

Scrutinising service and financial performance

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Introduction

This guide sets out a general introduction to performance and how using performance information can inform good scrutiny. This may sound quite mundane but in truth,

‘...performance management is far from just being a technical activity. It represents the practical steps that are needed to turn the vision we have for our local community into a reality.’¹

This guide also outlines the role of the Performance and Finance scrutiny sub committee and how the committee can act as the engine room for scrutiny in Harrow.

Performance management in general

What is performance management? It is more than just performance *measurement*. A good starting point is this:

Performance management is taking action in response to actual performance information to make outcomes for users and the public better than they would otherwise be.

To be able to do this there are a number of steps to consider:

- | | |
|-----------------------------------|--------|
| 1. What do we want to do and why? | PLAN |
| 2. How do we intend to do it? | DO |
| 3. How well are we doing it? | REVIEW |
| 4. What should we do next? | REVISE |

This is sometimes called a plan-do-review-revise framework. Performance information informs each stage in the process. It implies that performance management should be at the heart of everything that we do. It also implies that it is a continuous process.

Why does it matter?

Performance management is an important aspect of good management. It ensures that the council is achieving what it planned to achieve, demonstrating value for money and improving outcomes for the community.

It also informs good decision-making; if the council knows how things are going it can make informed decisions about how to improve things as well as checking that they have been carried out.

Good performance management is also a key expectation from central Government. Though the new Coalition Government has scrapped the Comprehensive Area Assessment, the council and its partners will still need to demonstrate commitment to continuously improving services for local people and authorities are still required to report against the National Indicator Set (see glossary). Particularly in a time of significant reductions in funding we must be sure that limited funds are being targeted at what matters and is delivering real improvement for the best value for money.

¹ IDeA, Councillor's guide to performance management (second ed, June 2006)
<http://www.idea.gov.uk/idk/core/page.do?pageld=4837998>

Priorities

In brief, setting priorities involves deciding what is most important and directing resources accordingly. Where there are finite resources – human or financial, or assets – decisions have to be made as to what is most important.

For example, a council could decide that its priorities are social care and housing. It could reach this conclusion for a number of reasons. The quality of social housing stock might be low, there might be a large number of vulnerable people in the borough whose needs are not being met; it could be for political reasons, because opinion polls demonstrate that these two issues are the ones of highest importance for local people. It could also be for performance reasons – focusing on these two areas of council policy could offer the most cost-effective way of rapidly improving services.

Whatever the reason, prioritisation of these two areas would mean that resources would be focused on them – not to the exclusion of all other services, but to the extent that other services could have resources taken away from them. Overall the council must balance the budget and defining these priorities is dependent upon the availability and use of accurate information.

This highlights the connection between performance and finance – if priorities are clear then financial resources should follow those priorities. Decisions about priorities could be informed by a number of factors, including, for example, performance information.

All types of priorities are not the same. Some priorities set by the council are long-standing, and relate to maintaining a consistent high level of performance. In Harrow, the benefits service is a good example of this. Performance here has been consistently high for a number of years and it is a well-resourced area, because it has consistently been viewed as a priority by the council. However, a council may also consider that an area where performance is low should be improved, and may set its priorities accordingly. This would be an ‘improvement’ priority.

Summary: priorities

- There are finite resources, so prioritisation always requires difficult decisions to be made.
- An improvement priority will try to drive up performance that is currently poor.
- A priority might, however, be something which they council is consistently good at, and where it wants to maintain very high performance.
- At a high level, prioritisation is a political decision.

Targets

A target is a planned level of performance, related to a specified time frame. A good target is one that is considered to be SMART:

- **Specific** A specific goal has a much greater chance of being accomplished
- **Measurable** It should be capable of being measured - establish a criterion for measuring progress
- **Achievable** Scheduled time, budget, and conditions
- **Realistic** It should be 'do-able'
- **Timed** A goal should be grounded within a time frame²

Mostly the council sets its own targets. A few are set by central Government or by another agency. In other circumstances they are negotiated between a number of bodies, as in the Local Area Agreement (see glossary).

