Do Outcomes Based Approaches to Service Delivery Work?

Local Authority Outcome Agreements in Wales

January 2013

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Executive Summary

1. Outcome Agreements are agreements between the Welsh Government and local authorities in Wales. They started in 2010 and are due to finish in 2013. Every agreement includes 10 outcomes which are expected to reflect local objectives but also to connect with the Welsh Government’s strategic priorities. Authorities receive a pro rata grant for achieving the outcomes in the agreement which represent approximately 1% of an authority’s income and range from £612,000 to £3,285,000.

2. The Outcome Agreements are intended to “provide an outcome focused approach to local and national performance management” and to “set a more effective accountability framework by incentivising improvement and the delivery of quality local outcomes”.

3. Theory and evidence indicates that targets can have both positive and negative effects. People focus their efforts on what is measured, but there can sometimes be negative side-effects. In theory, focusing on outcomes should reduce many of these negative effects as organisations concentrate on ‘what matters to local people’. However, outcomes can be difficult to measure and other indicators such as outputs may be useful if there is evidence that these link to the desired outcome. An analysis of the outcome agreements in Wales indicates that 20% of the indicators are measures of outcomes, 43% are activities and 24% are outputs. This does not conflict with the guidance from the Welsh government, which indicates that a range of indicators and evidence should be used, but it raises questions about the appropriate balance between indicators of outcome and process. For some outcomes in the agreements there are no indicators of outcome provided.

4. In theory, outcome agreements incentivise the delivery of outcomes but there is only limited evidence from the UK about managers’ experience of these type of agreements. Interviews were therefore undertaken with a number of managers who were involved in delivering different outcomes in four local authorities in Wales.

5. Overall, managers felt that Outcome Agreements had increased accountability. Managers were accountable through their internal performance management systems and most reported that elected members also monitored the outcomes.

6. Targets can provide incentives for those charged with delivering them, and financial rewards may strengthen this further. Some have argued that financial rewards will ‘crowd out’ a public service motivation. There was clear evidence that financial rewards were a very important factor in motivating staff and politicians to achieve the measures in the agreement. However, a significant factor was also the desire to protect their reputation.
7. Managers were concerned about the risk of being accountable for outcomes outside of their control. In particular, the majority of managers were uncomfortable about the principle of outcome agreements including targets that could only be achieved with partners. However, many of them managed this well and used the outcome agreement as a lever to try and ensure outcomes were achieved (as well as other levers such as persuasion).

8. There was some evidence of gaming in terms of setting the targets at a level that they could easily achieve, but no other examples were identified. Managers were mainly pragmatic about the outcome agreement regime, but many were very positive about the concept of focusing on outcomes.

9. It is difficult to assess if outcome agreements have led to performance improvements because of the need to ‘hold constant’ factors such as funding, the existing performance trajectory of the service and to identify the extent of gaming. If gaming was not strong then it is likely that performance improvements were achieved.

10. Managers have gained knowledge and experience of ‘managing for outcomes’. A key element of this is developing good, user focused outcome indicators. If an outcomes based approach is to become more widespread then more training and/or support may be required.
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1. Introduction

The Welsh Government is committed to improving public services and identified this as being at the core of the One Wales agenda (WG, 2009). A key element of its strategy to improve public services is the development of an outcomes-based approach to public service delivery. This ‘results-orientation’ mirrors the experience of other countries such as the USA where the approach has been used at federal, state and local levels (Murphy, 1999). In Wales, an important example of an outcomes-based approach is the introduction of Local Authority Outcome Agreements (WG, 2010).

An outcome focus should ensure that public services collaborate to meet the needs of local citizens. However, in the past public organisations have found it difficult to measure outcomes and implement outcomes based agreements that work effectively (Boyne and Law, 2005). Swiss (2005) suggests that many of these approaches have not led to the desired effects. It can be especially difficult to operate a target regime for outcomes as they are not necessarily under the control of managers. Although many managers may feel concerned about this, Behn (1995, p. 320) argues, “if we accept the we-don’t-control-everything excuse, however, we will never have any accountability”. The aim of this research is to evaluate whether Local Authority Outcome Agreements in Wales improve accountability, incentivise the delivery of outcomes and enhance organisational performance. Does a focus on outcomes motivate those responsible for service delivery? Do they feel accountable for those outcomes? Does it assist collaborative working? Do financial rewards provide an incentive to achieve outcomes or do they crowd out a public service ethos? Ultimately, does this lead to better outcomes?

This report outlines the findings of the research project. Section 2 briefly outlines the details of the outcome agreement regime in Wales. Section 3 explains the methods that were used to undertake the research. In section 4, the concept of outcomes and the difficulty of measuring them are outlined. An analysis of the indicators used in the agreements is also presented. Sections 5 and 6 explore managers’ views on whether outcome agreements have enhanced accountability and incentivised delivery, respectively. In section 7 the issue of performance improvements is examined. Conclusions are drawn in section 8 and issues for consideration outlined.
2. Outcome Agreements in Wales

Outcomes based approaches to public service delivery have been adopted in many countries such as the US (Murphy, 1999), Scotland and England (Wimbush, 2010). All share a common focus on outcomes, but can vary in other respects for example, whether it is an approach that the organisation has simply chosen to adopt or whether it forms part of a more formal agreement with another level of government. They can also vary on the nature of the evidence required (some only allow specified performance indicators) and also the extent to which there are financial rewards. Despite the differences between the approaches the common intention behind them is that defining the desired outcomes and measuring progress towards them will provide incentives for those involved to seek new and creative ways to improve public welfare.

In Wales there have been a number of different policies that have encouraged an outcomes focused approach to public services. For example the guidance on the Local Government Measure 2009 suggested that improvement for local authorities should be “more than just quantifiable gains in service output or efficiency or in the internal effectiveness of an organisation” and that local authorities need to be able to “understand and demonstrate the impact on the outcomes for citizens” (WG, 2009, p 9 and 10). In addition, the single integrated plans due to be developed by April 2013 also encourage “a shift towards outcomes-based thinking” (WG, 2012, p.9). In some services in particular there has been an interest in the concept of outcomes for some time. In social services there has been a considerable amount of development of this approach both in England and in Wales (Quereshi, 1999). In addition, there has been growing interest from many organisations (health and local government especially) in the idea of ‘results based accountability’ (RBA) put forward by Mark Friedman (Friedman, 2005) with many managers attending training sessions on this approach over the last 2 years (ORS, 2011).

Outcome Agreements are an important example of the move towards outcome based accountability in Wales and are different to the approaches outlined above, in part, as they involve financial rewards. Outcome Agreements in Wales represent a development from previous approaches to results-based accountability, which included Local Policy Agreements (from 2001 to 2008) and Improvement Agreements (from 2008 to March 2010). Outcome Agreements were introduced in April 2010 and are due to finish in March 2013.
Outcome Agreements are intended to “provide an outcome focused approach to local and national performance management” and to “set a more effective accountability framework by incentivising improvement and the delivery of quality local outcomes”. Every agreement includes 10 outcomes which are expected to reflect local objectives but also to connect with the Welsh Government’s strategic priorities.

In choosing the outcomes, authorities are asked to ensure that they do not “reflect purely internal or local authority-specific changes that are not necessarily or directly of wider public value” (WG, 2010, p.5). They are required to produce a range of evidence for each outcome which will provide a “basket of qualitative evidence and quantitative evidence to provide a more complete picture of progress” (WG, 2010, p5). Each piece of evidence should describe an expected change which amounts to or implies progress towards the outcome concerned. It is recognised that the evidence may be a proxy for the desired outcomes and a list of possible sources of evidence includes performance indicators, satisfaction data, socioeconomic data, service usage levels, audit findings, recognition by an external award scheme, completion of a project or programme and introduction of a new means of service access or delivery. Evidence that they suggest would not be appropriate includes internal restructuring, training or business process changes and funding or staffing levels.

