



Extract from the report to the
Public Accounts Committee on
performance management in central
Government with focus on outcome

December
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I. Introduction and results

1. This report is about performance management in central Government with focus on outcome of activities pursued. The report looks at the Government departments' management of underlying entities, and focus is mainly directed at performance contracts used as a management tool.

Rigsrevisionen initiated the audit in September 2008.

2. In recent years, awareness that management of Government institutions should be based on the overall objectives of the institutions and the impact on the community of the activities pursued by the institutions has increased. Rigsrevisionen's report is designed to promote this development.

In the opinion of Rigsrevisionen, there are many good reasons why performance targets should reflect the highest possible level of the task hierarchy and particularly the intended impact on the community of Government's actions.

When the outcomes that central Government departments plan to achieve provide the platform for management, then focus will be directed towards achievement of the objectives, which the institution is meant to realize. This means that focus is on that which is the institution's *raison d'être* and that which justifies spending the taxpayers' money.

Having the institutions work with and document outcomes makes the task hierarchy of the institution and the outcome of the activities that are pursued by the institution more transparent to the political decision-makers. This transparency is useful when the annual appropriations are being prioritized and allocated. Performance targets related to outcome also expands management's freedom of manoeuvring with respect to prioritization and organisation of work tasks. The institution is not bound to pursue certain activities and adhere to specific processes, but only to the outcome of its activities.

3. The performance contract is the most important element in performance management in the public sector today. The guideline on "Efficient task performance in Government", issued by the Ministry of Finance in 2003, outlines the key directions for the development of performance contracts. The Ministry of Finance is currently working on a new guideline: "Responsibility for management – guideline on management from group level to institutional level" which is due at the beginning of 2010.

4. Systemic examinations of the departments' and institutions' work with performance management with focus on outcome are practically non-existent in Denmark. Against this background, Rigsrevisionen finds it relevant to review and map out the use of performance contracts in central administration.

5. The overall objective of the examination is to map out and assess certain ministries' work with performance contracts.

Target – What should be achieved?

Output-based target – The concrete, immediate result to be achieved from the Government activities.

Targets and outputs under one are referred to as performance targets.

Outcome-based target – The ultimate impacts on, or consequences for, the community that should be achieved as a result of the activities of the Government.

Task hierarchy

An analytical framework relating the outcome, products, services, activities, resources and financial funds of an institution to each other.

Basis for examination

Review of performance contracts and survey among 40 institutions.

Detailed review of performance management in the following five institutions: the Danish Maritime Authority, DMI (Danish weather services), the Danish Maritime Safety Administration, CIRIUS (Danish agency for international education) and the Immigration Service Centre.

The audit answers the following questions:

- Have the departments and institutions drawn up performance contracts including outcome-based targets?
- Have the departments used the performance contracts to manage underlying institutions?
- Have the institutions integrated performance contracts in internal management?

On the basis hereof, Rigsrevisionen is providing a number of recommendations to support the departments and the Government institutions in their future efforts within performance management.

Rigsrevisionen has in the consultation procedure called on the ministries to submit their comments, also to the recommendations made.

The ministries predominantly agree with the recommendations made by Rigsrevisionen. The majority of the ministries have either no comments to the recommendations or are of the opinion that they reflect their own experience and will be useful for the future performance management work. The Ministry of Finance has stated that Rigsrevisionen's report can be read together with the impending guideline: "Responsibility of management – guidelines on management from group level to institutional level".

MAIN FINDINGS AND CONCLUSIONS

Since the beginning of the 1980s, various initiatives and reforms implemented in the public sector have gradually changed the departments' very detail-focused and rule-based management of underlying institutions. Performance management and performance contracts were introduced in Denmark in the beginning of the 1990s and fulfilled a long overdue need for a tool to set performance targets for the activities of the institutions. Today performance contracts are used by largely all Government institutions and they are essential for the efforts to ensure that Government institutions achieve their intended objectives.

Rigsrevisionen considers performance contracts to be a useful tool not only for the management of the relation between the department and its underlying institutions, but also for management purposes internally in the institutions. Performance contracts can also contribute to making the outcomes of the activities pursued by the institutions more transparent to both the appropriation authority and the public.

The audit showed that the performance contracts could be more focused on the core services of the institutions.

In the opinion of Rigsrevisionen, the Ministry of Finance, the departments and the institutions should remain critical of the performance contract as a management tool and continuously ensure that the contracts retain an actual management function. Such an effort is required to avoid that formulation, implementation and follow-up to the performance contracts become ritualized and ineffective.

This overall assessment is based on the following findings:

The Government institutions have only to a minor extent set outcome-based targets, and many of the institutions are facing various barriers to using outcome-focused targets.

