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1. Report: The Use of Value for Money Targets
1985-1986

VOLUME II

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2. ~~Second Write Paper on Regulation.~~

**THE USE OF VALUE FOR
MONEY TARGETS 1985-86**

VOLUME II

**Survey of Departments'
Value for Money Targets**

Efficiency Unit

April 1986

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MINISTRY OF AGRICULTURE, FISHERIES AND FOOD

Target

In support of the PES target of £16.6m savings in the cost of ADAS by 1987/88 carry forward fundamental changes recommended by Director General:

- (a) draw up initial action plan by June 1985;
- (b) report on marketing study by Autumn 1985; and
- (c) prepare draft legislation by November 1985.

What the target means

This is a target to reduce the net cost of ADAS by £16.6m by 1987/88 by a combination of:

- raising income from charging for advisory work;
- raising income from charging for statutory work;
- economies in the operation of ADAS.

Classification of the target

This is an activity target designed to reduce the net cost of a specific advisory service by a combination of improving efficiency and/or reducing the scope of the service and transferring the burden of cost for some aspects of the service from the taxpayer to the immediate beneficiary.

Origin of the target

The target has its origins in the review which the Director General, Professor R L Bell, carried out to determine the future shape and direction of ADAS, subsequent to his appointment in March 1984.

The report concluded amongst other things that charging should be considered:

- wherever there is a clearly identifiable and substantial benefit to the customer from ADAS advice; and
- in the case of statutory and regulatory work the possibility of charging should be examined on a case by case basis to assess whether costs could be recouped without prejudice to the public or national interest.

In the light of the report's recommendations a target was set for a £16.6m reduction in government funding of ADAS in 1987/88.

The level at which the target was set was dictated by the need to produce a figure which was both practicable and feasible without generating excessive reaction from the farming interests. There was a strong political input to the finally agreed figure which equates to approximately 20 per cent of the cost of the non-research and development services provided by ADAS.

Quality of the target

Although this target provides no clear value for money equation the implications of the target, from the viewpoint of the taxpayer, do quite clearly lead to the more effective use of public money.

The objective of the activity is to change the way in which ADAS works - to bring its service and the way it is funded into line with changes in its operating environment.

The target as framed underpins this objective in 2 ways:

- it sets out the extent of the required change; and
- it leaves management maximum flexibility to achieve those options.

In the course of action which is being pursued better value for money will be achieved in a series of ways:

- by delivering services more efficiently (reducing costs);
- by charging a fair price which the market will bear for services which were previously provided at public expense (increasing income); and
- by discontinuing services which were previously provided at public expense and which the market will not buy at a fair price (reducing cost).

Communication and Impact on the Organisation

The target is concerned with the medium term and is not due for final delivery until 1987/88.

Activity towards its achievement in 1985/86 has concentrated on:

- identifying the steps and timescales necessary to ensure that the £16.6m reduction is achieved in 1987/88;
- carrying out an initial marketing study as a basis for identifying more precisely the specific elements of the £16.6m package; and
- producing draft legislation to provide the department with the necessary powers to levy charges for the specific services.

In these early stages the work on the target has been concentrated in the hands of a small number of people at the centre.

It was not until the details of the package had been worked out and draft legislation had been introduced in Parliament that ADAS regions were involved in the process.

The proposals which were outlined in the answer to a written PQ of 7 November and which underlie the draft legislation and the ADAS action plan assume that by 1987/88:

- charges for advisory and promotional work will generate £5m pa;
- charges for statutory work will generate £6m (net) pa; and
- efficiency measures will generate savings of 380 staff and £5.5m pa.

Monitoring

The department has already delivered the three key 1985/86 activities in connection with this medium term target.

Overall progress is monitored through a detailed action plan which sets out responsibilities and timescales for the 4 key areas of legislation, research and development, advisory services and administrative support for the period October 1985 to April 1987. There are 96 steps in all involved.

Conclusions

This is an important value for money target which is concerned with improving efficiency and also shifting the burden of funding a particular service from the public purse to the immediate beneficiaries.

This strategy relies on the introduction of market forces as a basis for assessing the need for specific services and the value which should be ascribed to them. Two key elements in this process will be:

- to operate efficiently and keep costs to a minimum; and
- to set fair prices which do not choke off demand but make a substantial contribution to the cost of providing the service.

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DEPARTMENT OF CUSTOMS AND EXCISE

Targets:

1. To produce through improved central planning of the 1985/86 control programme, an increase of 7 per cent in the value of additional tax discovered, in real terms, as compared with 1984/85.
2. By 31 March 1987 to achieve, on average, across the grades of HEO and EO, a control visiting rate equivalent to 1.25 notional half-day visit sessions per man day available for control visiting.

What the targets mean

Control visiting is central to the effective collection and control of Value Added Tax (VAT) and absorbs approximately 51 per cent of Local VAT Office (LVO) manpower. The process involves visiting a trader's premises to examine his records and assess any under declarations of tax. The visits vary in length and frequency according to the size and risk of the trader. The overall aim is to maximise cost effectiveness within a control programme which allocates attention to traders in relation to their apparent revenue risk, whilst seeking to sustain preventive and deterrent effects.

The extent of the revenue return from control visits is affected by a series of factors which include:

- the visiting programme;
- the number of staff deployed on control visits;
- the productivity of the deployed staff; and
- the skill and judgment of the individual officers.

The specific targets examined concentrate on two of these elements:

- the visiting programme; and
- the productivity of deployed staff.

The visiting programme is produced centrally by the computer and is heavily dependent upon trader risk analysis undertaken by the operational research (OR) section of the Organisation Division acting in a support role to VAT Control Division. In essence, VAT Control Division specify their preferred outputs from the programme and OR revise the programme to take account of this.

The target for a 7 per cent increase in real VAT yield was that proportion of additional underdeclarations which it was expected would arise merely from refining the visiting programme, irrespective of other increases which might arise from the deployment of more or better resources. Seven per cent equates to £30.3m in real terms.

The productivity target is concerned with increasing the number of control visits made by VAT officers. The notion of productivity in this context is

derived from multiplying the number of visits made by the notional time allowed for each visit and comparing the product with total available man days. The target, which has been spread over 2 years, is to achieve a visiting rate equivalent to 1.25 notional half-day visit sessions per man day available. No formal interim target has been set for March 1986 although it was suggested that in those offices where performance at 1 April 1985 was below 1 session per man day that an interim target of 1.15 should be set. The existing average visiting rate was equivalent to 1.04 sessions per man day. The target thus represents an 18 per cent increase in productivity over the two year period.

Productivity has been defined in such a way in the target that it acts as a pressure on VAT officers to limit their examination of traders' accounts to the notional time allowed, unless there are strong reasons against this. Since the notional times allowed for the various types of visit are geared to achieving optimum cost effectiveness, achievement of this target should also improve the cost/yield ratio arising from this activity and lead to an overall improvement in identified underdeclarations.

It was envisaged that the target would be achieved primarily by bringing actual time spent on visits more into line with that notionally provided rather than by diverting staff from other tasks.

Categorisation of the targets

Value for money considerations figure strongly in both these targets. The yield target is both specific and quantified, is largely within the control of Customs and Excise management and relates to increasing revenue returns in a key business area.

The productivity target is a specific and quantified medium term target which is concerned with improving the efficiency (and potentially the effectiveness) of control visiting. It is wholly within the control of Customs and Excise management.

Origin of the targets

The targets were both proposed by the Director of VAT Control for debate by the Corporate Management Group, which comprises the Chairman and the two deputy chairmen, and later inclusion in the departments 1985/86 Management Plan. The targets were both closely allied to principal aims of the department and underpinned one of the board's top priorities for management effort and attention in 1985/86: the effective collection of VAT.

Quality of the targets

The productivity target is an excellent example of an intermediate target; being both precise in terms of what is required, practical in its application to operational management and relevant to the aim to increase overall yields.

The target level of 1.25 sessions per man day was thought to be ambitious but attainable. It was representative of existing best practice; but some LVOs were only operating at between 0.8 and 0.9 sessions per man day. The latest VAT Performance statistics, however, states that the VAT Outfield has, in 6 months, virtually achieved the 2 year target, with 1.21 sessions per man day being achieved on average. This would seem to suggest that the target level was on the generous side and could either have been set at a higher level or for achievement by 31 March 1986 rather than 1987. An unknown factor in this

respect is the extent to which a third control visit target* on increasing the level of visits to newly registered traders has assisted some offices in achieving high productivity levels.

The extent to which the yield target is a stretching one is more difficult to judge. This is primarily because the target only relates to one amongst many possible causes of higher yield from underdeclarations. In 1984/85 a target of a 7.5 per cent increase in yield in real terms was set out in the Board's Management Plan. The actual increase in yield was some 17 per cent comprising:

- additional resources: 8 per cent;
- improved visiting programme: 6 per cent; and
- other improvements in visit selection: 3 per cent.

A more fruitful course of action in future years may be to set a target for total estimated increases in yield subdivided between the main determinants of achievement. This would appear to be more in line with the approach to bidding for resources in the PES and Supply Estimates processes.

The two targets interrelate in the sense that when setting up the visiting programme for the year assumptions have to be made about resource availability, including productivity. In previous years the programme had assumed productivity levels equivalent to those set in the current target but these had only been about 80 per cent achieved. The target in previous years, therefore, had been to carry out as much of the visiting programme as possible and productivity levels were implicitly assumed rather than explicitly stated. The result of explicitly stating the productivity target demonstrates the importance and effect of senior management being both clear and precise about what the organisation is expected to do, and achieve.

Communication

The yield target was defined in the Management Plan as a national target which could not be applied locally. The target, therefore, was circulated at the centre but was not translated down the line into collection and LVO plans. This was primarily because no satisfactory way has yet been found for setting local yield targets although Organisation Division have the position under review. One by-product of omitting the yield target from the collectorate plan was that there was some evidence in the LVO visited that yield was perceived to be a lower priority than it had been in the past. This was not strictly true and there might be some benefit in communicating national yield targets down the line to LVOs even when no specific local targets are set.

The productivity target was evident throughout the outfield, was embodied in collectorate and local plans and was even reflected in section and individual targets in some LVOs. It is noteworthy that targets will be included as an integral part of the new VAT measures of achievement management information system.

Monitoring

Monitoring information is available on a regular basis primarily from the central computer records. This is available for both central and local use.

* Not subject to study within this scrutiny

In addition, a quarterly document 'VAT Performance Statistics' is provided for divisional senior management and the Director, VAT Control which relates performance to the Board's management Plan, including relevant specific targets. Specific monitoring of the yield target is difficult because of the factors already outlined. There are some deficiencies in the monitoring data such as:

- separate systems to record performance and resource usage;
- no information on the effect of local discretions; and
- no feedback on actual time spent on individual visits in comparison with notional time allowed.

These problems are being tackled through the development of the new VAT Measures of Achievement System which it is planned to implement in 1987 with some interim improvement in the reporting of performance in 1986. Progress to date on the achievement of the targets is good with the 2 year productivity target already virtually reached and a 10 per cent improvement in the cost/yield ratio for control visits. Despite this, and although there has been an increase in overall productivity, the distribution of the increase is not ideal with underachievement still apparent in some of the areas which offer higher returns. VAT control are, therefore, planning to set targets for achievement for the various different types of control visit for 1986/87.

Conclusions

These two targets provide good examples of senior management setting precise quantified guidance in what they expect the organisation to provide. The targets are tied clearly to the organisations objectives and its short term priorities.

The productivity target provides a striking example of how it is possible to have an effect on a large, geographically dispersed organisation by setting out clearly what is expected.

The yield target is a good (and rare) example of senior management putting a specific figure on how they expect the bottom line to be improved as a result of management activity. It has some drawbacks - the most important of which is that its partial nature makes it difficult to monitor - but it is clearly a step in the right direction and one which should be reinforced in the future as the feedback through the new VAT Measures of Achievement System becomes both more sophisticated and comprehensive.

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MINISTRY OF DEFENCE

Target

To increase from 46 per cent in 1984-85 to 55 per cent in 1985-86 the proportion by value of contracts placed by competition (and by reference to market forces). Also to reduce the proportion by value of cost plus percentage profit contracts from 12 per cent in 1984-85 to 9 per cent in 1985-86.