In Wales, outcome agreements are between the Welsh Government and individual local authorities rather than with partner organisations. However, the role of partners is important as the Welsh Government highlights “local authorities’ Outcome Agreements must have a strong collaborative element”. The prospectus recognises possible concerns about local authorities being accountable for the performance of partners when it explicitly states that “although authorities will be expected to fully exercise their community leadership role, they will not be held unfairly to account for actions outside their control” (WG, 2010, p. 8).

Authorities receive a pro rata grant for achieving the outcomes in the agreement. They complete an annual monitoring report which is assessed by officials in the Welsh government. The grant they receive is paid each year and reflects performance achieved against the targets. Each broad outcome is assessed out of a possible score of 3, with ‘collaborative action fully successful’ scoring 3, ‘local authority (only) action fully successful or collaborative action partially successful’ scoring 2, ‘local authority action (only) partially successful or collaborative action unsuccessful’ scoring 1, and ‘local authority (only) action unsuccessful’ scoring 0. Overall, an authority would be scored out of a
possible total of 30. The prospectus makes it clear that these are judgements, rather than clear targets to be hit or missed and that account will be taken of the breadth of evidence available when making these decisions.
3. Research Methods

This research examines the impact that outcome agreements have on accountability and the motivation to deliver results in local authorities in Wales. Although there is a considerable literature on results-based accountability there is very little evidence on how effectively this works in practice (for an exception to this in relation to US State government, see Moynihan, 2006, and in relation to Canadian federal government, see Try and Radnor, 2007). There is a significant amount of research on targets for public services, but little of this focuses on targets for outcomes. The exception to this is the recent increase in work on this in relation to health (e.g. Doran et al, 2011 and Dixon et al, 2011). In particular, there is a real gap in our understanding of how it feels to be responsible for delivering results and the factors that influence that. This research has involved a literature review of theory and evidence on results based management. Subsequent to that, an analysis of outcome agreements was undertaken. This examined the number and category of performance indicators used in the agreements. The conceptual framework (see box 1 below on page 12) is used to categorise and evaluate the measures. This approach has been used in other evaluations of reports (e.g. Boyne and Law, 2005, Boyne et al., 2002).

This study uses a comparative case study methodology to explore the issues highlighted in sections 4, 5 and 6. This approach will enable a rich and in depth evaluation of the context, process and impact of Local Authority Outcome Agreements (Yin, 2003). The cases identified are the individual outcomes in outcome agreements. The research reported here presents data from thirteen cases, drawn from four local authorities.

A longitudinal approach has been taken to examine the process and experience that each case has of the outcome agreement over time. Each case study was tracked through the process of the outcome agreement to identify the impact that is has on accountability and motivation. A range of methods were used in each case study including documentary analysis and semi structured interviews. This mirrors the approach used in previous studies of accountability (e.g. Day and Klein, 1987). Semi structured interviews were held with senior managers in each authority involved in delivering the outcome agreement, in order to assess their experience of the process of developing and implementing it. These were repeated during the research to identify views and perceptions at different stages in the process. In addition, interviews were conducted with policy/performance management officers in each authority as they play a key role in the process: developing and
monitoring the outcome agreement as well as liaising with Welsh government officials. It was important to examine both groups of local authority staff because of their different roles in outcome agreements and previous research has highlighted the likelihood of different views emerging from these groups (Walker and Enticott, 2004). Discussions also took place with individuals in the Welsh Government and the Welsh Local Government Association. Each interview was taped and transcribed to facilitate analysis. In total interviews were conducted with 33 individuals.
4. Measuring Outcomes

Performance measurement and management is widely undertaken in public organisations across the globe and is a key element of most public service reform agendas. Clearly, many governments and public agencies believe that measuring and setting targets for organisational performance, and in some cases providing financial rewards for the achievement of those targets, will improve public service performance. However, there are also many who argue that these approaches lead to unintended effects such as managerial gaming and a distortion of priorities (Bevan and Hood, 2006). Overall, there is some evidence that performance management ‘works’ but there are also clear gaps in evidence in relation to important elements of this process (Boyne, 2010).

Key elements of the process of performance management are the decisions about how many indicators to have, and what to measure. In relation to how many indicators to include there needs to be a balance between the advantage of a small number of targets in providing goal clarity for staff, and the potential disadvantage if important elements of service provision are not included (and possibly therefore neglected). In some cases the choice of how many indicators to include could also be linked to gaming behaviour: managers may decide to include more indicators to ‘spread the risk’. Outcome Agreements are clearly just one element of the performance management system for local authorities in Wales, and therefore this issue would need to be considered by individual local authorities when selecting their indicators for inclusion. Other key plans include the Improvement Plan, and the Single Integrated Plan (as well as others relevant to specific services). In general, as the Outcome Agreement is a ‘high level’ element of the performance management system, it is probably more appropriate to focus on a relatively small number of indicators.

The other issue to consider is what indicators to include in the agreement, i.e. what aspect of performance to include. Most discussions of performance measurement are based on an implicit model of the production process in the public sector (see diagram 1 on page 11). This process is generally viewed as consisting of three main stages: inputs, outputs and outcomes. The input stage refers to items such as spending, staffing and equipment. Such inputs are used to create outputs which are the units of service actually produced (e.g. hours of home care provided). In some cases a prior stage is included – the throughputs of services (which might include measures of process such as the number of housing benefit claims processed or the number of visits by Environmental Health officers). These are often used as proxies when output is difficult to define or measure. Outputs
result in outcomes, which can also be described as the consequences, results, effects or impact of service provision.

**Diagram 1: The production process**

Inputs ➔ Throughputs ➔ Outputs ➔ Intermediate Outcomes ➔ Final Outcomes

These definitions can be used to identify and measure many different dimensions of performance. Some of these focus on one stage of the production process (e.g. economy), and others examine the relationship between different elements (e.g. efficiency). A number of different dimensions of performance are presented in box 1 on page 12.

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1 This is sometimes referred to as a logic model or a ‘cause and effect model’
Box 1: Dimensions of Public Service Performance

<table>
<thead>
<tr>
<th>Inputs</th>
<th>staff, equipment, resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economy</td>
<td>price paid for service inputs of a given quality</td>
</tr>
<tr>
<td>Efficiency</td>
<td>cost per unit of output</td>
</tr>
<tr>
<td>Throughputs</td>
<td>activities or processes undertaken</td>
</tr>
<tr>
<td>Output quantity</td>
<td>units of service provided</td>
</tr>
<tr>
<td>Output quality</td>
<td>this incorporates dimensions such as the speed and reliability of service delivery</td>
</tr>
<tr>
<td>Outcomes :</td>
<td></td>
</tr>
<tr>
<td>(a) Intermediate outcomes – formal effectiveness of service delivery</td>
<td></td>
</tr>
<tr>
<td>(e.g. the % of pupils passing exams)</td>
<td></td>
</tr>
<tr>
<td>(b) Final outcomes - the ultimate impact of service provision on society</td>
<td></td>
</tr>
</tbody>
</table>

Outcomes can be conceptualised in a number of ways: they can be divided into those that measure intermediate or final outcome. **Final outcomes** are the ultimate desired consequences of the outputs produced by public organisations. The Audit Commission (2000) suggests that a final outcome can be conceptualised as the outer ripples caused by throwing a stone (service) into the water (society). Outcomes refer to the achievement of the ultimate purposes of public organisations (e.g. better health, a ‘cleaner’ environment) and do not focus on the characteristics of service itself, but rather, the consequences of it. These are sometimes referred to as population outcomes (Friedman, 2005). Throwing the stone creates many ripples before the outer ripple is reached. These inner ripples are **intermediate outcomes**. They occur as a result of service provision (e.g. number of people who stop smoking, the percentage of waste recycled), and are a step on the way to a final outcome. Intermediate outcomes can be used as proxies for final outcome and this is more reliable when the relationship between these variables is known (and, in the most straightforward case, is positive, close and linear). Friedman (2005) refers to these as ‘performance or programme outcomes’. He suggests that performance outcomes relate to clients or service users (who are almost always less
than the total population). This apparently clear link between performance and population outcomes does not always hold true however. There may be cases where performance outcomes for a client group do not lead to improvements in general population outcomes and as Friedman himself recognises, there are a number of examples such as public health where there is not a distinction between performance outcomes and population outcomes (the client group and the whole population of an area).