Targets are likely to be set differently depending on the nature of council priorities and the current level of performance. A 'traffic light' system is commonly used as a tool for flagging up progress against a target. Though they can help to make the information more accessible, it is important to bear in mind that focusing only on the percentage difference from the target cannot in itself tell you whether there is an action plan or whether it is being followed correctly. Also, not all targets are equally difficult and the wider context, such as unforeseen circumstances, should be considered. Targets are meant to be challenging so they may not all be hit; progress made could be just as important.

Occasionally a target may be set to stand still or to deteriorate. This could occur where the service is not a priority and the Council cannot provide resources to improve it, or it could be a complex interaction between measures. For example, an initiative to reduce the level of housing rent arrears may cause a spike in the number of tenants served with Notice of Seeking Possession.

Summary: targets

- Sometimes the council has no control over the target setting process.
- Targets should be SMART
- Thresholds are set which allow it to be established whether performance under a particular measure is good, OK, or poor – this is the 'traffic light' system.
- Targets are meant to be challenging.
- Performance against targets must be seen in context.

² Harrow Council, *A Guide to Scorecards at Harrow Council* (2008), p.13

Scorecards

A scorecard is a group of indicators that are reported together, for example relating to the performance of a particular service in order to provide a rounded picture. Information displayed may represent the gap between actual performance and target, for example as a traffic light or RAG status, rather than actual values.

Scorecards are broken down into a number of perspectives, which at Harrow number five: in most cases the three Corporate Priorities, plus Customer and Corporate Health; and Resources. Below this appear a number of objectives, or defined purposes that are to be achieved, and below these a series of performance indicators or measures.

A scorecard should give officers and members a clear view of performance in an area as well as how prioritisation and target setting has impacted on performance. Within this context, 'red' is not necessarily bad and 'green' is not necessarily good! Equally a 'sea of green' indicators should raise questions about whether priorities are clear enough or whether targets are challenging enough.

There are processes in place to ensure data quality (see Glossary).

Summary: scorecards

- Red is not always bad – green is not always good. It all depends on the context provided by the scorecard.
- Scorecards are a tool for improvement through effective management.

Using performance – good scrutiny

There are five ways in which scrutiny can use service and financial performance information.

- To inform the scrutiny work programme – to help decide on areas that warrant the finite time and resources of scrutiny councillors
- When scoping specific reviews – to decide whether there are areas that need particular focus
- As part of the process of holding the executive to account for decisions and strategic priorities
- To benchmark performance – to compare our services with other organisations
- As part of the evidence gathering process – looking at a range of indicators, including customer perception, for example, to gain a fuller perspective of a service being provided.³

Considering performance information in this way means that it isn't treated as an add-on. It acts as the foundation of scrutiny and ensures that scrutiny is grounded in reality and built on an evidence base.

How it works in practice – the work of the sub committee

The Performance and Finance scrutiny sub committee is just one of the means available to the council in considering service and financial performance. The council has a system of improvement boards, arranged by Corporate Directorate; these boards are forums where the Chief Executive (or Assistant) chairs a review of the performance of services. They are joint officer and member boards, being attended by the relevant portfolio holder(s). They have a comprehensive agenda which covers performance against plan, budget and key indicators. They are held around six weeks after each financial quarter end, to allow time to produce the financial, performance and related information.

The work of the sub committee and the improvement boards will need to be aligned, to ensure that the risk of duplication is minimised; liaison between officers and members will be important. It is inevitable that similar issues will be of interest, but there will be differences in terms of approach and outcomes. The sub committee will also bring democratic accountability to the process of examining service and financial performance.

The process

The Performance and Finance sub committee meets quarterly. Currently, the agenda for the committee is developed as follows:

Between committees, the chairman and vice chairman of the committee will meet on a monthly basis and will set the agenda for the quarterly sub committee meetings.

