



## Committee comment and next steps

### Introduction

- 4.1 This Chapter details the Committee's views on a range of issues considered during the inquiry, including:
- general comments
  - achieving a 'clear read' of performance information
  - developing criteria that performance information should satisfy
  - the need for leadership
  - improving outcomes and accountability through monitoring, reporting and evaluation
  - corporate plans
  - annual reports and annual performance statements
  - performance information in Portfolio Budget Statements
  - next steps.

## General comments

- 4.2 Developing a more robust performance framework has been an area of focus for the Committee for several years. The Committee has continued to find issues with both the supporting framework itself and implementation of improved performance reporting amongst entities. The Committee therefore strongly supports the intent of the Framework's reforms.
- 4.3 The Committee commends Finance for the substantial amount of work it has done to date in this endeavour. The establishment of legal obligations for entities to comprehensively consider and report on performance information for the first time is a substantive achievement.
- 4.4 Of particular note is Finance's significant consultation with the diverse range of affected entities, and the production of an extensive set of quality guidance. The Committee is confident that Finance's effort and diligence in this regard means that entities will be well informed of their obligations under the PGPA Act and should be well positioned to make the most from the new regime.

## Achieving a 'clear read' of performance information

- 4.5 All stakeholders acknowledge the importance of a 'clear read' of performance information. It is crucial that the opportunity to drive improvements in this area is now taken.
- 4.6 A 'clear read' means that performance information is being presented clearly and consistently across all relevant reports produced by an entity within the annual reporting cycle and also across several annual reporting cycles. The Committee believes that a 'clear read' also relates to the comparability of information across several entities – in terms of consistency of reporting structure and level of information provided. A further issue is the ability to clearly communicate the performance of co-delivered or 'joined-up' programs – those that are managed by multiple government entities.
- 4.7 The Committee acknowledges the potential benefits offered to entities by the new Framework in terms of its flexibility – allowing entities to tailor performance information to suit their specific circumstances. However, the

previous Auditor-General highlighted that performance information under the new Framework would be diverse and make comparisons difficult. For example, the Committee notes that the PGPA Rule 2014 only requires information to be reported at the 'purpose' level, even if the guidance encourages that entities publish 'activity' level information. If different entities publish differing levels or quantities of information, this will hinder cross-entity comparisons. This is particularly relevant to Members and Senators – whose scrutiny spans many issues and portfolios. The Committee will monitor this issue over time.

- 4.8 Guidance produced by Finance stresses the importance of achieving a 'clear read', however, at present there is a lack of examples or case studies of better practice. Such examples may provide entities with a useful compass during a period of significant change and assist entities to more rapidly understand the expectations from reporting. Examples may also assist in achieving some level of consistency between reports from different entities. As discussed later in this Chapter, the Committee welcomes the more recent, but as yet incomplete, work by Finance in this regard.

### **Recommendation 1**

**The Committee recommends that relevant Resource Management Guidance issued by the Department of Finance demonstrates, via better practice examples, how a 'clear read' of performance information might be achieved – throughout an entity's annual performance reporting cycle and for joined-up programs.**

## **Developing criteria that performance information should satisfy**

- 4.9 The former Auditor-General suggested during the inquiry that a possible enhancement to the Framework would be to establish clear criteria that performance information should satisfy – such as whether the information and indicators are relevant, reliable and complete.<sup>1</sup>
- 4.10 The Committee agrees that establishing such criteria would be an enhancement to the Framework. The Committee notes that such criteria

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1 Australian National Audit Office, *Submission 7*, p. 3.

would also assist the Auditor-General in establishing a robust audit methodology.

