



**SAINT HELENA AUDIT SERVICE**  
External Auditors

# **Delivering Government Objectives**

**Performance Audit Report**

**August 2014**

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## EXECUTIVE SUMMARY

### PROCESS OF ACHIEVING OBJECTIVES

#### Setting objectives

- The development of clear, measurable objectives that are consistent with the St Helena development strategy

#### Budgeting for objectives

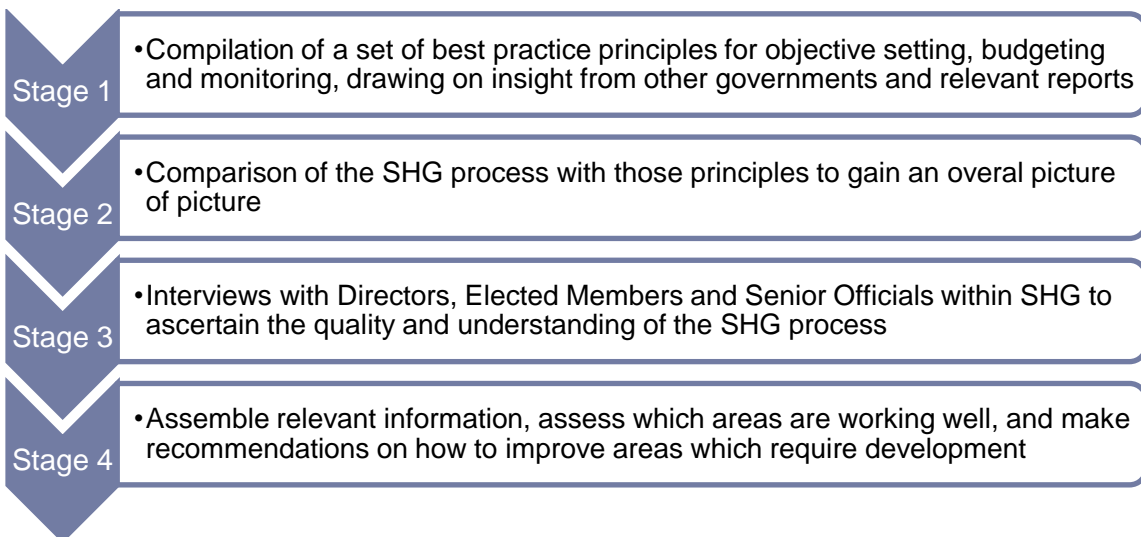
- Effective budgeting that reflects SHG's objectives will lead to the most effective allocation of resources

#### Monitoring achievement of objectives

- Measuring the achievement of strategic outcomes allows corrective action to be taken and enables the effectiveness of policies and programmes to be determined and communicated. Performance evaluations provide useful information to officials when making preparations for the allocation of the annual budget

### SCOPE AND APPROACH

This audit focuses on three main areas to assess how effective SHGs processes of achieving their objective are: how objectives are set, budgeted for, and monitored. The process followed is detailed below:



## KEY FINDINGS

There are areas within the processes audited that have noteworthy strengths, however if SHG is to achieve the island vision, it is imperative that the process is improved in certain areas. The key areas are shown below.

Theme	Areas of Strength	Areas of Weakness	Recommendation
<p><b>Setting Objectives</b></p>	<p>Key documents such as SDP and Directorate Strategic Plans are in place</p>	<p>The SDP does not reflect airport certification needs and linkages between the SDP and associated plans are generally weak</p>	<p>Prepare a new 18 month operational plan focussed on air access readiness which documents responsibilities</p>
<p><b>Budgeting</b></p>	<p>A sound macroeconomic framework is used, the MTEF timetable is followed and Councillors have confidence in the process</p>	<p>Budgeting is limited to a year, and spending does not always reflect the strategic objectives set out in the SDP</p>	<p>Directors and councillors should ensure that they allocate adequate resources to all strategic objectives</p>
<p><b>Monitoring Objectives</b></p>	<p>Performance against objectives is measured, regularly reported and the importance is available to Councillors</p>	<p>Collating and reporting performance information is inefficient and reporting directorate performance is inconsistent</p>	<p>Progress reports on performance and budgets should be produced in a timely manner and reported to committees</p>

## BACKGROUND

It is essential that resources are used efficiently to achieve government objectives in the context of St Helena's current position of air access driven growth and development. Clear objectives that lead into budgeting decisions and are monitored effectively are critical tools for ensuring that best value is achieved. Objective setting, budgeting, and monitoring are very closely interlinked and a failure in one area could have a significant impact on other areas that might otherwise be effective.

- The key to creating stronger linkages between strategic planning and budgeting is to ensure that strategic priorities are clear, translate into policies and programmes supporting their achievement and have measurable indicators to enable performance evaluation.
- Measuring the achievement of strategic outcomes allows the effectiveness of policies and programmes to be determined and communicated. Performance evaluations provide useful information to officials when preparing annual budgets.

The Saint Helena Government Sustainable Development plan (SDP) provides a medium term vision for the island. This is the overarching document that sets out the three national goals and key result areas and priority areas. The Social Policy Plan (SPP), Sustainable Economic Development Plan (SEDP) and Environmental Management Plan (EMP) relate directly to the SDP, but other plans such as the Labour Market Strategy and the Estates Strategic Plan also exist.

The SDP provides the context for the Medium Term Expenditure Framework (MTEF), so that each of the priority areas has appropriate budget allocations. The MTEF approach is both a top down and bottom up approach to estimating the actual requirements of implementing what has been set out in the SDP. Part of the process involves Directorates creating strategic plans based on achieving their intended outputs as specified in the SDP within their budget allocation.

