

The government's approach to performance management

Norman Flynn surveys managerialism in the public sector under New Labour.

The New Labour Government inherited an approach to the management of the public sector that was based mostly on a 'business-like' approach to management. The interpretation of good business practice by the conservative government had included the introduction of competition, the development of accounting processes that exposed unit costs, the subjugation of professionals to managers and management processes, and increased individual responsibility for performance including pay for performance. The institutions of central control had been strengthened, including the audit bodies and the professional inspection bodies. While some aspects of operational control had been devolved to individual schools, hospitals, prisons and so on, the main thrust was central control and influence and a centrally driven performance management system.

Competition and market testing was compulsory, league tables of performance were made public and

local discretion to vary policy and management was restricted.

New Labour: New Managerialism?

Has the new government taken a different approach? Having abandoned old Labour's preference for public ownership, and with none of the previous government's ideological commitments to market solutions and privatisation, the new government had a blank page on which to write its policy towards the public sector. It faced certain imperatives: in the early years it wanted to keep to the previous public spending plans and pay off some of the accumulated debt; it had made commitments on class sizes and waiting lists which, unusually, were specific enough to be tested. It needed a way of monitoring and improving public sector performance.

In seeking such mechanisms, the government showed that it is eclectic. The Secretary of State for Education, for example, has said that if the only way to improve the performance of education authorities is, in his view, to import managers from the private sector then that is what he will do, whatever the wishes of locally elected representatives. The eclecticism extended to the approach to competition: the Best Value regime in local government did not specify that certain volumes of prescribed services be subjected to competitive tendering but it did say that councils must first justify providing a service and then find the 'best value' way of delivering it. No service was exempt from this radical re-examination. Nor did it abandon previous tendencies towards central control. In fact it extended the powers of inspectorates and audit bodies, involving them in monitoring management processes as well as counting results. One example, the regime of monitoring Best Value by the audit commission, effectively imposes compulsory management consultancy on those authorities considered to be less than beacon-like or striving.

Experiment and evaluation

The eclectic approach has meant that the government was open to a wide range of solutions as long as they work. This meant that there

was a need for experiment and evaluation. Various area-based experiments in health, education and regeneration were started and treated as pilots. Sometimes the approaches were spread more generally before evaluation was complete as political imperatives for quick solutions speeded up the process of looking for new approaches. However, the phrase 'evidence-based' is common, not just in the approach to medical interventions but in other policy areas. What constitutes 'evidence' varies but the principal of dispassionately using evidence to inform decisions is established. An indication of how the evidence-based approach is applied was the guidance on mental health services. This is a detailed set of operational policies on how services should be provided. Following the Probation Service's 'Evidence Based Practice' circular, the approach is clear: a central body will assess the evidence for what does and does not work and will interpret and enforce the results at the local level.

Performance Indicators

Secondly, the use of performance indicators has been enlarged and developed. The Best Value targets for local government and the Public Service Agreements for other services introduced specific performance targets — often very specific — for which managers and ministers can be held accountable. Introducing the PSA targets, Alan Milburn said that they were "part of the biggest drive to modernise public services our country has ever seen" (Chief Secretary to the Treasury, 1999), and emphasised the switch to targets based on outcomes rather than efficiency and outputs. Introducing the spending plans for 1999/2000 the Chancellor of the Exchequer said that the emphasis on outcomes would in future be extended to the whole of the expenditure side of the budget. If the government does move to outcome-based budgeting it will indeed put performance management at the centre of the political and management processes.

Partnerships

Linked to these two developments of extending Performance Indicators and emphasising outcomes, is the realisation that many important policy areas are



'We don't call them "the damned" any more - we call them customers.'

dealt with by a multitude of agencies. The idea of joined-up government is reflected not only in the institutional arrangements of 'Units' and 'Taskforces' but also in outcome measures that are the responsibility not of one but of many agencies. The Public Services Productivity Panel announced in April 2000, for example, that outcome targets would be developed using sophisticated methods such as Data Envelopment Analysis rather than crude league tables. Crime reduction targets are an example of performance indicators that may be attached to particular institutions but are determined by the

performance of a variety of organisations and variables beyond anybody's control.

Incentives to perform are positive and negative. At organisational level, there is positive feedback for good performers including publicity and an encouragement for others to emulate their methods. Organisations in the lower half of league tables are encouraged to learn from those in the top 25%. Those at the top of the tables are also allowed to work with less interference and 'lighter' inspections.

At the other end of the performance scale there are various possible actions that the government can take. The Audit Commission gently refers to "the need to consider intervention in the authority's corporate governance in order to support improvements in specific services" which means sending in managers to take over failing services in local authorities. Similar powers exist in relation to the appointment of Chairs and Chief Executives in the NHS.

At the individual level, there is clearly a belief in the use of performance related pay in the public sector in direct continuation of the previous governments policies. Performance pay is based not only on effort and application but also on the outcomes achieved by the organisation for which an individual works. This approach may produce performance improvement in those services in which measurable improvements in results can be attributed to individual effort and performance. The further the service is distant from this condition, where results depend on technology, collective effort or extraneous variables the more likely it is that reward becomes arbitrary and possibly divisive.

at evaluation. Professional judgement about what works will need to be supported by convincing evaluation.

The same applies to management. Where performance-related pay is imposed on a service it is up to the managers to try to use this method to improve performance, relating reward to what is important rather than simply to what is measurable.

The response to audit and inspection is perhaps the biggest challenge. While complete failure of a service may be unambiguous at the bottom end of the scale, there are few cases of such a result. In the more frequent cases where there is room for improvement, the management's responsibility is to ensure that an inspection is a positive experience that suggests an improving way ahead rather than demoralisation and despair for the organisation. There is also a danger of the best performers becoming complacent.

Managers who want to continue to have ideas must operate within a regime that is highly centralised. Freedom to innovate will be possible only where performance (by the external criteria) is good and where the success of good ideas can be backed up with plausible evaluation. A danger is that a regime of central directives, detailed manuals and controls and frequent inspections will make managers cautious. If compliance with the rules is all that is required, then innovation and inventiveness are less important. It would be ironic if the result of trying to create a performance culture by the use of performance management and incentives produced a rule-based culture in which the major incentives are to conform to the 'evidence-based' rule book.

Responses?

How can managers respond to the performance regime? Clearly conforming to the need to collect and report PI statistics is not enough. The increasing emphasis on evaluation means that if managers want to pursue innovation and imaginative ways of delivering services locally in the context of a nationally imposed view of 'what works', they will need to be proficient and persuasive

Norman Flynn is Visiting Professor of Public Policy at the London School of Economics.

References

Audit Commission 2000, *Seeing is Believing*, page 30.

Chief Secretary to the Treasury in 'Public Services for the Future: Modernisation, Reform and Accountability, Comprehensive Spending Review; Public Service Agreements 1999-2000', Cm 4315, March 1999.



Julie Grogan