## **Recommendation 2**

**The Committee recommends that the Department of Finance consults with the Australian National Audit Office and other stakeholders to establish clear criteria that performance information should satisfy within the Commonwealth Performance Framework and Portfolio Budget Statements, and that these criteria are included in relevant resource management guidelines.**

## **The need for leadership**

- 4.11 The Committee agrees with the former Auditor-General as to the need for strong and sustained leadership to capture the potential benefits of the PMRA and Framework.<sup>2</sup>
- 4.12 Leadership must come from all levels. This includes from all Ministers (especially the Finance Minister); all Members of Parliament (especially parliamentary committees, including this Committee); all central agencies (especially Finance); and from all senior leadership teams within entities. All have a role to play in striving for the success of the PMRA.
- 4.13 To play its part, the Committee intends to continue its active scrutiny of both the Framework and the PMRA as they evolve over the coming years. This is further discussed in the 'next steps' section at the end of this chapter.
- 4.14 The Committee encourages Finance to continue to drive for buy-in to the reforms at the highest levels, as well as work with officers of all entities to help achieve the necessary cultural change within the bureaucracy.

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2 Mr Ian McPhee AO PSM, Auditor-General (Retired), Australian National Audit Office (ANAO), *Committee Hansard*, 19 March 2015, p. 4.

## Improving outcomes and accountability through monitoring, reporting and evaluation

- 4.15 It is essential that the new performance framework helps entities improve what they do at the same time as improving accountability. The Committee contends that, if done well, monitoring, reporting and evaluation is essential to achieving these goals.
- 4.16 If an individual entity has an active planning, monitoring, reporting and evaluation initiative, this could allow programs and policies to be tracked and adjusted in real time to improve results – it allows the ‘feedforward’ approaches described by Professor Kerry Jacobs. High quality external reporting would also increase accountability of the entity to the Executive, the Parliament, and the public.
- 4.17 An active central monitoring, reporting and evaluation initiative across entities could allow both specific and systemic issues to be identified and addressed. For example: to identify substandard performance information developed by a particular entity; to monitor entity compliance with requirements and deadlines; and to identify specific training needs. It would also provide critical information to inform the independent review of the PGPA Act, due in 2017, and assist the Committee in its ongoing scrutiny of the reforms.
- 4.18 Another critical stakeholder in the evaluation of performance information is the ANAO. The Committee supports ANAO’s recently commenced audit into corporate planning under the PGPA Act. The Committee suggests that the ANAO consider conducting similar audits of other elements of the Framework, specifically for annual performance statements and performance information contained in PBSs.
- 4.19 Despite its obvious value, the Committee understands that proactive central monitoring, reporting and evaluation of Commonwealth performance information has not been consistent over time.
- 4.20 The Committee notes that in 2013 it recommended that monitoring be used by Finance to ensure that entities improve their performance information planning processes. Finance did not commit to this process,<sup>3</sup> but has at times undertaken aspects of such a role.

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3 Australian Government, Department of Finance, Executive Minute on Joint Committee of Public Accounts and Audit, *Report 439: Review of Auditor-General’s Reports Nos. 11 – 31 (2012-13)*.

- 4.21 Finance has now indicated its intention to monitor corporate plan initiatives for the next financial year and has highlighted a range of valuable evaluation activities in this area. For example, Finance is working proactively by reviewing entity corporate plans, identifying best practice examples,<sup>4</sup> and assisting the University of Sydney's Graduate School of Government's research into entity corporate plans.<sup>5</sup> The Committee welcomes and supports this work.
- 4.22 The Committee assumes that it is Finance's intention to also monitor and assess other areas of the Framework, such as annual performance statements. However, the Committee wishes to see a clear and ongoing commitment by Finance for a central monitoring, reporting and evaluation initiative. This should provide a focal point for quality assurance, compliance assessment, identification of improvement activities, and collection of data in support of the independent review of the *Public Governance, Performance and Accountability Act 2013*.
- 4.23 The Committee encourages Senate Estimates Committees to report instances in which agencies have not provided up to date performance information for the purposes of Senate Estimates, as well as notifying the JCPAA of any instances of non-compliance with Finance's Directions and Guidelines.

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4 Mr Brad Cook, Assistant Secretary, Department of Finance, *Proof Committee Hansard*, 3 December 2015, p. 4.

