



▶▶ **THE TANSLEY LECTURE**

*Strategic Targets for Public Services:
Lessons for Canada from the English Experience*

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April 18, 2013
Conexus Arts Centre
Regina, Saskatchewan

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ISSN 1915-643X

ISBN 978-0-7731-0723-6

The Tansley Lecture Series is presented by the Johnson-Shoyama Graduate School of Public Policy and is sponsored by the Canada Research Chair program.

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ACKNOWLEDGEMENTS

I am grateful to Greg Marchildon for extensive guidance on preparation of this lecture. The material is in part based on an earlier report prepared for the International Monetary Fund on the operation of the PSA system.



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INTRODUCTION

A fundamental concern of all modern economies—especially since the banking crisis and subsequent events—is how to get the best value for money from their public services. This has led to increased interest in the governance arrangements for public services. The word ‘governance’ derives from the ancient Greek word for ‘steering’, and I think of governance as comprising three fundamental elements necessary to steer the ‘ship of state’: setting priorities, measuring attainment of those priorities, and putting in place accountability arrangements to stimulate corrective action when circumstances demand.

Many countries have experimented with refinements and reforms of their public service governance arrangements as they seek to squeeze heightened value from very constrained budgets. I shall talk about one of the most radical and controversial efforts, attempted by the UK Labour government under Tony Blair, which from 1997 sought to revolutionize the way in which UK public services were planned and delivered. In particular, it put in place a system of explicit objectives and measurable national targets for government ministries, in the form of what are known as Public Service Agreements (PSAs). Each ministry was held to account for its performance against its targets.

As an academic, I have a long-standing interest in the use of performance information in the public sector. In my early studies I had been serially astonished at the extent to which governments and those

responsible for running public services paid so little attention to issues relating to performance. I therefore observed the PSA experiment with great interest. I advised the prime minister's office on the initiative, was a member of the finance ministry's Performance Information Panel (which scrutinized proposed targets and devised measurement instruments), and served in several roles in the detailed implementation of targets within the health ministry.

The PSA system was a major departure for public services in the UK, and indeed—so far as I am aware—in any modern democratic state. It sought to introduce a level of rationality and transparency to policy making that had never before been attempted within market-based democracies. As I shall explain, it did without question deliver many benefits in the planning and delivery of public services. However, it also led to serious tensions within some of those services and exposed some major difficulties that arose in the implementation of such targets. The system was abandoned with the arrival of a new coalition government in 2010, but there remains an important legacy of the PSA experiment. In this lecture, I first summarize the history of PSAs and illustrate with some examples from the health ministry. I then discuss some of the major issues that arose when seeking to implement the PSA regime and assess its effectiveness. I conclude with comments on the general lessons learned from the PSA experience, with some reference to the Canadian situation.

BACKGROUND

The Blair government came to power in 1997 with a commitment to evidence-based policy, to systematic priority setting, and to explicit performance targets throughout the public services. This led to a Comprehensive Spending Review (CSR) in 1998 that set three year budgets in advance for each government ministry. The break with annual budgets was intended to offer ministries more medium term certainty within which to plan reforms. After the budgetary agreements were concluded, the government announced a set of Public Service

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Agreements (PSAs) with each ministry to signal priorities across the entire range of government activity. These were expressed in the form of about 600 specific objectives.¹

In introducing the PSA system in 1998, the government had a number of objectives (House of Commons Public Administration Select Committee 2003):

- offering a clear statement of what it was trying to achieve
- giving a clear sense of direction and ambition
- introducing a focus on delivering results
- forming a basis for deciding what is and what is not working
- improving accountability

PSA objectives were intended to have a number of distinctive features. They were to be expressed as a target in measurable form, to be achieved within a designated time frame, and to focus on the *outcomes* of the public services rather than the operational activities of public service delivery.