The CPPU issues monthly performance reports to councillors and senior officials and publishes them on SharePoint. The reports include:

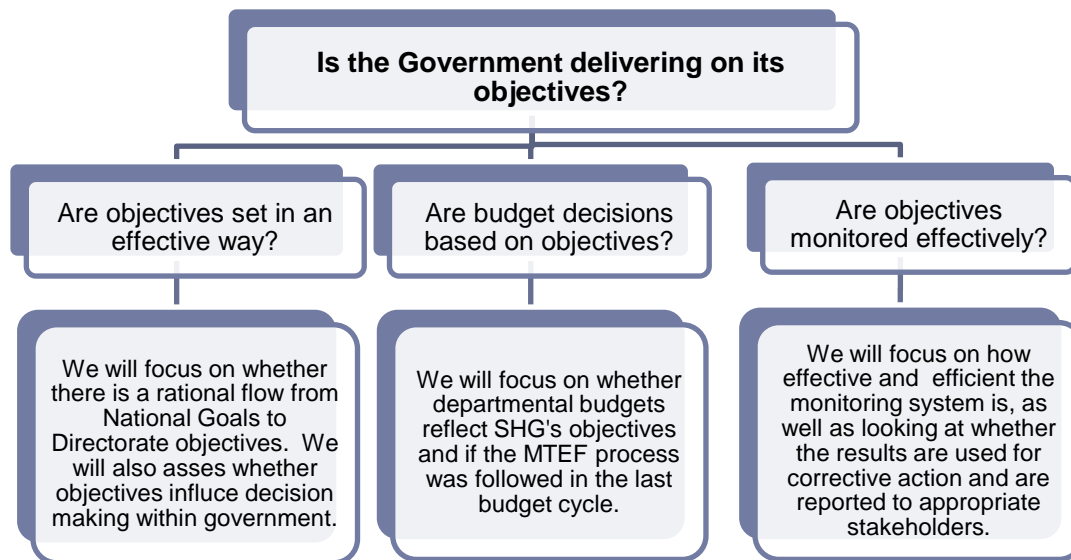
- Key Performance Indicators
- DAPM Commitments
- Corporate Risks
- Balance Sheet
- Monthly Directorate Income and Expenditure Report
- Capital Expenditure
- Analysis of Revenue
- Capital Programme Milestones

The vision of the island rests heavily on the success of tourism; however, there is currently limited capacity on island to support this. There is an acknowledgement of this, and ESH is currently working to develop the tourism sector before air access.

The high levels of change mean that it is imperative that SHG has a clear vision that people have confidence in. Although SHG must be ambitious with its aims, it must also recognise the external resource constraints it faces.

## OBJECTIVES

This audit aims to increase the return on public expenditure by assessing and making recommendations about the process of achieving government objectives. The audit assesses whether government objectives are being managed in a way that results in the most efficient and effective use of government resources and results in the desired outcomes. The questions addressed in this audit are outlined below.



The report looks at three main themes, taking into account SHG's recognition of the need for the process to be improved: how objectives are set; budgeted for; and monitored. It will identify areas in which SHG is performing well, and make recommendations for improvements.

The design of this audit was modified when initial research identified plans to update the 2012-15 SDP. Subsequent discussions within SHG concluded that an update would not be adequate and that a full revision was needed. The most recent indication was that a high level plan would be put in place in the run up to air access focusing mainly on the certification of the airport. As resources are so tight and only relatively small increases in revenue streams are expected next year, there would be little resource available for achieving any additional objectives. In addition to this, not all directorate strategic plans for 2014/15 were complete when the audit began.

It is recognised that efforts are being made to ensure that a new plan with more clarity is written. The plan will have stakeholder buy in and will be an essential document for the MTEF process.

The purpose of this audit is to provide useful and relevant information to help SHG improve its processes in order to have more effective and efficient outcomes. Therefore, instead of evaluating the current SDP, recommendations will be made on how to go about the new "SDP" and will assess how the current documents related to the SDP can fit into the new plan.

## FINDINGS

SHG has a strategic plan with several other plans feeding into it. There is a well structured budget process and a framework for monitoring the achievement of objectives. The essential building blocks are in place, but there remains significant room for improvement.

There is a perception that there is a lack of co-ordination between the different agencies of government, and in some cases a lack of clarity as to who is responsible for the delivery of an objective. The absence of a joined-up approach creates a risk of inefficient use of resources and a failure to achieve some objectives.

The relationships within the 2012-2015 SDP and between the various strategic planning documents are unclear. The SDP contains National Goals, Key Result Areas and Priority Areas with little explanation or rationale for the different labels, none of which are reported in the monthly performance reports.

Moreover the recent Public Expenditure and Financial Accountability Report highlighted that there was a fragmentation of the planning, budgeting and reporting systems, as well as problems with the strategic allocation of resources.