5 Mr Lembit Suur, First Assistant Secretary, Department of Finance, *Proof Committee Hansard*, 3 December 2015, p. 6.

### Recommendation 3

**The Committee recommends that the Department of Finance commit to an ongoing monitoring, reporting and evaluation initiative for the Commonwealth Performance Framework, performance information in Portfolio Budget Statements and the broader Public Management Reform Agenda. Summary results from this initiative should be publicly reported and submitted to the Committee.**

**Further, the Committee requests that the Department of Finance consider how it might implement this initiative – including providing details on what may be monitored and included or excluded from summary reports – and inform the Committee of its preferred approach in time for its next meeting with the Committee in February 2016.**

## Development of corporate plans

- 4.24 The year 2015 represents the first time that all entities governed by the PGPA Act have had to publish corporate plans under the new Framework. The Committee acknowledges the significant efforts undertaken by entities during this transition.
- 4.25 During the inquiry, Finance confirmed that entities had been aware of their corporate reporting obligations under the Framework for a reasonable length of time.<sup>6</sup> Even so, initially only 87 percent of entities complied with the requirement to publish a corporate plan by 31 August 2015. This had however increased to 96 percent by 30 September 2015.<sup>7</sup> The Committee understands this is the first reporting cycle under the new regime, but nonetheless is concerned about evidence suggesting that Commonwealth entities have not met their legal obligations. The Committee hopes that such a result will not reoccur.
- 4.26 The Committee commends Finance for the assistance it provided to entities in assessing draft corporate plans prior to their publication this year. This process has particular value in assisting entities transition to the new performance arrangements and to meet their obligations in a manner that meets expectations. In addition, the Committee notes that Finance has

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6 Dr Stein Helgeby, Deputy Secretary, Department of Finance, *Committee Hansard*, 10 September 2015, p. 7.

7 Department of Finance, *Submission 17.1*, p. 1.

long had a role in reviewing entity PBSs and should provide feedback to entities on the performance information that these are required to contain.

- 4.27 The Committee suggests that Finance consider extending this type of assistance to other aspects of the Framework – in particular during preparation of entities first annual performance statements in 2016. This could form part of the recommended central monitoring, reporting and evaluation function recommended by the Committee.

## **Annual Reports and Annual Performance Statements**

- 4.28 One of the Committee's legislatively mandated roles is to annually consider and approve the Requirements for Annual Reports. These will now transition to being a 'rule' under the new Framework, and are likely to be substantially revised for the 2015-16 reporting year.
- 4.29 So that changes can be adequately considered in time for distribution to entities in May 2016, and as suggested by Finance, the Committee intends to:
- consider any major proposed changes to the Requirements by the end of Feb 2016
  - consider a final draft of the Requirements by the end of May 2016 for final approval.
- 4.30 The Committee requests that Finance submit the necessary information to the Committee to facilitate this process. The initial submission should include a description of any major proposed changes to previous Requirements and discussion of their costs and benefits. The final submission should also include a summary of feedback from any consultations undertaken and final drafts of any supporting guidance.
- 4.31 In future years the Committee intends to apply a similar process and timeframe to its consideration of any changes to the annual reporting requirements.
- 4.32 The Committee intends to seek feedback on the quality of corporate plans and annual reports from other committees of Parliament. The Committee will also consider instituting an ongoing analysis of the reports made by Senate Legislation Committees into departmental annual reports allocated to these Committees under Senate Standing Order 25(20).



4.33 The Committee also believes that entity annual reports can be published earlier in the year than is the current practice. Given they are key performance reports tabled in Parliament, the Committee is concerned that some entity's annual reports are unavailable for use at Senate Estimates. While acknowledging that time is required to compile and properly audit financial statements, there seems little reason that annual report publishing cannot be brought forward – given the move towards electronic compilation and publishing and potential further streamlining of requirements. The Committee will consider this issue further in February 2016 when it reviews the annual report rules, and requests that Finance consider ways to address this issue as part of their submission to the Committee.

## **Performance information in Portfolio Budget Statements**

4.34 The question of whether performance information should continue to be required in entity PBSs and which form it should take has been an ongoing issue throughout this inquiry. As already noted, the Committee made commencement of the broader Framework conditional on retention of performance information in PBSs.