Generally, many of the institutions have not fully utilized the potential of setting outcome-based targets for their core services. At the same time, however, Rigsrevisionen is of the opinion that it is not always possible to set meaningful targets for the planned impact on the community of the activities pursued by an institution. The extent to which the individual institution can set outcome-focused targets depends largely on the composition of the services it is delivering.

- Performance targets are essential for the management of performance contracts, whereas the mission and vision are rather considered internal tools designed to assist the institutions in their performance management efforts. The audit shows that approximately 18 per cent of the *targets* set and 2.4 per cent of the associated *output-based* targets concern *outcome*. Setting outcome-based targets depends on several factors, including for instance the size of the institution, availability of data for the production, type and composition of services, etc.
- In Rigsrevisionen's opinion, several institutions have not utilized fully the potential to set performance targets measuring outcome for their core services.
- Rigsrevisionen's examination shows that the institutions are facing various barriers to incorporating outcome-based targets in the performance contracts. For instance, it may be difficult and resource intense to delimit and measure the outcome of the institution's activities. According to Rigsrevisionen's examination, it is not always possible to set relevant outcome-based targets for core activities. This observation applies in particular to administrative institutions and to some extent also to institutions providing a service of some kind.
- It is Rigsrevisionen's assessment that the performance contracts can, and should, become more focused on outcome. If it is not possible to set meaningful targets that measure the impact on the community, the institution should instead set targets for quality, for instance.

The departments' management of the institutions includes adjustment, quality assurance and approval of the performance contracts in a dialogue with the institutions. It is mainly the institutions that are suggesting targets for inclusion in the performance contracts, which are subsequently discussed with the department.

- The examination of the five institutions showed that they are largely taking the initiative to set the performance targets. When the first draft contract is ready, the institution and the department will meet and determine the level of ambition and concrete formulation of the performance targets.
- The departments do not have, and should not have, detailed knowledge of specific processes and activities in the institutions. But the departments should in cooperation with the institutions secure relevant management information on how the institutions are operating and executing their tasks. With this information, the departments are in a position where they can ensure that the performance targets set are relevant for the management of the respective institution.

The institutions under audit have implemented the targets included in the performance contracts by using the performance contracts in the daily management or by preparing internal contracts that are elaborating on the targets contained in the performance contract.

- The examination showed that in all five institutions, the performance contracts had in various ways been embedded in the internal management and management's follow-up actions.
- The targets set in the performance contracts are embedded among managers and staff. In the performance contracts, the targets are primarily set by the executive management team and the managers, and the latter are in particular affected by the performance contracts in their daily work. Members of staff are in particular affected by any internal contracts and the specific targets set in the performance contracts, which they are required to deliver.
- It is Rigsrevisionen's assessment that the work relating to registration and documentation of data concerning achievement of the targets included in the performance contracts does not constitute any significant extra burden on managers and staff in the respective institutions. The documentation of target achievement is mainly based on existing data or data that the institution is required to produce in any circumstances.

Rigsrevisionen has formulated a number of recommendations on the basis of its audit findings. The departments and institutions should consider the recommendations when they are working with performance contracts. The recommendations are for guidance and inspiration only, but in the opinion of Rigsrevisionen they make up a useful platform for the ministries' future efforts within performance contracts.

Use of performance targets measuring outcome in the performance contracts

- Focus should be on output and outcome.
- The department should seek to promote the use of targets to measure the impact on the community of the activities pursued by the institution.
- The relation between the activities pursued by the institution and their impact on the community should be considered.
- Appropriate outcome targets set for the core business of the institution should run over a long period of years.

The departments' use of performance contracts to manage the underlying institutions

- Departments with several underlying entities should consider whether it would be appropriate to issue general guidelines for the structure and composition of performance contracts.
- The departments should take an active role in the formulation of performance targets, if they want to use the performance contracts more widely to influence the work and priorities of the institutions.

- The department and the institution should in a dialogue determine which key figures and other information that are required for the department's management of the institution.

Implementation of performance contracts in the institutions

- The targets set in the performance contracts could with advantage be integrated in the internal management of the institution. It will require either a transfer of the targets set in the performance contract to the internal contract, or an exercise that transforms the targets included in the performance contract into operational targets in the internal contracts.
- The management of the institution should be precise in its assignment of responsibility for the delivery of the individual outcome targets.
- When setting the performance targets, it could be considered whether it would be possible to use existing data to follow-up results.
- If registration of data relating to the targets set in the performance contracts is required, the management of the institution should ensure that the staff involved in the registration work is fully informed of the background and relevance of the registration.