What the target means

In 1985-86 the MOD expects to place contracts for equipment of the order of £9 billion in value. Contracts placed are analysed in table 2.11 of the Statement on the Defence Estimates into five categories:

- (1) Contracts priced by competition;
- (2) Contracts priced otherwise by reference to market forces (including the use of informal tendering procedures and commercial price lists with appropriate discounts);
- (3) Contracts priced on estimates at the outset or as soon as possible thereafter by reference to the Government profit formula;
- (4) Contracts priced on actual costs with incentives to minimise costs (using the Government profit formula); and
- (5) Contracts priced on actual costs plus a percentage fee.

The target is to increase the proportion represented by categories 1 and 2 and to reduce category 5. The historic trends have been:

	<u>1979-80</u>	<u>1980-81</u>	<u>1981-82</u>	<u>1982-83</u> (percentages)	<u>1983-84</u>	<u>1984-85</u>	<u>1985-86</u> (target)
Categories 1&2	30	36	37	36	38	46	55
Category 5	22	22	21	16	15	12	9

The PE's freedom to choose the form of contract is circumscribed by the nature of the equipment and the particular Service requirements which have been passed for procurement action in the year in question, as well as by the structure of the defence industry itself.

Categorisation of the target

This is a target to influence the behaviour of the MOD's own staff in the Procurement Executive, increasing the pressure on them to adopt the contractual procedures most likely to yield best value for money. It is therefore an intermediate value for money target.

Origin of the target

The policy of increasing the proportion of contracts put out to competition is long-standing. Contracts Branches have always pressed in that direction. But the 1983 initiative on 'Value for Money in Defence Equipment Procurement' put fresh impetus behind it. In 1984 the Secretary of State for Defence instituted monthly reports to him by the three Principal Directors of

Contracts including an explanation of every contract over £1 million not placed competitively. A particular proportion of contracts let had not, however, been made a target before the present exercise (November, 1985).

Quality of the target

The target relates to a major objective of procurement policy, and the increase being aimed for in the current year must be regarded as ambitious. There are however two questions that need to be asked about it:

- (1) Does it really relate to value for money? and
- (2) Does it affect the way people operate in the PE?

(1) Is it a value for money target?

It is seldom easy to measure the benefit of increased competition. Occasionally, as with a repeat order for night vision goggles, a saving can clearly be established when a cost-plus contract is replaced by competitive tendering. But more often there is no way of knowing what the price would have been in the absence of competition. And where there is a benefit it may not appear in the price but in other contract terms such as tight deadlines and liquidated damages. Improving competition is a hit and miss business: occasionally, as with TOW thermal imaging, repeated attempts to secure competition may be in vain and achieve nothing but delay and extra expense. But there are sufficient examples of probable, substantial benefit to confirm that the policy is broadly sound.

(2) What effect does the target have?

The target is a global one, not broken down between the three Principal Directors of Contracts, who, because they handle different mixes of business, perform very differently in relation to it. We considered whether there might be a case for breaking the target down and using it as a stimulus and guide to staff at lower levels. But we concluded that because of the lumpy and unpredictable character of contracts work it would not be helpful, and might be discouraging, to ask them to work month by month to a disaggregated target. The main discipline on Contracts Staff is the need to implement the clear policy of Ministers to increase the use of competition in the placing of contracts, a requirement which is reflected in the instruction to them to explain to Ministers each non-competitive contract over £1 million.

Conclusions

The answer to the first question is yes, it is a vfm target, though an intermediate one. As to the second, the target exists to reflect the aspirations of Ministers and top management and to help them to put backbone into their policy, but it cannot readily be translated into terms which would be relevant at the working level.

Lessons for the future

The Procurement Executive intends to set itself in 1986-87 the same target as in 1985-86. Whether it will be a suitable quantity to target in subsequent years is less certain: there may be diminishing returns from pushing competition too far into the less promising areas of procurement. There are also broader questions of the impact of procurement policy on the UK industrial base which may make it inappropriate to target in this area in an over-simple fashion.

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MINISTRY OF DEFENCE

Target

A 10 per cent reduction in engine repair times at RN Aircraft Yard, Fleetlands compared with 1984-85.

What the target means

Fleetlands is a naval - managed, tri-service helicopter repair establishment, employing about 1250 staff. Its turnover in 1985-86, including materials, is forecast to be about £58.5m. There are three main businesses, of which engine repair accounts for about one-third of activity. It plans its work in terms of unit man hour allowances for various tasks. There are some 36 different sorts of engine or engine module being worked on and five main categories of repair to each. A weighted average number of man hours for repairs to each sort of engine is calculated. The target is to reduce each of those averages by 10 per cent, enabling higher throughput and lower unit costs to be achieved. There is excess demand for this work, which the yard can do competitively with the private sector.

Categorisation of the Target

This is a target for production management in a central government establishment. It is a true value for money target.

Origin of the target

DGA(N), under pressure to deliver faster turn-around times, proposed in 1984 that Fleetlands should prepare its 1985-86 budget and workplan on the assumption of a 10 per cent reduction in unit man hours. Fleetlands resisted on the grounds that the improved levels of performance could not be achieved overnight and thus 10 per cent for the whole year would require something nearer 20 per cent to be achieved by the end if they were to stay within budget. They also pointed out that the target was based upon an average and that this depended heavily upon the mix of categories of repair. This could change without warning.

DGA(N) agreed to the Yard's counter proposal that the target should be to reduce average unit times by 10 per cent by the end of the year but that the budget should be framed conservatively against current levels of performance.

Quality of the target

The target is a good one in that it relates to a major operational concern of the organisation and aims for a significant improvement in the activity. It was seen by the management as reasonably ambitious, in the sense that its achievement could not be guaranteed. But that was more because the outcome is subject to unpredictable external factors than because the management doubted their ability to improve performance to this extent. It is a shortcoming of the target that it is not a reliable indicator of improved management performance. For that, more detailed cost information will need to be (and is being) assembled, so that the target can be standardised for a particular mix of work. The standardised product costs which are being developed will offer a more satisfactory basis for targetting from next year.

Impact on the organisation

The target reaches down from the Superintendent through the Production Manager and the Engine Division Manager (PTO 1) to the Cost Centre Managers (PTO 3) responsible for particular parts of the operation (there are about 100 cost

centres for the Yard as a whole). It can be monitored as part of the normal process of production management. At shop floor level the targets have to be kept simple - eg. the number of engines to be completed this month. First-line management aims to achieve the targetted improvement by action to get more productive hours of work out of each employee, including better management of the work and stricter attendance discipline.

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DEPARTMENT OF EDUCATION AND SCIENCE

Target

To remove 168,000 surplus school places in 1985-86.

What the target means

There are currently more than 1½ million surplus school places in England, and if no action were taken the number would increase to over 2 million by the next decade. These excess places cost local authorities more than £300m a year in total, consuming resources which could be spent more productively either in education or elsewhere. They also prejudice educational standards as the education authorities find it too expensive to provide the range of teachers necessary to support a reasonably broad curriculum in all schools.

Rationalisation of school capacity is a lengthy process, often involving local consultation and submission of a reorganisation plan to the Secretary of State, who frequently comes under pressure from parents' groups (who may have recourse to the Courts) not to approve it. The target is a factor in the rate support grant because the education provision in the grant assumes that surplus places will be taken out at this rate; but in practice the RSG system obscures the connection (see below).

Categorisation of the target

This is a national target, promulgated after discussion between central and local government, for the management of a major local government service.

Origin of the target

The target of 168,000 for 1985-86 is in line with a steady progression which was mapped out in 1982. The scale of the problem was identified in a DES report in 1977, and was forcefully brought to LEAs attention in DES circular 2/81. The Department initially set over-ambitious targets; but by 1982, after extensive consultation with the LEAs, it had settled on a realistic plan which would lead to the elimination of 2 out of every 5 surplus places by the end of the decade. Some significant margin has to be retained, partly against the possibility of localised upturns in the school population and partly in recognition of the fact that in some rural areas. It is impracticable to realise the full potential of saving places that would result from the closure of schools.

Annual targets have been published year by year since then and progress has been broadly on track:

	<u>1983-84</u>	<u>1984-85</u>	<u>1985-86</u>	<u>1986-87</u>
Target	160	160	168	167
(Cumulative target)	(630)	(790)	(958)	(1125)
Actual	158	155	n/a	n/a
(Cumulative)	(700)	(855)		

Quality of the target

Because of the slowness of the school rationalisation process and the delay in receiving outturn information this is not a field for short-term target setting. The target has to be a medium-term one (DES have now announced

targets on the basis that LEAs should proceed to eliminate half of surplus primary places and three-fifths of surplus secondary places in the period to 1991) with annual targets interpolated.

There is no reason to believe that more ambitious targets would have achieved more. The target has to be achievable by the LEAs, since the DES has no power to compel them. The DES's main power is through educational argument and its control over capital allocations: most rationalisations require some capital input, and a rationalisation plan can be a way of securing a share of the limited capital available. On the other hand the Department's other power, the requirement for the Secretary of State to approve school reorganisation plans, can be a brake on progress. The target may be as much a discipline on the Department as an incentive to the LEAs.

Communication to the LEA's

The target is a global one: DES does not break it down into targets for individual LEAs. There are reasons why the performance of some LEAs is likely to diverge significantly from the norm, but the definition of 'surplus places' is sufficiently precise and the overall objective is sufficiently agreed that individual LEAs can infer in general terms what the target implies for them. The targets are reviewed each year in the joint education expenditure committee (ESGE) as part of the general appraisal by the Department and LEAs, but more to give LEAs an opportunity to discuss progress and problems than with a view to fine-tuning them on an annual basis.

General conclusion

Although the RSG provision which an individual authority receives is ultimately related to the target (the expenditure implications of which are reflected in the aggregate RSG forecast) under the present block grant arrangement, overlaid as it is with targets and penalties, the connection is not readily apparent. The target could be made more effective if the RSG system gave the DES more specific control over educational expenditure.

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DEPARTMENT OF EMPLOYMENT/MSC

Targets

To improve performance and unit costs under the Enterprise Allowance Scheme (EAS) as shown in the attached chart: eg.

(a) for MSC: entrants per staff unit increase from 151 (1984-85) to 206 (1985-86);

(b) for D/E: net cost per person off the count (constant).

What the targets mean

The EAS pays a flat rate allowance, currently £40 pw, for 52 weeks to previously unemployed people in receipt of benefit who are setting up a new business. The aims of the scheme are to remove the possible disincentive of loss of benefit from people setting up in business for themselves, and to help create more new small businesses. The principal objective for 1985-86 is to get as close as possible to the ceiling of 65,000 places for which cash provision has been made. The chart shows the programme and administrative cost implications of expanding the scheme to that level on current assumptions.

Categorisation of the targets

These are indicators respectively of administrative efficiency and of cost-effectiveness. They are not targets in the strict sense.

Origin of the targets

The figures were first produced in this form for the Prime Minister's vfm seminar in June 1985. But similar data had been and will be reported to top management in the MSC and to D/E ministers each year in support of the relevant PES bids.

Quality of the targets

(a) MSC said that entrants per staff unit should be seen as an efficiency ratio, not a value for money target. By this they meant that the aim was not simply to maximise the number of entrants within the overall ceiling but also to optimise the quality of the scheme as measured by the permanence of the businesses and the extent to which they prospered and took on new employees. A survey is currently being done to determine what the optimum level of staff input should be. At present the input of staff time (6½ hours per entrant) is in effect seen as a proxy indicator of the quality which is being delivered.

(b) Net cost per person off the count is a measure of the final cost-effectiveness of the scheme. There are components of it which could be targetted separately, eg:

(1) the proportion (currently 85%) of entrants who survive for a year (18 months, 2 years); and

(2) the proportion of entrants who take someone on within a specified period (each 100 entrants have created employment for 50 more within 3 years).

Since the scheme is so new the information is only now becoming available which would enable D/E or MSC to set targets sensibly for these parameters. Note that the figures for net cost per person off the count in the chart are for first year savings only. More relevant would be the figure including second (and perhaps third) year savings.