Briefing one will focus on a performance and finance information from across the council (primarily drawn from the council's improvement board process) as well as information from other partners and the Harrow Strategic Partnership as appropriate. The emphasis will be on examining issues on an exception basis, where particular concerns have been identified (for example by the chairman and vice-chairman, scrutiny leads or by some other route). The scrutiny officer will attend; relevant performance or finance officers will be invited as appropriate to the items under consideration.

³ Centre for Public Scrutiny, Green Light: How non-executives can improve people's lives by helping to manage the performance of local services (January 2010), p. 8

On an 'exception basis' means that the issue meets the following criteria:

Stage A	<ul style="list-style-type: none"> • It relates to a priority for the council.
Stage B	<ul style="list-style-type: none"> • Service or financial performance has been poor for a sustained period or • Cost appears to be high, possibly demonstrating poor value for money or • It is appears possible, within existing resources, to improve performance or • There is significant risk attached to poor performance or • Poor performance relates to a significant area of concern for local people, as identified by lead members or directly by local people or • There is a significant over/underspend (actual or projected) or • The financial situation is likely to have an impact upon the delivery of services to local people or • The financial situation is likely to have an impact upon performance.
Stage C	<ul style="list-style-type: none"> • There is no plan in place to improve service or financial performance, or • There is apparently no plan, or • The plan is ineffective.

The issue must be a priority for the council, stage A, and **then** meet at least one of the criteria at stage B **and** one at stage C.

Overview and Scrutiny Committee may also commission the sub committee investigate to investigate an issue.

At **briefing two** the chairman and vice-chairman may choose to investigate issues highlighted in the first briefing and consider whether or not to escalate the matter to the sub committee. It will also confirm the agenda for committee and considering matters that have arisen in the interim. It will be attended by the scrutiny officer.

Briefing three will be attended by the scrutiny officer and the report authors preparing reports for the sub committee.

At committee

In order to ensure that the agenda setting process is transparent, the chairman will submit a report to the sub committee summarising discussions taken place at each of the monthly meetings, along with recommended actions, for the sub committee's approval. This report will be drafted by the scrutiny officer and agreed with the chairman and vice-chairman.

A verbal item, 'performance issues', will appear on the sub committee agenda to enable scrutiny lead members to raise performance issues formally that have come to their attention. Alternatively, outside of the committee meeting the lead members can request that issues be considered informally at the chairman and vice-chairman's monthly meetings by informing the scrutiny officer.

Where the sub committee considers that further detailed investigation should be undertaken by scrutiny a reference will be made to the Overview and Scrutiny committee.

The minutes of the sub committee meeting will be included on the agenda for the next meeting of the Overview and Scrutiny committee.

Monitoring recommendations

The Performance and Finance sub committee is also responsible for monitoring progress against recommendations made by scrutiny that have been agreed. It is usual for a progress

report to be submitted after six months is elapsed. At that stage the sub committee can assess whether a further progress report is warranted.

Questions to consider when examining performance information⁴

Why is performance at the current level?

Are we meeting our target?

- Are you sure?
- Is there any other reason?
- What was our target based on?

Is any variance (above or below) within previously agreed limits?

- Are the limits right?
- What impact does the variance in performance have?

Why has the variance occurred?

Do we have a complete picture of performance?

- Is this an appropriate measure?
- What else should we know?

What performance do you predict for the next month/ quarter?

- How good was your forecast last time?
- Have you identified all the risks to achievement?

What difference does it make?

What are the implications of not meeting this target?

- What impact does this have on service users and/or the public?
- Will this affect our corporate priorities?
- Will it affect other services, our partners?
- Is there an impact on equalities, sustainability or efficiency?

or where performance exceeds expectations...

Can we move resources from this area to one of a higher priority?

How can we make sure things get better?

How will performance be improved?

- How will the causes of underperformance be addressed?
- Are additional resources/training/support needed?
- If additional funding/resources are needed, where will they come from?
- Does this additional investment line up with service/corporate aims?
- Will that address the problem?
- When will performance be back on track?

