
The Parliament of the Commonwealth of Australia

Report 453
Development of the
Commonwealth
Performance Framework

Joint Committee of Public Accounts and Audit

December 2015
Canberra

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Foreword

The Committee's Inquiry into the Development of the Commonwealth Performance Framework constitutes the Committee's first report into its oversight of the Department of Finance's (Finance) development and advancement of the Public Management Reform Agenda (PMRA), following the passage of the *Public Governance, Performance and Accountability Act 2013*.

The Commonwealth Performance Framework (the Framework) is designed to help improve the performance of Australian Government entities and also provide stakeholders with the ability to assess entity performance over time. Through the inquiry, the Committee sought to ensure that the rules, directions and guidance that underpin the Framework provided clarity to entities regarding performance monitoring and reporting expectations, and also facilitated scrutiny.

The Committee found that overall the Framework was robust and was a clear improvement on the previous system. The Committee notes that many performance information requirements have now elevated to legislative rules and/or made official directions from the Secretary of Finance. The Committee commends Finance on this achievement.

The Committee did however find several ways the Framework could be improved.

The Committee recommended that Finance provide better examples in its guidance to entities, and that Finance develop a mechanism to monitor, report, and evaluate the Framework and the broader PMRA.

The Committee also considered several iterations of a proposed Direction prepared by Finance, seeking to change the way performance reporting information is presented in the Portfolio Budget Statements (PBSs). The Committee held several public hearings on these iterations, seeking to ensure that performance information is adequately reported in the interests of transparency and assisting the process of Parliamentary consideration of the Budget.

Accordingly, the Committee recommended that the Direction require:

- that PBSs detail performance targets (or expected achievements)
- that, at a minimum, an entity's most recent Annual Performance Statement be included in an entity's PBS
- that entities update their corporate plans as soon as practicable following the approval of appropriations by Parliament

Regarding the updating of corporate plans to inform budget scrutiny, the Committee further recommended that Finance investigate ways that Senate Estimates Committees might be provided with updated drafts, conditional on budget appropriation, following the tabling of each budget proposal.


The Committee will be focusing on entity compliance with Finance's Directions and Guidance in this area, and will seek to confer with Senate Estimates Committees to ensure there is at worst no reduction in the quality of information made available to Members and Senators through the Budget consideration and Estimates processes.

More broadly, the Committee will continue to oversee the development of the PMRA and looks forward to continuing to work with Finance in this area over the coming years.

I would like to thank my fellow Committee Members for their assistance in the inquiry and acknowledge the support of the Secretariat. I would also like to thank the Department of Finance, and the Australian National Audit Office for their focused engagement during the Committee's inquiry.

Finally, I extend my thanks to the agencies, organisations and individuals that contributed to the inquiry through submissions or evidence at public hearings.

Hon Ian Macfarlane MP
Chair



Membership of the Committee

Chair Dr Andrew Southcott MP (to 15 Oct 2015)
 Hon. Ian Macfarlane MP (from 15 Oct 2015)

**Deputy
Chair** Mr Pat Conroy MP

Members	Hon Anthony Albanese MP	Senator Cory Bernardi
	Ms Gai Brodtmann MP	Senator Katy Gallagher (to 12 Nov 2015)
	Mr Andrew Giles MP	Senator Chris Ketter
	Dr David Gillespie (from 19 Oct 2015)	Senator Jenny McAllister (from 12 Nov 2015)
	Dr Peter Hendy MP (to 12 Oct 2015)	Senator Bridget McKenzie
	Mr Craig Laundry MP	Senator Dean Smith
	Mrs Jane Prentice MP	
	Mr Angus Taylor MP	
	Mr Ken Wyatt MP (to 12 Oct 2015)	

Committee Secretariat

Secretary	Mr David Brunoro (from 29/9/15) Ms Susan Cardell (to 29/9/15)
Inquiry Secretary	Muzammil Ali Sandra Kennedy (to 28 Aug 2015)
Research Officer	Shane Armstrong
Administrative Officer	Ms Tamara Palmer



Terms of reference

On 26 March 2015, the Joint Committee of Public Accounts and Audit resolved to inquire into and report on the development of the Commonwealth Performance Framework to ensure an effective, integrated performance management system that continues to improve accountability to the Parliament and the public, with particular reference to:

- enhancing the effectiveness of key performance information under the framework, including:
- performance measures that both foreshadow and subsequently assess the impact of government programs
- criteria that performance information must satisfy, to enable performance comparisons across Commonwealth entities and ensure auditable performance information
- reporting of high level, quantitative key performance information across Australian government
- enhancing the effectiveness of performance documentation under the framework, including annual reports, corporate plans and Portfolio Budget Statements
- enhancing the effectiveness of the Public Governance, Performance and Accountability Act 2013 rule and Department of Finance Resource Management Guides for the Commonwealth performance framework
- Commonwealth entity requirements concerning implementation of the performance framework
- Australian and international models
- any other relevant matters



List of abbreviations

AAU	Agency Advice Unit
AES	Australian Evaluation Society
ANAO	Australian National Audit Office
AO	Order of Australia
CAC	<i>Commonwealth Authorities and Companies Act 1997</i>
CPF	Commonwealth Performance Framework
CSIRO	Commonwealth Scientific and Industrial Research Organisation
FMA	<i>Financial Management and Accountability Act 1997</i>
JCPAA	Joint Committee of Public Accounts and Audit
KPIs	Key Performance Indicators
PAES	Portfolio Additional Estimates Statements
PBS	Portfolio Budget Statements
PGPA	<i>Public Governance, Performance and Accountability Act 2013</i>
PM&C	Department of Prime Minister and Cabinet
PMRA	Public Management Reform Agenda
PSM	Public Service Medal
RMG	Resource Management Guides



List of recommendations

4 Committee comment and next steps

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.

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.

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.

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.

Introduction

The Committee's inquiry

- 1.1 On 26 March 2015, the Joint Committee of Public Accounts and Audit (JCPAA) resolved to inquire into and report on the development of the Commonwealth Performance Framework (the Framework).
- 1.2 The Terms of Reference for the Inquiry were to ensure an effective, integrated performance management system that continues to improve accountability to the Parliament and the public, with particular reference to enhancing the effectiveness of key performance information under the framework, including:
 - performance measures that both foreshadow and subsequently assess the impact of government programs
 - criteria that performance information must satisfy to enable performance comparisons across Commonwealth entities and ensure auditable performance information
 - reporting of high level, quantitative key performance information across Australian government
 - enhancing the effectiveness of performance documentation under the framework, including annual reports, corporate plans and Portfolio Budget Statements
 - enhancing the effectiveness of the *Public Governance, Performance and Accountability Act 2013* rule and Department of Finance Resource Management Guides for the Commonwealth performance framework

- Commonwealth entity requirements concerning implementation of the performance framework
 - Australian and international models
 - any other relevant matters.¹
- 1.3 During 2015, the Committee held six public hearings in Canberra with key stakeholders including the Australian Government Department of Finance and the Australian National Audit Office. The Committee also received twenty six submissions from interested parties which are listed in Appendix A.
- 1.4 The Framework sits within a larger reform initiative - the Public Management Reform Agenda (PMRA). This report forms part of the Committee's ongoing engagement of the PMRA - with which it has several formal legislated roles (as discussed later in this report).
- 1.5 Chapter 2 provides background to the key elements of the PMRA, the Framework and the Committee's role in the process. Chapter 3 details key issues raised during the inquiry. Chapter 4 puts forward the Committee's view on how best to proceed and also outlines potential future lines of inquiry by the Committee as the PMRA continues to develop.

