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10 DOWNING STREET

From the Principal Private Secretary

30 May 1986

Dear Private Secretary,

VALUE FOR MONEY TARGETS

Last autumn the Prime Minister asked Sir Robin Ibbs to examine the way departments were using targets to get better value for money. His report, which is attached, is based on a study by the Efficiency Unit of 24 major targets in 21 departments.

The Prime Minister endorses the conclusions of Sir Robin Ibbs' report. She considers that the evidence of this study confirms the importance for departments of targets in encouraging staff to improve efficiency. They are an important way of achieving savings and getting better value for the taxpayer's money.

The Prime Minister welcomes the commitment of Permanent Secretaries to the use of value for money targets. The study demonstrates that some encouraging progress has been made, but that further effort is needed. She hopes that departments will build on this progress in establishing more challenging targets. In suitable cases, ploughing back some of the savings resulting from exceptional improvements should be a valuable added incentive to individual managers to identify and secure such savings. Efficiency improvements of all kinds must continue to make an important contribution towards containing public expenditure and giving effect to the Government's spending priorities.

The Prime Minister is looking therefore to Ministers and officials to support and act upon the recommendations made in Sir Robin Ibbs' report.

I am copying this letter and the report to those on the attached list.

Yours sincerely
Nigel Wicks

N.L. WICKS

The Private Secretary

EC

B. R.

Members of the Cabinet

Law Officers' Department

Lord Advocate's Department

Financial Secretary, H.M. Treasury

Economic Secretary, H.M. Treasury

Minister of State, H.M. Treasury

Minister for Overseas Development

Minister of Housing, Department of the
Environment

CONFIDENTIAL

THE USE OF VALUE FOR MONEY TARGETS 1985-86

Report to the Prime Minister by Sir Robin Ibbs

The public rightly expects government progressively to improve the quality of services the State provides such as health and education. But if this is to be done at a cost the country can afford, steadily improving results must be achieved from the resources already agreed. It is wrong to expect new money for every improvement. And in the absence of profit as a spur and measure of success, specific targets for better performance from available resources are an important key to getting continuous improvement. That is why I said in 1984 that Ministers could accelerate progress if they set explicit targets for improving the relationship of results to costs in public programmes.

2. Last Autumn you asked the Efficiency Unit to examine the progress made by Departments in using value for money targets - their origins, their importance, how ambitious they are and how those responsible have set about delivering them (Mr Addison's minute of 5 September).

3. By improving value for money I mean doing things to an acceptable standard with less expense or achieving more within agreed costs. By targeting I mean aiming at something better than people would achieve left to their own devices.

4. The results so far of the enquiries by the Efficiency Unit are clear-cut and quite encouraging. Target-setting is still in its early days but for 24 targets examined in some depth (the most important out of over 100 offered by Departments):

- (i) Most were genuinely about value for money.
- (ii) Most of them were genuine targets, not just forecasts of what was likely to happen anyway.
- (iii) Three-quarters of them formed part of a programme for progressive improvement - important evidence of increasingly systematic attention to value for money.

However,

- (iv) Most are about bureaucracy, few concern programmes.
- (v) About half of the targets seemed to me to be insufficiently ambitious.
- (vi) More emphasis is needed on results and 'service to the customer', rather than simply cost: When resources are authorised they should be associated with planned outputs and targets should seek to improve the ratio between the two.

5. In total the 24 targets represent potential improvements worth at least £1,000 million - though, as is only to be expected, not all will be achieved and the figure is an amalgam of cash improvements and resources switched within a programme which cannot be taken simply as money that could be returned to the taxpayer. The Efficiency Unit has explored the history and effectiveness of the targets by interviewing Permanent Secretaries and other levels of management involved in developing and delivering them. The Unit has received full co-operation from all concerned and Permanent Secretaries have taken an active personal interest in the topic. Three things stand out from these enquiries:

(1) Top-down management

6. Permanent Secretaries spoke of their determination to use targets ambitiously. They described targets as useful to Ministers and to themselves in defining strategy and creating additional room for manoeuvre within it, by getting better performance from available resources. But not all of them yet see the widespread use of targets as strategically important. I do.

7. I also believe that fundamental improvement depends on Ministers' willingness - with suitable caveats and devices for self-protection - to use targets to get at better value from programmes.

8. It is the job of top management to set priorities and to be selective. Having chosen a target they must maintain interest and support those who have to deliver it. Two good examples of this approach are:

- (i) In the Customs and Excise the Management Board defines the Department's priorities, sets key results to underpin them, and publishes these results in a "Management Plan".

- (ii) The Chief of Defence Procurement decided that one of his top priorities was to increase competition (an intermediate step towards improving value for money in defence equipment procurement) and so set that as a prime quantified target.

There are others. It must also be said that the setting of good targets is far from easy. It needs extensive preparation and understanding of the activities in question. Quantification where possible is always helpful but must not lead to important potential qualitative improvements being ignored. Too brash an approach can risk distorting performance because one or two aspects are singled out without regard to balance with others. But in general there is scope for increasing the leadership which is given at the top through clear targets.