Although these principles were pursued as an ambition, in the first 1998 incarnation the detail, specificity, and measurability of the PSA targets were highly variable. For many ministries, the initial targets related more to processes, procedures, or outputs. For example, a target for the Ministry of Defence was to “create new Joint Rapid Reaction Forces, which will be fully operational by October 2001.” Indeed, it was never clear to me what an outcome-based target for the defence ministry would look like—number of wars averted? In contrast, the Home Office (justice ministry) had a very specific target by 2001 to halve the time from arrest to sentence for persistent young offenders, but this was alongside a much vaguer target to “improve victims’ and witnesses’ satisfaction with their treatment by the criminal justice system,” for which no baseline or measurement instrument was specified.

1. Access to these and subsequent Treasury documents can be secured through http://www.hm-treasury.gov.uk/spending_review/spend_index.cfm

The first set of PSAs was reviewed in the government's first Spending Review in 2000. Several principles were applied in the review, including a commitment to focus on only the government's key priorities, to move towards a more widespread emphasis on outcomes rather than processes or outputs, and to adopt a longer time horizon. This resulted in a marked reduction in targets (from 600 to about 160) and the introduction of four 'cross cutting' PSAs that introduced joint targets across several ministries.

Subsequent Spending Reviews in 2002 and 2004 offered further consolidation and refinement of the principles developed for the PSA regime. The stated number of targets across all of government was further reduced from 160 to 126, and there was much improved continuity in their scope and definition. An important new development was the increased direct interest of the prime minister in the PSA process. This was manifest in the creation of the Prime Minister's Delivery Unit (PMDU), with the objective of assuring progress towards key PSA targets, especially in health, education, crime, and transport. The PMDU sought to "improve public services by working with departments to help them meet their PSA targets consistent with fiscal rules." Although challenging, it offered practical guidance to the relevant ministries and provided regular performance updates directly to the prime minister. In more populist language, it was the prime minister's enforcer.

The PSA system was subject to a fundamental review in 2007, under the new prime minister, Gordon Brown. Whilst the principle of PSAs was retained, they played a less central role in the budgetary process. There was an emphasis on just 30 PSA targets for particularly difficult but important 'cross-departmental' objectives, such as "building more cohesive, empowered, and active communities" and "tackling poverty and promoting greater independence and well-being in later life." Although each target was assigned to a 'lead' ministry, it is likely that the rather general formulation of these objectives led to a diminution of focus and impact of the PSA regime.

CASE STUDY: PSAS FOR THE DEPARTMENT OF HEALTH

To illustrate the evolution of departmental PSA targets, I shall examine the experience of the English Department of Health, which manages the single largest and one of the most complex components of public services. It is also the area in which most of my more recent research has been focused, and my understanding is that the Canadian provinces suffer from many of the same challenges as the English health system.

In common with other government ministries, the department had strategic targets set as part of the PSA system from 1998. A particularly important issue was patient waiting times, where the objective was to “to treat people with illness, disease or injury quickly, effectively, and on the basis of need alone.”

Hospital waiting times for non-emergency treatment have always been a particular problem in the English NHS. In 2000, a specific target was set: “Reduce the maximum wait for an outpatient appointment to three months and the maximum wait for inpatient treatment to six months by the end of 2005.” Two years later, this was augmented to include “...and to achieve progressive further cuts with the aim of reducing the maximum inpatient and day case waiting time to three months by 2008.” In 2004, the target became “to ensure that by 2008 no one waits more than 18 weeks from general practitioner referral to hospital treatment.” The 18 week target is now embedded as a patient right in what is known as the NHS Constitution (Department of Health 2010).

The Department of Health secured adherence to its targets by very close ‘performance management’ of local service providers. The most important initiative was the development of a system of ‘performance ratings’ for individual National Health Service (NHS) organizations. From 2001 to 2008, every organization was ranked annually on a four-point scale (zero to three stars) according to a series of about forty performance indicators. The indicators were intended to directly reflect the objectives of the NHS, as embodied in national PSA targets. Waiting times played a prominent role in performance ratings.

The most striking innovation associated with performance ratings was the introduction of very strong managerial incentives dependent on the level of attainment, which some commentators characterized as a regime of ‘targets and terror’ (Bevan and Hood 2006). Performance indicators (especially the key targets) became a prime focus of managerial attention. Rewards for performing well included some element of increased organizational autonomy. For example, the best performers in the acute hospital sector became eligible for considerably greater autonomy from direct ministerial control. The jobs of chief executives were at risk in organizations that persistently failed to meet their targets.