Net cost per job is an unreliable basis for targetting since it is very sensitive to assumptions about deadweight and displacement, neither of which can be measured with any precision. Component elements such as survival rates or job creation effects are not without problems too, but they are more robust than net cost per job.

Communication of the targets

Weekly profiles of take-on are set for each of the 70 MSC offices at the start of the financial year. The scheme is monitored each week at Head Office and outturn against profile is communicated monthly to the field. This enables a quick and sensitive management response to the level of take-on throughout the year.

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DEPARTMENT OF ENERGY

Target

To reduce Electricity Supply Industry (ESI) controllable costs per unit of electricity sold by 6.1 per cent between 1983/84 and 1987/88*.

What the target means

The target is for the cost of each unit of electricity sold in 1987/88 to be 6.1 per cent below the cost of each unit of electricity which was sold in 1983/84. 'Cost' is defined to include fuel, salaries and most other goods and services supplied to the CEGB and the Area Boards but excludes depreciation, interest charges and rates. The reduction sought is in real terms and not a cash reduction. Fuel and other costs are treated in different ways when converting cash to constant price costs. The cost of fuel burnt by the CEGB and electricity purchased is calculated at base year price levels, whilst the cost of salaries and other materials, goods and services is deflated to base year price levels using the Retail Price Index. Units of electricity sold include sales by Area Boards to final customers plus direct supplies by the Central Electricity Generating Board (CEGB).

The timescale of the target is 4 years 1984/85-1987/88 with 1983/84 acting as the base year. 1984/85 was also included in the previous performance aim, but was not suitable as the base year for the new target because of distortions due to the miners' strike.

Origin of the target

The concept of unit cost related targets can be traced back to the 1978 White Paper on Nationalised Industries, which stated that financial targets alone were not necessarily sufficient to stimulate efficiency. This idea was picked up and developed by 'E' Committee which decided in June 1980 that aims should be set for all Nationalised Industries based on costs per unit of output.

The first such aim was set in April 1983. This sought a 4.25 per cent reduction in unit costs between 1983/84 and 1984/85 using 1982/83 as a base year.

The current aim was negotiated between the Department and the Electricity Supply Council in the second half of 1984. The Department at the outset sought a target which was comparable, on a per annum basis, with the first target. The industry replied with an offer of 5.25 per cent over 4 years, later revised, as a result of departmental pressure, to 5.65 per cent and finally 6.1 per cent.

* This 4 year target is set out in the Electricity Supply Council's annual report and differs from the 3 year target earlier supplied by the Department to the Unit and embodied in the report to the Prime Minister.

This was accepted by the department on the basis that it:

- was judged to be a challenging target in its own right; and
- represented improvements on the industry's original proposals.
(Although in per annum terms it was still somewhat less than the previous aim: 1.525 per cent compared with 2.125 per cent.)

The performance aim is negotiated rather than imposed because there is no statutory authority for the government to set such a target for the industry. Discussions on the performance aim are carried out as part of the wider planning process for the industry. It is intended to be consistent with the overall financial target for the industry which is expressed as a rate of return on assets; decisions in the external financing limit for the industry take account both of the financial target and of the performance aim.

Categorisation of the target

This is a target set by a government department in conjunction with a nationalised industry - a body over which the department can exercise only general control - to improve the industry's efficiency for the benefit of the customer.

Quality of the target

Conceptually this is a good value for money target since it ensures that the industry cannot achieve its financial target merely by increasing prices. As such, therefore, it provides a spur to efficiency over and above the limited pressure from market forces.

To achieve the target the electricity industry has to:

- implement cost reduction measures; and/or
- improve productivity; and/or
- increase sales volume.

Whether the level at which the target is set is ambitious or stretching is more difficult to gauge and, in any case, even the EC member whom I spoke to admitted that it was difficult for the EC to judge whether the targets proffered by the individual boards were stretching.

The only available evidence is that the industry failed to achieve its first performance aim - although the results were badly affected by the miners' strike. Even with the miners' strike, however, the industry achieved a larger per annum reduction than has been provided for in the second performance aim.

Communication and import on the organisation

The performance aim is an industry wide aim and, in that sense, is only relevant to the ESI and the Department - the people who are involved in its negotiation.

The achievement of the performance aim is, however, dependent upon the efforts of the CEGB and the Area Boards and the industry wide aim is shared out between the boards. The existing aim has produced targets for individual

boards which vary from 4/5 per cent to 17/18 per cent. Allocating targets to individual boards is not a difficult process since they will have been involved in the initial negotiation and indeed the industry offer will be a summation of what each board thinks it can achieve. The EC - like the Department - has no power to impose specific targets on the CEGB or the area boards.

The part which the target has played in bringing down controllable unit costs is difficult to assess.

Undoubtedly unit costs were increasing in real terms in the late 1970s and they have reduced since the performance aim was introduced.

However, during this period sales volume has increased at a faster rate than unit costs have fallen. The EC also feel that the stabilisation of fuel prices and the low levels of public sector pay rises have helped to bring unit costs down.

Monitoring

Both the EC and the Department of Energy monitor progress against the performance aim. Since neither body, however, has any line responsibility for the bodies which are delivering the performance aim the primary responsibility for achieving the target must lie with the CEGB and the Area Boards. The Departments can, in effect, only carry a watching brief. If the performance aim is not met it is for Ministers and the department to call the top management of the ESI to account and to press for any corrective action thought necessary. The ultimate formal sanction available to Ministers is the power to appoint, or to withhold reappointment of the chairmen and members of the Electricity Council, the CEGB and the Area Boards.

The only sanction available to the Department is to change ESI top management if they are failing to produce what is required but this is clearly a drastic step and one which would only be contemplated if failure was consistent or serious.

Conclusions

The ESI performance aim is a good example of a unit cost target being used as a stimulus to ensure that a public sector service organisation operating in a very imperfect market delivers good value for money to its customers.

The negotiation of the target level and monitoring problems are symptomatic of the relationship between the department and the ESI and the area boards.

CONFIDENTIAL TO THE DEPARTMENT CONCERNED

DEPARTMENT OF THE ENVIRONMENT

Target

To obtain receipts of £101m in 1985-86 from the disposal of New Towns' assets (other than housing).

What the target means

This target relates to capital receipts under the heading of "Other Local Expenditure" (ie. land and industrial or commercial buildings, not housing). In 1979 the then Secretary of State set the aim of New Towns policy as being to bring each New Town to a stage of development where the New Town Development Corporation (DC) could be wound up and thus to disengage as soon as possible, keeping public sector investment to a minimum. By 1984, 8 of the 21 New Towns in England had reached the point where the DC's could be wound up and their assets and liabilities transferred to the Commission for the New Towns. Transfer of 5 more was planned for 1985-86. The Commission contributes over 75 per cent of the total receipts. Receipts from asset disposal are netted off the DOE's cash limit (NT1).

Categorisation of the target

This is a target for influencing the behaviour of independent public corporations. It is significant in overall public expenditure terms. It is a fiscal target rather than a value for money target.

Origin of the target

Target figures have been set in successive public expenditure rounds since 1979, as follows:

	<u>1979-80</u>	<u>1980-81</u>	<u>1981-82</u>	<u>1982-83</u>	<u>1983-84</u>	<u>1984-85</u>	<u>1985-86</u>
<u>Target:</u>	131	212	136	64	64	68	101
<u>Actual:</u>	54	105	133	72	79	80	n/a

The target for 1985-86 was set through PES bargaining with the Treasury, ending in November 1984. The forecast outturn is in the range £120 - £140 million

From their regular contact with the DC's and the Commission the DOE know that this was a reasonable figure (described in internal papers as "realistic... erring on the prudent side"). The DC's and the Commission said that they had confidence that the DOE would not press them too hard, though the Commission expressed worry about the prospective targets which were emerging for the end of the present PES forecast period.

Quality of the target

According to the Commission the 1985-86 target was "tough enough to make us scramble" but in practice quite attainable. It was prevented from being over-ambitious by the Department's bargaining position vis-a-vis the Treasury and by the need to budget cautiously to avoid any risk of a cash limit overrun.

If it had been set too ambitiously the effect could have been contrary to value for money, in that it could have compelled the corporations to sell below the best price obtainable (although there are checks and controls which ensure that they do not dispose of assets in an obviously uneconomic way). The Department obtains confirmation from its professional advisers, Healey and Baker, that the target is consistent with obtaining market prices for the assets to be disposed.

Communication of the target

The target was divided among the DC's and the Commission following detailed examination of their disposal plans in January 1985. Individual targets were notified to them in March. There was a degree of intentional over-programming to allow for the expected slippage on a programme of this kind: the total of the individual targets notified to the corporations for 1985-86 was £113.5 million.

CONFIDENTIAL TO THE DEPARTMENT CONCERNED

FOREIGN AND COMMONWEALTH OFFICE

Target

To introduce the computerised Message Handling Switch (MHS) and save 40 staff by 1 April 1986.

What the target means

In 1981 the FCO decided to introduce a fully integrated Message Handling System capable of processing and storing the large numbers of messages that pass through the London and Hanslope Park communications centres each day. The MHS comprises a number of specialised computer based message processing systems (Message Introduction System, Message Distribution System, two Message Switches, Off-line Cypher Area, Radio and Telex Management Systems) all linked together to produce a cohesive, highly automated service. The need for the MHS arose from the growth of telecommunications traffic and the demand for a better service by users both in the FCO and other Departments. The manpower objective was secondary, but once decisions about overall FCO manpower reductions had been taken it became urgently necessary that the Communications group should make this contribution to their achievement.

Categorisation

This is a target for the internal management of a central government department. It is not strictly a value for money target (but see below).

Origin of the target

The original 1981 target date for completion was August 1985. Gross staff savings of 70 (40 in London and 30 in Hanslope) were envisaged. The savings were, however, offset by an increased requirement for 26 technical staff, bringing the net savings down to about 40. In early 1984 the target was still seen in departmental objectives papers as September 1985. But by early 1985, when the present target was set, difficulties over pay negotiations following deunionisation at GCHQ and difficulties with software development had caused the date to slip to April 1986. There has been some further slight slippage due to technical and staff problems, and the target date is now August 1986. Negotiating the reduction in staff numbers and grades has proved very troublesome and there are still some hurdles to be overcome.

Quality of the target

This is strictly a target for physical completion of a project combined with a target for achieving, through negotiation with the unions, the full potential staff saving as early as possible. The two targets together, however, imply a value for money target of providing a better service (and meeting increased demand) at lower cost. There is no question that the organisation is fully stretched trying to deliver the MHS on the present timetable. A more ambitious target for introduction of the MHS could only have been achieved at the cost of buying off the unions with, probably, loss of much of the staff savings and serious repercussions for the pay and grading of similar operatives in other departments.

Communication of the target

Introduction of the MHS is in the hands of a relatively small group of civil servants working closely together and there is no problem about communication. The workforce as a whole has been kept informed of developments through an excellent series of newsletters.

Lessons for the future

For the future, FCO management will be looking for performance indicators for the new system which will show that it is achieving a certain standard of service to customers at a certain unit cost. It might then be possible to set targets for improving the service or reducing the unit cost; although performance is likely to be largely determined by the technology of the MHS now being installed. Further significant improvement will probably have to await the introduction of a successor system in the 1990s.

CONFIDENTIAL TO THE DEPARTMENT CONCERNED

DEPARTMENT OF HEALTH AND SOCIAL SECURITY (SOCIAL SECURITY)

Target

To reduce social security running costs by 1 per cent.

What the target means

The target is for a 1 per cent real terms reduction in unit running costs over the previous year based on the weighted average number of claimants for the various benefits. The weightings are based on the relative cost of the different benefits.

Categorisation of the target

The target is concerned with reducing social security running costs per claimant. The achievement of the target is largely within the control of the department and will depend primarily on improvements in economy or efficiency or in servicing a growing number of claimants at a marginal cost which is below the unit average.

Origin of the Target

The target is essentially a restatement of the social security running costs cash limit in a way which relates cash provision to workload. As a result, therefore, it was not an input - at least in the form expressed in the target - to the management and financial planning process, but an expression of its output.

Quality of the Target

The process by which the target was set provides little evidence of management using targets as a means of defining its relationship with the rest of the organisation or indicating what is regarded as a reasonable level of improvement in the coming year. The size of the target was directly related to the outcome of negotiations with the Treasury about running costs supply estimates. If the finally agreed figure had been lower or higher than the target itself would have been more or less stretching.