1 Joint Committee of Public Accounts and Audit, *Inquiry into Development of Commonwealth Performance Framework*, website (accessed 28 October 2015): http://www.aph.gov.au/Parliamentary_Business/Committees/Joint/Public_Accounts_and_Audit/Performance_Framework.

Background

- 2.1 This chapter provides the background for the Committee's inquiry into the development of the Commonwealth Performance Framework (the Framework). In particular, it will provide background to the following matters:
- The Public Management Reform Agenda (PMRA)
 - ⇒ staged delivery of the PMRA
 - Commonwealth Performance Framework
 - ⇒ Corporate plans
 - ⇒ Annuals reports and annual performance statements
 - ⇒ Portfolio budget statements
 - The Committee's role in the delivery of the PMRA.

The Public Management Reform Agenda

- 2.2 The PMRA reforms aim to 'modernise the financial framework of the Australian Government so that it will support high quality resource management and performance now and into the future'.¹
- 2.3 The PMRA is based on five guiding principles which state that:
- government should operate as a coherent whole
 - a uniform set of duties should apply to all resources handled by Commonwealth entities

¹ Department of Finance, *About the PMRA*, website, <<http://www.pmra.finance.gov.au/about/>> accessed 29 September 2015.

- performance of the public sector is more than financial
 - engaging with risk is a necessary step in improving performance
 - the financial framework, including the rules and supporting policy and guidance, should support the legitimate requirements of the Government and the Parliament in discharging their respective responsibilities.²
- 2.4 The reforms are underpinned by legislation in the form of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). The PGPA Act replaced the previous financial framework legislation, the *Financial Management and Accountability Act 1997* (FMA Act) and the *Commonwealth Authorities and Companies Act 1997* (CAC Act) that applied to Commonwealth entities and companies respectively. As a result, the PGPA Act provides the financial reporting framework for both Commonwealth entities and companies (and other Commonwealth body corporates).³ For the purposes of this report, the Committee's use of the terms "entity" or "entities" refers to both Commonwealth entities and companies (where applicable).
- 2.5 The PGPA Act 'consolidated into a single piece of legislation the governance, performance and accountability requirements of the Commonwealth, setting out a framework for regulating resource management by the Commonwealth and relevant entities'.⁴
- 2.6 Supporting the PGPA Act is the PGPA Rule 2014, which 'establishes accountability and control mechanisms to support the transactions of the Commonwealth and Commonwealth entities'.⁵ The PGPA rule establishes rules that apply to all Commonwealth entities including provisions specific to non-corporate Commonwealth entities, corporate Commonwealth entities and Commonwealth companies.
- 2.7 The PMRA is a significant and complex undertaking that seeks to modernise the Australian Government's financial framework. In outlining the vision being espoused by the Australian Government Ms Jane Halton AO PSM, Secretary of the Department of Finance, spoke on 14 August
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2 Department of Finance, *About the PMRA*, website, <<http://www.pmra.finance.gov.au/about/>> accessed 29 September 2015.

3 Section 10, *Public Governance, Performance and Accountability Act 2013*.

4 Department of Finance, *About the PMRA*, website, <<http://www.pmra.finance.gov.au/about/>> accessed 29 September 2015

5 Department of Finance, *Overview of the PGPA Rule 2014*, website <<http://www.finance.gov.au/resource-management/pgpa-legislation/pgpa-rule/>> accessed: 28 October 2015.

2015 as part of the Senate's Occasional Lecture Series. A key message delivered in the address was that '...for reform to be successful, you need to take people with you and ensure that change is truly embedded in structures and systems'. The speech reaffirmed the Finance Minister's aspiration '... for a more efficient public sector that is performance-driven and can provide faster services to support Australia's prosperity into the future'.

2.8 The difficulty is that the scope of reforms must encapsulate some \$430 billion of annual Australian Government expenditure, covering 'more than 190 separate entities and companies, hundreds of boards and committees, and a large number of subsidiaries and other arrangements'. In addition, consideration must be given to 'cultural change, technology transformation and rethinking the design of many existing programs and services'. The latter requires much more than legislative change as it is these aspects of reform that require significant engagement and 'buy-in' from the wider public service.

2.9 Ms Halton put the PMRA into context, delineating it from the previous legislative regime. She highlighted that under the previous financial framework arrangements two 'camps' existed. One 'camp', regulated by the FMA Act, consisted:

... largely of departments and agencies that were directly accountable to Ministers, were usually headed by a single person, were largely budget funded and legally constituted the Commonwealth of Australia ... There was an appropriate and strong emphasis on ensuring the proper use of the public property that was in their hands.

However this was achieved through detailed process controls around money appropriated by the Parliament and how it was drawn down, managed and spent.

2.10 In contrast were entities in the 'second camp' that were previously governed by the CAC Act. Entities in this category were more 'corporate' in nature - complete with 'governing boards, their own legal personality and, usually, a high degree of operational independence under their enabling legislation'. With core governance and reporting standards in place, CAC Act entities were largely governed by principles which in turn brewed 'innovation, strong risk management and strategic planning practices'.⁶

6 Ms Jane Halton AO PSM, *Senate Occasional Lecture Series*, 14 August 2015, pp. 2-6.

Delivery of the PMRA

2.11 The Australian Government, led by Finance, has opted to take a staged approach to the delivery of the PMRA to ‘...ensure that each element is appropriately tested and refined in light of experience and consultation’.⁷

2.12 The PMRA is to be delivered in three stages as outlined by Finance. Stage 1, that has already been implemented:

... was about establishing the base from which the reform objectives of the PMRA can be advanced. It concentrated on establishing a single resource management framework via rules, instruments and guidance within which Commonwealth entities have the flexibility to adopt appropriate business processes and systems and how they can be streamlined and better focused. It builds on many of the strengths of the previous financial framework, but strips away some process and red tape requirements.⁸

2.13 Stage 2 (which is slated for completion by January 2016):

... is focusing on improving the quality of planning, performance information and evaluation within government to improve accountability to ministers, the Parliament and the public. It is also about continuing the focus on internal processes so that they can be more streamlined, risk based and better focused.