The issue about what aspects of performance to measure is complex. In the past there have been many criticisms of performance management systems that focus heavily on inputs and processes and neglect results or outcomes. This reflects the argument that managers will seek to hit the indicators that are targeted. This desire to reach targets is likely to be greater when there are rewards or sanctions in place. In theory, then, ‘what is measured matters’. If the ‘wrong’ indicators and evidence is used perverse incentives may occur. For example, organisations may focus unduly on the indicator used to the detriment of other aspects of performance. Examples of this have taken place in education in the UK (Wilson et al., 2004) and in the health service (Bevan and Hood, 2006). The drive to introduce results based management reflects this argument and is based on the idea that if outcomes or results are targeted then managers will focus on ‘what really matters’ rather than on organisational resources and processes.

However, measuring outcomes is complicated for many reasons and evidence indicates that public managers in the UK and the US have found this challenging in the past (Boyne and Law 2005, Heinrich 2002). The NAO (2006), in discussing central government Public Service Agreements (PSAs), outlines one reason, which is the complex delivery chains that are involved. These are “the complex networks of organisations, including central and local government, agencies, and bodies from the private and third sectors that need to work together to deliver an improved outcome” (NAO, 2006, p.1). Outcomes are often achieved with others; either other organisations or through co-production with users. For example the success of a local authority in achieving recycling targets depends to some extent on the willingness of the residents to sort, save and put out their recycled materials appropriately. An issue that may cause problems is that outcomes can easily be influenced by factors in the external environment (Flynn et al., 1988). It may be more difficult to achieve outcomes such as ‘get people into employment’ if the national economy is in difficulties. Another potential problem is that in some services there may be uncertainty about the relationship between the means (policies)
and the ends (outcomes) (Carter et al., 1992). The ‘cause and effect chain’ may be clearer and more evidence-based for some outcomes than others. Nutley et al. (2000) for example demonstrate that evidence about ‘what works’ is more readily available in services such as health than education or urban policy. All of these factors can make the attribution of success or failure problematic. In some circumstances these largely ‘external’ factors may be so influential that the outcome is felt to be outside the control of the organisation. If this is the case an outcome focus may lead to the target being viewed as a ‘lottery ticket’. In other words, whether the target is hit is likely to be beyond the control of the organisation, so service managers may as well sit back and see if ‘their number comes up’.

The extent to which the desired outcome is under the control of the organisation may vary between policies and services. In such circumstances it may be necessary to accept other measures (such as intermediate outcomes or outputs) as substitutes for outcomes (Likierman, 1993, Carter et al., 1992). Ideally, if such measures are to be used evidence should be provided that the intermediate outcome (and in some circumstances output) is clearly and consistently connected to the desired final outcome. There is of course a risk that the outputs may not result in the desired outcomes (Cumming et al, 2009). For some outcome reward systems in the USA, research has demonstrated that the outcome proxies used (and rewarded) had only a weak correlation to the desired long term impacts from the programme. For example Barnow (2000) found that the performance measures used by the Department of Labour for the Job Training Partnership Act were not strongly linked to the goals of increased employment and earnings. Another problem with measuring outcomes is that many will take a long time to occur. For example, the impact of people stopping smoking will take many years to become evident through a reduction in smoking related deaths, and in this case an intermediate outcome such as the percentage of people still not smoking 8 weeks after completing a smoking cessation programme may be the most appropriate measure. In this case there is a fairly certain cause and effect chain: it is simply that the final outcome may take some time to be fully demonstrated. In contrast, other intermediate outcomes such as education results may not be as clearly linked to the desired outcome of greater prosperity, will also take time to feed through, and may be strongly influenced by other environmental factors. This example illustrates a further difficulty that sometimes occurs with outcomes - there may be fundamental disagreements between stakeholders about the ultimate purpose of the service. Is the desired outcome of education greater prosperity or simply greater knowledge?
A range of management information is clearly useful for managers in implementing and monitoring their achievements. Swiss (2005, p.593) for example suggests that “the most important management information includes strategic goals and short-term objectives that tell workers the specific results the organization wishes to achieve, and outcome-oriented performance measures that show the organization’s progress in reaching these results”. One issue to consider is the relative balance between the different measures to be used in an outcome focused performance management system.

For all of the indicators used in the agreements it is important that they are robust. The Audit Commission (2000) identifies the following as characteristics of robust indicators:

- Conceptually valid, producing data which accurately measure the objective that the authority is intending to achieve
- Attributable (at least in part) to the authority’s policies and efforts
- Well defined, so that progress can be assessed clearly and precisely
- Timely, so that progress can be tracked at appropriate intervals
- Free from perverse incentives, so that the indicator does not encourage unwanted or wasteful behaviour
- Reliable, so that an indicator consistently represents what it purports to represent
- Unambiguous, so that it is clear whether an increase or decrease in the value of the indicator is a positive result
- Statistically valid. Performance indicators based on a small number of cases may show substantial annual fluctuations (although such movements may be ‘smoothed’ over a longer period).

Overall, there is a consistent view that organisations should measure outcomes and track their achievement on the ‘things that matter to local people’. Results based management approaches seek to do just this. However, in addition to the possible positive consequences of such approaches there are a number of possible perverse incentives that may arise from them. These perverse incentives may be a result of the choice of indicators included in the agreements. The single outcome agreements that operate in Scotland for example use a limited range of data in their agreements and focus almost exclusively on measuring outcomes. The Welsh Local Authority Outcome Agreements guidance allows a wider range of data and evidence including activities and a range of indicators.
The table below identifies the indicators actually used in the Welsh Outcome Agreements.

### Table 1. An analysis of indicators used in the Welsh Outcome Agreements*

<table>
<thead>
<tr>
<th>Dimension of Performance</th>
<th>% of indicators in the reports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Input</td>
<td>7</td>
</tr>
<tr>
<td>Throughput</td>
<td>43</td>
</tr>
<tr>
<td>Output quantity</td>
<td>14</td>
</tr>
<tr>
<td>Output quality</td>
<td>10</td>
</tr>
<tr>
<td>Intermediate outcome</td>
<td>14</td>
</tr>
<tr>
<td>Final outcome</td>
<td>9</td>
</tr>
<tr>
<td>Unclassifiable</td>
<td>2</td>
</tr>
</tbody>
</table>

*based on a sample of seven outcome agreements (approximately one third of the total)

Analysis was carried out of a sample of the outcome agreements to classify the indicators they included. There was significant variation in the number of indicators that the agreements included. One for example, included 30 indicators and another 135. As a high level performance management system it may be appropriate to consider whether agreements that lean towards the higher number are providing a clear, strategic focus.

The analysis shows that half of the indicators used in the agreement measure either input or processes (throughput). Examples of input indicators used are ‘the number of project staff employed’ and ‘expenditure on joint procurement of residual waste solution’. The dimension of performance that is most frequently measured is process. Typically these are activities that the organisation undertakes. These include ‘completion of scheme’, ‘hold annual event to disseminate findings’ and ‘baseline study completed’. Although partner organisations were clearly involved to some extent in the delivery many of the outcomes, the majority of the activities and outputs in the agreements appeared to reflect the work of the authority rather than their partners. The amount of service provided is measured by 14% of the indicators (examples are ‘100 Looked after children have respite breaks’ and ‘engage with at least 25% of young people through youth work’). The quality of outputs is also measured (10% of indicators in the agreements). Examples include ‘number of days to deliver
the disabled facilities grant’ and the ‘percentage of customer enquiries resolved at first point of contact’. Outcomes are measured by 23% of the indicators. Intermediate outcomes make up 14% of the indicators and final outcomes 9%. The ‘percentage completion rate on educational programmes’ is an intermediate outcome and the ‘percentage of young people who are not in education, employment or training’ is an example of a final outcome. In addition, it was not possible to classify 2% of the indicators as they were not clearly specified. Although a detailed examination of the indicators against the criteria for robust indicators was not undertaken as part of this project, it is clear that a number of them are not well defined.