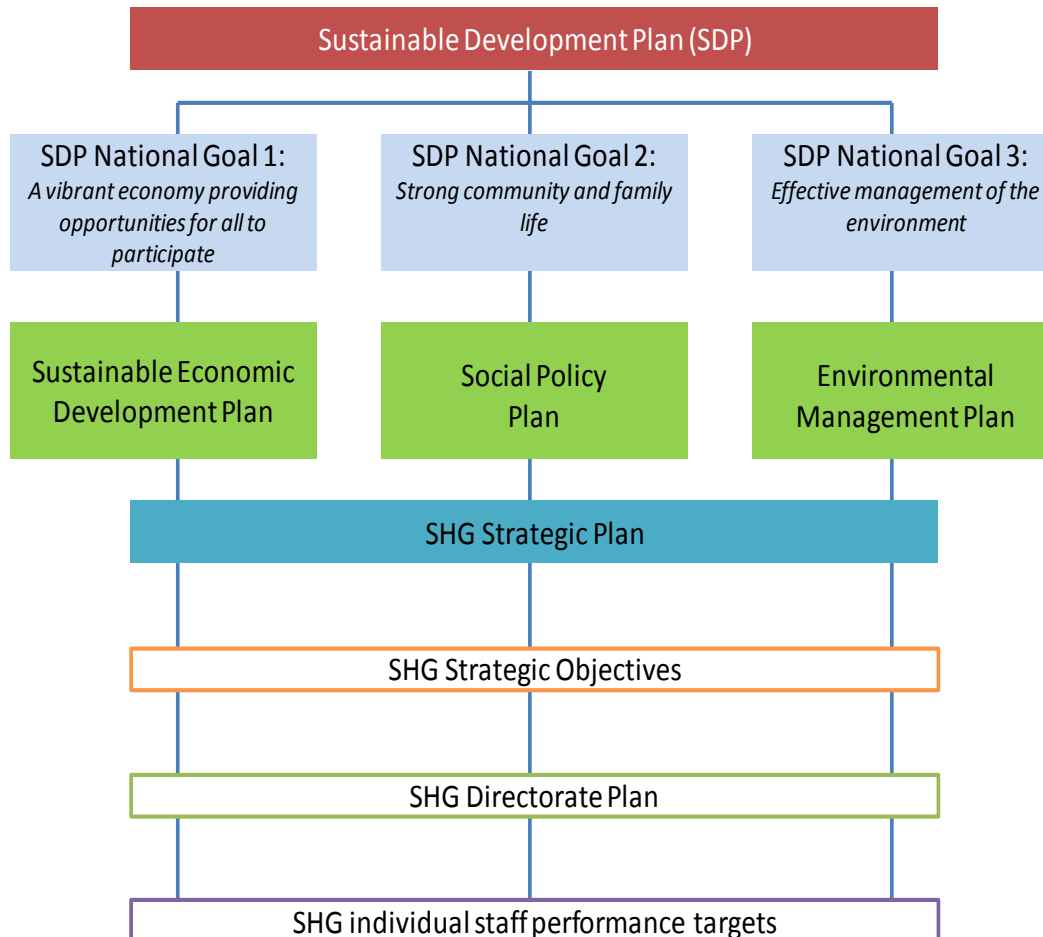
Objectives are not always prioritised effectively and there is not enough information as to the resources required to achieve objectives. Objectives are stated in the SDP and Directorate plans but do not consistently define the inputs needed. The way in which objectives are monitored is inefficient, with much time being spent chasing up the performance indicators from Directorates as well as waiting for Finance to produce the management accounts. The delays from Directorates suggest that either the Directors do not value the indicators, or the measures set are too difficult to collect on a regular basis. The financial performance of the monthly report should improve with the new ASYCUDA system as the customs department will move from a paper based system to an electronic one.

High level budgets generally reflect the priority areas; although quantifying how much is spent in each area is difficult especially considering the Technical Cooperation budgets are not incorporated into the departmental budgets but constitute a large proportion of spend in certain areas. Spending does not, however consistently reflect the strategic objectives at a more detailed level and not enough consideration has gone into how the priority areas may change given the recent divestments. There is some evidence that difficult decisions on what services to provide or cut within Directorates are not always based on the SDP.

Councillors are playing an increasingly active role and their scrutiny of processes and performance is gaining strength. However there is still potential for Councillors to be more pro-active and question public spending more rigorously. It is essential that Councillors have the confidence and knowledge to be able to do this in a productive manner. In addition, Councillors must work together on strategic issues.

## SETTING OBJECTIVES

The current structure of SHG's primary planning documents is shown in the diagram below. SHG individual staff performance targets should link into directorate plan objectives, which lead into the SHG strategic plan. Ultimately the majority of SHGs workforce should be working towards achieving the goals set out in the SDP, and staff should know how they fit into this.



The Sustainable Economic Development plan (SEDP), Social Policy Plan (SPP) and the Environmental Management Plant (EMP) each relate primarily to a related national goal from the SDP and set out a number of actions; between them they should cover all 8 key result areas.

The key to having a successful sustainable development plan is to ensure that strategic priorities are clear, translate into policies, and programmes supporting their achievement have measurable indicators to enable performance evaluation.

Having spoken with officials it is very clear that the main priority over the next 18 months is airport accreditation. It has also been stated that over this period the budget and human resources will be stretched to capacity. At the moment time is of the essence, and it is critical that no more time is wasted writing plans that cannot be implemented, once it is known what needs to be done, SHG needs to get on and do it. This could be further helped by consolidating the current plans and incorporating some of the lower strategies into the SDP or directorate plans.

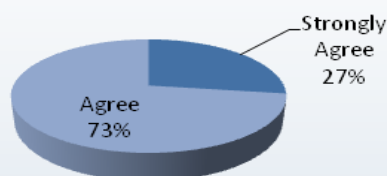


Process	Findings
<b>Determine current Position</b>	<ul style="list-style-type: none"> <li>An SDP and Directorate Strategic Plans are in place.</li> <li>Work has begun to update the SDP, recognising that it does not cover airport certification needs, and targets within the SDP were no longer representative of SHGs current position.</li> <li>There is little capacity within SHG to undertake a review of capabilities and asses what exactly SHG is able achieve in the next few years.</li> </ul>
<b>Set Strategic direction</b>	<ul style="list-style-type: none"> <li>There is a general direction and focus on what SHG needs to achieve which has been endorsed by councillors and National Goals outline this.</li> <li>Councillors generally support the strategic direction for the island as set out in the SDP</li> <li>The linkages between the SEDP, SPP and EMP to Priority Areas and Key Result Areas from the SDP are generally weak.</li> <li>The current SDP and its format are not proving to be adequate tools for SHG given the current constraints and airport accreditation.</li> <li>There is little evidence of a robust process for prioritising needs and assessing what is most important at this point in time.</li> </ul>
<b>Identify what is important</b>	<ul style="list-style-type: none"> <li>The SDP has, at a high level, identified priory areas to focus on.</li> <li>Documents supporting the SDP tend to be lengthy and have not all been adequately monitored or updated.</li> <li>The directorate strategic plans and the instructions on how to write them are lengthy and overcomplicated.</li> </ul>
<b>Define what must be achieved</b>	<ul style="list-style-type: none"> <li>A new set of KPIs for the FY 2014/15 have been prepared by each directorate which set out performance targets.</li> <li>Some officers experienced difficulty in setting attainable outcomes and establishing appropriate indicators to measure success.</li> <li>Links between what inputs are needed to achieve departmental objectives could be strengthened.</li> </ul>
<b>Determine who is accountable</b>	<ul style="list-style-type: none"> <li>A majority of Councillors felt that there was sufficient accountability at a directorate level but that it could be improved at a corporate level.</li> <li>Councillors thought that the general public did not have a knowledge and understanding of SHGs goals.</li> </ul>

### Confidence and buy in

An SDP is in place and all Elected Members either agree, or strongly agree that the key results areas and strategic objectives reflect what the island needs to focus on most.