Paradoxically, increases in workload which in many ways should assist the department in reducing unit running costs - because they will allow the department to spread relatively fixed overheads over a larger volume of outputs - will increase total costs in such a way that the cash limit might be breached.

Communication

Although the target was communicated to the four main Social Security budget holders this was done after their budgets had been prepared and agreed. Since the budgets represent component parts of the social security running costs estimates the target is essentially embodied within those budgets. It was not, however, a factor that affected the budget preparation process nor is it a prime concern of operational managers in monitoring actual expenditure.

Delegated budgets account for only about 20 per cent of total expenditure and are controlled on a cash limit basis. Any variation in workload from that originally forecast will have to be absorbed within the budget.

Monitoring

The target is difficult to monitor primarily because there is insufficient available information on performance and workload to allow the divisor in the unit cost equation to be kept up to date. Additional or new tasks which were not included in computing the initial assessment of the weighted average number of claimants pose particular problems. It seems likely moreover that if it was apparent that the target was not likely to be met an aggregate target would provide little assistance to management in taking remedial action. In this context the target would need to be underpinned by a series of lower level targets which related to individual functions or activities.

Conclusion

Whilst the target is suitable in terms of partially measuring value for money in a process oriented operation such as social security it is important that if it is to become an effective management tool that:

- management should be clear about the target level at the outset and this assumption should run through the planning and budgeting process; and
- performance and workload indicators should be developed to allow performance to be monitored against the target and explained.

In addition, where unit cost targets are accompanied by formulae which adjust manpower complements in proportion with changes in workload, departments need to retain a balance of control between unit and total costs.

CONFIDENTIAL TO THE DEPARTMENT CONCERNED

NATIONAL HEALTH SERVICE

Target

Regional Health Authority Programmes to include cost improvement targets worth £145m.

What the target means

NHS cost improvement programmes are, to quote the Health circular 84(2), concerned with making "services more efficient" and should "release resources for improvements and new developments".

Two basic assumptions underlying the idea are that:

- the programmes should be "substantial and sustained"; and
- Regions should retain their own efficiency savings to improve services locally.

With development of the programme the nature of the improvements is changing. The early savings tended to be management/Rayner scrutiny/support services (energy, supplies, hotel costs) related. Improvements in these areas typically reduced costs and as a result released cash to fund other activities. Cost improvements are now, however, beginning to take effect in direct service delivery areas. Improvements here may relate to the way in which patients are treated and may increase patient throughput. Although this might be achieved within the context of lower unit costs, improvements in these areas are less likely to be cash releasing and may, in fact, be cash absorbing. In the 1985/86 programme approximately 80 per cent of the improvements are estimated to be cash releasing and 20 per cent about improving the level of service.

Categorisation of the target

This is a clear value for money target set by a central government department as a means of improving and developing the range and quality of service provided by a series of public sector bodies outside its direct control. It is not an imposed target but relies upon the motivation of the various health authorities in the knowledge that any savings achieved can be redeployed to improve the overall level of service in priority areas.

Origin of the target

Although cost improvement in the NHS can be traced back to 1976, targets first appeared on a formal basis in 1981-82. Savings of about 0.5 per cent were sought at the outset.

The initial approach was to impose targets on a top down basis: redistributing any savings achieved through the RAWP process. However, the influence of Griffiths moved the DHSS away from this approach. He argued that an effective cost improvement programme required the commitment and motivation of local management. This would only be achieved if cost improvements savings were available for local use.

As a result the resource allocation process was changed in 1984/85 to reflect the fact that each Region would retain its own efficiency savings to improve services locally. The new approach to cost improvement was set out in DHSS Circular HC(84) 2 "Resource Distribution for 1984/85 Service Priorities, Manpower and Planning". Although no specific guidance was given on the size of the required cost improvement programme it was made quite clear in the circular that:

"All Health Authorities are required to carry through a substantial and sustained cost improvement programme which will make services more efficient and release resources for improvements and new developments."

RHAs were enjoined to ensure that each DHAs programme included a satisfactory cost improvement programme.

On this basis, for 1984/85, the Health Authorities offered up cost improvement programmes worth £106.8m (about 1.2 per cent) and delivered £105.2m.

In 1985/86 DHSS sought (and the RHAs offered up) a larger cost improvement programme worth £153m or 1.66 per cent of revenue allocations. In 1986/87 the DHSS will be looking for a cost improvement programme worth around 2 per cent of the total revenue allocations but the precise amount will be agreed on the basis of Regions' proposals (submitted as a part of their short term programme), challenged and negotiated where necessary.

In the initial stages of the programme each Health Authority was treated equally but DHSS are now looking for differential cost improvements. In particular they are seeking larger than average programmes out of the Thames Regions, where unit costs are much higher than elsewhere particularly in Inner London. Thus in 1984/85 the Thames Region Cost Improvement Programmes equalled 1.51 per cent of their revenue allocations compared with 1.06 per cent for other Health Authorities. In 1985/86 the figures are 1.91 per cent and 1.54 per cent respectively.

District health authority cost improvement programmes are validated initially by Regions and when accepted incorporated in the Region's short term programmes. They can be (and are) challenged at regional and national level and can be sent back for reworking or improvement.

Communication

A key element of the cost improvement programme is ensuring the commitment of the RHAs by leaving to their managerial judgment what the size, scope and content of the cost improvement programme should be, subject to challenge by the Department if performance appears inadequate and allowing them to redeploy any savings made on improving levels of service in priority areas.

DHSS have had to face countervailing pressures in pursuing this course principally from;

- the Treasury who want to see an increasing percentage level of cost improvements year on year, imposed top down and with the savings visibly removed from the revenue allocations; and

- NAO/PAC who have been pressing for savings targets in specific functional or service areas.

Retaining the confidence of Health Authorities that cost improvement savings will not be lost is important. Cost improvement programmes are basic to the strategy of developing services within the NHS. Present PES funding levels provide the NHS with a 1 per cent lead over forecast inflation primarily in respect of demographic change. The cost improvement programme is, therefore, effectively required to fund ministerial priorities, medical advances and actual pay and price inflation in excess of the forecast. However the extent to which cost improvements fund inflation over and above that allowed for by the Treasury, particularly in respect of pay, meets a hostile reception in the NHS and weakens the motivation to make savings to improve services. The NHS Management Board is considering how this problem might be remedied.

Health authorities are not given specific or explicit guidance on the size of the cost improvement programme to be produced but informal guidance is given such as 'to do better than last year'. Ten regions (out of 14) produced proportionately bigger cost improvement programmes in 1985/86 than they did in 1984/85; 2 stayed the same and 2 produced smaller programmes. Individual regions also exhibit marked differences in the size of the programme they offer up. In 1984/85 they varied from 0.7 per cent for Northern to 2.2 per cent for SE Thames and in 1985/86 from 1 per cent in Trent, East Anglia and Oxford to 2.5 per cent in Wessex. The varying size of regional programmes can be explained partially by the differing RAWP positions of individual authorities but it may also be affected by definitional differences on what should be included in a region's cost improvement programme. Of the 2 regions interviewed during the scrutiny one included cash releasing and productivity savings within its programme whilst the other confined its submission to cash releasing savings only. In the latter region productivity savings which were estimated at 10 per cent net over the next 10 years were calculated and monitored separately.

It is expected that units will produce their own cost improvement programmes. The pace of development in this area will depend on how quickly the new general management structures are put in place.

Monitoring

The delivery of the programme is monitored through a combination of:

- statutory audit;
- internal audit;
- statistics of activity; and
- outturn reports.

The NHS Management Board will investigate in-year progress in more detail in 5 regions in February when the following years programmes are being discussed. The outturn for all Regions will be reported in June.

At the local level district reviews provide the Regional General Manager and his officers with an important opportunity for discussing the cost improvement achievements and plans of individual district health authorities. Cost improvement programme monitoring, however, is not just about the delivery of

the programme itself: it is also crucially concerned with the effect that the reinvested savings have on the overall level of service provided by the individual health authorities.

The aim is to regularise monitoring through the Management Accounting Framework which will be used for next year's programme. This will seek eventually to tie together RAWP, cost improvement and service goals and activity in a single system. The monitoring of cost improvements is primarily, therefore, indirect; concentrating on indicators of performance and output such as unit costs and levels of throughput rather than the achievement of the programmes themselves which only represent a means to these ends.

Conclusions

The NHS cost improvement programme is an excellent example of how value for money targets can be used as a basis for improving the overall level of service provided in priority areas - even in situations where the department has little direct influence over the bodies which determine that level and control the delivery of the programmes.

From the point of view of the development of value for money targets in central government the cost improvement programme provides some important lessons, in particular:

- the importance of motivating managers to identify and deliver savings by ensuring that some proportion of the cost improvement savings is reinvested within their part of the organisation on priority schemes and not taken away;
- the development of cost improvement programmes as an integral part of the organisation's short term planning process;
- the fact that improvements in service efficiency may not always release cash - in some cases they may require the injection of more money; and
- the need to concentrate in monitoring programmes not just on savings achieved but on key indicators of overall performance including costs per unit of output.

CONFIDENTIAL TO THE DEPARTMENT CONCERNED

HOME OFFICE

Target

To reduce average Prison overtime per prison officer from 16 to 15 hours per week.

What the target means

Prison overtime takes 13 per cent of the total prison budget. It costs about £80m pa. The level of overtime in an establishment is dictated by the relationship between the task list - an agreed list of jobs and manning levels - and the number of prison officers available for work. Overtime is voluntary; some officers opt to do no overtime at all others are prepared to work very long hours. The POA are committed to maintaining levels of take home pay. The objectives of management in setting the target appear to have been twofold: first to begin to establish that the costs of the prison service must be contained and second to establish the role and responsibilities of Prison management in relation to the POA. The target is intermediate - about total overtime rather than about costs or about what individuals do.

Origin of the target

Overtime reductions were first set as part of the Prisons Board efficiency strategies in 1982 and 1983. At the beginning of 1983 overtime was running at 16 hours a week. In spite of the targets, by the beginning of 1984/85, overtime levels had risen to slightly over 17 hours a week. The target for 1984/85 was to bring levels back to 16 hours a week and to 15 hours in 1985/86. The aim was to go for a further reduction to 14 hours a week in 1986/87. The 1984/85 target was not met but some reduction to 16.5 hours a week was achieved.

Quality of the target

The target is, as the prison service readily admit, a very crude indicator of performance. It is an internal target for the Prison Department in the Home Office. It was intended to increase the pressure for improved control of expenditure. It is a national average and tells management very little about the range of actual overtime worked. But success or failure in meeting the target will give an indication of the control that management has on the system. The introduction of this rough and ready measure of control has been significant in persuading Prison Governors that some control over Prison courts is possible. National overtime rates average out two significant issues. First, the effectiveness of governors in managing a specific and fixed budget for the first time, and second the balance between the total numbers of staff employed and the proportion of those prepared to work overtime.

Communication

The target was communicated to regions as a budget for man hours set as a proportion of the total allocation in money terms. Regional offices allocated individual budgets to establishments interpreting money in terms of numbers of hours overtime to be worked. The message was unambiguously one of the essential need to keep within the budget of hours at all costs, not to reduce average levels of overtime - which would have been seen as a direct attack on

take-home pay. A practical problem this year has been that governors received their budgets after the start of the financial year, and, in some cases have had to cope with a deficit in their budget of hours which had built up before they knew the budget would be in place.

Achieving the Target

Three out of the four regions seem likely to be reasonably within their allocation. Establishments vary according to local circumstances and the attitude of the governor. There have been two external factors which have been significant in controlling the number of hours worked: first, tight control of tasks within establishments and of recruitment in the Prison Service as a whole; second, the knock-on effects of reductions in the repair and maintenance programme which has reduced the need for escorts for outside contractors. It is significant that substantial increases in the prison population have been coped with without breaking budgets substantially. Overtime levels are monitored nationally by the prison department on a monthly basis. Regions and establishments monitor performance against budget - normally weekly.