The outcome agreements in Wales vary from those in Scotland and from examples of similar approaches such as Local Public Service Agreements (LPSA) in England. One way in which they are different is the extent to which they include measures of outcome. In both Scotland and LPSAs in England, organisations were required to measure outcomes, whereas in Wales the guidance indicates that a range of evidence is acceptable (Scottish Government, 2008, Welsh Assembly Government 2010, ODPM 2003. Scottish local authorities, like many organisations implementing outcome based accountability initially found the choice of indicators difficult. Guidance issued in 2008 indicated that in the first phase of single outcome agreements that the “linkage between outcomes and indicators was sometimes not clear, and nor was their linkage between outcomes which will take time to achieve and targets with 3 year horizons. Their outcomes were sometimes about aspirations or activities, rather than actual outcomes which could be evidenced in the experience of local people or conditions in the area” (Scottish Government, 2008, p. 4).

There is no evidence on what proportion of the indicators in Scotland’s agreements are actually outcomes, but in the second generation of LPSAs in England 49% were outcomes (Boyne and Law, 2005). Clearly, the Welsh system is different in that it places less emphasis on indicators of outcome. In practice, they have a much larger proportion of indicators that measure activities than LPSAs (43% compared to 18%) and a smaller proportion that measure outcomes (23% compared to 49%). In addition, some of the 10 outcomes put forward by each authority do not include any indicators of outcome by which to assess their achievement. Theory suggests that ‘what is measured matters’ and if this is the case then local authorities will be largely rewarded for meeting process targets. However, as identified above, there are difficulties with measuring outcomes and sometimes particular targets can lead to perverse incentives. There may therefore be a case for allowing other indicators where
these can be linked to the achievement of the desired final outcomes. This analysis raises questions about the relative balance of indicators that is most appropriate. The following sections explore the experience of those charged with delivering the outcomes.
5. Accountability for outcomes

One of the objectives of the Outcome Agreement in Wales was that they would “set a more effective accountability framework by incentivising improvement and the delivery of quality local outcomes”. In theory, the measurement and targeting of particular outcomes will enhance accountability, which in turn, will enhance organisational performance. Accountability involves a number of elements, that is, giving an account of performance, being held to account and some consequences (such as sanctions or rewards) (Law, 1999). It can also be broken down as a concept by thinking about who is accountable? to whom? for what? and how? Accountability operates at a number of different levels. For example, managers in the local authority are accountable to their senior manager and elected members, and they are accountable to their own residents (and in some cases the Welsh Government) for their achievements. In order for these arrangements to be effective a number of conditions need to be met. One condition is that accountability arrangements must be clear: “clear accountability for results at all levels in an organisation enable public sector managers to exercise their responsibility to deliver with judgement, intuition and innovation” (Burgess et al., 2000, p.4). Another important condition is that the accountability arrangements that exist are put into practice. Those who are responsible for delivering results need to feel accountable for them, to believe that they will be held to account and that rewards and sanctions will be used. As Sinclair (1995, p. 233) argues “accountability is not independent of the person occupying a position of responsibility, nor of the context. Defining accountability, the way it is internalised and experienced should be our focus”.

Evidence from interviews with managers indicates that they all feel accountable for the results outlined in the outcome agreements. For example, one interviewee stated that “officers know that these actions and targets have to be achieved”. The most senior managers in the organisation were more aware of the outcome agreement than those at more junior levels. However, most of those interviewed were aware of the targets that had to be met, even if they did not necessarily know that they were part of the outcome agreement. This reflects that fact that many of the indicators used were drawn from other plans: indicators in the outcome agreement were typically cascaded down to service and departmental business plans and were also often in other high level plans such as the Community Strategy and the Improvement Plan. Progress on the indicators was generally reported regularly to senior managers, often quarterly. One interviewee commented for example, that “the chief executive and corporate management team have regular reports on the OA”. Managers
explained that if performance against the actions and indicators was looking as though it was problematic then there were questions asked from the centre. A manager outlined that in his service “...areas of concern have come back (from the corporate centre) and been looked at”. Another said in relation to the typical traffic light performance management system that local authorities use that the corporate centre “want to see the green”.

Policy and performance officers play a crucial role in this system of accountability, acting as a negotiator in determining what the local authority should be accountable for in discussions with Welsh government officials and also operating as a monitor in checking and reporting the performance of service managers in the authority to the corporate management team. They operate as a key link in the chain of accountability. Overall, policy and performance officers were more negative than service managers about Outcome Agreements which may simply reflect the role that they play in the process. In particular, they outlined the difficulties they experienced in developing the agreement. One stated for example that “it was a painful process. We were back and forward between the Welsh Government all the time”. At times some of the policy and performance officers felt that the process had led to tensions between themselves and various departments, especially around the evidence that needed to be recorded. One service manager for example, complained that “we’ve been playing around a lot actually with words and various other things just to try to make what we do fit somebody else’s model and how they want to measure our outcomes which is frustrating...there’s been a lot of pontification and semantics”. Although concern about the process of developing the agreement emerged mainly from policy officers both they and a number of service managers raised questions about the cost of the system in terms of officer time. In many cases managers felt that there was duplication: they were already accountable for those indicators in the outcome agreement through other plans and they could not see added value in being accountable for them twice. Sometimes there were suggestions that managers got confused between the different plans with one performance officer saying that they completed improvement plans and outcome agreements and that “I think officers get confused and they put things in. If you put something in the improvement agreement and don’t achieve it, it is not too much of a problem but if you put something in the outcome agreement...the outcome agreement has money attached to it. The level down of staff they don’t understand that”. Performance officers also had different views to some of the service managers regarding why particular outcomes were chosen to be included in the outcome agreement. Whilst service managers often indicated that it was because it was a priority
for the local authority, or that they were asked to be involved, performance officers were more likely to add other reasons. For example, one suggested that in some cases the choice of what to include in the agreement was “Do we think this will get us the money” and another commenting that “Some managers – we wouldn’t let them anywhere near an outcome agreement”.

In some cases managers felt that elected members were also interested in the achievement of the outcomes. One manager stated that “members are very aware of the Outcome Agreement”. There was a general perception that the members that were aware of the outcome agreement were more likely to be cabinet members, rather than ‘backbenchers’. One manager explained that a lot of information was presented to politicians and that “I’d say that generally speaking I haven’t been asked that many questions in scrutiny committee about performance against those action plans, good or bad”. An issue that emerged from some of the interviews was that staff used the outcome agreement as an additional opportunity to give an account to others in the organisation, especially politicians. One interviewee commented that “it’s very high profile, it’s taken very seriously, the outcome agreements. It has helped us to re-focus and drive forward a few further service developments...”

Managers are accountable for achieving the actions and meeting the success criteria (measured by quantitative indicators and other qualitative information) that have been put in to the outcome agreement. Section 4 indicates that for many managers this amounts to a mixture of indicators of processes and output, as well as some outcome measures. The ability to specify clearly what the actions are, as well as the desired outcome that the processes of service delivery will lead to, is a key element of being accountable for outcomes. Many managers recognised that this was a relatively new experience for them and that they were learning and improving over time. One manager for example, explained the shift in thinking that had taken place: “We’re trying to focus on right you’ve done these activities – what is the personal outcome for you? That’s what it tried to tease out more than we have done in the past and of course we’re starting to move towards this as best we can, you know more outcome-based measures, but this was certainly our first go at doing that I’d say”. Another commented that “this year we’ll look more closely at some of these measures and try and do away with some of the process type measures and shift it more to what is this actually achieving?”