All councillors interviewed agreed that they understood how SHG was trying to achieve the objectives set out in the SDP.



The majority of staff want to improve the situation and are open to the idea of change.

Councillors had mixed feelings about whether those working within SHG had knowledge and understanding of SHG's goals. Most felt that senior staff probably did, but that there was a lack of understanding at a more operational level.

Some of the directors had a lack of confidence in the SDP, and didn't know exactly where their directorate fitted into the SDP, therefore had difficulty connecting their strategic plan to the SDP.

## BUDGETING FOR OBJECTIVES

Governments set strategic priorities to inform budgeting decisions. In 2010, SHG implemented the Medium Term Expenditure Framework (MTEF) process to improve the public financial management system so that spending better reflected the island's priorities.

The MTEF approach is the key tool to allocate resources between directorates in order to best achieve SHG's key priorities. The MTEF provides an important link between the budget and the political process and if implemented correctly increases fiscal effectiveness, efficiency and transparency. The approach is both a top down process of determining resource availability and allocating resources between directorates, and a bottom up process of estimating the resources needed to implement policies. The aim is that by working throughout the year, come March, there will be an agreed budget that reflects St Helena's key priority areas, and resources will be allocated in such a way that the most significant benefits can be achieved.

This audit reviewed the MTEF process for 2013/14, however Council was dissolved in April 2013 and there was a period without Elected Members, which meant that some of the process was delayed. Therefore, the audit assessed whether the process followed last year, would work adequately if there were no disruption.

The MTEF process should result in a three year budget; however, the budget is currently only set for one year. This defeats the purpose of a "Medium Term" outlook; however the finance department plans to ensure that a three-year budget will be prepared for this year's DAPM. This is a step forward and should give a longer term perspective to what can be achieved in the coming years. However it is worth noting that the island is going through a period of significant change and finance capacity is limited and forecasting revenue and expenditure accurately may be difficult. Nevertheless a three-year rolling budget with detail in year-one and assumption based projections for outlying years is acceptable for financial planning purposes.

Process	Findings
<b>Top Down Stage</b>	<ul style="list-style-type: none"> <li>A sound macroeconomic framework is used for forecasting revenue and estimating budget ceilings.</li> <li>There are no costs associated with goals in the SDP, so directorate budgets are not directly based on.</li> <li>Some directors expressed concern about the adequacy of budget allocations to achieve all strategic objectives set out in the SDP.</li> </ul>
<b>Review Aims, Objectives, Outputs and activities</b>	<ul style="list-style-type: none"> <li>Directors have broadly stated what their aims and objective are in their Directorate Strategic Plans.</li> <li>Directorate objectives do not always align with the details within the SDP.</li> </ul>
<b>Costing Of activities</b>	<ul style="list-style-type: none"> <li>Directorates' costs are calculated at a high level.</li> <li>There are gaps in understanding the full cost of delivering individual services because costs for delivering services are held across a number of cost centres/ directorates.</li> <li>Directorate budgets did not all include the budget assumptions set out in the budgeting guidance, resulting in Finance needing to make amendments.</li> </ul>
<b>Prioritisation of activities and expenditures</b>	<ul style="list-style-type: none"> <li>Councillors allocate surplus funding based on their priorities.</li> <li>Spending does not always reflect strategic objectives (SO) set out in the SDP, for example SO 2.2 is <i>"improved primary and secondary health care as a result of better qualified staff"</i> but it was stated that there was no allocation of resources towards staff training in health.</li> <li>Some Councillors believed that budgeting was more reactive than pro-active.</li> </ul>

Process	Findings
<b>MTEF Outputs</b>	<ul style="list-style-type: none"> <li>• Performance and basic forecast reports are in place.</li> <li>• The budget for the 2014/15 financial year was approved on schedule in March.</li> <li>• The MTEF process produces a one year budget despite the three year objective of medium term budgeting.</li> </ul>

### Recent Improvements

There has been significant improvement in the budgeting process since the implementation of MTEF and the majority of staff who deal with the process have a good understanding of how it works, and what steps need to be taken at each level.

The MTEF process for 2014/15 appears to be working well and is generally on schedule. Discussion with councillors have begun and the macroeconomic forecast is nearly ready.

### Councillor Buy in

The majority of councillors show full support for the process and most believe it is being implemented well. All of the councillors either agreed, or strongly agreed that officers support them fully to understand the process, and the vast majority believe that the objectives feed into the budgeting process effectively. This is a significant achievement for officials.

A large proportion of the councillors believed that, although there was a delay last year, the MTEF process was performing well.

Some councillors feel that SHG was not achieving best value for money, and that although financial resources have increased in recent years, there has not been a significant increase in what has been achieved.

### Barriers to Success

Not having an appropriate strategic plan in place with clearly defined objectives and priorities could lead to the MTEF process failing to allocate resources to the correct areas. It is also imperative that Directors have complete buy in to the process and that the objectives set out in the SDP are what they are working towards.

## MONITORING OBJECTIVES

The CPPU collects and collates data for a monthly combined performance report showing SHG performance against its budgets and a number of high level performance indicators.