4.35 The Committee welcomes Finance's agreement that performance information will be retained in PBSs and the proposal to issue a Direction to entities communicating the minimum requirements. The Committee also acknowledges the significance of moving from what is currently only 'guidance' to a more authoritative framework under a 'Direction'. This should support the increased prominence of performance information, now at the legislative level within the PGPA Act.

4.36 The Committee viewed three iterations of a proposed Direction from Finance setting minimum requirements for performance information in PBSs. Each version was a substantial change from the last and also from the current guidance.

4.37 In reviewing the proposed Directions, the Committee considered the following four principles:

### **1. The role of Parliament**

That the Parliament has a unique role in scrutinising the planned and actual expenditure and performance of the Executive across the budget cycle.

## 2. Support of a strong Performance Framework and Reform Agenda

That the reforms undertaken to date be built upon, while retaining the most valuable elements of the current system as much as practicable.

## 3. Improving transparency and scrutiny

Through working to ensure that performance measures are:

- complete – containing all information required
- strategic – while containing or linking to sufficient detail
- specific – focusing on impacts and targets
- available – being as up to date as possible.

## 4. Improving efficiency

That requirements should minimise the compilation burdens on entities while balancing the accessibility burdens on the Parliament and public – through developing a framework that is easy to understand, makes obligations clear, and facilitates a ‘clear read’ for uses.

## Evaluating the proposed Portfolio Budget Statement Directions

- 4.38 The Committee concluded that proposed Direction #2 fell short in adequately recognising the role of Parliament and improving transparency and scrutiny (principles 1 and 3 above).<sup>8</sup> The proposed Direction reduced the information available to the Parliament during Budget considerations (with performance information no longer to be prepared at the program level in PBSs) and used non-specific terminology.
- 4.39 The Committee believes that the next iteration, proposed Direction #3, better recognises these two principles.<sup>9</sup> This proposed Direction requires PBSs to contain performance information at the program level at the time the Budget is being considered, and contains more direct and specific terminology in some instances.
- 4.40 The Committee notes that for new programs all performance criteria will be included in an entity’s PBS, and that for materially changed programs any new or adjusted criteria must be set out. The Committee also understands that it is Finance’s intention for existing programs that only a sub-set of high level performance criteria will be included in entity PBSs where no material change has occurred since the last budget cycle. The Committee believes this appropriately focuses on facilitating scrutiny of

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8 Department of Finance, *Submission 17.2*, p. 11.

9 Department of Finance, *Submission 17.3*, p. 7.

new or materially changed programs for the current Budget, with the full suite of performance criteria for existing programs available unchanged in the entity's most recent corporate plan.

- 4.41 Additionally, the Committee notes that proposed Direction #3 will consolidate financial information to be included in PBSs – more clearly linking program budgets to their related outcomes. This development is supported by the Committee.
- 4.42 Regarding targets, the Committee notes that the current PBS guidance explicitly states that data be provided for planned targets for the current budget and forward years; but that no explicit reference to targets is made in proposed Direction #3. Good quality performance information would commonly include targets, and it may be Finance's intention to include a discussion of targets in the guidance supporting the Direction. However, the Committee considers that a requirement for targets should be made explicit in the Direction to entities. When approving appropriations it is reasonable for Parliament to be provided with information detailing what is expected to be achieved with the funds and when this will be done, not just how the performance will be measured.
- 4.43 Regarding reporting historical performance results, the Committee notes that the current PBS guidance explicitly states that PBSs should inform Parliament of the results delivered against last year's targets. Again, no explicit reference to the reporting of historical results is made in proposed Direction #3. The Committee acknowledges that the reporting of historical performance results in entity's PBSs has been poor; and also that it is Finance's intention to include reference to this matter in the guidance supporting the Direction. The Committee believes that the results of past appropriations should be clear and easily accessible when Parliament is considering approving new appropriations. The elevation of performance reporting through inclusion of annual performance statements in entity's annual reports is an improvement on the current framework, and will presumably substantially improve the quality of information available in terms of rigor, completeness and clarity. The Committee considers that the Direction should require that PBSs contain a copy of the last annual performance statement for each entity. In addition, and as has been suggested by Finance, the Committee agrees that the PBS supporting guidance should continue to request entities to include more up to date performance information in PBSs wherever practicable. Furthermore, the guidance should explicitly state that where more recent performance information is available but has been impractical to include in an entities PBS, that the entity should make this information available for Senate Estimates scrutiny.