Conclusions

The principal effort of prison governors this year has gone into living within their overtime budgets. The acceptance by regions and governors of the overriding need to stay within their budgets is an essential first step in containing prison service costs. Their overall success in doing so has been due to a range of direct and indirect factors. What they do not yet see themselves doing, as such, is attempting to reduce the numbers of overtime hours worked by individuals though this should be the result of the policies which are being pursued.

The real effect of this target is to begin the process of management control in establishments; not to reduce individual overtime levels. Costs are being held even in the face of rising demand but individual overtime expectations have probably not yet been put under real pressure.

The influence of budgeting has been substantial on the way in which governors manage. The target is a useful indicator of their effectiveness in managing but not more than that. This was inevitable because the target was communicated as a budget rather than as a specific control on the number of overtime hours worked by individual Prison Officers. Few governors would have kept within their budgets without a determined attempt at managing more effectively because staffing levels have fallen back marginally while prison inmate numbers have risen steadily.

CONFIDENTIAL TO THE DEPARTMENT CONCERNED

INLAND REVENUE

Target

To investigate for omissions and irregularities 1.2 per cent of all company accounts (compared with 1.3 per cent in 1984/85) and 2.8 per cent of all Schedule D accounts (2.8 per cent in 1984/85) with a 2.7 per cent increase in the number of accounts and a reduction in Inspector resources.

What the target means

All Schedule D and Company accounts submitted to the Inland Revenue are sifted by the tax district's accounts manager - a senior inspector within the district - and are graded as suitable for:

- in-depth examination - E cases;
- limited review - R cases; or
- acceptance or qualified acceptance - A cases.

The target under scrutiny refers to 'E cases' only. In addition about a further 3-4 per cent of Schedule D accounts and a further 20 per cent of company accounts are subject to review. The high percentage of company accounts which are subject to review rather than examination is a function of the fact that most companies are big and complex and the Revenue judge that this technique is the most cost effective for this type of work.

The target relates purely to numbers of cases dealt with; a case is scored on completion and may have been commenced (and substantially worked) in a previous year.

Categorisation of the target

This is an activity rather than a value for money target. It is almost wholly within the control of the Inland Revenue although the percentage coverage expressed in the target (and achieved) in any particular year will be a function of available resources, stocks of cases being worked and the estimated number of accounts which will be received.

Origin of the target

The origin of the technical investigation target can be traced back in various guises to 1977, although it was not until 1980 that the first real target was produced, as a result primarily, of PAC pressure. The 350 management information system was used for this purpose from 1977 onwards. Between 1978 and 1980 a study (known as IWG(A)) which visited 40 Districts, provided the first estimate of the number of investigations that could be achieved by an officer in a year. This, with the decisions (as a result of the same study) on Inspector work and deployment, led to the target being set at 3 per cent - a bit above the 2.5 per cent achieved to that time. Since then, the TRAG system (introduced in 1982), staffing inspections and the advent of technical resource usage reports in the 384 (since 1983), have led to the more refined target setting now in operation. The 1 per cent target for CT work was set against the background of only a quarter per cent coverage at the time; it was set at the maximum level thought feasible without distorting the FT work on

larger cases. At the same time improvements in analytical techniques and the development of business economic models have improved the methods of selecting accounts for investigation.

In each January once resource levels have been agreed for the following year a national target is set by the Technical Standards Unit in Bush House. Regions are then requested to calculate their own targets and the results of the two exercises are compared. In practice, to date, there has been little variation in the results of the two exercises - probably because they both use common, closely defined assumptions.

The eventual targets are approved by the board and formally endorsed in the Senior Management System exercise.

Quality of the target

The quality of the target can be assessed in 3 ways:

- clarity of objectives;
- a key indicator; and
- a basis for improving value for money.

The target, as defined, is solely concerned with levels of activity. Achieving activity targets, however, also raises questions about quality and the outputs resulting from the activity. In strict terms the activity itself and the associated deterrent effect can probably be regarded as the main rationale for the exercise. In order to prevent quantity being achieved at the expense of quality, however, the Revenue have this year introduced an "Investigation Quality Review" for accounts examination. The Quality review which applies only to a selection of cases provides a detailed assessment of the selection, working and settlement of a case.

In addition, an analysis of other statistics relating to the quality of the review process demonstrates significant improvements. Abortive investigations have dropped from 27 per cent in 1977 to 9 per cent in 1983/84; the proportion of cases resulting in penalties and/or interest charges has increased from 5 per cent to 40 per cent over the same period; and the yield per case has increased in real terms by a factor of 2.

Improvements in accounts investigation work, therefore, have not been confined to quantity but have also been reflected in other qualitative indicators which are not formally targeted.

The activity target, as it stands, therefore, only provides part of the story. More importantly, because the "targeted" level of output is based on work measurement data the only way that output levels can be increased is by increasing resources. This will not lead to better value for money. In present circumstances this is only likely to be achieved by improving the quality of the investigations.

Communication and Impact on the Organisation

All relevant parts of the organisation are aware of the targets involved in the process from the target setting stage. Although there is a single national target: regions, districts and, in many cases, individuals within districts will each have their own targets. These may differ quite considerably. For 1985/86 regional targets ranged from 1.09 per cent to 1.69

per cent for company accounts and 1.99 per cent to 3.15 per cent for Schedule D cases. Regional variations are accounted for by differences in the levels, quality and turnover of staff and the stock of cases in hand.

Staff are also well aware of the importance of achieving the targets which receive considerable management attention at all levels within the department.

During a visit to SW Region it was suggested that, if anything, the target receives too much attention and, as a result, distorts activities and priorities within local offices. An example of this was the way in which accounts investigation had been protected when shortfalls in inspectors had been shared out over the Region's functions.

In addition there was some confusion within the Region as to the rationale for the target - other than PAC pressure. It was felt that investigations exercised little deterrent effect because of the small sample of accounts which were examined each year whilst the cost : yield from the activity was not as good as that achieved by other technical work. On the other hand the senior management of the Department believes that investigation work does act as an effective deterrent, although it is not possible to measure this effect in precise terms. For example, in the small business sector where the investigation target operates, the frequent media and trade journal coverage of Inland Revenue investigations reinforces the impact of individual cases. So far as the deterrent effect on the taxpayer investigated is concerned, there is clear evidence from the Correct Effect exercise that investigation produces a lasting improvement in compliance.

Monitoring

Monitoring is not a problem. The '350' computerised management information system provides detailed information on accounts investigations by case, district, group, region and department.

The 'Quality Investigation Review' data will also be computer analysed.

Conclusions

It is clear that the Revenue has achieved significant improvements in technical investigation work over the last few years. These improvements have been achieved, probably in significant part, by the increasing focus on this work arising from the activity targets, improvements in management information, the application of more sophisticated analysis techniques and a greater concentration on cases likely to generate a good return on investment.

These developments have undeniably produced better value for money. However, none of this is clear from the target which is the subject of this scrutiny. The definition of suitable value for money target(s) in this area will need to go beyond pure quantity and focus on quality as well.

CONFIDENTIAL TO THE DEPARTMENT CONCERNED

LORD CHANCELLOR'S DEPARTMENT

Target

To improve performance measures in the Circuits and align them more closely with clear financial and policy objectives.

The nature of the target

Although the Department included this activity in its listings for 1985/86 as a value for money target in its own right it is really a project about the system of performance indicators applied to the Circuits. These indicators are used both to monitor past performance and to set numerical targets for achievement in the financial year ahead.

The project concentrates on the feasibility of:

- linking Circuit targets to departmental priorities and objectives;
- linking the Circuit targets to the PES and supply estimates system, including Circuit budgets; and
- developing the Circuit targets and indicators themselves to provide a basis for comparison between the Circuits and a more explicit relationship between inputs and outputs.

The timescale is:

- 1985/86: expanding the range of performance indicators and developing the links between Circuit objectives and resources;
- 1986/87: active consideration of the scope for refining and developing the performance indicators; monitoring and refining the links between Circuit objectives and resources; and continuing to set demanding performance targets; and
- 1987/88: adopting improved performance indicators.

Origin of the target

The target has its origins in the Department's plans which were prepared in response to the Financial Management Initiative (FMI).

The Circuit objectives system has been developed as a basis for providing measures of performance in the Crown and County Courts.

With the exception of the courtroom usage indicators, Circuit objectives are snapshot targets which concentrate on work outstanding and response times for specific activities. The targets were set in this way because they relate most clearly to levels of service to the public but they do have the drawback of not directly addressing levels of throughput. As a result performance will often tend to fall short of the targets where workload is growing at a

rate faster than expected. The targets are not comprehensive in their coverage but rather representative of the range of activities carried out in the courts.

Circuit objectives have been in existence in the Crown Courts from October 1984 and in the County Courts since April 1985. They were developed from existing performance indicators and initial target levels were based on the existing distribution of resources with assumptions about workload and management judgements about realistic but stretching performance levels for individual Circuits.

This project was seen, therefore, as representing a logical next stage in the development of the Circuit objectives system.

Quality of the target

The project seeks to improve the linkages between policies, operational aims and resources, in the courts which consume the vast majority of the department's administrative resources. These linkages are key to the development of effective value for money targets. The project on its own, however, will not deliver better value for money. This will only be achieved by a combination of the contribution of the staff in the court service itself and the quality of the management, on which the system of circuit objectives is already having an impact.

In future years the Circuit objectives should be designed to provide the key targets for improving value for money in the court service.

Communication of the target and impact on the organisation

The Circuit objectives system already possesses a high profile throughout the court service and is a focus of attention right down to the individual court. In the Crown Courts, where targets had been set in 1984/85, the 1985/86 levels, in the vast majority of cases, provided for improved quality of service despite the fact that workload was also increasing. The Head of the Court Service was also able, after just six months experience of the system, to start redistributing resources between Circuits. Efforts to improve the relationship between Circuit targets and financial and policy objectives have been pursued so far, as follows:

- Circuit administrators in October submitted provisional targets along with budget estimates for 1986/87 to feed into the Supply Estimates negotiation process; and
- in preparing their resource bids Circuit administrators were asked to state, for two key custody case targets, what the cost would be if the targets were improved by 'x' per cent.

Although the Departmental Management Board determines the total share of resources available there are no aggregate Circuit objectives for the court service as a whole. Neither is there as yet any clear central knowledge about how levels of service might be affected as a result of moving resources from one Circuit to another.

The Circuit objectives system is being reviewed by a committee under the chairmanship of Ian Ashworth, Western Circuit Administrator, which is presently reviewing how the existing performance indicators can be improved,

refined and developed. The review, which will be completed in time for improvements to be introduced for 1987/88, will make recommendations on a series of matters, including target definition, the use and interpretation of the statistics of actual achievement and at what point in the year and with what consistency the circuit targets should be achieved.

The working group's main task is to review the existing performance indicators, to consider the scope for introducing specific value for money (ie efficiency) targets into the objectives system and to consider the relationship between resources and performance.

Monitoring

The progress of the project requires little monitoring.

The monitoring of the circuit objectives themselves is carried out on a weekly or monthly basis at the circuit level. At the national level, performance against circuit objectives can be discussed each month at the Court Services Board meeting; comparative statistics are provided on a quarterly basis and the Head of the Court Services may carry out a formal six monthly review when provisional targets are submitted for the following year.

Conclusion

This project should help the Department to get to a stage where it can set effective value for money targets for the courts' administration function. The impression gained during the study was that circuit objectives have already made a significant mark on the department, have already improved performance levels within the organisation, and have stimulated detailed consideration of some of the more difficult underlying issues.

If the department is to complete the conversion of circuit objectives into value for money targets it will need to widen the range of targets and indicators to include:

- aggregate targets for the court service as a whole which can be matched against the total resource provision;
- targets and indicators which bring together cost and performance such as unit costs; and
- targets and indicators which reflect changes in the volume of work processed as well as changes in the level of service provided.

CONFIDENTIAL TO THE DEPARTMENT CONCERNED

CABINET OFFICE (MANAGEMENT AND PERSONNEL OFFICE)

Target

As part of the programme of action in central personnel policy work, to launch, promote and develop a basis for evaluating the new reporting and appraisal systems in departments.

What the target means

The meaning of the target is largely self-evident and falls within the MPO's general aim of developing and promoting a service wide framework of personnel policy and practice.