Significant effort is put in by some SHG staff to monitor and report SHGs performance against a set of targets, but there is evidence of resistance from certain departments and delays in the process.

Process	Findings
<b>Developing a Framework</b>	<ul style="list-style-type: none"> <li>• A framework for monitoring objectives is in place.</li> <li>• There is a lack of organisational understanding of the links between performance measures.</li> <li>• The lack of timely data produced by certain directorates suggests that there may be a lack of appreciation for the importance of reporting indicators.</li> </ul>
<b>Reporting Performance information</b>	<ul style="list-style-type: none"> <li>• CPPU publishes Key Performance Indicators for SHG as a whole each month.</li> <li>• The collection and collation of information for the monthly performance reports is inefficient as it often takes several reminders for information to be provided.</li> <li>• Some directorates have a large number of indicators, not all of which contributed to better understanding of directorate performance.</li> <li>• Certain directorates frequently fail to meet the reporting timetable.</li> <li>• Finance can take up to 3 weeks to produce the management accounts.</li> <li>• Directors only report occasionally to Council committees on their progress against targets.</li> <li>• There is a lack of evidence that some SHG plans have been monitored effectively.</li> </ul>
<b>Using the Framework</b>	<ul style="list-style-type: none"> <li>• Strategic level performance information is available for Councillors.</li> <li>• The monthly performance reports are often produced late, some up to three months after the reporting period.</li> <li>• There is no evidence to suggest that performance information is used to prioritise resources.</li> <li>• There was little evidence that Councillors used performance reports to evaluate directorates' performance and to hold people to account.</li> </ul>

## RECOMMENDATIONS

### SETTING OBJECTIVES

The current SDP and its format are not proving to be an adequate tool for St Helena, and an update would not be sufficient. SHG officials' proposal is to create a new and simple operational plan focussing on airport accreditation, economic development and everyday running of essential SHG services, which recognises the limited resources, is the most effective solution at this time.

This is not a long term solution, rather a pragmatic response to the current situation. A new SDP should be prepared in time for April 2016 setting out the vision that elected member want for the island post airport and stating how SHG will achieve this vision. All related SHG plans should show clear linkages to the SDP.

No matter how good a plan is, it will fail if there are not enough financial and human resources to implement it. Strong consideration should be given to the practicalities of each plan, and how much resource should be allocated, noting that any expenditure must be raised as revenue. It is also worth noting that funding from DFID is expected to decline as a proportion of total SHG expenditure and therefore there should not be over reliance on grant-in-aid, or an attitude that SHG can just ask for more money.

### BUDGETING FOR OBJECTIVES

The budget process at a high level is generally working; however the lack of clear, costed objectives at a strategic level means that the budgets produced may not be most efficient.

The development of a three-year budget is the intended outcome of the MTEF process. This will integrate service and financial planning over the medium term period and enable service delivery and development objectives to be prioritised in the context of available financial resources.

### MONITORING OBJECTIVES

The number of corporate objectives and key indicators that are being monitored should be kept to a minimum to make the process as easy as possible, whilst still maintaining delivery. At a directorate level more needs to be done to ensure that there is an effective process for performance management.

The new SDP may not have specific measurable targets against what needs to be achieved; these may be in the Directorate Strategic Plans. Directorate objectives should be easy to monitor, and should be a useful performance tool for themselves, it is important that directorates report performance to relevant committees and the CPPU in a timely fashion.

Councillors need to be able to monitor SHGs performance. They should receive both budgets and performance against targets with sufficient frequency to carry out their roles.

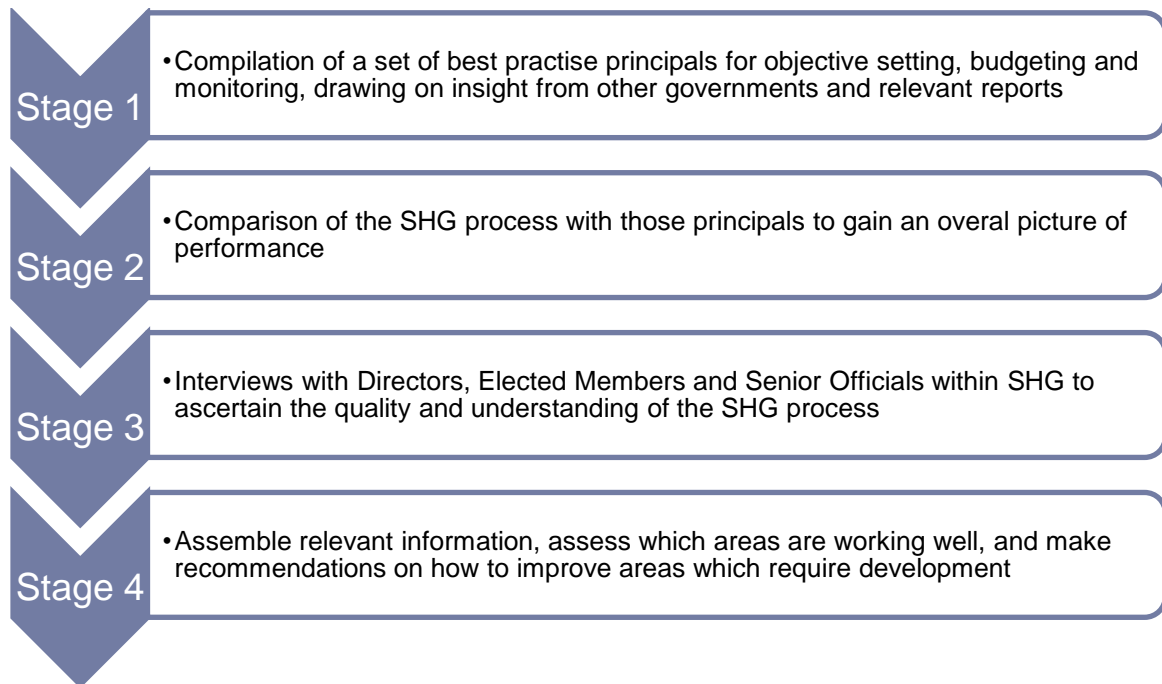
Theme	Process	No	Recommendations
<b>Setting Objectives</b>	<b>Determine current position</b>	1.1	Identify SHGs current position and its capacity for change.
	<b>Set strategic direction</b>	1.2	Revise the structure of any new SDP and associated plans to clarify relationships and avoid overlap.
		1.3	Prioritise and agree with councillors a set of objectives to achieve air access readiness, and what can be decide deferred until 2016.
		1.4	Prepare a new SDP with a "Post Airport" vision for St Helena by April 2016. As a substantial amount of work will be involved, this process should begin soon.
	<b>Identify what is important</b>	1.5	Assess the benefit that all new or revised plans might provide against the opportunity cost of preparing such plans.
		1.6	Simplify the format of Directorate Strategic Plans and instructions on how to write them to focus on delivering objectives.
	<b>Define what must be achieved</b>	1.7	<p>Prepare a new 18 month operational plan focussed on air access readiness. It could be prioritised according to the flow chart.</p> <pre> graph TD     A[Stautory/ Regulatory activities] --&gt; B[Alignment to directorate KPIs and strategic objectives]     B --&gt; C[Airport accreditation]     C --&gt; D[Enhancing Service Delivery] </pre>
	<b>Determine who is accountable</b>	1.8	Document responsibility for each objective in Directorate Strategic Plans.
		1.9	Publish Directorate Strategic Plans and the new operational plan.
		1.10	Councillors and the Chief Secretary should hold officers to account for achieving their objectives.