The response to performance ratings amongst NHS managers was mixed. Many criticised the system because of the apparently arbitrary way in which the ratings were calculated, and their sensitivity to small data fluctuations. However, some acknowledged that the system gave managers better focus and a real lever with which to affect organizational behaviour and clinical practice. Reaction amongst health care professionals was less ambiguous. The widespread view was that political targets distort clinical priorities and undermine professional autonomy. This is hardly surprising, as one of the aims of national and local targets was precisely to challenge traditional clinical behaviour and to direct more attention to issues that had not always been a high priority, such as waiting times.

There is no doubt that performance ratings delivered major improvements in the aspects of NHS care they targeted. For example, very long waits for non-urgent inpatient treatment, a prime focus of the PSA regime, were steadily eliminated. The Commonwealth Fund International Survey found that 23% of UK patients waited less than a month for elective surgery in 2001, compared to 59% in 2010. The comparable figures for Canada were 37% in 2001 and 35% in 2010 (Schoen et al 2010).

Other PSA health targets, however, were less successful. Targets to increase life expectancy at birth in England and to reduce inequalities in health were given much less attention, perhaps because attainment was known to be largely outside the control of the health ministry. This represents one of the key challenges of explicit target setting and, indeed, of public sector management—how to hold ministries to account for outcomes that are largely (but not entirely) beyond their direct control. The solution would be to develop performance measures that capture only the specific contribution attributable to the ministry, a technically challenging undertaking.

Furthermore, although PSAs secured marked success in the targeted domains, there were sometimes serious, unintended consequences of the targets regime. Examples from the health sector included neglect of unmeasured aspects of performance (e.g., clinical priorities being sacrificed in the pursuit of reduced waiting times), distorted behaviour (e.g., refusing to admit patients to accident departments until a four hour waiting time target was achievable), and fraud (e.g., manipulation of waiting lists). Indeed, it is noteworthy that the incoming coalition government in 2010 ostentatiously declared an end to what it called the ‘politically motivated’ targets implicit in the PSA regime.

The most serious challenge to the concept of specific service targets in the health sector is illustrated graphically in the case of Mid-Staffordshire Hospital, close to Birmingham in the English midlands, where a catastrophic collapse of clinical standards and compassionate healthcare in the late 2000s led to estimates of several hundred ‘excess’ deaths. The recently released final report of the public enquiry documented the development of a culture in which maintaining patient dignity and the quality of care became less important than adherence to targets and financial discipline (Francis 2013). This appalling case illustrates with some force the potential tension between centrally determined targets and professional standards. Whether the target regime was a major contributory factor to the events at Mid-Staffordshire remains a matter for debate. However, it is without

question a salutary reminder of the risks of seeking to reduce public services to a narrow set of managerial targets.

DISCUSSION

The experience with PSAs in the health domain was largely replicated in other ministries. There were some notable successes, particularly where delivery of public services was a central concern, such as improvements in measured police performance and focusing attention on numeracy and literacy in schools. In other areas, such as environment and defence, profound measurement difficulties became apparent. Progress was less marked when external influences on attainment were important, or where collaboration between ministries was required.

So what is the verdict on the 12 year UK experiment? PSAs, and in particular the associated targets, became a central element of political discourse in England. Without question, they succeeded in shaping the priorities and delivery of public services, although whether that influence was for the good remains a matter of fierce debate. On the one side are those who claim that, by focusing on outcomes and stating firm measurable targets, PSAs helped to ‘modernize’ public services. On the other side are those who claim that, through their simplistic view of priorities, PSAs undermined the traditional public service ethos and rendered those services dysfunctional.

PSA targets certainly delivered noteworthy successes, such as the reduction in NHS waiting times. However, alongside the manifest intended improvements in many of the measured PSA targets there were widespread reports of adverse side-effects in other, often unmeasured, aspects of public services. Many of these reports are anecdotal and may be apocryphal, but some have been credibly documented, similar to the health examples given above.