Outcome Agreements in Wales are not typical of traditional ‘target regimes’ in that there is some flexibility allowed (in some circumstances only) and that the evidence may include qualitative
evidence as well as performance indicators. Some managers were pleased that they were allowed to use more qualitative information, believing that it was a better way to demonstrate what had been achieved. One described their experience of discussing the measures, saying that “well to start with it’s wanting numbers of this and numbers of that...but then we actually met and we sat down and actually we took some case studies and the minute you started sharing those...they understood the value...”.

There was some confusion regarding the concept of outcomes and what was appropriate for the various plans that local authorities were required to complete. To some extent this reflects the fact that after outcome agreements had started, RBA was widely adopted and encouraged by a number of departments of Welsh Government. One officer for example, suggested that “we think the Welsh government has confused performance and population accountability. Anything going forward should make a distinction between performance and population accountability”. One interviewee felt that RBA was too much of a trend, stating that everyone “…went a bit mad on RBA. It is nothing earth shattering....the Welsh government went off on an outcome based frolic and ran along on the coat tails of a methodology”. Others were more positive, arguing that although the process was difficult “the Welsh Government deserve some credit for thinking about outcomes. We have a good relationship with the team”.

A number of managers were aware of the RBA approach but were sometimes confused by some of the complexities of it, especially the difference between performance and population outcomes and what they should be accountable for. This distinction was drawn on in discussions about what outcomes they needed to aim for in the outcome agreement and what outcomes were more appropriately targeted in plans such as the Community Plan. One manager for example, argued that they were not especially accountable for population accountability but that “our focus is the performance accountability side of things”. Another explained that “we do try to differentiate between this ability to measure service, outcomes of service impact, and then population outcomes and I think that makes a lot of sense. The real hard part is now actually getting the right measures and avoiding the confusion I suppose”. This corresponds to findings from managers in other services such as health. A recent evaluation of RBA (ORS, 2011, p. 5) indicated that “most interviewees feel that RBA performance accountability is easier to understand and use than population accountability which was considered harder to implement due to broader and less tangible data and the lack of measurable outcomes”.


A. Uncertainty and risk in being accountable for outcomes

Managers expressed a range of views about being accountable for outcomes. Some were very concerned about being held to account for the achievement of outcomes that they had little control over. As one manager stated “it is always more difficult when you haven’t got complete control”. There were a range of circumstances which led them to feel uncomfortable about this.

One was the impact that the current state of the economy had on outcomes. For example, one manager commented that “We can’t control outcomes. What can an economic development unit in the council do in terms of increasing employment? We can give advice, provide businesses with support, but we can’t create jobs”. Another in the same field highlighted government or European policies changing during the period of the outcome agreement and that this influenced their ability to meet the target: “the Wales European Office within the last year brought in rules whereby European Social Fund projects aren’t allowed to claim outcomes for the same individual they might both be working with...so that, obviously, that has had an impact on the outcome..”. In some cases, changes in the external environment had a positive impact of the ability to achieve the outcome agreement targets. One manager in waste management commented that “because of the recession, waste has gone down so much....so a recession is brilliant...”.

A number of managers also felt that the departments within the Welsh government were not as connected as they should be and that often changes were brought in that that affected their ability to achieve the outcomes in their agreement. For example, one manager said “if the Welsh government suddenly says you’ve got to have this board, that shifts what I’m doing with my resource and I don’t think they are necessarily thinking about that...”

A problem for some services in being accountable for outcomes was that there was uncertainty about the links between cause and effect. There was limited evidence about whether, and to what extent, particular processes and outputs would lead to the desired outcomes. This was true for almost all of the interviewees, to some extent at least. For example, one said that “it’s very hard to measure what’s been the impact of the work that’s been undertaken”. Another manager explained that “everyone wants outcome measures that relate directly to what you’re doing but you just have to assume that some of the things you’re doing will make a positive contribution to the overall outcome you’re trying to achieve I think.” In some cases managers were moderately clear about the difference
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Some managers argued that despite not having impact evaluations or always being able to measure their outcomes directly they could often see how the activities they measured in the agreement contributed to the desired outcomes. One manager explained that she had direct experience of seeing how the speed indicators that they used had a direct effect on the desired outcome of living independently for service users. Another manager in social services stated that “...you can feel that people are happy and well cared for and they feel good about themselves. You’ve got to experience it really....actually pick up on that sort of feeling when you walk in somewhere where the practice is right, where the culture is right”.

their services might make on intermediate or performance outcomes but less sure about the links to final outcomes. For example, a manager stated that “....whether it’s going to result in improved health statistics, less of a burden on the National Health Service which is what we’re trying to contribute to in the longer term...I don’t know really....is that making a population difference?” Another manager explained that “....those are your population measures. The difficulty is causality between what these actions do and how they then affect those higher level strategic indicators”. Some interviewees were less optimistic, arguing that, “You’re never going to get to those outcomes. The actions that we put in are basically processes that hopefully lead to those outcomes” and “We talk about the outcome at the beginning and then we talk about actions and targets. We never evaluate whether there has been a change in outcome”.

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Managers also tried to reduce uncertainty through other approaches such as working effectively with service users. The NAO (2006) suggests that one of the weakest links in a delivery chain is where an authority has little formal authority and needs to persuade groups such as service users to change their behaviour. For example, in relation to waste management one manager stated that “we’ve got to reduce the amount of waste sent to landfill. It’s as simple as that. It’s not rocket science. You’ve got a target, just get under that target. And it’s not easy because we haven’t got control of it”. In this service, managers recognised and accepted that a significant part of their role was to persuade the public to recycle. Sometimes managers in services such as this were more accepting of the lack of control, possibly because the indicators that they used were well established and used in a number of different plans. Managers were also sometimes able to use feedback from service users to overcome their lack of knowledge about the link between services provided and outcomes. In one service area which relied heavily on co-production with service users the manager argued that she knew that outcomes would get better as they had changed their service in response to customer views.

B. Accountability for Outcomes – Delivery through Collaboration

Another example of uncertainty and risk in being accountable for outcomes was the issue of collaboration. This was a significant issue for all of those taking part in the study and is therefore considered in this separate section. As mentioned earlier, a difficulty with being accountable for outcomes is that there are often complex service delivery chains involving not just other partners but also service users. The NAO (2006) indicates that delivery chains are made up of four different types of links. Firstly, internal links “where one part of the delivery chain directly manages another” which are often strong (p.2). Secondly, contractual links, which operate when there is a formal contract as the basis for the relationship. Thirdly, there is what they describe as links of common purpose, which is “where two bodies have parallel missions to work towards the common good and make a difference to society” (p. 2). This type of link describes the process of delivering outcomes through collaboration and the NAO suggest that it can be relatively weak. The fourth link is the link with the community which was discussed in section 5A above. This section focuses largely on the third type of link – collaboration with partners – but also draws on some illustrations of contractual and internal links.
Interviewees were generally unhappy about the principle of being accountable for collaborative work through the outcome agreement. However, they were committed to delivering services with partners and much of their work was conducted in this way. One manager argued strongly that “collaboration should be a means to an end and the means should not be part of it (the outcome agreement). There are problems with that especially around accountability”. Another stated “we are OK about being accountable for things we deliver ourselves. That’s within our own gift”. One manager said that “outcome agreements don’t work as a lever for collaboration as there is nothing in it for our partners and local authorities don’t want to share anyway”.

Often managers talked about their lack of power in delivering outcomes through partners. One described her role as being one where she works “…in partnership with people and I can’t bring them along with me. I can’t order them around, you know. I have no authority so sometimes it’s hard and it takes a bit longer…the outcome agreement is essentially a council plan.” Another stated similarly, “…you can’t badger them as much as you might internal managers, for instance and sometimes I’m late reporting quarterly or I’m a quarter behind because I haven’t had the full picture from partners…”.