Theme	Process	No	Recommendations
<b>Budgeting for Objectives</b>	<b>Top down stage</b>	2.1	Directorate Strategic Plans should include more accurate cost information against each objective.
	<b>Review aims, objectives, outputs and activities</b>	2.2	All directorate objectives should flow from the SDP.
	<b>Costing of activities</b>	2.3	Costings of service delivery should be created by directorates with the help of finance.
		2.4	Directors should fully comply with planning and budget instructions and understand the budget process.
	<b>Prioritisation of activities and expenditures</b>	2.5	Directors should ensure appropriate allocation of resources within their budgets to ensure strategic goals are achieved.
		2.6	Councillors should ensure that within budgets adequate resources are allocated for all strategic objectives to be implemented.
	<b>MTEF outputs</b>	2.7	A preliminary 3 year budget should be produced.
<b>Monitoring Objectives</b>	<b>Developing a framework</b>	3.1	Training should be provided to ensure all relevant staff understand the benefits of performance reporting and KPIs.
	<b>Reporting/ monitoring information</b>	3.2	KPIs should be designed that are easy to monitor.
		3.3	KPIs should be useful as part of directorates day to day activities.
		3.4	Directors should be held to account for the late reporting of indicators.
		3.5	Council committees should schedule reporting of performance reports at appropriate frequency.
		3.6	All strategic plans should be monitored by appropriate committees.
	<b>Using the framework</b>	3.8	Performance should be reported within four weeks of the period to which they relate.
		3.9	Consideration of performance should be included in the MTEF process to prioritise resources.
		3.10	Councillors should more critically assess the strategic performance of directorates, against both spend and performance indicators.

## APPENDIX 1: METHODOLOGY

Before beginning the Audit, a significant amount of desk research was undertaken, analysing documents that SHG had produced and looking at best practise according to reports produced by the NAO and other consultancies.

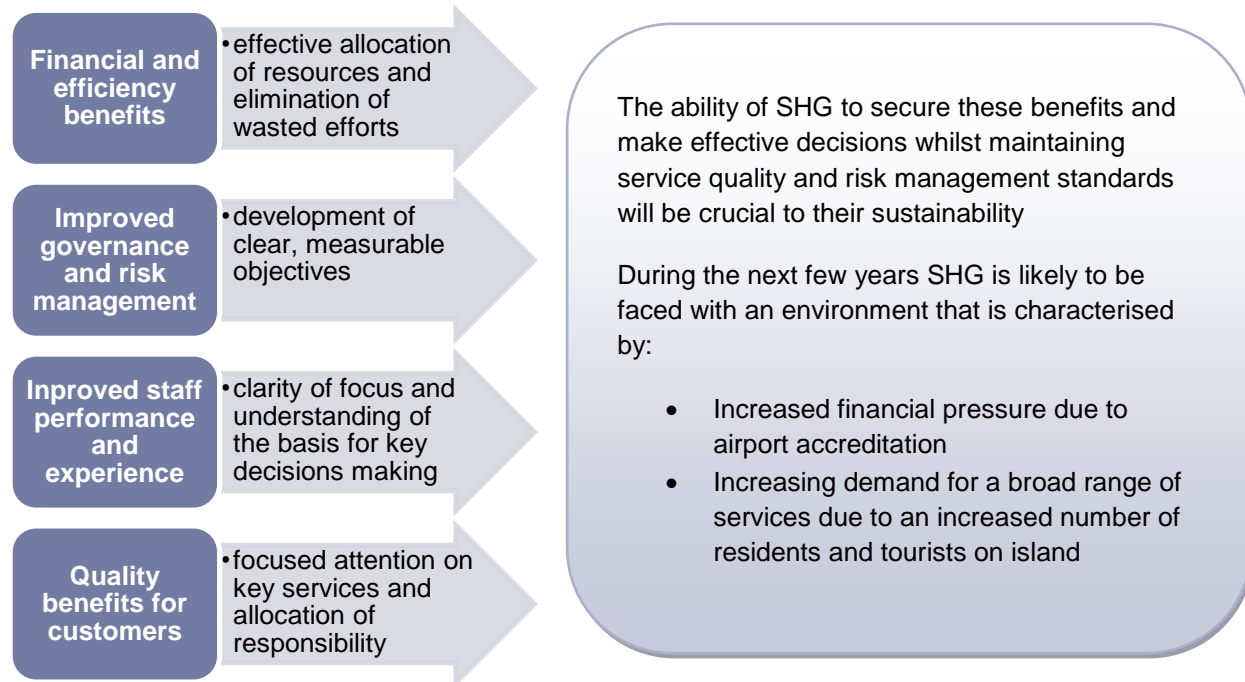
In order to assess how effective SHGs process of achieving their objective is, there has been focus on three main areas, how objectives are set, budgeted for, and monitored. The process followed is outlined below.