Unintended and adverse responses were readily predictable based on the experience with central planning in the former Soviet Union (Nove 1980). These responses offer a powerful caution against sole reliance on

a targets regime for securing improvement and illustrate the need to put in countervailing instruments where necessary, an issue to which I shall return in my conclusions (Smith 1995).

Generally, the UK experience with PSA targets raises a number of unresolved issues that have general relevance for the management of public services everywhere. I raise six of these now, more as matters for discussion than questions to which I have any persuasive answers.

- Who should choose the targets?
- What targets should be chosen?
- When should outcomes be used as a basis for targets?
- How should targets be measured and set?
- How should cross-ministerial targets be handled?
- What accountability mechanisms should be attached to targets?

1. Who should choose the targets?

In principle, it seems perfectly reasonable and, indeed, honourable for a legitimately elected government to set out its objectives and targets in the explicit fashion of the PSAs. One of their core roles was to enhance political accountability. Through the PSAs, the government could be held to account by parliament and the electorate, both for its choice of priorities and for its performance against the targets.

Yet some argued, for example, that the professionals delivering the public services should have a greater say in influencing the nature of the targets. There is an element of good sense in this principle, because the outcomes of many public services rely very heavily on the engagement and commitment of front line professionals. And yet it is also the case that the priorities and working practices of those professionals can impede progress towards desired objectives. To some extent, the PSA process sought to challenge traditional ways of delivering public services; therefore, at times it inevitably came into conflict with the professions.

It is also frequently suggested that service users should have had more say in setting PSA targets. However, setting objectives involves considerations beyond immediate users of a particular service, such as the taxpayer perspective, the interests of future users, and the interests of users of other services. My own view is that any prudent government seeking to implement a PSA type process would be well-advised to consult many relevant stakeholders about the choice of objectives and the nature of targets. However, a prime role of government is to balance conflicting claims on public resources. In the end, targets should be an explicit and succinct statement of the government's choice in that respect.

2. What targets should be chosen?

Multiple objectives are a characteristic of public services—indeed, it can be argued that the existence of multiple objectives, many of which may be hard to quantify, is one of the defining characteristics of public services and one of the reasons why they cannot (at least in their entirety) be delivered by competitive markets.

One of the intentions of the PSA system was to focus on a limited number of objectives. This required tough political choices. The early PSAs failed to recognize this and therefore defined too many priorities. Subsequent spending reviews addressed this issue by focusing on a greatly reduced number of targets.

Experience strongly suggested that targets should focus on domains where manifest change is required, and that other areas of performance should be kept under surveillance through more routine monitoring of standards. If a domain was not included in the targets regime, it was not necessarily an indication that it was unimportant. Rather, it suggested that it was not a priority for urgent change. The most successful ministries did not allow targets to distract them from other 'bread and butter' aspects of performance.

3. When should outcomes be used as a basis for targets?

From the outset, the architects of the PSA system recognized that it is usually the *outcomes* of public services that matter to most service users and the broader public. In principle, the outcomes focus enables public service organizations to look beyond traditional ways of delivering their services and traditional organizational boundaries. This had some marked successes in the English PSA system, such as a reorientation in police services from the traditional perspective of solving crime to crime prevention and reducing the fear of crime.

However, the focus on outcomes can give rise to difficulties. For example, some outcomes (such as wars averted by the Foreign Office) are intrinsically unmeasurable. Even if they can be measured, some outcomes (such as reduced mortality from smoking) can take years to materialize, beyond the lifetime of most governments. Furthermore, some outcomes (such as the alleviation of world poverty) are particularly vulnerable to influences beyond the control of the government department under scrutiny. Each of these difficulties offers the ministry an excuse for apparent failure and can undermine the targets process.

On the other hand, it is clear that the use of more limited process measures can distort behaviour, inhibit innovation, and lead to unintended outcomes. For example, the Department for Education and Skills was asked in 2004 to “increase the stock of ... registered childcare by 10%” by 2008. The real desired outcomes, as stated in SR2004 were “supporting child development, removing barriers to parental employment and alleviating child poverty.” However, it is not at all clear that the chosen output target addressed these issues. It certainly did not encourage innovative approaches towards helping children to flourish.