Categorisation of the target

This can be regarded as a value for money target only in the loosest sense of the term.

It is concerned with intermediate outputs: some of the most important levers that operate on the assessment of performance. Its achievement is largely within the control of the MPO but its justification will be dependent upon the extent to which the schemes implemented by departments adopt the framework developed by the MPO.

Origin of the target

The target derives from the Personnel Work Action Programme which was drawn up in 1983 and set out a programme of priority and longer term tasks in support of the Government's overall aim to improve standards of personnel management in parallel with the Financial Management Initiative.

The action programme, which in turn was based on the recommendations of the Fraser report and the Review of Personnel Work, identified staff appraisal and reporting as a priority area. The objective here was to tighten reporting standards and to make the basis of assessment more performance orientated.

MPO were required to recommend a revised appraisal system and provide departments with guidance and training by March 1984; Departments were to devise and introduce revised systems by the end of 1985.

On this basis a programme of work was built up, costed and approved through the MPO's activity planning systems.

Quality of the target

The target is about a classic civil service activity: introducing a new procedure. It is clear both about the key activities to be carried out and the objectives of these activities. Although timescale is not explicit within the target as drafted it is set out in the Personnel Work Action Programme and is well known to all the relevant parties.

Achievement of the target can be evaluated in three ways, by ensuring that:

- departmental reporting and appraisal systems are developed in accordance with MPO guidelines;

- departmental systems are in place in accordance with the general timetable set out in the Personnel Work Action Programme; and
- new reporting and appraisal systems contribute to the achievement of better value for money from all civil servants by making the best possible use of their talents and expertise.

The target provides no yardstick for assessing achievement in the latter area but rather lays down a requirement for the development of evaluation criteria. To this extent activities carried out in accordance with the target will to some extent define the parameters for assessing achievement.

Communications and Impact on the organisation

There have been no problems in communicating the target to the few people involved in its delivery within the MPO. Responsibility for the work falls primarily to one branch within MPO.

Communication with other government departments has been at the heart of the study. MPO have engaged in extensive consultation and liaison with departments on this subject. An example of achievement in this area is the number of staff appraisal training booklets which have been sold to departments to date:

The role of the jobholder	177,000
The role of the reporting officer	61,000
The role of the countersigning officer	34,000
Effective interviewing	49,000
Line managers notes	15,000

Work on developing evaluation criteria has only just commenced and has involved the circulation of an initial discussion paper and activity plan on evaluation by MPO to all departments. This provides for extensive departmental involvement in the evaluation process and covers the following components:

- training material;
- scoring and standards;
- objective setting; and
- opinion gathering.

Departmental responses are expected by early 1986, although a pilot study on objective setting is already underway in the Home Office.

Monitoring

Monitoring is covered in overall terms through the activity planning system which provides for setting and reviewing short term activity targets on a quarterly basis.

In addition there is an overall implementation plan which sets out for each department the target dates for implementation and the pilot projects or tests which are being carried out. On the basis of this information it seems likely that new systems will be up and running in all departments by the end of 1986

(compared with the original target of end 1985). This plan is currently being supplemented by the activity plan on evaluation which sets out for each of the components set out the above:

- timescale for reviews;
- coverage of reviews;
- kind of review;
- consultancy support/central involvement required;
- priority; and
- action required now.

Conclusion

This is a good target of a well-established type which has strong roots, closely tied to key departmental objectives and a clear sense of direction and purpose. Activities are well managed and progress is closely monitored.

There should be little ultimate difficulty in determining whether MPO has achieved its target; but the key question here must be what has happened as a result. The extent to which changes in value for money can be observed or measured will depend crucially on the work which has just been started on the development of evaluation criteria.

CONFIDENTIAL TO THE DEPARTMENT CONCERNED

NORTHERN IRELAND OFFICE

Target

To close one prison.

What the target means

With the anticipated opening of a new prison at Maghaberry in late 1985, at a time when the prison population was not increasing, the target to close an existing prison was set in order to ensure that future costs of the prison system, together with the number of prison officers, were kept to the minimum consistent with achieving Prison Department objectives.

Categorisation of target

This target was concerned with maximising value for money by seeking to provide improved service, by producing uprated prison accommodation, whilst containing running costs and manpower within existing levels. The target and its achievement were wholly within the control of the Northern Ireland Office.

Origin and evolution of the target

Once it became clear that the opening of the new prison at Maghaberry would generate about 25 per cent excess capacity in the prison system a closure review was started in mid-1984. Following Sir Robin Ibbs letter to Douglas Hurd of 29 November 1984 regarding the setting up of value for money targets the prison closure papers started to adopt a new title "Value for Money in the Prisons - The Opening of Maghaberry and the Achievement of Offsetting Savings".

A paper of 27 December 1984 by the then Director of Prisons set out 6 possible options for prison rationalisation. Of the 6 options one involved not opening the new prison; one involved opening the new prison and carrying the excess capacity and four involved closing either the Maze Compound or Magilligan prison.

Since the first 2 options were regarded as effective non-starters the closure of one prison became accepted as a general objective. Added weight was given to this general objective by a desire to live within the existing prisons staff ceiling of 3184 posts; thus the new prison could only be staffed by saving prison officers at another establishment.

The weakness was that this general objective was not followed up with a more specific proposal which could have been clearly authorised and sanctioned by Ministers and top management within the department and could have formed the basis for a management plan of action in the coming year.

Thus the Director of Prisons could produce a further paper in May 1985 about options for prison rationalisation which concluded that "there is no consensus within the Prison Department as to the best choice".

This paper produced 3 options:

- close the Maze Compound and 1 H Block within the Maze Cellular prison with a NPV benefit over 6 years of £56m;
- close Magilligan prison with a net benefit of £44m; and
- close 3 H Blocks at the Maze Cellular prison and annexe the Maze Compound to the cellular prison with a net benefit of £32m.

It was subsequently decided at a meeting with the Secretary of State on 30 July 1985 that the third option should be adopted.

The target to close a prison was thus formally abandoned at this stage and replaced by a new target to merge the two Maze prisons and reduce the cellular prison's capacity.

The reasons given for rejecting the closure options were that:

- closing the compound prison and rehousing the special category prisoners in the cellular prison would result in 'contamination' and cause security and operational problems; and
- closing Magilligan prison would reduce employment in the north west of the province, meet severe Prison Officer Association disruption and be politically unpopular since Magilligan provides the most successful example in Northern Ireland of prisoners being housed in mixed as opposed to segregated wings.

Quality of the target

The difficulties which have been experienced with this target stem largely from the way in which it was defined and developed.

A target to close a prison was at the same time too specific and too general.

It was too specific in the sense that it concentrated on the means to the end rather than the end itself; but it was too general in that all the implications of the means were not explored and discussed at the time the target was agreed.

It is clear that large scale expansion of prison capacity at a time when the prison population was declining, or static, would pose significant 'value for money' problems unless remedial management action was taken.

The essential problem for the Northern Ireland Office was to house a given number of prisoners without breaching the total cash limit and exceeding the staff ceiling whilst at the same time making the most effective use of the available capital assets.

The head of the Resources Control Division summarised the aim:

"In short while utilising Maghaberry to the full and maintaining an equivalence of places and prisoners we wish to maximise efficiency without significant loss of security and control."

The closure target proved unable to reconcile these various factors, but the papers which were produced on the subject demonstrated it was possible to move some way towards this aim by means other than prison closure. It seems likely that this general aim provided a better basis for the prison target than a pledge to close an establishment.

Communication

The target was communicated to all relevant parties although it seems likely that earlier consideration of the full implications of the target by Ministers and senior management might have deflected energies away from the false trail of closure at an earlier stage.

The new target involving annexation of the Maze Compound and the closure of the 'H' blocks is again widely known, although my discussions revealed that there is a lack of necessary clarity about:

- the precise steps involved in annexing the Maze Compound; and
- when exactly and to what extent Maghaberry will be operational.

Monitoring

The timetable for effecting the new target of Maze Compound annexation and 'H' block closure is:

January 1986 - close Armagh prison and move the inmates to Maghaberry women's prison (with little saving);

April 1986 - complete initial annexation works;

July 1986 - open a part of the men's section of Maghaberry using the staff saved from the Maze rationalisation.

Achievement of this target is dependent upon a series of issues the most important of which are:

- effecting the necessary capital works at the Maze; and
- finishing capital works at Maghaberry and reaching an accord with the POA about conditions of transfer and work.

It is too early to say whether the NIO have the necessary systems in place to monitor the situation effectively or take effective remedial management action if things go wrong. This will need to be looked at further when the final review takes place at the end of the financial year.

Conclusion

It is clear that the problems with this target have arisen because it concentrated on means rather than ends and without giving full consideration to the political feasibility of the proposed course of action. The problems essentially lie, therefore, with the target setting process.

It has been suggested that because a decision was taken not to close a prison that the target has failed. This is only partly true. The problem which the target was seeking to address is now being dealt with in another way. The rationalisation of the Maze prisons now becomes the new management challenge

to improve value for money in the prisons service. There is now an agreed course of action and this should be traced through to ensure that the value for money improvements are achieved.

The replacement target, however, only addresses part of the problem. Even if the Maze prison is successfully rationalised the following problems will still remain:

- excess prison capacity;
- half of Maghaberry - a £40m asset - unused; and
- a £5m capital programme for Magilligan - the reprieved prison.

There is still, therefore, a need to look at the value for money implications of the whole prison service when developing future targets.

JB4:VFMTSNIO

CONFIDENTIAL TO THE DEPARTMENT CONCERNED

OFFICE OF ARTS AND LIBRARIES

Target

To review, and secure Ministerial decisions in the relationship between the OAL, PSA and the National Museums and Galleries by the end of 1985.

What the target means

The target was, and is, concerned with reviewing the relative responsibilities and functions of the OAL, PSA and the individual Museums and Galleries in the following key areas:

- estate management; and
- the allocation of resources to, and the responsibility, for planning, managing and executing programmes of new works, alterations and repairs and maintenance for, Museums and Gallery buildings.

At the present time, the primary responsibility, in all of these key areas, lies with the PSA, who advise the OAL on the allocation of resources between the individual Museums and Galleries and plan and manage the approved programme of work.

PSA expenditure on the Museums and Galleries in 1984/85 was estimated at £25 million with a further addition of £4.3 million for privately funded major new works.

Categorisation of the target

This is an activity target - defined elsewhere in the OAL papers as a management target - which is concerned with bringing a review activity to a successful conclusion rather than achieving any specific or observable improvements in value for money. Value for money, however, is a major concern of the review and it is anticipated that the implementation of the review's recommendations will lead to improvements in this area.

Origin of the target

The review started in the spring of 1984 and arose out of the recommendation of a 1982 report by the Select Committee on Education, Science and the Arts "Public and private funding of the arts" which recommended that the relationship between the PSA and the major arts institutions should be investigated.

Quality of the target

The aim of the target was to review an area where responsibility for achieving value for money was split between PSA and the Museums and Galleries. There is no specific or pre-conceived casual relationship between the achievement of this target and improvements in value for money, although the review of the relative functions and responsibilities of the various parties does focus on improved value for money as one of the key issues.

The review is crucial to change in this area although it remains to be proven whether the change also lead to improvements in value for money.

Communication and Impact on the Organisation

The target was communicated to all the relevant people in the OAL, PSA and the Museums and Galleries. Work arising from the target has primarily affected:

- the head of OAL supported by a Principal;
- the Museums and Galleries Group (MAGG) in the PSA London Region; and
- the British Museum.

The other Museum and Galleries, together with the Treasury and the Museums and Galleries Commission, have also been consulted on the options for change. A series of options have been considered during the review ranging from retaining the present system of funding with improvements; through the introduction of a PRS type arrangement for minor works; to complete untying.

The most forward option has been the latter and the British Museum have developed a pilot proposal in conjunction with PSA, for untying from April 1987.

The main argument in favour of untying is one of principle: that independent Museums with independent trustees should have control of the key resource of land and buildings.

The practical implications of untying have been investigated by PSA, OAL and the British Museum. It was originally anticipated that the British Museum pilot scheme would extend to full untying and that a decision would be made on the future arrangements for the other Museums and Galleries following the evaluation of this experiment. It is now recognised, however, that if Ministers accept the untying recommendation, in principle, then it will be impossible to hold the line at the British Museum and that all museums and galleries will move forward together.