The issue of control over resources was evident from many interviewees. One manager argued “it’s certainly easier when you have both responsibility for the action and the resource to deliver it. If you’re doing it in partnership and we’ve had a few…we weren’t able to deliver (the action)...during the period of the plan because it required a joint resource commitment from the police”. An interesting perspective was gained from a manager who had experienced the removal of a service from their direct control to a quasi contractual link. The manager stated that “it’s easier when you have a strong measure of control over the support or otherwise, how you differentiate the support you put in place in schools in order to achieve those outcomes...we were inspected...and we seemed good for school improvements and we developed as a result of those inspections certain strands of our work and had a certain level of confidence in them then. I’d question our level of confidence at the moment”. A shift away from a strong internal link to a quasi contractual one was, they felt, more uncertain.

Sometimes this negative view of the principle of being accountable for collaborative work through the outcome agreement was confirmed/supported by participants’ experience of the practice. At times, although collaboration happened and was taken seriously, the outcome agreement itself was not used to add focus or a sense of common purpose. In some cases for example, the partners
included in the outcome agreement were not specifically aware of the outcome agreement. As the indicators in the agreement had often been taken from other plans, partners were working to achieve particular indicators with the local authority without necessarily being clear that they were included in the agreement. One interviewee stated in relation to their partners, “do they know it’s an outcome agreement, some of them I would say, probably not, because this is a framework driven by us, the Local Authority”. Another responded similarly “probably not. Some might, but in a very vague sort of way really”. This does not necessarily imply that there was not a sense of common purpose to these collaborative activities, but that the outcome agreement was not being used to provide this.

Other managers were more positive about the practice of collaboration and felt that the process of it being part of the outcome agreement had been a largely useful one. In theory, an outcome agreement could act as a focus for all partners to aim for and measure their joint progress towards. Some managers felt that these benefits had emerged, to some extent at least. When talking about the outcome agreement one manager stated that “it’s been important because it’s been quite a driver I think to get partners involved and to hold them to account. I think that’s been a positive”. Sometimes the outcomes were agreed collaboratively, for example in one service managers described the process of developing the outcome agreement: “it was a collaborative process...we definitely wanted the outcomes to be agreed collaboratively, so there’s a real value in that...”. In some of the case study outcomes studied as part of this research, partners were aware of the outcome agreement and managers felt that the indicators in it acted as a unifying force: “I think these outcome agreements give you a focus. I think that it’s really important that we have them, especially when we’re with lots of different partners, because then you see that clear vision for where we’re going”.

Managers tried to manage the uncertainty experienced with collaborative working in a number of ways. As highlighted above, some used the outcome agreement to provide a structure and focus for the partnership. Sometimes managers worked hard to create good, trusting working relationships and a sense of common purpose. One manager explained how they communicated with partners saying that they were “...intrinsic to this happening and that’s what we keep saying to them. The service – it isn’t about the service provider sitting here – it’s about us all working in partnership to make sure all these things are achieved and that you get the outcome that you need at the end of it”. At times, the local authority was able to exert some pressure in other ways: in one service local authority staff had access to funding pots and expertise that the partners valued and they were able
to use those to bring the other partners on board when they needed to. The control of resources
was also mentioned as important by another manager who was able to persuade some units to focus
on what he felt was important. He indicated that “the real power I think in the management is having
the money and being able to fund certain things that I perceive in pushing things in the right
direction...the money is the lubricant”.

A strategy that a few managers mentioned in response to the uncertainty involved in being
accountable for outcomes was to ensure that they set targets that they felt were achievable. One
manager said that “…those indicators were put together by a predecessor and there was no way they
could have foreseen what was going to happen on a national basis and on a local basis and so I think
they’ve gone for safe indicators there and they’ve been achievable and achieved”. This strategy
was also mentioned by a few managers who were able to deliver the service without collaboration.

Overall, managers felt strongly accountable for the actions and indicators in the outcome agreement.
They found it more difficult to be accountable for outcomes, as these were out of their control and
this was especially a concern in relation to outcomes delivered with partners. The way that outcome
agreements operate in Wales, with the possibility of amending targets in certain specified
circumstances means that the risk of uncontrollable factors influencing their performance is reduced.
Other strategies that authorities commonly use are building good relationships, creating a sense of
common purpose and influencing through resources. One strategy that some mentioned in relation
to managing the risk of not meeting the targets was to ‘game’ the targets and this is discussed in the
following section.
6. Incentives and Outcomes

Outcome agreements are intended to incentivise performance improvement and the achievement of quality local outcomes. The agreements do this by specifying the target (managers and politicians are now accountable for the achievement of these indicators) and the provision of a reward grant. In the previous section the evidence from the interviews demonstrated that managers felt accountable for the achievement of the targets and that they were held to account by the corporate centre of the authority and local politicians. This section explores managers’ views about the incentives operating within the outcome agreement regime.

Swiss (2005, 594) indicates that there are two main categories of motivation: intrinsic and extrinsic. Intrinsic incentives reflect the “psychological drives within an individual that are activated by simply doing the job”. He suggests that public sector workers have strong intrinsic incentives. This is often referred to as the ‘public service ethos’. Both Swiss (2005) and Behn (1995) suggest that results based management can help to strengthen this ethos and enhance motivation. There is evidence that setting goals can increase individual and group performance (Perry et al., 2006). Measuring the results of the work of public organisations rather than the process could further strengthen the intrinsic motivation of the staff who work there. It is often argued that this effect could be enhanced further by involving those who provide the services in the development of the targets (Swiss, 2005).

In addition to intrinsic incentives which exist within individuals, there are also external or extrinsic incentives. These could be either monetary (e.g. increases in individual pay for performance or increasing the proportion of the budget for services that do well) or non-monetary (e.g. recognition schemes). In relation to both individuals and organisations reputation can also be an incentive (Sturgess et al., 2011). The reward grant for Outcome Agreements is an example of an extrinsic incentive. There is an assumption in much of the literature on individual motivation that financial rewards provide an incentive to improve performance but this view has been questioned by some who argue that amongst public employees motivation may be a function of a public service ethic (Perry and Wise, 1990). They suggest for example, that focusing on financial rewards may be negative as it could ‘crowd out’ public service motivation. Some research focuses on the conditions in which financial rewards work best and Dixit (2002) for example, suggests that an important consideration is the ease of measuring the desired performance. However, much of this debate examines financial rewards at an individual rather than an organisational level. There is very little evidence on the
impact of organisational level rewards (Boyne, 2010) and the research that does exist on this issue does not always examine how, or if the organisational rewards filter down to individual managers in any way. Many of the outcomes based approaches that exist have included financial rewards, but there is currently only limited evidence about their impact on improving organisational performance.

The NAO (2008) provide results of a survey which demonstrates that 60% of those civil servants using rewards and incentive schemes believed that their use had improved performance but add that these perceptions were not based on any quantified evidence. Emerging evidence indicates that rewards have led to improved outcomes for example, Boyne and Chen (2007), Chalkley et al., (2010) and Heinrich (2000). These results may be more complex that they first seem. For example, it is possible that the reward acted as a motivating force not because of the sum of money involved but because it highlighted the importance of the goals (Perry et al., 2006). Different motivating factors may also operate at the same time: Smith and York (2004, p. 14) found that financial incentives were important to focus attention and encourage participation in a scheme to improve quality in GP services in Kent, but that “the physicians were also motivated by a sense of professional autonomy and ownership”.

Overall, this evidence indicates that financial rewards enhance performance. However, many have argued that the improvement in performance that has been achieved hides some negative side-effects. There are a number of ‘gaming’ effects that could in theory emerge from target regimes. Hood (2006) outlines three. Firstly the ratchet effect, which is when the manager deliberately restricts performance below what is possible as they know that the target setter will always expect an incremental improvement over last year’s performance. The threshold effect is where “a uniform output target applying to all units in a system gives no incentive to excellence” (p. 516). The third effect is what he describes as output distortion or the manipulation of results. This category is varied and includes evidence being fabricated, as well as managers being creative, for example by focusing on meeting targets for patients seeing a doctor within 48 hours by not allowing anyone to make an appointment more than 48 hours in advance. There is a range of evidence on gaming and negative side-effects for many types of regime. For example, Russell (2008) found that the focus of the organisations involved was skewed. Another example of this is the evidence of Doran et al (2011) who showed that indicators in the quality and outcome framework in the health service that had financial incentives attached to them improved, but those that were not incentivised performed significantly below what was expected. The recent report on Stafford Hospital demonstrates the
severe consequences that can occur when targets skew the focus of an organisation (Francis, 2013).