Key priority areas for development during Stage 2 include:

- An enhanced performance measurement and reporting regime
- A differential approach to regulation, based on entity risk
- A differential financial reporting regime to streamline the financial reporting requirements for Commonwealth entities, which is compliant with the Australian Accounting Standards while still meeting the needs of the government and parliament.⁹

2.14 Stage 3 (which is also slated for delivery from January 2016):

... will focus on improving how the Commonwealth joins up with external parties from all sectors of the economy to deliver its public policy outcomes – through commercial partnerships,

7 Department of Finance, *About the PMRA*, website, <<http://www.pmra.finance.gov.au/about/>> accessed 29 September 2015.

8 Department of Finance, *About the PMRA*, website, <<http://www.pmra.finance.gov.au/about/>> accessed 29 September 2015.

9 Department of Finance, *About the PMRA*, website, <<http://www.pmra.finance.gov.au/about/>> accessed 29 September 2015.

grants, joint projects. To fully embed improvements in this area, it is necessary to have in place operating practices which support government working as a whole with better transparency and accountability, and a risk based approach to governance, incorporating differential regulation concepts.¹⁰

- 2.15 The Committee's inquiry is focussed on a subset of Stage 2 – the 'enhanced performance measurement and reporting regime'.
- 2.16 Finance has been driving the reform process and facilitating its delivery through providing significant assistance to entities in understanding and meeting their obligations. This assistance has largely been through the publication of written material but also running face-to-face information sessions to enable entities to gain a better understanding of their obligations.
- 2.17 The final element of the PMRA, as enshrined in the PGPA Act, is an independent review of the legislation and rules to be conducted 'as soon as practicable after the end of three years' from the commencement of the relevant provisions. This notionally falls on 1 July 2017.

The Commonwealth Performance Framework

- 2.18 The ability to measure and report on the performance of Commonwealth entities and companies in a meaningful and comparable manner is an important accountability mechanism. The new performance reporting framework is designed to provide key stakeholders with the ability to assess entity performance over the short, medium and long term. Finance has suggested that the implementation of the Framework is an opportunity to focus on public sector performance by providing 'an impetus to improve the quality and usefulness of reporting about what the government does and what it has achieved ...'.¹¹
- 2.19 Section 5(b) of the PGPA Act establishes a 'performance framework across Commonwealth entities'.¹² Part 2-3 of the PGPA Act outlines the obligations in relation to planning, performance and budgeting that Commonwealth entities are required to meet. These obligations, which together comprise the Framework, must be developed within the context

10 Department of Finance, About the PMRA, website, <<http://www.pmra.finance.gov.au/about/>> accessed 29 September 2015.

11 Department of Finance, *Submission 17*, p. 2.

12 Section 5, *Public Governance, Performance and Accountability Act 2013*.

of the broader Act, including the objectives and the duties which the Act imposes on the accountable authority of both the entity and officials.

These duties include:

- governing the entity in a way that promotes the proper use and management of public resources, promotes the achievements of the purposes of the entity, and promotes the financial sustainability of the entity.¹³ In making decisions in relation to these matters, the accountable authority must take into account the effect of those decisions on public resources generally.¹⁴
- exercising powers, performing functions or discharging duties with the degree of care and diligence that a reasonable person would exercise,¹⁵ in good faith and for a proper purpose.¹⁶

2.20 In complying with their obligations under the Framework, entities must develop a number of reports that will provide a clear picture of their non-financial performance. These reports are:

- a corporate plan
- an annual performance statement
- an annual report (that includes the annual performance statement)
- performance information in Portfolio Budget Statements (PBSs), (although this does not form part of the Framework obligations under the PGPA Act).

2.21 Finance has issued guidance, including a range of Resource Management Guides (RMG) on each element of the Framework to assist Commonwealth entities in discharging their obligations.¹⁷ These are referred to through this report and are as follows:

- RMG 130: Overview of the enhanced Commonwealth performance framework
 - RMG 131: Developing good performance information
 - RMG 132: Corporate plan for Commonwealth entities
 - RMG 133: Corporate plan for Commonwealth companies
-

13 Subsection 15(1), *Public Governance, Performance and Accountability Act 2013*.

14 Subsection 15(2), *Public Governance, Performance and Accountability Act 2013*.

15 Section 25, *Public Governance, Performance and Accountability Act 2013*.

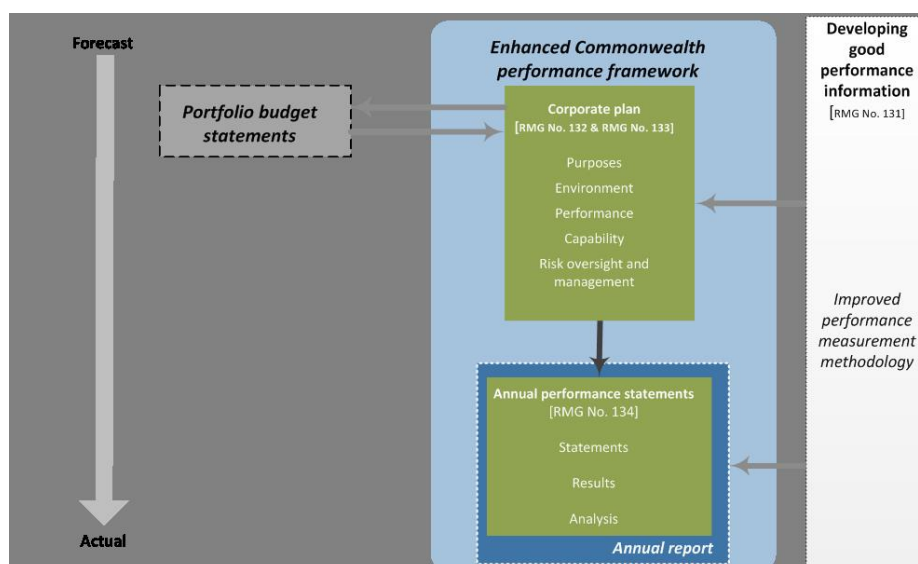
16 Section 26, *Public Governance, Performance and Accountability Act 2013*.

17 Department of Finance, Resource Management, website, <<http://www.finance.gov.au/resource-management/>> accessed 24 November 2015

- RMG 134: Annual performance statements for Commonwealth entities.

2.22 The following diagram, extracted from RMG 130 provides an overview of an entity's obligations under the Framework.

Figure The enhanced Commonwealth Performance Framework



Source: *The enhanced Commonwealth performance framework. Resource Management Guide 130, p. 5.*

- 2.23 Subsection 16E(3) of the PGPA Rule 2014 requires that an entity's corporate plan be published on its website by the last day of the second month of the reporting period for which the plan has been prepared (i.e. 31 August of each year). The Rule also requires that a copy of the corporate plan be provided to the responsible Minister as soon as practicable after the plan has been prepared and before it has been published on the entity's website.¹⁸
- 2.24 Section 39 of the PGPA Act requires that as soon as practicable after the end of each reporting period, the entity prepare an annual performance statement. The Act requires that the annual performance statement be included in the entity's annual report.¹⁹ Subsection 46(2) of the PGPA Act requires that an entity's annual report must be provided to the relevant Minister by the fifteenth day of the fourth month after the end of the reporting period for the entity (i.e. 31 October of each year). The Act does provide for extensions to be given for reporting purposes.²⁰
- 2.25 Section 36 of the PGPA Act requires an entity to prepare budget estimates for each reporting period for the entity and to prepare the budget

18 Subsection 16E(4), *Public Governance, Performance and Accountability Act 2014*.

19 Paragraph 39(1)(b), *Public Governance, Performance and Accountability Act 2013*.

20 Paragraph 46(2)(b), *Public Governance, Performance and Accountability Act 2013*.

estimates in accordance with any directions from the Secretary of Finance.²¹

- 2.26 A proposed Direction under this section has been developed in relation to the inclusion of performance information in entities' PBSs.