Untying should on the one hand lead to improved value for money as a result of:

- clearer responsibilities;
- improved incentives;
- eradication of an existing administrative layer;
- rationalisation of works and stores functions; and
- closer integration of research and works decisions.

On the other hand these improvements could be offset by the loss of:

- MAGG expertise;
- economies of scale; and
- PSA back up services and depth of professional and technical staff coverage.

The conclusion of the OAL is that value for money is unlikely to deteriorate with untying and should almost certainly improve.

Monitoring

The timetable for the review has been monitored closely. The latest estimate for the completion of the review and the achievement of a ministerial decision is Easter 1986.

If the recommendation to untie is accepted the Museums and Galleries will start to run their own maintenance programmes and take on new projects from April 1988.

VFMS/OAL

CONFIDENTIAL TO THE DEPARTMENT CONCERNED

PROPERTY SERVICES AGENCY (PSA)

Target

To examine the range of contracts available and issue guidance on factors governing the choice of form of contract.

What the target means

The overall target is wide ranging. The scrutiny has concentrated on just two aspects of contracts policy and procedure:

- to reduce the number of orders placed on Measured Term Contract (MTC) for which administrative work is outstanding; and
- to reduce the proportion of work carried out by MTC's in favour of other forms of contract such as Lump Sum or C1001.

For the year 1984/85 under 39 per cent of Part III work was carried out by MTC and 26 per cent by C1001 and lump sum contracts.

Categorisation of the targets

The target is concerned with intermediate outputs. Slowness in handling MTCs is believed to contribute to higher contractors' prices, and inappropriate use of MTCs is thought by the Agency to cost more, in some cases, than alternative forms of contract.

Value for money ideas, therefore, permeate this target, but they are expressed in a very general way. What is less clear is what the precise value for money effect would be of reducing the use of MTCs or clearing the backlog of outstanding orders.

Origin of the target

Both targets were strongly promoted by the top management of the agency and were incorporated in the main departmental MINIS.

Both targets were also motivated by widespread concern about the management and use of MTCs. MTCs do have important advantages, particularly where there is a large volume of relatively small works and maintenance jobs in a reasonably confined geographical area. In particular they allow work to be started quickly. Although MTCs, which are period contracts based on schedules of rates, are themselves let in competition, individual jobs are not. Jobs carried out under MTCs also need to be tightly managed both in respect of advances paid to contractors and in measuring the work and tying up the accounts once the job is completed. The onus of administrative effort and control of MTCs is at the end of the job once the work has been done and probably the majority of the money has been paid over. By contrast, individual lump sum contracts are won in competition on the basis of a precise specification which provides a better basis for controlling progress and exercising close financial control.

An internal audit report from the Scottish region of the agency suggested, on the basis of a sample of jobs, that the use of lump sum contracts was generally cheaper than MTCs by a margin of 10 per cent.

Top management were, therefore, concerned that orders should only be placed on MTCs in appropriate circumstances and that once orders had been placed they should be tightly managed. These concerns underlay the target.

Quality of the target

The target was a general directive to the relevant parts of the organisation to focus their attention on reducing outstanding orders and reliance on MTCs. There was no specific guidance on the overall improvements which were expected throughout the agency either in terms of activity or value for money.

Communications and Impact on the Organisation

Each of the 10 Regions in PSA together with the Head Office directorates produce their own MINIS returns which should reflect in a more specific way the key objectives set out in the central MINIS.

An analysis of the Regional MINIS plans shows:

- 9 regions set targets to improve the settlement rate on MTC accounts;
- 5 regions set targets to increase the use of lump sum and C1001 contracts at the expense of jobbing and MTCs;
- 5 regions set targets to review the suitability and balance of contract types used; and
- there were 9 other targets relating to the use and management of jobbing and MTCs on Part III work.

Some of these targets are quite specific. Eastern Region, for example, set targets to:

- reduce the number of MTC outstanding orders where the last payment was made more than 12 months ago by at least 25 per cent; and
- reduce the use of MTCs to 43 per cent and increase the use of C1001 and lump sum contracts to 26 per cent of Part III expenditure.

None of the targets provide any clue as to improvements in value for money which it was anticipated might arise as a result of achieving these targets.

At the same time two working parties were established at the centre to:

- examine the security, benefit and value for money offered by MTCs; and
- consider and make recommendations on the form of management procedures and information needed to control both the handling of individual orders and the overall performance of MTCs.

The investigations of the two working parties have increased significantly the level of knowledge in the Agency about MTCs and aided HQ management to clarify the policy which should be adopted with regard to their use and management. The working parties' researches have thrown doubt upon the conclusions of the original Scottish internal audit report about the potential savings arising from a switch from MTC to lump sum contracts, but have also produced other

recommendations which are likely to lead to improved value for money and a reduction in the number of outstanding MTC orders. The recommendations are likely to include proposals to:

- further limit the use of advance payments;
- expand the use of self-measurement by contractors followed by random post-payment checks; and
- require contractors to quote separate on-cost percentages for different order value bands when tendering for MTCs.

Monitoring

Monitoring the proportion of work which is being carried out under the various different contract methods is relatively easy. The information for each region is published in a quarterly digest of statistics. Assessing the value for money implications of the information is, however, much more difficult.

Similarly monitoring progress on the clearance of MTC outstanding orders is difficult. Although Accounts Division produce a return for each region, each quarter, as a basis for this exercise, making sense of the return and finding out the reasons for delay is extremely time consuming, primarily because the relevant information is spread throughout the region.

Conclusion

This is a good example of top management providing clear signals to the department about priorities for management action. These signals were picked up and converted into specific targets at Regional level.

The weakness was that the value for money implications of achieving these targets were not spelt out and it is impossible on the evidence available to assess whether the fact that the agency achieves these targets will lead to any significant improvements in value for money.

One clear effect of these targets, however, has been to make people throughout the Agency focus on this problem and it seems likely that the end product will, at the very least, be a more tightly managed and efficient operation.

CONFIDENTIAL TO THE DEPARTMENT CONCERNED

SCOTTISH OFFICE

Targets

- (1) To reduce housing subsidy to 9 per cent of local authorities' aggregate capital expenditure on housing, and 11 per cent of such expenditure on their own housing stock by 1987/88; and
- (2) To reduce local authorities' own subsidy expenditure to their own housing revenue accounts to 60 per cent of the 1984/85 level by 1987/88.

What the targets mean

The two percentages referred to in the first target share the same numerator: actual Housing Support Grant (HSG) expenditure. The target is to reduce that subsidy in relation both to the local authorities' total gross capital expenditure on housing and in relation to their gross Housing Revenue Account (HRA) expenditure, (ie. expenditure on their own housing stock as opposed to private sector home improvement, environmental improvements and mortgage lending). Gross capital expenditure is the sum of the net provision in PES and forecast receipts (mainly council house sales). For simplicity this note concentrates on the former of these two ratios.

The second target is to reduce the authorities' Rate Fund Contributions (RFC) to their Housing Revenue Accounts. Authorities are required to balance their HRA each year if it is in deficit by a contribution from their general rate funds. Into the account is credited the authority's income from rents together (where relevant) with HSG provided by the government. On the debit side are loan charges (covering about two-thirds of expenditure) and the cost of repairs, maintenance and management. Rent levels are at the discretion of local authorities, but since 1984 the Secretary of State has been able to require them individually to budget for no more than a maximum level of RFC.

Categorisation

These targets, which are linked, relate to central government influencing the behaviour of local authorities. Although they may primarily be fiscal targets, they have important value for money dimensions in encouraging the shift towards private sector housing and in forcing local authorities which still receive HSG and/or make RFCs to look carefully at the value for money of their expenditure on repairs, management and maintenance of their housing stock. The targets also support a shift from current subsidies to capital expenditure within the PES provision for housing in Scotland, in accordance with Ministers' priorities.

Origin of the target

	<u>1984-85</u>		<u>1985-86</u>		<u>1986-87</u>		<u>1987-88</u>	
	when set	(now)	when set	(now)	when set	(now)	when set	(now)
<u>Target 1</u>								
(1) Forecast HSG expenditure	62.6	(62.6)	48.2	(67.6)	37.9	(50.7)	27.2	(40.0)
(2) Total gross capital expenditure	427.9	(411.5)	384.7	(396.2)	416.7	(451.4)	445.0	(485.0)
(3) (1) as % of (2)	14.6	(15.2)	12.5	(17.1)	9.1	(11.2)	6.1	(8.2)
<u>Target 2</u>								
(1) Budgeted RFC expenditure	120.0	(120.0)	95.0	(89.5)	75.0	(69.8)	60.0	(60.0)
(2) Planned RFC expenditure	99.4	(99.4)	"	"	"	"	"	"
(3) Actual RFC expenditure	138.9	(138.9)						
(4) Target (60% of 1984-85 budgetted figure)							72.0	(72.0)

The targets were set in November/December 1984. At that time it was hoped that the ratio corresponding to target 1(a) would fall to 12 to 13 per cent in 1985/86, but the interest rate assumptions for both 1985/86 and a Housing Support Grant Variation Order has added 5.6 per cent to the budgeted expenditure in 1985/86. The 1987/88 figure remains unchanged. The denominator of the ratio corresponding to target 1(a) has also increased slightly as Scottish ministers have been prepared to put more of their budget into housing capital, and this has helped to pull the ratio down to a forecast 8.2 per cent (comfortably below the target of 9 per cent) in 1987/88. The target remains vulnerable, however, to an increase in the interest rate assumptions, and to a fall in receipts below the forecast levels.

Target 2 was built on a baseline of £120m for authorities' budgeted RFC expenditure in 1984/85. In that year their planned RFC expenditure (ie the aggregate of the non-statutory limits set for each authority on the basis of the HEL system) was £99.4m. With effect from 1985/86 the Secretary of State was able to determine the level of budgeted RFC expenditure which was set at £89.5m for that year. The Secretary of State has just laid an Order imposing a limit for budgeted RFC expenditure for 1986/87 of £69.8m, which implies an average rent increase of £1.60 per week, substantially in excess of inflation. This increase should lead to the target reduction to 60 per cent of the 1984/85 baseline being achieved a year early, and by 1987/88 the ratio should be down to 50 per cent of baseline. The authorities' actual RFC expenditure may not be in line with budgeted expenditure but authorities would lay themselves open to legal action if they deliberately budgeted unrealistically. Once the budgets have been set in line with the Secretary of State's prescription there is not much room for the authorities to manipulate the outcome so as to make it significantly higher.

Quality of the target

These targets relates to quantities which are of central importance in the management of housing policy in Scotland. They are part of a progression of similar targets over a number of years. The numerator of the Target 1 ratio is vulnerable to interest rate changes, and the denominator can also be altered by the Secretary of State's PES decisions. A target simply for reducing the absolute amount of housing subsidy (subject to interest rate assumption) would be more reliable. The figure chosen for the target was to some extent a forecast rather than a target, but it was a forecast of what might be achieved if the policy being introduced was successful, so the distinction between "target" and "forecast" is hard to maintain.

The second target is satisfactorily expressed as a proportionate reduction in the absolute level of authorities' RFC expenditure. The Scottish Office now believe that faster progress is possible than they envisaged when the target was set.

Communication of the target

The forward targets are not published. All the authorities know is the general direction of government policy, and 3 months before the start of each year they know their HSG allocations, their budgets for capital expenditure and the RFC expenditure limits up to which they may budget for the coming year.

CONFIDENTIAL TO THE DEPARTMENT CONCERNED

DEPARTMENT OF TRADE AND INDUSTRY

Target

To increase the average micro-electronics penetration in UK companies with 20 or more employees to 64 per cent by December 1985 and 70 per cent by December 1986.

What the target means

The measure of "penetration" used since the launch of the Microelectronics Application Project (MAP) in 1978 has been firms in any way using micro-electronics, either in their products or in the processes used to manufacture them. The initial assessment of what needed to be done was impressionistic but in recent years there have been several formal surveys including international comparisons on this basis. While the concept is somewhat rough and ready, it is a useful proxy and reliability in penetration trend has been improved by using the same sample of 1200 firms for successive surveys.