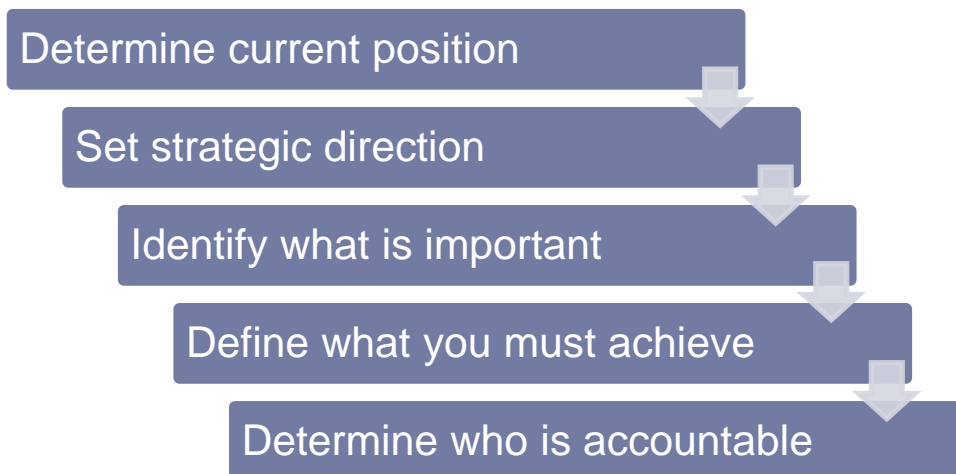
## APPENDIX 2: STRATEGIC PLANNING

### BENEFITS OF HIGH QUALITY STRATEGIC PLANNING



### CREATING A STRATEGIC PLAN

The strategic objectives should cascade into directorates so that they are reflected in sectoral policy development, and departmental objectives.



Effective leadership is essential so as to ensure that the strategic plans are being implemented. It is also vitally important to the success of any plans that there is sufficient buy in from those who will ultimately be implementing the plan.

Throughout the preparation of the Strategic Plan, relevant decision makers and Councillors should be involved and, if possible, asked for inputs, this extends a sense of ownership of the plan. The early sharing of key assumptions and outputs invites comments and objections that can be dealt with before the final plan is presented. A co-operative approach is more likely to overcome objections and allows good use to be made of the experience and knowledge of a range of people.

Imparting a sense of ownership among colleagues will also help successfully to implement the plan. People will be more motivated and ready to “go the extra mile” to ensure that the plan is turned into a success if they feel that they have been part of it from its inception.

When moving to the implementation stage, an implementation plan has to be drawn up. This could consist of Operational directorate plans which will detail how the strategic plans will be implemented by each directorate.

Directors should present the strategy to managers within their directorate who will cascade its own through the organisations, providing the detailed operational directions to ensure its successful implementation.

The operational plan is also an important element in motivating employees. Knowing where and how they contribute to the success of an organisation motivates employees. Those who have a good understanding of the business plan will also be able to provide qualified feedback if they see an opportunity to improve procedures. Managers and staff should not just understand their area of work, but also have sight of and subscribe to the mission, vision and objectives of the business. This enables them to communicate these purposefully to fellow staff, customers, suppliers and the wider community

Measuring the achievement for strategic outcomes enables the effectiveness of policies and programmes to be determined and communicated. Performance evaluations provide useful information to officials when making preparations for the allocation of the annual budget.

## APPENDIX 3: MTEF PROCESS

The MTEF approach is a top down process of determining resource availability and allocating these resources between directorates, and a bottom up process of estimating the actual requirements of implementing policies in each directorate.

The steps involved in developing an MTEF are the means to bring these processes together, and are demonstrated in the diagram attached and described briefly below.

The 6 steps in the MTEF Approach are:

**Step 1: Macroeconomic Framework:** projecting resource availability based on the projections of economic growth, domestic revenues and availability of donor funds;

**Step 2: Developing Preliminary Directorate Ceilings** by allocating total resources between sectors on the basis of government priorities. This provides Directors with an indication of the likely resource available before they start on their detailed costing and should provide some sense of reality.

**Step 3: Each Director Estimating Requirements** for the medium term based on government policies and priorities. Determining priorities involves a process of reviews through which Directors:

- review objectives, policies and strategies
- identify outputs and activities needed to achieve the agreed objectives. This involves consideration of existing activities, i.e. whether they are line with directorate policies and priorities and whether new activities are required
- estimate the actual costs of activities (recurrent and capital)
- prioritise activities so as to fit within the directorate resource ceiling and identify which activities that should continue, those that have to be scaled back and those that need to be stopped.

The aim is to indicate trade-offs within directorates by estimating real costs of providing services so that SHG can make decisions about the level of services they can afford to provide.

**Step 4: Revisiting Directorate Ceilings:** after the directorate review exercise the medium term directorate ceilings are reviewed and reallocations between sectors considered on the basis of additional information gathered in the sector reviews.

If these exercises reveal that certain objectives cannot be achieved within the directorate ceilings, reallocations between sectors may be required. This step is not always necessary and it is possible to undertake these kinds of analysis during the finalisation of the Budget Estimates in Step Six.