Corporate Plans

- 2.27 The corporate plan is intended to be the primary planning document of Commonwealth entities and companies. Finance has stated that 'corporate plans are meant to provide a medium to long-term narrative about what it is that an entity is seeking to do to achieve its purposes and to implement the policies of government'.²² The outlook of the corporate plan is four years, the same as the forward estimates period, and 'the conception in the legislation is that the corporate plan represents the beginning of the performance cycle and the annual report acquits the performance of an entity over that performance cycle'.²³
- 2.28 Section 35 of the PGPA Act sets out the requirement that Commonwealth entities prepare a corporate plan and that the corporate plan comply with any requirements prescribed by the rules. Subsection 16E(2) of the PGPA Rule 2014 sets out the elements that must be included in the corporate plan of a Commonwealth entity.²⁴ These are:
- Introduction: should outline that the plan is prepared in accordance with the PGPA Act and state the relevant reporting period/s
 - Purposes: should outline the purposes of the entity
 - Environment: the operating environment of each reporting period covered by the plan
 - Performance: for each reporting period covered by the plan, a summary of:
 - ⇒ how the entity will achieve its purpose
 - ⇒ how will any subsidiary of the entity contribute to achieving its purpose?

21 Section 36, *Public Governance, Performance and Accountability Act 2013*.

22 Mr Lembit Suur, First Assistant Secretary, Department of Finance, *Committee Hansard*, 19 March 2015, p. 5.

23 Mr Lembit Suur, *Committee Hansard*, 19 March 2015, p. 5.

24 Subsection 16E(2), *Public Governance, Performance and Accountability Rule 2014*.

- ⇒ how the entity's performance in achieving its purpose will be assessed and measured including any indicators that will be used to assess its purpose
- Capability: they strategies and plans to be implemented during the reporting period to achieve the entity's purpose
 - Risk oversight and management: a summary of the entity's risk and management oversight systems for each reporting period covered by the plan (including any measures to ensure compliance with the finance law).
- 2.29 In relation to Commonwealth companies, section 95 of the PGPA Act requires that Commonwealth companies (as opposed to entities) prepare a corporate plan. Section 27A of the PGPA Rule 2014 identifies that the requirements in section 16E of the PGPA Rule that are applicable to corporate plans of Commonwealth entities also apply to the corporate plans of Commonwealth companies.
- 2.30 Finance offers assistance to Commonwealth entities in relation to the development of corporate plans. In the first instance, entities are encouraged to engage with the process as outlined in RMG 132. Finance also offers assessment of individual entities' corporate plans while this assistance is offered more broadly through 'communities of practice' scheme and a number of pilot programs 'to support implementation and the ongoing development of the performance framework'.²⁵

Annual Reports and Annual Performance Statements

- 2.31 Commonwealth entities and companies are now required to include annual performance statements in their annual report from the 2015/16 financial year.
- 2.32 Section 46 of the PGPA Act sets out the requirement that an accountable authority of a Commonwealth entity must prepare and provide an annual report to the entity's responsible Minister for presentation in Parliament after the end of each reporting period.²⁶ An entity's annual report as a mandatory reporting tool remains a key document under the Framework. It is the primary document through which responsible Ministers report to the Parliament on the actual performance of entities.²⁷

25 Department of Finance, *Submission 17*, Appendix A, p. 7.

26 Section 46, *Public Governance, Performance and Accountability Act 2013*.

27 Department of Finance, *Resource Management Guide No. 130, Overview of the enhanced Commonwealth performance framework*, p. 7. Section 46, in relation to Commonwealth entities,

- 2.33 Each year guidelines - 'Requirements for Annual Reports' - are issued to assist entities prepare their annual reports.²⁸ The Committee is required, under section 44 of the *Public Service Act 1999*, to approve the requirements before they are issued to entities. It should be noted that from the 2015/16 financial year onwards, the responsibility for issuing these requirements has been transferred from the Department of Prime Minister and Cabinet to Finance.²⁹ Finance has advised the Committee that these requirements will be replaced through the consolidation of all mandatory requirements into a rule made for the purposes of section 46 of the PGPA Act. The section states that the Committee must approve any rules pertaining to annual reports.

Annual Performance Statements

- 2.34 The PGPA Act requires Commonwealth entities (but not companies) to prepare an annual performance statement that must be included in the entity's annual report.³⁰ The annual performance statement is intended to be a 'direct acquittal of the performance measurement and reporting intentions identified in the entity's corporate plan at the beginning of the reporting period'.³¹ Through the annual performance statement, a Commonwealth entity will report on the results actually achieved against the targets, goals and measures established at the commencement of the reporting year in its corporate plan.³² In this way, the annual performance statement provides an assessment of the extent to which an entity has succeeded in achieving its purposes.
- 2.35 Finance's RMG 134, that provides guidance to entities in preparing annual performance statements stresses that key '...to the annual performance statements is the presentation of good performance information that tells a cohesive performance story demonstrating the extent to which a Commonwealth entity is meeting its purposes through the activities it undertakes'.³³ RMG 134 also states that many of the content requirements for annual performance statements are linked to the content requirements

and section 97 in relation to Commonwealth companies, of the PGPA Act set out the annual report requirements.

28 From 1 July 2015, the role of issuing guidelines in respect of Annual Reports was transferred to the Department of Finance from the Department of the Prime Minister and Cabinet.

29 Department of Finance, *Supplementary Submission 17.1*, p. 2.

30 Section 39, *Public Governance, Performance and Accountability Act 2013*.

31 Department of Finance, *Resource Management Guide No. 130, Overview of the enhanced Commonwealth performance framework*, p. 7.

32 Department of Finance, *Resource Management Guide No. 134, Annual performance statements*, p. 3.

33 Department of Finance, *Resource Management Guide No. 134, Annual performance statements*, p. 4.

for corporate plans – thus a ‘clear line of sight’ between corporate plans and annual reports (with included annual performance statements) should provide the reader with an accurate picture of entity performance.

- 2.36 Section 40 of the PGPA Act provides that an entity’s responsible Minister or the Finance Minister may request that the Auditor-General examine and report on an entity’s annual performance statements. The inclusion of a planned performance statement in the portfolio budget statements ensures that an entity’s performance can be appropriately assessed across the budget cycle.