Categorisation of the target

This is a target to affect the behaviour of firms through a range of policy instruments, including publicity and financial incentives.

Origin of the target

Penetration was estimated in 1978 at 5 per cent; by 1983 it had reached 47 per cent. The target, which underlaid part of Electronics Applications (LA) Division's bid for resources in 1985-86, assumed the continuation of the Department's policies in the MAP. They represented what best efforts using then-current policy instruments could hope to achieve. In the event the policies were changed: for example, the rate of grant was cut from 33 to 25 per cent and the MAP lost its special identity and was 'repackaged' as part of the broader Support for Business. As a result the target was revised downwards 65 per cent by March 1987.

Quality of the target

Since ACARD identified the problem in 1977, it has been one of the objectives of the Department to raise the level of electronics penetration to that of the UK's main competitors. Despite its coarseness, it is a good target because it is both important and verifiable. What is more difficult, of course, is measuring how far the efforts of the DTI affect the outcome. An attempt is made to establish additionality ex-ante and a variety of measurement techniques are used to ascertain what happens in consequence of support through the programmes of assistance. The downward revisions of the target following the policy changes in early 1985 represented an informed guess. A full economic evaluation of the programme is planned in late 1987.

Communication of the target

Some parts of the MAP are directly administered by DTI, some are contracted out to the National Computing Centre and the Warren Spring Laboratory. The overall target is built into the Divisional Work Programme for LA Division, and Branch LA1 has responsibility for monitoring it. It was approved as part of the DWP by the Deputy Secretary concerned and submitted to Ministers in

Autumn 1984. LAl also has more detailed Action Plans relating to each aspect of the MAP, with targets set for named individuals and monthly monitoring. One target, for example, is to increase the rate of applications for feasibility study assistance to 40 per month by July 1986 and to 60 per month by March 1987 (both intermediate targets). Furthermore, middle level targets for these had also been set whereby 33 per cent of these studies are to be implemented within one year of completion, and 50 per cent within 2 years; these rates to be achieved by March 1987.

General conclusions

This is a good target and is supported by effective detailed management at working level. There is a linkage - through both intermediate and middle level targets - between a variety of Departmental instruments and the global VFM target of a penetration of 65 per cent by March 1987. Other intermediate and middle level targets focus on the individual schemes (or instruments) and these can be related back to the global target.

KC4:VFMDTI

CONFIDENTIAL TO THE DEPARTMENT CONCERNED

DEPARTMENT OF TRANSPORT

Target

Increase the proportion of external contracts let by competitive tender from 15 per cent in 1984/85 to 35 per cent in 1985/86 and 50 per cent in 1986/87 (and ensure that as much as possible of the rest is let after considering proposals from more than one contractor).

What the target means

DTP commissions about £10m a year of external research, most of it through the Transport and Road Research Laboratory (TRRL). Some of it is done by consulting engineers, some by universities, local authorities or private industrial firms. The target is a broad-brush, global one, recognising that there are differences in the extent to which competition can be achieved in some sorts of research - where it is localised, for example, or requires use of special equipment.

Categorisation

This is a target for the management of a central government purchasing function.

Origin of the target

In 1983, following the absorption of the marine research budget from DoT, there was a rationalisation of DTP's research programmes, which had been run in parallel from the Department and from TRRL. The programme was largely integrated and was given to TRRL to manage. Disquiet about the cosiness of the way external research was being managed emerged in the Department's 1983 Review of Objectives and Costs. As a result this target was introduced in the 1984 Review. The figures chosen were a cockshy: all concerned wanted the figure to be as high as was realistically possible. The approach was to set an ambitious figure and 'wait for the pips to squeak'.

Quality of the target

This is an effective target which arose through the Department's management system on the initiative of the line manager. The Department had no idea ex ante how much money the change might save, and even ex post it may not be possible to say definitely what the savings have been. Research contracts tend to be unique and it is hard to estimate how much one would have had to pay for them at single tender. There is no presumption that the lowest tender is always to be accepted. But the anecdotal evidence shows some striking savings already, which should offset the extra costs which contractors will incur as a result of having to prepare unsuccessful tenders (and the extra administrative cost to the Department, which is significant). Examples are the contract for assessment of European Codes for civil engineering structures, originally proposed as a single tender at a cost of £530,000 but eventually let by competitive tender at £104,000; and the contract for a computerised traffic monitoring and signalling system in the Severn Bridge approach, originally costed under single tender at £265,000 but eventually let by competitive tender at £118,000.

According to TRRL even more important than the financial saving is the effect which competition has had on the way contractors perform on current research contracts. The consciousness that they will have to compete for future work is increasing their effectiveness and thus the output of the research programme. For next year the Department plans to break the target down into figures specific to each of the five main research sectors.

Communication of the target

There is no difficulty about communication among the small number of central government personnel involved.

KC4:VFM/DTP

CONFIDENTIAL TO THE DEPARTMENT CONCERNED

HM TREASURY

Target

Better management of main Treasury, CCTA, and NEDO's cash flow by improving monitoring and control by 1 April 1986.

What the target means

The target is concerned with:

- improving internal Treasury cash management to ensure that withdrawals from the consolidated fund and balances held in the Internal Treasury account are minimised;
- improving the monitoring of advances to Treasury staff or other government departments to ensure that expenditure is charged and advances are cleared promptly; and
- improving, in conjunction with the Paymaster General's office, the system of payable order reconciliation in order to provide more accurate and timely information about bank balances.

Categorisation of the target

This is an internal target to examine whether there are potential value for money improvements from improving the efficiency of cash management and control operations within the Treasury.

Origin of the target

The target was not included in Finance Division's 1985/86 Work Programme submission but arose out of a subsequent discussion between the head of Finance Division and the Permanent Secretary about the size of the cash balance being carried on the Treasury cash account and the possibility that this might be generating a cost to the exchequer.

Quality of the target

The target was to look at the cash management issue to see if there were any value for money implications. It was essentially an activity target to investigate an area to ensure that existing procedures and practices were not generating an excessive cost to the Exchequer in bank charges or interest.

Communication and Impact on the organisation

The target affected few people in the Treasury and ensuring that all the necessary people were aware of the target and its implications was not a problem.

Work carried out in connection with the target has been limited to a series of small scale reviews which have revealed:

- that the size of the balance on the internal Treasury account has no direct effect on bank charges or interest payments. This is because the balance is added to or netted off against the main consolidated fund balance before any interest charge is computed; and

- certain deficiencies in Treasury cash accounting systems and control procedures. There is little evidence that such deficiencies produce any direct cost to the organisation and they are capable of being remedied with little difficulty.

Some work still remains to be carried out in improving the payable order reconciliation system but again it seems unlikely that this work will have significant value for money implications.

Monitoring

The activity has been carried out by means of a series of small studies and monitoring has produced no problems.

Conclusions

This was an activity target to gather information with possible value for money implications.

Work carried out in connection with the target has demonstrated that there is little scope for improving value for money.

The main benefit of the target was that it introduced the perspective of value for money into an area where it had not previously been considered.

CONFIDENTIAL TO THE DEPARTMENT CONCERNED

WELSH OFFICE

Target

To achieve an energy cost saving in the NHS in Wales in 1985/86 of £1 million compared with the 1983/84 baseline.

What the target means

The 1983/84 baseline was £18m. The target is a global one, not broken down by individual health authorities. The savings will be achieved partly by good housekeeping, but mainly as a result of minor capital works which have to be fitted in to the authorities' capital programmes. These investments often have exceptionally short pay-back periods - typically 2 or 3 years.

Categorisation

This is a target set by central government for the management of autonomous health authorities. It is a true value for money target.

Origin of the target

The target arose as a result of PAC interest in the subject. The All-Wales Health Management Efficiency Group (MEG), which is an informal consortium of all the health authorities in Wales, commissioned a study of energy conservation which reported in April 1985. The MEG report recommended that energy savings of £5 million a year could be made compared with the 1983/84 baseline, but it did not say over what period the savings could be made. The Welsh Office (NHS Directorate) judged that 5 years would be a reasonable period and picked a target of £1 million for 1985/86 (though with no presumption that the build-up would be in equal stages in future years: it should be faster in years 2 and 3).

Quality of the target:

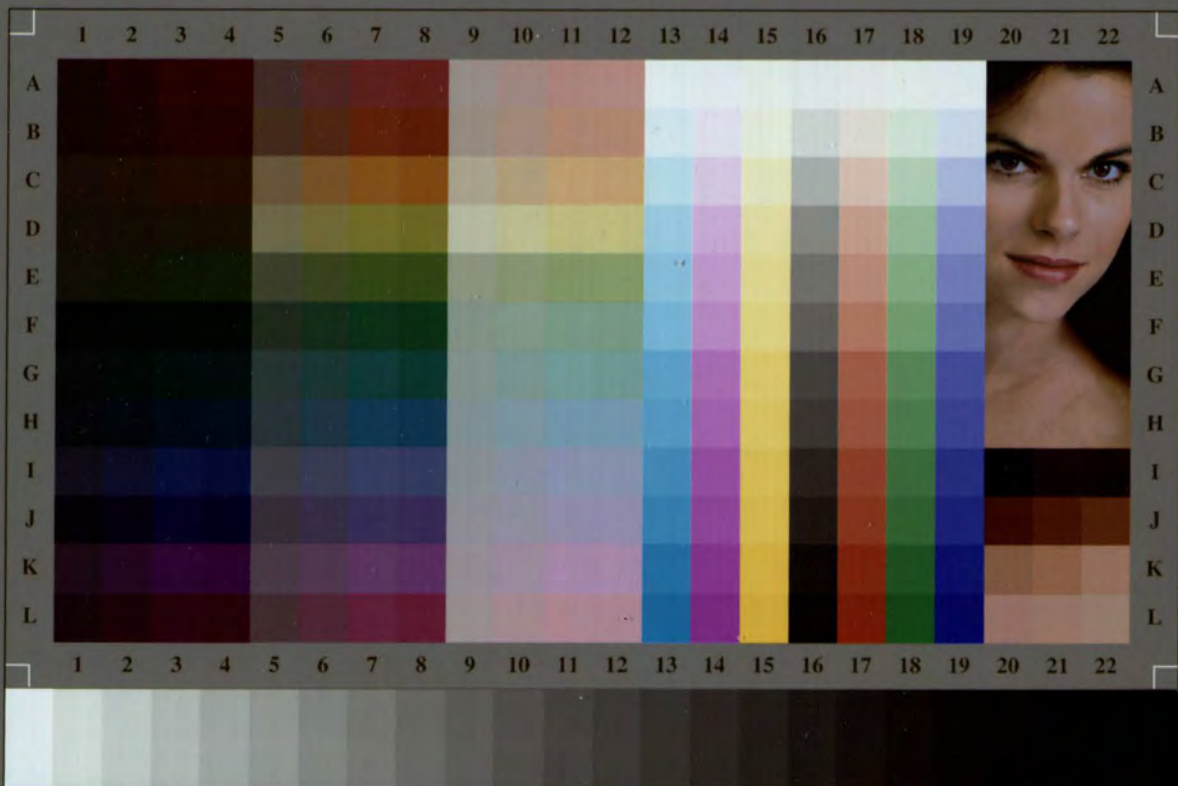
- (a) the parameter chosen (money) was suitable as a broad-brush propoganda measure, but as the Welsh Office recognise, the real measures of energy saving are total energy consumption and energy consumption per cubic metre of hospital space. Targets for individual establishments also need to allow for 'degree days' and wind speeds.
- (b) the figure chosen (£1 million) was not particularly ambitious. The Welsh Office thought about aiming for a 4 year period for achieving the MEG savings rather than a 5 year period and decided that it would be "achievable but optimistic". The authors of the MEG report however have told us that they thought that 3 years would be quite achievable. But the precise figure probably mattered little: the health authorities had read the MEG report and this was one means of concentrating their attention on it. The Welsh Office intends to step up the target next year and the year after.

Communication of the target

All that the health authorities knew in the early part of 1985/86 was that the Welsh Office endorsed the MEG recommendation that there were savings of £5 million to be aimed for, but without any indication of timescale. But the Welsh Office has now told them of the target for 1985/86 and will set them targets for 1986/87 and 1987/88 before the beginning of each year.

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