(2) The need to stimulate ambitious targets

9. When most people are asked to produce a target there is a natural tendency to put forward the forecast of what should be attainable without undue difficulty if everyone tries hard. There is a hard slog in getting even this far and much of the effort in MINIS systems so far has been to achieve just that. But such a forecast should be the start of a discussion in which top management challenges middle management to do better and middle management agrees to a target that is more extending and ambitious. (In all this the final target must not be impossible; an unrealistically ambitious target that destroys commitment does more harm than good.)

10. I am not convinced that this process is sufficiently widespread. The recent report by the Head of the Government Accountancy Service on departmental budgetary practices makes a similar point about the lack of challenge in some instances in the procedures by which administrative budgets are sought and authorised.

11. This approach goes beyond activities within a Department. Several good targets in the sample had been set for organisations which were at arm's length from the Department concerned: for example, the targets set as part of the corporate planning cycle for the DOE's sponsored bodies, or the electricity supply industry's target for reducing costs. An arm's length relationship is conducive to good target setting, because it necessitates a genuine dialogue about objectives in relation to resources which is clear, formal and rooted in an understanding of respective roles and capabilities. In some instances, for example education, a wide range of authorities over whom there is little or no control has to be motivated if targets are to be delivered and this calls for skilful leadership.

(3) Encouraging people to try harder

12. There is excessive caution in government. Part of the fear is that the assumptions and caveats on which the target was based will be forgotten in the heat of political debate. Part is a natural apprehension in Ministers about the presentational and political implications of setting targets in policy areas. And part is a fear that failure to achieve an ambitious target will be seen as culpable and exposed to public denigration whatever the reasons. Unless these fears can be dispelled progress will be slow. There is a need to educate Parliament and the public that this sort of criticism is misplaced. It is right that budgets should be set on a basis that gives a high probability of achievement - even so this does not mean they should be soft. But targets are different; the practice ought to be to budget with care but to target more ambitiously. Internal and unpublished targets are often the only way forward if managers are to be set good challenges without hostages being given to later hostile criticism. What matters is that those who are in a position to deliver the targets know what it is they are expected to do.

13. There is also the vexed question of what will happen to savings that are made. In ICI it is widely accepted that, for the good of the company as a whole, an operating unit may at times generate income for other units to use (for investment etc) and that at other times it will itself be a beneficiary. The comparable attitude of give and take seems much weaker between departments in government, even though the Government has overall collective objectives.

14. Given this starting point, if managers in government are to be encouraged to go for more difficult targets, it is important to motivate them to do so. Public expenditure control remains one of the Government's top priorities. Without damaging this, it should be possible in suitable instances to reassure managers that if they improve value for money the 'centre' - be it their own Finance Division or the Treasury - will not automatically pocket all of the proceeds. At the least people need an idea of how the benefit arising from the improvements they generate will be used.

15. There can be no presumption that the benefit should all be ploughed back into an improved service by the unit that makes the saving. But it may be possible to agree a ploughing-back or sharing of efficiency savings in some areas which will be fair to the taxpayer as well as to the beneficiary of the service without hazarding the public expenditure totals. The NHS's cost improvement programmes, which have been highly successful, could serve as a model.

16. Of course ideally Ministers should sanction every decision about the reallocation of resources collectively in the Public Expenditure Survey. But except for very large switching of resources this is hardly practical.

However it may increase motivation towards better value for money if there is de facto some 'ring-fencing' of expenditure and savings below the level of programme totals. I believe there is increasing understanding of this in the Treasury and some other Departments, and it needs to be encouraged.

RECOMMENDATIONS

- (1) It is up to Departments to make the running on target-setting. This is not a candidate for another central management initiative. Permanent Secretaries will need the support of their Ministers as they work out how to integrate the widespread use of targets to improve value for money into their top management systems (paras 6-8).
- (2) If targets are going to contribute fully to value for money they will have to extend to programmes and Ministers' priorities for those programmes (para 7).
- (3) Ministers and top management in Departments should use the process of agreeing the annual value for money targets to challenge middle management to be more ambitious (para. 9).
- (4) Departments should continue to use scrutinies (assisted as appropriate by the Efficiency Unit) in support of value for money targets in their major areas of business (para 9):
 - to clarify objectives,
 - to identify output measures,
 - to indicate the potential for value for money improvement, and
 - to define the steps that should be taken to achieve it.
- (5) I should continue to focus on value for money targets when discussing efficiency improvement with your colleagues. These targets should also provide the main focus for your value for money seminars with Ministers (para 9).
- (6) Departments responsible for expenditure managed by bodies which are independent of central government should develop appropriate types of dialogue to secure the commitment of those bodies to the principles in this report (paragraph 11).
- (7) Unpublished internal targets should be encouraged where the risk of hostile criticism makes published targets undesirable (para 12).

- (8) However there needs to be wider understanding that the new management approach will involve the setting of targets which may not be achieved at the first go. Ministers should take suitable opportunities to explain this so as to forestall misplaced criticism in Parliament and elsewhere. It would be particularly effective if the Chancellor of the Exchequer and the Chief Secretary to the Treasury could take the lead, explaining that this does not endanger public expenditure control (para. 12).
- (9) Where it would encourage their managers to go for more difficult targets, Departments should consider giving them extra incentives by agreeing to plough back part of the benefit. The same idea should be extended in appropriate instances to the relationship between Departments and the Treasury, following the example of the NHS cost improvement programme (para. 15).

ROBIN IBBS
16 April 1986