Portfolio Budget Statements

- 2.37 PBSs are prepared at entity level and coordinated by Finance for the purposes of informing the Parliament of the proposed allocation of resources and are tabled along with the Budget Papers and Appropriation Bills on Budget night. The purpose of PBSs is to inform Senators and Members of Parliament of the proposed allocation of resources to government outcomes by agencies within the relevant portfolio.³⁴ PBSs provide additional explanation to the Appropriation Bills and as a result, must be consistent with these. PBSs also provide further financial and non-financial information at the portfolio and entity level about the ongoing policy and program delivery initiatives of the Government.³⁵
- 2.38 The guidance issued by Finance for the preparation of the 2015-16 PBSs provides that PBSs must include a section of ‘entity resources and planned performance, which in turn includes outcomes and planned performance information.’³⁶
- 2.39 In providing key performance indicators for each program, the guidance provides that the following information:

5.8 Programme key performance indicators

Reporting on the KPIs associated with programmes provides stakeholders, including the Parliament, with an indication of progress made towards meeting the objectives of a programme. Entities should aim to select strategic and meaningful programme-level performance indicators.

The KPIs section provides information about the programme-level performance measures that will be used by an entity to assess the

34 Department of Finance, *Guide to preparing the 2015-16 Portfolio Budget Statements*, p. 4.

35 Department of Finance, *Guide to preparing the 2015-16 Portfolio Budget Statements*, p. 4.

36 Department of Finance *Guide to preparing the 2015-16 Portfolio Budget Statements*, p. 4.

achievement of programme objectives. Measures may be quantitative or qualitative in nature. This information, most commonly reported in table form, reports on how the programme delivered against a target for the last Budget, in this case 2014-15, with data also provided about planned targets for the current Budget and forward years, where relevant. In many instances, programmes will have various KPIs due to the complexity or scope of the programme activities. Wherever possible, programme-level KPIs should remain consistent across reporting periods to assist with monitoring the achievement of programme objectives over time.

It is good practice for entities to maintain records of trend information and changes to their KPIs. It is recommended that entities advise their AAU [Agency Advice Unit] in Finance if there are any changes to their KPIs.

If a KPI changes from last year's budget or PAES [Portfolio Additional Estimates Statements], entities should also include a footnote in the KPI table, a summary of the change and whether they have met the previous KPI at the programme level. If it is likely the KPI will not be achieved, a brief explanation of the reasons should be noted in the PB Statements.

Entities are to use data sources and measurable samples of the relevant target groups to show the impact of the programme, where relevant, and support chosen indicators. The group of indicators chosen for a particular programme should collectively address the objective of the programme.

When setting performance targets within or beyond the forward estimates period, entities are to be conscious of previous years' targets and their progress towards achieving them. Performance targets should not be static; they should evolve with improved practices and methods, and periodically be evaluated and revised to ensure entities are achieving the best possible results in contributing towards their outcomes.

Entities should also detail any programme evaluations planned or which have been recently completed³⁷

37 Department of Finance, *Guide to preparing the 2015-16 Portfolio Budget Statements*, pp. 37-38. (Underlined emphasis in the original document).

The Committee's role in the PMRA

- 2.40 General oversight of the overall financial management framework that underpins the operations of Commonwealth entities and working to ensure the Parliament has access to timely, clear, contextual and transparent information about the performance of agencies is a key goal for the Committee.
- 2.41 The Committee plays a key role in the oversight of the finances of the Commonwealth. Section 8 of the *Public Accounts and Audit Committee Act 1951 (Cth)* states that one of the duties of the Committee is '...to examine the accounts of the receipts and expenditure of the Commonwealth, including the financial statements given to the Auditor-General'.³⁸
- 2.42 The Committee is also responsible to the Parliament for scrutinising the audit reports prepared by the Auditor-General.
- 2.43 More specifically, the Committee has played an important role in the development of the PMRA to date. The Committee's report into the *Inquiry of the Public Governance, Performance and Accountability Bill 2013*, which was tabled in June 2013, supported the passage of the Bill and also made eleven recommendations. The Committee:
- ...recommended support for the introduction of additional coherence to the Commonwealth financial framework - including through improving the planning, performance and accountability processes - and specifically supports the introduction of:
 - more mature approaches to risk management;
 - the concept of earned autonomy;
 - positive obligations to cooperate and partner with others;
 - better recognition of the resource management cycle of planning through to evaluation; and
 - the intent of improved performance reporting and transparency to the Parliament and the public.³⁹
- 2.44 The Committee's report into the *Inquiry of the Public Governance, Performance and Accountability Act 2013 Rules Development*, tabled in 2014, made ten recommendations aimed at addressing concerns raised by stakeholders. The Australian Government formally agreed with each

38 Section 8(1)(a), *Public Accounts and Audit Committee Act 1951*.

39 Joint Committee of Public Accounts and Audit, *Report 438: Advisory Report on the Public Governance, Performance and Accountability Bill 2013*, June 2013, pp. x-xi.

recommendation made in the Committee's report, with the exception of one which was partially agreed to.⁴⁰

- 2.45 As noted earlier in this chapter historically, the Committee has also approved the annual reporting requirements of non-corporate Commonwealth entities. Section 46 of the PGPA Act states that the accountable authority of an entity must prepare and provide an annual report to the entity's responsible Minister. The annual report must comply with any requirements prescribed by the rules prescribed by the Finance Minister.⁴¹ Section 46(4) of the PGPA Act requires that the Committee must approve these rules on behalf of the Parliament. These rules, *Requirements for Annual reports - for Departments, Executive Agencies and other non-corporate Commonwealth entities*,⁴² are provided to the Committee and then published annually.
- 2.46 In future years the 'requirements' will be replaced by a 'rule' made for the purposes of section 46 of the PGPA Act. Similar to previous years the Committee will still need to consider and approve any rules pertaining to annual reports before their tabling in Parliament.
- 2.47 Commonwealth companies are also subject to annual reporting requirements under the *Corporations Act 2001*.⁴³ Section 97 of the PGPA Act requires that the Directors of a Commonwealth company must provide the responsible Minister with a copy of the entity's financial report, director's report and auditors report. The PGPA Act specifies timelines by which this must take place, dependent on the company's requirement to hold an annual general meeting or other legislative requirements. The Act also requires auditor's reports not prepared by the Auditor-General to be provided to that office and that it must be in line with requirements under the *Corporations Act 2001*. Tabling requirements are also specified depending on whether the company is a wholly-owned Commonwealth subsidiary.⁴⁴
- 2.48 Finally, the Committee will also play a role with respect to the independent review outlined in section 112 of the PGPA Act. This requires
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40 Australian Government, Australian Government response to the Joint Committee of Public Accounts and Audit Report 441: *Inquiry into Public Governance, Performance and Accountability Act 2013 Rules Development*, September 2014.

41 Sections 46(3) and 101, *Public Accounts and Audit Committee Act 1951*.

42 Prime Minister and Cabinet website, <<http://www.dpmc.gov.au/pmc/publication/requirements-annual-reports-departments-executive-agencies-and-other-non-corporate-commonwealth-entities>> accessed 10 December 2015.