There are a number of factors that will affect the level of gaming. These can be linked to the choice of indicators used, the design of the whole system of targets and rewards, and also the individuals and organisations involved. Sturgess et al., (2011) for example, indicate that professional culture and norms such as a public service ethos could reduce the temptation to ‘game’ the process. Evidence from the study by Dixon et al (2011) showed that although the system of the Quality and Outcomes Framework in relation to health inequalities was not designed as well as it could have been in relation to achieving the desired outcomes, that GPs did not ‘game’ the process.

There are a number of issues in providing financial rewards for achieving outcomes and these are associated with the difficulty of measuring outcomes. One problem is that if managers feel that the outcome is completely out of their control then financial rewards may not be effective. The NAO (2008, p.27) suggests that “unless the agent can expect their behaviour to affect the outcome, the mechanism provides little motivation to strive for the desired levels of performance..as far as possible, the sanction or reward mechanism should strip out aspects which cannot be influenced by the agent”. In addition to this, as outlined in section 4, outcomes vary in the clarity of the cause and effect chain. Swiss (2005) argues that outcomes with clear and consistent cause and effect chains (what he describes as a clear program technology) are easier to reward and “the less clear the program technology, the more difficult it is to reward or punish primarily on the basis of results because such incentives will correctly be perceived as unfair” (p. 595). In such cases he suggests that the system should connect incentives to processes further down the cause and effect chain “that we hope will lead to results, because only these are controllable” (p.595). This is also argued by the NAO (2008) who suggest that this is a useful approach, but only where the connections between the outputs and the desired outcomes are understood. Another concern with outcomes is that many take a long time to be achieved. Swiss (2005) indicates that incentives need to be tied to results that can be achieved within the time frame of the incentive system. Again the NAO (2008) mirrors this argument, suggesting that short –term outcomes could be used as long as these can be demonstrated to have a clear correlation with the desired long-term outcomes. Although these arguments suggest that using short-term outcomes is more appropriate there are theoretical and practical problems outlined in section 4 which demonstrate the difficulties of producing good indicators of intermediate outcomes that reliably link to the desired final outcome.
A further consideration which applies to all types of reward schemes is that the value of the reward needs to be high enough to motivate the agent. The NAO (2008) identified a number of cases where it was felt that the size of the reward was not sufficient to motivate the desired behaviour. However, if the reward is very high as a proportion of the resources that the organisation needs to acquire then this has the potential to have a very strong impact. In these cases the reward is described as ‘high stake’ or ‘high intensity’. As Sturgess et al., (2011, p.42) point out “any distortions in the design of a measurement scheme will be magnified if the associated incentives are ‘high-stake’ with the potential for large gains or losses on the part of the provider”. Literature suggests that in order for sanctions and rewards to be meaningful to agents, they need to be applied in the way that is expected. The NAO (2008) indicates that over 40% of respondents to their survey said that rewards and sanctions were not always applied consistently. A lack of consistency and transparency may mean that agents are not effectively motivated by the regime.

In Wales, the allocation of the reward grant in local authority outcome agreements is less focused on the achievement of outcome targets than agreements in other countries as they reward both processes and outcomes. In addition, there is discussion and debate with civil servants about the level of performance achieved. Local authorities also have the opportunity to ask for amendments in the targets in their agreement if there are significant unforeseeable circumstances that arise. In theory, this approach should mitigate against some of the possible negative effects outlined above. The following section outlines the initial findings on the issue of managers’ experience of incentives in the outcome agreement regime.

The evidence from interviews was that financial rewards were a major factor in motivating staff and politicians to achieve the targets in the Outcome Agreement. Almost every interviewee highlighted this as being a key issue. For example, one manager stated “there is absolute clarity that it is critical that those issues that are in the outcome agreement are delivered and the incentive for that is the funding”. Another commented that “…because there’s a financial incentive to the council it’s been monitored closely and there is a real expectation that we will deliver against the agreement”. One manager stated that “Obviously it was stressed to us that it was important because there was money resting on it, a couple of million or whatever….in that sense there was pressure to get it right because obviously we didn’t want to be the ones that cost the council two million quid”. Another manager explained how the process would operate “if we fall short and Welsh government decide we are
sufficiently short they’ll withhold some of the money and we’ll have to be dragged up to the Chief Executive’s office and explain ourselves. This helps to sharpen the process”.

Many interviewees commented that the reward grant would be part of the base budget of the authority and was not viewed as an ‘extra’. However, in some cases there was a perception that their service might be viewed more favourably if they did well. One manager for example stated that “the finance from a departmental point of view is irrelevant really because the money comes into the corporate centre but it can always influence what you get next year...”. Another said that “we’ll be talking about the budget setting process now for next year and the pressures that we’re under...well I can refer to this part of the plan... and it’s well, you know...you want us to deliver on these priorities that I’ve got, you know...”. Most senior managers had a reasonable knowledge of the way in which the outcome agreement was rewarded and what they had to do to contribute to the gaining of the financial reward. For example, one interviewee stated “I am aware that there is a points system and that I have to hit green....I think you are aware at the back of your mind that it is linked to funding. I don’t know how many points mine would contribute to bring you out at the right level because obviously, as I said, I’m one of ten and I’m not sure of the mechanism of how they build those points up”. A number of managers felt that the financial element was crucial for motivating politicians and that it was a key element of the regime for them, with one manager saying “elected members are aware of the outcome agreement – once a year when the reward grant is due”.

Some interviewees felt that the amount of the grant was important and that it was at about the right level: “we’ve succeeded in getting the money each time. It’s big but it isn’t all important. Perhaps the right sort of scale isn’t it? It means you don’t distort everything in order to achieve, but it’s enough to say that it’s important”. However, some felt conversely that it was too little, especially those from smaller authorities as the reward grant is pro rata to the Revenue Support Grant that authorities receive. Although the reward grant amounts to approximately 1% of a local authority’s funding some managers felt that total amount they received was small in relation to the work of developing and monitoring the agreement. One said that “the amount of grant that we get is small because we are a small authority and we have to do a lot of work for a relatively small amount of money”.

Only a few managers commented on the question of whether the rewards were applied in the way they expected. This probably reflects the fact that the majority of those interviewed had received the full reward grant. Those managers that worked for an authority that had not received its’ full
grant were sometimes unhappy about the decisions that had been made. For example one manager said “I can remember being very disappointed early on...because we’d missed the deadline to get the returns back by one week”. Another commented that they had lost a point because they missed the target by three months. On a broader note, one manager was concerned about the consistency of decision making, noting that there are a number of civil servants who deal with allocating the reward grant.

There were some suggestions that the reward grant had led to some gaming in terms of the choice of indicators. One stated that “that’s a problem with financial incentives. It would prompt you to be a bit more cautious in what you’re trying to do” and another arguing that “Inevitably, because there is money attached to it and you have to demonstrate delivery, what do you opt for?...there have to be proxy measures that you know we already collect because we’re not going to forego what is for the council a significant sum, of monies. It’s not immense but it does make a difference”. Another manager commented that “you don’t want to shoot yourself in the foot by setting a target that you can’t achieve. As a manager you may sometimes want to set stretch targets and you may want to set targets that you can achieve comfortably...”. Despite these comments, many managers talked of being required to add indicators to their agreement or to increase them by Welsh government officials. One interviewee was somewhat cynical about the process suggesting that “it’s a game. Our authority will normally play the game”.