Who else should be involved?

- Can other services or teams contribute to improvement?
- Who else needs to be consulted? Staff, partners, users, the public?

What next?

What can we learn from this?

- How well are other councils/service providers performing in this area? What are they doing differently?
- How will this change what we do?
- Are there successes to share in the council?

⁴ Adapted from; IDeA, Councillor's guide to performance management (second ed, June 2006), p.18-19

Questions to consider when scrutinising financial information

In general

- How much will that cost?
- Are you sure that the cost will be what is stated here?
- Is this cost for the year only or is it on-going?
- Is this a statutory requirement?
- What happens if this is not funded?
- What would be the consequences of only part funding?
- Is there external funding available to contribute to the cost?
- Could we charge for this?
- When will we see the benefits of this funding?
- Can this be deferred?
- Where is the business case?
- What can be used to measure its success?
- Can we increase income from assets?
- Is this funding contractually committed?
- Why are our balances set at this level?⁵

In more detail

- What is the anticipated impact of budget pressures on:
 - the service overall
 - performance (including performance indicators and standards)
 - clients/service users
 - partnerships and joint working
 - staffing levels
- What choices and options did you have in setting your budget targets?
- How were decisions arrived at in order to decide between options?
- What assumptions have been made?
- How do your budget targets contribute to the achievement of the corporate priorities?
- How much of your budget is fixed – what do you have discretion over?
- How is the over/under spend in your service going to be reflected in next year's budget?
- How do we use the medium term financial plan to decide on resource allocation to corporate and service priorities?⁶

Other things to think about

- Monitoring and challenging areas identified for growth and for efficiencies.
- The realism of proposals.
- Do managers understand what drives their budgets?
- The extent to which decisions about financial and service performance meet stated priorities.

⁵ Adapted from CfPS, On the money – scrutiny of local government finance, July 2007, p. 30-31

⁶ Ibid.

Appendix: Glossary of terms

Some of these terms are used in performance reports – others are more general and relate to planning, prioritisation and management of resources.

Where definitions include words or phrases which are themselves defined elsewhere, these words are in **bold** font.

Word/phrase	Definition
Actual	<p>A figure or result representing what actually happened, as opposed to what was planned (the target)</p> <p>See also target</p>
Balanced scorecard	<p>A <i>balanced</i> scorecard is one which is driven by vision and strategy and contains a range of financial and non-financial indicators. The methodology links high-level goals to day-to-day operations. By presenting the indicators together it is intended that the linkages between the indicators become clear.</p> <p>See also scorecard</p>
Best Value	<p>A regime covering finance and performance introduced in the 1990s with the aim of ensuring that services met national targets for service delivery and value for money. Most of this framework has been dismantled but the duty to deliver best value is still in force.</p> <p>The Best Value Performance Indicators were abolished in 2008 and replaced with the National Indicator Set.</p> <p>See also National Indicator Set</p>
Data quality	<p>A regime for ensuring the reliability, accuracy and fitness for purpose of data. The Council maintains a Data Quality Strategy, a DQ Policy and a DQ Plan.</p>
Improvement plan	<p>A plan for improving a given service in the council, which can be instigated for a number of reasons. For example, a service might overspend, or performance might be poor, or another issue might draw senior managers' attention to it. The purpose of the plan is to improve performance.</p>
Local Area Agreement (LAA)	<p>Local Area Agreements (LAAs) set out a number of priorities for a local area agreed between central government and the local authority and other key partners at the local level (in Harrow, the Harrow Strategic Partnership). They are intended to simplify some central funding, help join up public services more effectively and allow greater flexibility for local solutions to local circumstances. The future of LAAs beyond the current agreement, running to 2011, is at best uncertain.</p>