43 Department of Finance, *Resource Management Guide No. 130*, p. 2.

44 Section 97(1), *Public Governance, Performance and Accountability Act 2013*.

that the Finance Minister, in consultation with the Committee, must commission an independent review of the Act and Rules at the expiration of three years from the commencement of the Act.



Evidence

Introduction

3.1 This chapter will consider the key issues raised in evidence during the Committee's inquiry including consideration of:

- the cross-cutting concepts within the Commonwealth Performance Framework (the Framework);
- the individual components that make up the Framework, including:
 - corporate plans
 - annual reports and annual performance statements
 - Portfolio Budget Statement (PBSs).

Cross-cutting concepts within the Commonwealth Performance Framework

3.2 A number of cross-cutting concepts were considered by the Committee. These were:

- approaches to developing flexible but consistent performance reporting
- achieving a 'clear read' of performance information
- the need for continuous monitoring, reporting and evaluation.

Approaches to developing flexible but consistent performance reporting

- 3.3 Dr Stein Helgeby of the Department of Finance explained that one of the focus areas of the reforms is to introduce greater flexibility for entities to develop planning and performance information that is fit for purpose:
- The framework ... proposes ... to relate the type of approach to performance measurement and performance assessment to the purpose which is being served by that information. It also proposes to introduce greater flexibility than exists now in how performance is measured and reported.¹
- 3.4 The PGPA Rule provides entities with the flexibility to select the appropriate types of performance measures to suit each entity's individual circumstances and best convey performance information.² For example: using program evaluations as opposed to strictly quantitative key performance indicators (KPIs). However, it should be noted that these flexibilities were previously also available to entities, although they were seldom used.³
- 3.5 In assessing whether entities had shifted to using more flexible approaches to performance reporting as a result of the PGPA Act, Finance used the example of entities' recently released corporate plans to advise the Committee that '[T]here is still a heavy reliance on key performance indicators ... new kinds of performance methodologies ... [are] still evolving'.⁴ Finance also noted the conservative approach taken by most entities in that KPIs and other annually produced information are satisfactory, however 'longer term evaluations or information that might be relevant over a three or four-year period is harder to find'.⁵
- 3.6 In commenting on the increased flexibility of the new performance framework, Professor Kerry Jacobs explained to the Committee that performance measurement requires a greater degree of flexibility to '[break] away from performance measurement for the sake of performance measurement'.⁶

1 Dr Stein Helgeby, *Committee Hansard*, 19 March 2015, p. 1.

2 Section 16E(2), *Public Governance, Performance and Accountability Rule 2014*.

3 Department of Finance (March 2014), *Guidance for the Preparation of the 2014-15 Portfolio Budget Statements*, p. 31.

4 Mr Lembit Suur, First Assistant Secretary, Department of Finance, *Committee Hansard*, 10 September 2015, p. 2.

5 Mr Lembit Suur, *Committee Hansard*, 10 September 2015, p. 2.

6 Professor Kerry Jacobs, *Committee Hansard*, 4 June 2015, p. 7.

- 3.7 The Australian Evaluation Society (AES) was also supportive of the increased flexibility provided to entities in the new Framework:

The AES recognises that traditionally the measurement paradigm has been deeply embedded into accountability reporting ... the AES applaud the enhanced flexibility as a foundation element of the enhanced Commonwealth Performance Framework. This flexibility is expected to substantially improve the quality of non-financial performance measures and the usefulness of information provided. For entities which have been finding KPIs to be an inadequate tool for accountability reporting, this new flexible approach enables them to choose from a wider range of monitoring and evaluation approaches to start presenting more meaningful performance information.⁷

- 3.8 The AES went on however to explain that an increased reliance on qualitative performance information will require 'rigour and structure':

The AES finds that program managers want to use performance information to influence policy, program design and implementation decisions and strive to report with credibility. However, there needs to be some rigour and structure about narrative assessments. Performance reporting based on performance story reporting should be prepared in such a way that the evidence used is clearly laid out, and the processes used to reach the conclusion are transparent, meaning that the overall assessment is well argued and capable of being independently reviewed.⁸

- 3.9 The former Auditor-General also held some concerns about the potential risks of increased flexibility, telling the Committee that:

Commonwealth entities will have considerable latitude in determining the information that is reported, and, as a consequence, it is likely that the performance information available to Government and the Parliament will be diverse and will make performance comparisons across Commonwealth entities responsible for like programs or activities difficult.⁹

- 3.10 The previous Auditor-General further identified the tension in balancing flexibility and ensuring that a minimum standard of information is

7 Australian Evaluation Society, *Submission 6*, p. 11.

8 Australian Evaluation Society, *Submission 6*, p. 11.

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

provided for the purposes of accountability – stating his reservation that the balance had not been struck. He stated that although the Framework ‘contains the right building blocks’:

The absence of minimum requirements and standards, coupled with the open-ended nature of the implementation approach, including measures to bring home the responsibilities of accountable authorities to lift the standard of performance reporting means that the ANAO has reservations whether the goal of having a performance regime that more effectively measures the performance of Commonwealth programs and activities will be achieved over the medium to longer term.¹⁰

- 3.11 The Committee questioned Finance on the consistency of the information presented in entity performance reports – suggesting that, for example, different corporate plans are inconsistent in terms of ‘structure, the level of detail and the alignment against expenditure’.¹¹ Finance advised the Committee that:

The guidance or the material which sit underneath the rule are exactly around making clearer what we expect to see in those documents ... What we are trying to do is make quite explicit the standard, the variety and the quality of things that we all want to see in PBSs. So I absolutely agree with the starting proposition, which is that they are inconsistent – inconsistent in quality, inconsistent in coverage and inconsistent in look and presentation – and what we are trying to do is get that consistency.¹²

- 3.12 A separate but related theme is the need to ensure that performance information is of high quality and reliability. The ANAO’s submission highlighted that no ‘quality’ criteria had been set in the Framework. The ANAO suggested a possible enhancement to the Framework would be to establish such criteria – such as whether the information and indicators are relevant, reliable and complete.¹³
- 3.13 The ANAO submissions specifically noted that the ‘extent of flexibility allowed by the framework and the absence of any criteria to guide the performance measures to be included in corporate plans and annual

10 Mr Ian McPhee AO PSM, *Committee Hansard*, 19 March 2015, p. 5.

11 Mr Ken Wyatt, Committee Member, *Committee Hansard*, 19 March 2015, p. 9.

12 Dr Stein Helgeby, *Committee Hansard*, 19 March 2015, p. 10.

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

performance statements will also affect the auditability of such statements.¹⁴

- 3.14 Being more flexible should allow entities to better manage risk, however, ScottCromwell Pty Ltd stated in its submission that the Commonwealth public sector was 'predisposed to deal with risk in a 'process-oriented fashion'; not in any strategic framework addressing unforeseen risks in a changing environment'.¹⁵ The Committee asked Finance to comment on this statement, with Finance replying that the risk management policy allowed for flexibility for entities to develop their own processes within the framework.¹⁶ This response failed to respond to ScottCromwell's opinion that the framework did not adequately address unforeseen risks and changing environments.