In short, outcome measures address what matters to the service user and the citizen, encourage new ways of delivering services, and are less vulnerable to distortion. It therefore seems unanswerable that outcomes

should inform all targets. However, I do think there were times when a focus on rather nebulous concepts of outcome diluted the drive to build better public services. There will be occasions when a carefully chosen process measure—which evidence shows is clearly linked to the eventual outcome—may form a very effective basis for a target.

4. How should targets be measured and set?

An attempt was made to quantify attainment of even the most elusive objective, such as measuring improvements in “children’s communication, social and emotional development” through use of a new national survey instrument by the education ministry. Quantification is without question a good principle to pursue, as it will, in general, allow the government to set ministries concrete targets. However, it does run the risk of distracting managerial attention from important qualitative aspects of performance. It seems important that progress towards quantified targets be accompanied by a narrative describing success and failure in more qualitative terms, particularly if data is unreliable or vulnerable to manipulation.

The National Audit Office (2005, 2006) scrutinized the data systems used to monitor and report progress against all PSA targets from SR 2002, and found varying levels of success:

- 30% were fit for purpose
- 29% were broadly appropriate, but systems needed strengthening (such as improving controls over data collection and documentation, and improving checks on data obtained from external bodies)
- 18% were broadly appropriate, but disclosure needed strengthening to explain data limitations to the public
- 12% were not fit for purpose, most commonly because of design problems (the systems established did not measure adequately the aspects of performance included in the target)
- 6% were not yet established
- 5% were too early to judge

A particular feature of PSA targets was the specification of explicit levels of attainment. This was an important element of the process, but was applied with inconsistent rigour. To be effective ‘managerial’ instruments, targets should be stretching but attainable, suggesting (for example) a one in three risk of failure. However, few governments would want to face parliament or the electorate with such a high proportion of failures. From an accountability perspective, a government would wish to feel there was a good chance of attaining all targets. It is difficult to see how this tension between the managerial and the political roles of targets can be satisfactorily resolved, unless the political process becomes mature enough to recognize that some failure is inevitable and not necessarily adverse if progress is nevertheless being secured.

5. How should cross-ministerial targets be handled?

A focus on outcomes sometimes gives rise to objectives that are not obviously attached to a particular ministry, leading to the need to specify ‘joint’ targets that transcend departmental boundaries. Such targets gave rise to particular difficulties in the PSA process, and they represent a challenge to existing ministerial structures that have not yet been satisfactorily resolved. In the context of a federal government like Canada, the joint efforts of federal and provincial governments to achieve national objectives add an additional twist to this conundrum. In short, joint targets give rise to problems of coordination, persuasion, and engagement that must be addressed if targets are to be successfully achieved.

6. What accountability mechanisms should be attached to targets?

There are four broad types of accountability mechanism found in the public services:

- Electoral processes, under which citizens in general offer a judgement on the performance of services
- Market mechanisms, under which service users pass judgement through exercising choice of provider

- Professional regulation, under which relevant professions assure the quality and appropriateness of services provided
- Command and control, under which centrally specified objectives are pursued directly through hierarchical public sector structures

As implemented, the PSA regime relied very firmly on the last of these, command and control. Yet there is no reason why—in principle—a targets regime should not inform the three other accountability mechanisms. Indeed, I would argue that the critical feature of any good governance regime is to provide relevant and reliable performance data with which voters, service users, professionals, and politicians can make good decisions. The prime contribution of the PSA regime was to determine which aspects of performance would be highlighted, and to introduce some quite sharp managerial incentives to pursue the associated objectives.

The main instrument for scrutinizing the progress and assuring the success of PSAs became the PMDU. Its continuous monitoring, strong and timely intervention powers, and sustained political attention at the highest level made an essential contribution to the longevity and high profile of the system. The development of the PMDU was an indication that command and control was the prime accountability model underlying PSAs, and that the architects of the system did not envisage a major role for the other forms of accountability.

ASSESSMENT

In broad terms, it is difficult to argue with the claim that the PSA was successful in securing many of its objectives. However, the regime introduced numerous unintended challenges and anomalies. It became clear that to be successful the PSA regime had to be augmented by a number of other mechanisms. A series of ministerial Capability Reviews by the Cabinet Office (2006) noted that “... whilst progress against PSAs and other top targets is necessary and welcome, it is not sufficient

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for delivering high quality performance across the whole system.” Furthermore, the Mid-Staffordshire example is an illustration of the potentially catastrophic consequences of failing to align targets properly with other regulatory mechanisms.