Measure	<p>Also 'performance measure'. A description of an item of data that is to be used to assess performance, e.g. the number of applications processed within a timescale, or spend against budget.</p> <p>See also actual, target</p>
National Indicator Set	<p>A suite of 198 indicators (since reduced), developed as part of the Comprehensive Spending Review 2007, reflecting the then Government's national priorities. It was designed to reduce the reporting burden for local authorities. It replaced the Best Value Performance Indicator suite.</p> <p>Targets against the national indicators are mostly set locally, but up to 35 may be negotiated through the Local Area Agreements (LAAs). Each Agreement includes a further 17 statutory targets on educational attainment and early years.</p> <p>See Best Value, Local Area Agreement</p>
Performance	<p>Whether targets are being met – the actual as compared to the target.</p> <p>See also actual, measure, target</p>
Performance indicator (PI)	<p>A performance indicator is another word for a measure. 'National Indicators' are used by the government to assess the performance of the council and other public service providers.</p> <p>See also Best Value, National Indicator Set</p>
Performance management framework	<p>This Council framework sets out the process by which management –</p> <ul style="list-style-type: none"> • undertakes service planning and budgeting (defining what we want to achieve and how) • tracks delivery against agreed plans and budgets and makes adjustments <p>It specifies roles and responsibilities and provides guidance and toolkits.</p>
Polarity	<p>This is a technical term relating to how performance is measured.</p> <p>Polarity is said to be 'positive' or 'high' when a high score is better than a low score – for example, the number of pupils achieving five or more A*-C grades at GCSE. However, sometimes a low score is better than a high score – for example, the number of pupils being permanently excluded. This is 'negative' or 'low' polarity.</p> <p>See also performance, measure, scorecard</p>

Priority	<p>Setting priorities involves deciding what is most important and directing resources accordingly. Where there are finite resources – human or financial – decisions have to be made as to what is most important. Ideally, an analysis would be carried out to identify what the effect would be and the extent to which resources should be reallocated. This is the process of prioritisation.</p> <p>See also resources</p>
RAG	<p>An abbreviation used for ‘red, amber, green’. These colours, which are collectively known as the ‘traffic light’ model, allow readers to easily establish what performance is across a council’s service in a highly visible manner, with different measures being coloured in different ways to reflect their performance.</p> <p>The Council’s scorecards use a five-point scale: High Green, Low Green, Amber, Low Red, High Red.</p> <p>See also traffic lights</p>
Resources	<p>Resources can be financial or human or concern assets, including IT. Resources (such as money) can be targeted at a particular performance indicator to try and improve performance. Or resources may be allocated on the basis of a wider policy-based decision, to deliver a set of agreed outcomes.</p> <p>See also priority, risk</p>
Risk	<p>The chance that things might go wrong if a given action is taken or if an action is not taken. The assessment of risk is important when deciding what targets should be or how resources should be distributed. The Council has a specific methodology for addressing risk.</p>
Scorecard	<p>A group of indicators that are reported together, for example relating to the performance of a particular service in order to provide a rounded picture. Information displayed may represent the gap between actual performance and target, for example as a traffic light or RAG status, rather than actual values.</p> <p>See also balanced scorecard</p>
SMART	<p>The best performance targets need to be SMART – Specific, Measurable, Achievable, Realistic and Timed. Ensuring that a target meets these criteria makes it both easier to measure and easier to set.</p> <p>See also target</p>
Target	<p>The planned level of performance. Comparing the Actual with the Target enables an assessment to be made of how well a service is performing and appropriate actions to be taken.</p> <p>See also performance, measure, SMART</p>

Tolerance	<p>The amount of variance (below) that is permitted before the traffic light changes colour. At Harrow, 5% tolerance is used with many indicators.</p> <p>See also RAG, traffic lights</p>
Traffic lights	<p>When reporting against a performance indicator, the use of a colour as a visual indication of performance, for example</p> <ul style="list-style-type: none"> • red (significantly below target), • amber (slightly below target) • green (on or above target). <p>See also actual, target, RAG</p>
Variance	<p>The difference between the actual and the target, often expressed as a percentage.</p> <p>See also actual, target</p>