- 4.44 Regarding the updating of corporate plans, the Committee recommends that Finance consider a new minimum requirement or explicit statement in the Direction to ensure that corporate plans be updated as soon as practicable after relevant appropriations have been approved by the Parliament. Corporate plans are now key forward planning documents, being the only planning document where the full suite of performance information for each entity will be listed in one location. They therefore need to be updated in a timely manner and also electronically archived in an easily accessible location.<sup>10</sup>
- 4.45 Regarding use of direct, specific and clear terminology, the Committee suggests that the terms used in proposed Direction #3 be tightened before circulation; and that further clarity be provided between terms used in the budget context and those used in the performance framework. Finance should consider amending the wording of the Direction to clearly require that all criteria will be included for new programs, and that only a sub-set of high level performance criteria will be required for existing programs. Furthermore, the lack of a clear description regarding how the budget terms of 'outcomes' and 'programs' relate to the Framework terms of 'purposes' and 'activities' is likely to increase inefficiencies for entities in document compilation, and makes it difficult for Parliament and the public to obtain a 'clear read' across documents. The Committee encourages Finance to:
- provide a clear explanation of how these two sets of terms relate
  - consider whether to transition to only one set of terminology over the medium term.
- 4.46 The Committee also notes that guidance in support of the Direction is still to be developed. The Committee considers high quality guidance to be critical in effective delivery of the change agenda when it comes to improving performance information, and asks Finance to provide the guidance to the Committee as soon as practicable.
- 4.47 In summary, the Committee supports Finance issuing the Direction to entities, with the following amendments and being cognisant of the suggestions made above. The Committee believes that the Direction – supported with strong leadership by Finance and others – will help improve the way performance information is presented in PBSs.

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10 High quality electronic archiving will also be important for other key performance framework documents.

**Recommendation 4**

That the Department of Finance Direction issuing requirements for performance information in Portfolio Budget Statements (PBSs) include a minimum requirement or explicit statement that a performance criterion within PBSs must state the target to be achieved (the expected achievement) for the relevant appropriation wherever possible and the date by which the target is intended to be achieved.

**Recommendation 5**

That the Department of Finance Direction issuing requirements for performance information in Portfolio Budget Statements include a minimum requirement that the most recent Annual Performance Statement for an entity must be included in the entity's Portfolio Budget Statement, and that related guidance continue to request entities to include more up to date performance information in the PBS wherever practicable.

**Recommendation 6**

That the Department of Finance consider amending the Direction issuing requirements for performance information in Portfolio Budget Statements to include a minimum requirement or explicit statement that entities must update their corporate plans as soon as practicable following relevant appropriations being approved by Parliament.

Further, the Committee requests that the Department of Finance consider and report on ways in which draft updates to entity corporate plans – conditional on budget appropriation – might be provided for Senate Estimates scrutiny following the tabling of each budget proposal.

**Next steps**

- 4.48 The Committee has an ongoing role in the development and review of the PMRA. The Committee thanks Finance and the ANAO for the assistance

they have provided in this regard, and their leadership in progressing the reforms of the PMRA and the Performance Framework to date.

4.49 As part of its ongoing work program, the Committee intends to consider the following issues early in 2016:

- the implementation status of suggestions and recommendations contained within this report
- consideration of the annual report requirements and timings
- the implementation status of broader elements of the PMRA, including:
  - ⇒ joined-up government – including both the management and accountability of co-delivered programs and shared services
  - ⇒ differential regulation concepts – including earned autonomy and scaled requirements for different entity types
  - ⇒ partnering with external parties
  - ⇒ improving risk management practices.

**Hon. Ian Macfarlane MP**  
**Chair**