It is possible that outcome based agreements will not act as a motivating force if local authorities feel that they have little leverage over their partners. In this case, those in local authorities may become de-motivated if they are accountable for an outcome that they cannot control. One of the arguments out forward by the NAO (2008) is that those involved must be able to influence the outcome that is being incentivised. There was some evidence that this had been an issue for authorities in selecting the outcomes for inclusion in the agreement. For example, one manager stated that “this is a council that likes control over its own destiny, so it very much wanted to be sure it wasn’t dependent upon others who might not deliver and therefore jeopardise the money that was available”. As the previous section highlighted, many managers felt that they were not able to completely control the desired outcome. However, this did not lead to them ‘giving up’ on the outcome. They still felt there was an incentive to achieve it and found ways to minimise the risk such as persuading and influencing service users and partners. In some cases managers had minimised
the risk by trying to make sure the targets that were set were achievable. This links to what Hood (2006) describes as gaming.

It was clear that there were other incentives operating at the same time as the Outcome Agreements’ financial reward. In one or two cases, managers felt that they were very accountable for the indicators in the outcome agreement but that the most important incentive was not the fact that the indicators were part of the agreement but that they were targets committed to for other Welsh Government or European policies (with their own financial rewards or punishments). This varied significantly by service.

In addition to the incentive of financial rewards, interviewees often raised the issue of reputation. The agreements were an opportunity to raise their service’s profile in the authority and sometimes within partnerships, and this acted as a motivating force. For example one manager said “it was helpful then to have this opportunity to include it within the outcome agreement to ensure that this profile was maintained at the right level”. Another said “as a relatively small service it’s very important to me that my service is making an impact corporately and the partners and that we’ve got a profile and that we’re seen to be delivering, and delivering something of value”. Managers were also aware of those authorities who had not received the full grant in the past and this was expressed more in terms of the negative impact on their reputation than on their finances. One manager described their experience of not receiving the full grant, saying “...it was embarrassing...”. The importance placed on reputation by interviewees reflects evidence on the impact of the Comprehensive Performance Assessment (CPA) in England. Boyne et al. (2010, p.210) indicate that “CPA is part of the gossip-world of interested professionals, where both good and bad performance gradings affect the reputations or organisations and the careers of those working in them”. Although this is by no means the only, or the most important incentive operating in relation to outcome agreements it is clear that reputation is one of them, and that the close networks in Wales ensure that failure or success is widely known.

There was no evidence that financial rewards had crowded out a public service ethos. Although managers felt that the process could be improved in various ways, they were mainly pragmatic and accepting of the regime. Many interviewees raised some concerns about measuring and targeting outcomes but a significant number agreed with the principle of focusing on outcomes and felt strongly that thinking about what difference you had made was ‘the right thing to do’, and was ‘what their
job was really about’. This chimes with the evidence found by Quereshi (1999, 257), that social workers found that collecting and using outcome information was broadly positive and that “results for service users and carers were at the heart of ‘authentic’ ideas of effectiveness...”.

Overall, the financial reward has acted as a strong incentive for local authorities to hit their outcome targets. This was true even though some of the indicators in the agreements were outcomes and therefore hard to control. However, many managers felt that it was unfair to have financial rewards for outcomes that involved partners. There were other intrinsic and extrinsic incentives working at the same time as the financial reward. These were the public service ethos, and both individual and organisational reputation.
7. Outcome Agreements and Performance

One of the aims of Outcome Agreements is to improve outcomes. In the forward to the prospectus for Outcome Agreements in Wales the Minister writes to local authorities that “You should prioritise to ensure that the outcomes that are the greatest local concern are improved, and improved quickly”. Currently there is only limited evidence on the impact of this type of agreement. Both Boyne and Chen (2007) and Doran et al., (2011) found that outcomes improved, in relation to Education and Health respectively. However, we do not know conclusively if these findings would be replicated for all services in the Welsh outcome agreements. The evidence that we have on the number of authorities that have achieved the full grant (19 out of 22 in 10/11) (Annual Report on the Programme for Government, 2012) suggests that the vast majority have met their targets. This indicates that outcomes could be improving, however some of the targets in the agreements are measures of process (which may be connected to a final outcome) and it is therefore difficult to say with absolute confidence that outcomes have improved. It is important to note that if managers game the targets by choosing some that are relatively easy to hit then this would not lead to ‘real’ improvements in performance. In common with most evaluations, it is difficult to isolate the impact of outcome agreements precisely. It may be possible to do this by running a statistical model which examines authorities’ performance on various indicators, identifying those that are in the outcome agreement, and which holds constant contributory factors such as the existing trajectory of performance and funding. Although this could provide some useful analysis of the effect of outcome agreements on performance, it would only work for that sub set of indicators that are reported on by all authorities.

Despite the difficulty of producing definitive evidence in relation to the contribution that outcome agreements make in improving outcomes for local people, it is possible to come to some tentative conclusions. The evidence in this report indicates that Outcome Agreements have led to a very strong focus on performance management of the targets that are in each agreement. This focus has been strengthened by the desire to achieve the financial reward as well as other motivations. There is some evidence of gaming in relation to the selection of the targets, but there are also examples of Welsh government officials challenging this and asking for higher or different targets. It is therefore difficult to identify precisely what the impact of this has been. The balance of the existing academic evidence on performance management suggests that it leads to better performance and, if the gaming is minimal, it is possible to suggest that outcome agreements have contributed to improved outcomes.
11. **Conclusion**

The research demonstrates that outcome agreements have had an impact. In particular, managers clearly feel accountable for the achievement of the actions and indicators in the agreements. They also felt that the financial rewards were a significant incentive and that broadly, they acted as a motivating force. A majority were not comfortable with the principle of being accountable through the agreement for outcomes delivered with partners, but in practice many managed this aspect well, with some using it as a lever to persuade and ‘manage’ their partners. It is difficult to say conclusively if outcome agreements have led to improvements in performance. If the targets were set at the ‘right level,’ without gaming by managers, it is possible that outcomes for citizens have improved. In addition, outcome agreements have contributed to learning by managers of outcome based management or RBA, which currently seems likely to continue in Wales, as in other countries. It is important to note, as others have, that to do this well, including services users in the process, involves a change in culture, not just a new ‘regime’ and that this will require time and sustained commitment.

**Issues to consider**

a. There are a number of plans that local authorities and their partners produce and in many cases there are attempts to make these more outcome focused. It would be useful to clarify the links between these and to streamline where possible.

b. The choice of what actions and indicators to include in the agreement is important as managers will seek to achieve these. There should be some reflection on the appropriate balance between process, output and outcome indicators but there is unlikely to be a uniform solution as services vary considerably in relation to the clarity and complexity of their ‘cause and effect’ chain. Policy/ performance officers in local authorities and Welsh government officials have both played a role in developing and challenging the indicators and targets used in the outcome agreements and this has led to them being more outcome focused. However, the process of developing the agreement is the element that many involved find the most burdensome. This may reduce as managers develop more experience in setting outcome focused indicators but thought should be given to ways to improve this process. This could involve both communication and training.
c. The financial reward is important in providing an incentive for local authorities. However, many found it to be more of a ‘stick than a carrot’. It is important to have the right level of financial incentives as if it becomes too ‘high stakes’ then negative side effects such as gaming are likely to become stronger. Other incentives also operate such as the desire to improve services for users and to protect and enhance the organisation’s reputation. Those involved could consider ways to draw on these other intrinsic and extrinsic incentives.

d. Outcomes often require collaboration but local authorities are wary of the risk involved when these activities are linked to financial rewards. However, the financial reward provides a strong incentive for local authorities.

e. Managers have gained knowledge and experience of ‘managing for results’ but if the approach is to become more widespread then more training and/or support may be required. This does not necessarily need to be on RBA but should focus on defining, measuring and managing for outcomes. An important element of outcomes focused management is that it is focused on outcomes as defined by service users, not professionals and this is an aspect that could usefully be explored further.
9. References


Welsh Government. 2010. *Prospectus for Local Authority Outcome Agreements.*


