bad news, learn from mistakes and take action to address performance problems.
- A focus on a small number of well-defined priorities and related performance indicators.
- A clear link between corporate priorities, performance indicators and targets, service plans and staff appraisal and reward systems.
- A clear and effective process for communicating the importance and use of performance management throughout the organisation.
- The publication of performance data in the public domain (eg in an Annual Performance Report) in an attractive and understandable way.
- Widespread understanding and ownership of the local authority's performance management system.
- A system of meaningful incentives for managers and staff to achieve targets.
- A willingness to celebrate personal and team achievement.
- A close tie-up between performance information and key strategic and budget decisions.

Building blocks of effective performance management³



PERFORMANCE MANAGEMENT CHECKLIST⁴

- 1 *Have the outcomes that the local authority needs to achieve through its strategic plan been defined?*
- 2 *Have a set of performance indicators and targets been developed to measure progress towards achieving the planned outcomes?*
- 3 *Are these performance indicators Specific, Measurable, Achievable, Relevant, Time-bound (SMART)?*
- 4 *Is there a balance between process and output / outcome performance indicators?*
- 5 *Do the performance indicators provide the information necessary to determine how well the local authority is performing, both in corporate and specific services, and where it needs to improve?*
- 6 *Does the local authority understand the level of importance and satisfaction that different sections of the community attach to its activities?*
- 7 *Do elected represented and staff 'own' the performance indicators and use them to drive up service standards? Are they properly trained?*
- 8 *Do performance targets cover the short, medium and long term?*

³ from IDeA (2001) *All in a day's work: delivering effective performance management* (London)

⁴ IDeA Manager's Guide to Performance Management (London)

**CASE-STUDY (1) – LOCAL ECONOMIC DEVELOPMENT
PERFORMANCE INDICATOR TABLE**

Objective: to increase local economic development in the community

Sub-objective 1: to increase and sustain small business start-ups (Responsibility: Manager, small business unit)

ACTIVITY	TARGET	PERFORMANCE INDICATOR (PI)	TYPE OF PI	METHOD	RESPONSIBILITY	ACHIEVEMENT
Training for young entrepreneurs in business skills	30 graduates a year	No. of graduates	Volume	College records	College Head	
Support for existing small businesses - grants - training - services - counsellor support	70% satisfaction rate	Survey return	Satisfaction	Annual survey	Communications unit	
	30 grants	No. of grants	Input	Unit records	LED Manager	
	6 seminars on different subjects	Use of learning 3 months later	Effectiveness	Telephone survey	LED Adviser	
Sustaining new businesses	80% of 2005 start-ups survive 2 years	No. of start-ups still operating profitably	Volume	Survey in 2007	Communications Unit	

**CASE-STUDY (2) – LOCAL ECONOMIC DEVELOPMENT
PERFORMANCE INDICATOR TABLE**

Objective: to increase local economic development in the region (Responsibility: Director of Economic Development)

Sub-objective 1: Improve infrastructure	
Activity 1: Repair existing roads	PI 1/1/1: Kilometres of existing roads repaired in region PI 1/1/2: Proportion of existing roads repaired to total roads in region PI 1/1/3: Reduction in traffic accidents
Activity 2: Improve water supply	PI 1/2/1: Kilometres of new pipes PI 1/2/2: % of water loss PI 1/2/3: Improvement in drinking water quality PI 1/2/4: No. of new households connected to water supply
Activity 3: Improve gas supply	PI 1/3/1: No. of connected public buildings PI 1/3/2: Decrease in energy costs
Sub-objective 2: Decrease unemployment	
Activity 1: Organise business training courses	PI 2/1/1: No. of students in course PI 2/1/2: % of students finding work within 3 months PI 2/1/3: % of students setting up own business
Activity 2: Support existing small businesses	PI 2/2/1: No. of new jobs in existing businesses PI 2/2/2: No. of consultancies to existing businesses PI 2/2/3: No. of grants / support activities to existing businesses PI 2/2/4: Value of grants / support activities to existing businesses
Activity 3: Attract new investors	PI 2/3/1: No. of meetings with prospective investors PI 2/3/2: No. of new investments PI 2/3/3: Value of new investments PI 2/3/4: No. of new jobs created (full-time / part-time) PI 2/3/5: Increase in tax revenues for local authority
Sub-objective 3: Promote the municipality as good for business	
Activity 1: Publish advertising materials	PI 3/1/1: No. of materials created PI 3/1/2: No. of contracts with prospective partners / investors PI 3/1/3: No. of tourist packages created