**Step 5: Finalising Three Year Estimates:** Directors make final adjustment to the three year estimates.

**Step 6: Review and Finalisation of the Estimates:** once Directors have completed their Strategic Plans and Budget Estimates, these are reviewed by the Finance directorate and Strategic Policy and Planning Unit, to assess whether the estimates are consistent with the policies, plan and priorities, and whether the estimates are within the ceilings.

The estimates are then discussed at Formal Legco before being approved.

The first year's estimates are approved while the second and third year's estimates are indicative.

## APPENDIX 4: MONITORING OBJECTIVES

An effective performance management culture helps organisations to deliver their priorities, improve services and outcomes and deal with the challenges that they face. This involves councillors and officers, all having a shared understanding of what is expected and why. Fostering an effective performance management culture means that:<sup>1</sup>

- councillors and officers share a common purpose and vision
- everyone knows how their work contributes to priorities
- managers and staff monitor and manage their own performance and achievements
- performance is reported regularly at all levels of the organisation
- officers recognise and acknowledge where they are succeeding and where they need to deal with poor performance
- high standards of conduct and performance are expected and delivered.

Councillors and senior officers need to ensure that managing performance is part of their day-to-day business. In practice, this develops by councillors regularly considering performance reports in meetings and by discussing performance with officers. It also involves managers considering performance corporately in management team meetings as well as in service management meetings and team meetings.

### **Key features of an effective performance management system**

#### **The process:**

- There is an effective corporate framework in place and embedded across the organisation.
- The system produces information that is accurate, timely and relevant to the council's priorities and service activities.
- The data is analysed to enable the quality of services at a global level, eg social work, and at a divisional level or area level to support the different levels of accountability within the council.

#### **Focusing on action and improvement:**

- Information is monitored at an appropriate level.
- Poor performance is challenged.
- Effective action is taken to improve performance and the impact is monitored. • Improvement actions are specific and measurable.

Source: Audit Scotland

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<sup>1</sup> Managing Performance: Are you getting it right (Audit Scotland 2012)

## TYPES OF PERFORMANCE MEASURES

To manage performance effectively, officers need to set clear objectives and then use a combination of measures to track progress and impact. They need good-quality information on:

- **inputs** – to understand what resources the government is using to deliver services and objectives
- **processes** – to know when and where services are being delivered and if they are being delivered on time
- **outputs** – to understand both the level and quality of the service the government is delivering
- **outcomes** – to assess what impact the services are having and whether they are achieving the agreed objectives.

People need different kinds of performance information at the different levels of the organisation. Councillors and senior managers need a strategic overview of organisational performance while service managers require information that helps them to manage their service or team. Individual members of staff also need to know how they are performing.

Type of Performance Measure	Description	Example
<b>Input measure</b>	A measure of the resources used by a service or process. Some inputs relate to workload, others relate to the amount of resources used in a process.	Staff hours used Cost of school books
<b>Output measure</b>	The number of units of a process or service produced or delivered.	Number of hours of care provided
<b>Process measure</b>	Aspects of business or service processes such as completion rates, processing times, backlogs, error rates.	Days between request for care assessment and assessment Days to process benefits application
<b>Outcome measure</b>	A measure of the ultimate benefit from undertaking an activity or providing a service.	Improvement in standard of living and equality of opportunity Reduction in deaths

Source: Audit Scotland

## APPENDIX 5: USEFUL DOCUMENTS

Document	Available from
Integrated Performance Management: Plan. Budget. Forecast. (Deloitte 2014)	<a href="http://www.deloitte.com/assets/Dcom-Australia/Local%20Assets/Documents/Services/Consulting/Strategy%20and%20operations/Deloitte_Plan_Budget_Forecast_6May14.pdf">http://www.deloitte.com/assets/Dcom-Australia/Local%20Assets/Documents/Services/Consulting/Strategy%20and%20operations/Deloitte_Plan_Budget_Forecast_6May14.pdf</a>
Managing budgeting in government (NAO 2012)	<a href="http://www.nao.org.uk/wp-content/uploads/2012/10/1213597.pdf">http://www.nao.org.uk/wp-content/uploads/2012/10/1213597.pdf</a>
Good budgetary processes: comparators (PWC 2012)	<a href="http://www.nao.org.uk/wp-content/uploads/2012/10/NAO_Good_budgeting_Research.pdf">http://www.nao.org.uk/wp-content/uploads/2012/10/NAO_Good_budgeting_Research.pdf</a>
Using cost information to improve performance: are you getting it right? (Audit Scotland 2012)	<a href="http://www.audit-scotland.gov.uk/docs/local/2012/nr_120510_hcw_costs.pdf">http://www.audit-scotland.gov.uk/docs/local/2012/nr_120510_hcw_costs.pdf</a>
Taking the Measure of Government Performance (NAO 2012)	<a href="http://www.nao.org.uk/report/taking-the-measure-of-government-performance/">http://www.nao.org.uk/report/taking-the-measure-of-government-performance/</a>
Performance Frameworks and Board Reporting II (NAO)	<a href="http://www.nao.org.uk/wp-content/uploads/2011/05/1012_Performance_framework_board_reporting_II.pdf">http://www.nao.org.uk/wp-content/uploads/2011/05/1012_Performance_framework_board_reporting_II.pdf</a>
Value For Money in public sector corporate services (Joint Project by UK public sector Audit Agencies)	<a href="http://www.audit-scotland.gov.uk/docs/corp/2007/nr_070501_value_corp_services.pdf">http://www.audit-scotland.gov.uk/docs/corp/2007/nr_070501_value_corp_services.pdf</a>
Managing performance: are you getting it right? (Audit Scotland 2012)	<a href="http://www.audit-scotland.gov.uk/docs/local/2012/nr_121004_hcw_performance.pdf">http://www.audit-scotland.gov.uk/docs/local/2012/nr_121004_hcw_performance.pdf</a>