Some of the more important institutional requirements for the implementation of regimes such as the PSA system included:

- sustained political commitment, at the very highest level
- nimble central government organization (e.g., PMDU) responsible for timely monitoring, reporting, and (where necessary) intervention
- continued monitoring and regulation in domains not directly covered by targets
- high-quality performance management skills within the ministries
- carefully crafted mechanisms for transmitting targets to service providers
- strong collaborative arrangements for domains that cross traditional ministerial boundaries
- careful integration of central and local government priorities
- strong national data audit and surveillance capacity
- engagement as appropriate with relevant stakeholders, including user groups, professional organizations, and the voluntary sector

Without question, the PSA system offered a useful framework within which to set governmental priorities. It gave the finance ministry an opportunity to survey the whole domain of public services, to assess the relative merit of alternative claims on resources, and to choose priorities. It required ministries to expose their plans to critical scrutiny, and receive funding conditional on acceptance of explicit targets.

The PSA system also furnished important evidence for expenditure reviews. First, it might identify ‘delinquent’ ministries that are not making good use of their budgets. Second, it might signal domains

where government spending is highly effective (or ineffective), irrespective of the ministry's competence. However, interpreting measures of attainment will always be problematic. The Soviet experience offers numerous examples of the perverse incentives that arise when budgets are based on attainment of central targets, along with the associated distortionary consequences.

In contrast to many previous 'target' initiatives, a noteworthy feature of the PSA regime was its success in securing sustained attention at the highest ministerial level. The responsibility for attainment of targets lay with ministers, and there is one instance of a minister resigning in response to poor performance against targets (Education Minister Estelle Morris). In general, however, there was rather weak public and parliamentary scrutiny of performance, and it was unusual for a minister to feel fatally exposed by poor performance. Nevertheless, the main (quite powerful) incentive operating on ministers was to attain targets in order to maintain a reputation for competence. Senior civil servants similarly had a concern for reputation.

There was limited evidence of material incentives operating on ministries more generally. Perhaps the most direct incentive was the threat of receiving a 'hard time' from the Treasury or the Delivery Unit. Serious under-performance led to escalating levels of intervention from the PMDU, with loss of autonomy and potential damage to reputation for those directly involved.

In conclusion, the UK PSA system offers an immensely rich source of experience in seeking to apply consistent, outcome-based performance criteria to the management of public services. Without question, it delivered some major successes within the UK public services. It offers a wealth of material relevant to those seeking to secure improvements in the quality and efficiency of public services, with lessons for all types of modern economy.

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I have no detailed knowledge of the Canadian situation, but I am aware of its extremely decentralized structure, and the interesting tensions that arise between federal and provincial governments. The UK is grappling with a recent trend towards devolution of powers to its member countries, but seems like an infant relative to Canada's mature federation. Decentralization of powers gives rise to some added complexity in governance of public services, but I feel that the issues of priority setting, performance measurement, and accountability mechanisms addressed by the PSA system are universal. I hope you can take home a few messages of relevance to your own setting.

My own view, in a nutshell, is that the PSA system addressed important issues in securing improved hierarchical control of public services. It was particularly useful for addressing urgent priorities for improvement. However, it also exposed important limitations to the concept of command and control. It paid too little attention to the other three modes of accountability—the electorate, the market for service users, and professional oversight and regulation.

Most successful public sectors do not rely exclusively on any one of these modes, but rather exhibit the checks and balances provided by mixed models of accountability. The common feature of all accountability is the need for high quality performance information, required on a consistent basis from all relevant jurisdictions and providers. My advice would be to pursue the development of such performance information as the fulcrum for all performance improvement efforts, and to ensure that there are fully functioning democratic processes, markets for service users, and professional scrutiny, as well as adequate public administration capacity. All of these can then take full advantage of using that information to promote improvements in our public services.

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ISBN 978-0-7731-0723-6