Achieving a 'clear read' of performance information

- 3.15 Another concept within the Framework is that of a 'clear read' between planning and reporting. In providing a 'clear read', entities must ensure that a reader can easily reconcile planned performance information presented in corporate plans and PBSs with acquittal information presented in annual performance statements and annual reports. While accounting for the diversity of entities' roles within the Commonwealth, a 'clear read' also applies to working towards compatibility of performance information across entities.
- 3.16 In its submission to the Committee, Finance states that the performance framework:
- Creates a clear line of sight between performance planning ('expected results' published in corporate plans and portfolio budget statements) and performance reporting ('results achieved' published in annual performance statements), effectively bookending the annual business cycle of Commonwealth entities and companies ...¹⁷
- 3.17 In outlining this 'bookend' process, Finance's Resource Management Guide 130 states:

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

15 ScottCromwell Pty Ltd, *Submission 9*, p. 1.

16 Mr Robert Antich, Assistant Secretary, Department of Finance, *Committee Hansard*, 10 September 2015, p. 9.

17 Department of Finance, *Submission 17*, p. 2.

Corporate plans and annual performance statements are the bookends of the performance framework for Commonwealth entities. The corporate plan is developed at the beginning of the reporting cycle and sets out an entity's strategies for achieving its purposes and how success will be measured. The annual performance statements are produced at the end of the reporting cycle and provide an assessment of the extent to which an entity has succeeded in achieving its purposes.¹⁸

- 3.18 Clear and consistent use of terminology is also important in achieving a 'clear read' of performance information. The Department of Agriculture noted the need to ensure that:

Clear ongoing terminology for performance documentation, including future PBS, needs to be firmly established at this time.

While consistency is necessary to enable entities to take a uniform approach to performance management and reporting, it is also important that stakeholders in Parliament and the community are able to understand the transition from the language of the PBS to that of the new framework. As well as guidance to entities on describing the transition in performance documentation, communication by Finance to stakeholders would be valuable to assist this understanding.¹⁹

Improving outcomes and accountability through monitoring, reporting and evaluation

- 3.19 The Committee heard evidence suggesting that performance information frameworks should support both better entity management and also improved accountability. It was also noted that sometimes a tension exists between improving management performance and improving accountability.
- 3.20 Professor Kerry Jacobs emphasised the need for performance frameworks to focus on achieving better management performance and outcomes through advocating a shift towards 'feedforward measurement'. Professor Jacobs suggested to the Committee that the current performance management framework has:

18 Department of Finance (April 2015), *Resource Management Guide No. 130: Overview of the enhanced Commonwealth performance framework*, p. 5.

19 Department of Agriculture, *Submission 22*, p. 2.

...become dominated by compliance and a financial reporting mentality where reporting high level quantitative measures to external stakeholders is more important than reducing risk and improving performance within the public entities.²⁰

3.21 In relation to monitoring for improvement and evaluation, the Committee heard that Finance had undertaken a PGPA Benefits Realisation Survey. In describing the survey, Finance stated that:

The survey aimed to establish a baseline for assessing the impact of the PGPA Act and to inform the guidance and support Finance continues to provide to help entities realise benefits from the reforms.²¹

3.22 The Survey's findings from some 168 respondents from over 100 entities indicate that:

- some entities are starting to realise benefits in the areas of risk management, performance planning, internal controls, framework simplification and reporting
- but a large number of respondents either identified no benefits or believe it is too early to say whether things have changed for the better.²²

3.23 The Survey report also stated that remaining challenges for entities include:

- overcoming risk aversion
- streamlining and improving internal processes
- ensuring leadership understand the opportunities and can lead the change
- improving performance
- limited resources to implement the PGPA Act among small Commonwealth entities.²³

3.24 In addition to the Survey, Finance submitted that they would analyse entity corporate plans to identify examples of better practice and lessons

20 Professor Kerry Jacobs, *Submission 1*, pp. 1-2.

21 Department of Finance, *Findings Report on the July 2015 PGPA Benefits Realisation Survey*, p. 1.

22 Department of Finance, *Findings Report on the July 2015 PGPA Benefits Realisation Survey*, pp. 1-2.

23 Department of Finance, *Findings Report on the July 2015 PGPA Benefits Realisation Survey*, p. 2.

learnt for the first two reporting cycles (until 2016).²⁴ No statement was made whether this commitment extended beyond 2016 or to other elements of the Framework such as annual performance statements.

3.25 In the longer term, all aspects of the Framework and broader PMRA must be evaluated to assess their effectiveness. Section 112 of the PGPA Act prescribes that the Finance Minister, in consultation with the Committee, must commission an independent review of the operation of the Act and Rules after the expiration of three years from the commencement of the PGPA Act.²⁵

3.26 Adding to the importance of monitoring, reporting and evaluation is the need for cultural change within entities as foreshadowed by the Finance Secretary's comments in Chapter 2. Finance discussed this issue with the Committee at its public hearing on 3 December 2015 stating that:

In terms of the general cultural change: that is a big change that we are seeking to promote... we have very high levels of engagement and senior levels of engagement across government around all of this. We think that the level of interest that has been taken here is significant. We have very ready access and participation in some of our educational and other types of processes... But what I would say is that across the sector as a whole people are still inching their way forward rather than taking great leaps. That is the issue we are facing at the moment.²⁶

Corporate Plans

3.27 In supporting Commonwealth entities and companies to develop corporate plans, the Department advised that it had significant visibility over many draft corporate plans. In particular, the Department stressed that it had provided some 66 entities with feedback on draft corporate plans as well as hosting 35 events to support the development of corporate plans that drew over 1000 participants from 127 entities.²⁷

3.28 Finance stressed to the Committee the role that it played in facilitating the smooth transition to the PGPA Act as well as in assisting Commonwealth entities to be compliant with PGPA Act obligations. In engaging with and

24 Department of Finance, *Submission 17*, Attachment A.

25 Section 112, *Public Governance, Performance and Accountability Act 2013*.

26 Dr Stein Helgeby, *Proof Committee Hansard*, 3 December 2015, p. 4.

27 Dr Stein Helgeby, *Committee Hansard*, 10 September 2015, p. 1.

advising entities about the need to comply with their obligations, Finance advised the Committee that:

We are very active in talking about and making accessible to people information about their obligations and so on and supporting them in doing that. For example, I have mentioned 66 agencies showed us drafts. That is an example of the kind of work we do. We also run things we call communities of practice ...which are very well subscribed and which represent a good opportunity to build the skillset of people who are working on these things.²⁸

3.29 The Committee was interested in the level of engagement within entities when developing corporate plans. Finance said that it was encouraged by the 'level of senior buy-in that has gone into many of these corporate plans' within entities, leading to better overall corporate plans.²⁹

3.30 Building engagement now also requires Commonwealth entities and companies to be aware that the requirements of the CPF are legal obligations. Under previous frameworks there was no such obligation. Finance advised that Committee that:

It was put explicitly into the PGPA, and it sits there now, that performance is an obligation and to give effect to that obligation these rules are being delivered to give force to those things. That would mean that it is a duty and it is legislatively a requirement that all the different parts of the public sector that we are interested in here have to take performance seriously and address performance seriously. The issue that we have been talking about today is in part about working within a construct like that and making sure that we get the right arrangements in place to get the traction that we all want to get here.³⁰

Non-compliance with publication dates for corporate plans

3.31 In examining the process of developing corporate plans, Finance commented on the length of time that entities have had to prepare these documents:

A draft rule has been around since the beginning of the year. Our initial proposal was that corporate plans be published by 1 July. In

28 Dr Stein Helgeby, *Committee Hansard*, 10 September 2015, p. 5.

29 Dr Stein Helgeby, *Committee Hansard*, 10 September 2015, p. 3.

30 Dr Stein Helgeby, *Committee Hansard*, 19 March 2015, p. 9.

consulting with people they said that was too aggressive a timeframe for something that many had to do for the first time and so we put in place the 31 August timeframe as a result of that comment. The final rule was done in May following a report from this committee, but I think it is fair to say that people have been on notice about the 31 August deadline from the beginning of the year. As I am sort of implying, the 31 August deadline was, in our view, a generous deadline.³¹

- 3.32 Finance advised the Committee that as at 31 August 2015, 87 percent of relevant Commonwealth entities and companies had published 2015-16 corporate plans on their websites as required. By 30 September 2015, that figure had risen to 96 percent of relevant Commonwealth entities and companies.³²
- 3.33 The Committee was interested in understanding the reasons why full compliance with the requirement to publish corporate plans was not achieved by all entities.
- 3.34 Finance made a number of observations as to why this may have been the case:
- for entities that have not been compliant, an assessment should be made as to whether the reason for non-compliance was a simple one (such as missing a deadline by a day or two; or that a Board meeting to ‘sign off’ had not taken place)³³ or more complex (such as because the organisation had been engaged in significant structural change)³⁴
 - under the PGPA Act, corporate plans are to be prepared by two classes of Commonwealth entity – those that had previously prepared corporate plans as part of their business planning processes and those entities that had not. Finance noted that of the entities that had previously published corporate plans, many would not have published corporate plans consistent with the new requirements of the PGPA Act. This is because information which related to performance, risk or operating environments may not have been previously included in those entities’ plans³⁵

31 Mr Lembit Suur, *Committee Hansard*, 10 September 2015, p. 7.

32 Dr Stein Helgeby, *Committee Hansard*, 10 September 2015, p. 1.

33 Mr Lembit Suur, *Committee Hansard*, 10 September 2015, p. 7.

34 Dr Stein Helgeby, *Committee Hansard*, 10 September 2015, p. 7.

35 Dr Stein Helgeby, *Committee Hansard*, 10 September 2015, p. 4.

- for most Commonwealth entities the new PGPA Act requirements involve an emphasis on the forecasting of to allow a reconciliation with actual performance. Finance noted that this signalled a shift for some entities in that planning information in PBS previously did not have a connection with other reporting tools such as annual reports (or corporate plans, if these were used).³⁶

Future development of corporate plans

3.35 As already mentioned, the Department has conducted a Benefits Realisation Survey amongst entities. Results suggest that many entities viewed the new Framework process as having had an impact on improving reporting.³⁷ However, the survey's findings noted that:

... more work is required to encourage and support entities to continue reforms to improve their realisation of benefits under the PGPA Act.³⁸

3.36 Finance made a range of commitments as part of the 'next steps' to be undertaken. These included:

- continuing to consult with entities to identify their needs and the causes of any non-compliance
- streamlining and simplifying the range of and access to the directions and guidance material released in relation to estimates preparation and resource management
- continuing to issue PMRA Newsletters and encourage participation and discussion on the PMRA Community on govdex to inform officials about the reforms and the opportunities for entities to realise benefits from the reforms
- continuing to consult with entities on the development of new rules or guidance
- by July 2016, in consultation with entities and the Joint Committee for Public Accounts and Audit, developing a rule and guidance for annual reports for 2015-16
- by late 2017, reviewing with the Department of Prime Minister and Cabinet (PM&C) the requirements under the enhanced Commonwealth

36 Dr Stein Helgeby, *Committee Hansard*, 10 September 2015, p. 5.

37 Dr Stein Helgeby, *Committee Hansard*, 10 September 2015, p. 3.

38 Department of Finance, *Findings Report on the July 2015 PGPA Benefits Realisation Survey*, p. 1.

performance framework and the Regulator Performance Framework after a full cycle and consider whether they could be merged.³⁹

- 3.37 Finance's submission also noted that the Department would also conduct analysis of corporate plans with a view to identifying examples of better practice and lessons learned.⁴⁰ At the Committee's public hearing on 3 December 2015, Finance advised the Committee that:

What we are proposing to do is produce a 'lessons learnt' document, which we will circulate for people to absorb and use to start informing their views as they move towards their second corporate plans next year. It is also going to inform us about areas that we need to focus on in terms of our education engagement strategies so that we can focus on some very specific areas to get some specific improvement in those areas.

One area which was probably the weakest is the performance space. I think, fundamentally, that is because we are trying to change something there quite considerably. Some other aspects of the corporate plan, like the environment statements and things, were quite new statements, so people were able to approach those new and fresh...[and] for example, over the 12 months, leading up to the next lot of corporate plans, we will be focusing very heavily on those performance aspects and getting people to start thinking about performance in a different way and to start improving the way they measure performance and the way they talk about performance.⁴¹

- 3.38 Finance also explained that both the ANAO and the University of Sydney are conducting projects aimed at assessing involved in various capacities to assess the ongoing reforms and in particular, the development of corporate plans.⁴²

39 Department of Finance, *Findings Report on the July 2015 PGPA Benefits Realisation Survey*, pp. 4 - 8.

40 Department of Finance, *Submission 17*, Appendix A.

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

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

Annual Reports and Annual Performance Statements

- 3.39 The other fundamental change to Commonwealth entities' performance reporting obligations under the PGPA Act is the inclusion of an annual performance statement in an entity's annual report.
- 3.40 Two key issues arise in relation to this element of the CPF. The first is the communication of annual report guidelines to Commonwealth entities given the changes under the PGPA Act and the second is the guidance provided by Finance to entities in the preparation of annual performance statements.
- 3.41 Chapter 2 provided the background for the requirements for annual reports and noted that, while prepared by the Department of Finance they require approval by the Committee.⁴³
- 3.42 Given that there will be a change in the approach to be taken by entities in the preparation of annual reports so that PGPA Act obligations are met, the Committee was interested in the consultation process that would be undertaken prior to the requirements for annual reports being finalised. Finance stated in its submission to the inquiry that it would:
- ... begin meeting with Commonwealth entities through existing communities of practice and forums. Feedback will be consolidated into a consultation paper and released for public consideration. Once settled the Department will consult with the JCPAA seeking in-principle endorsement of an approach to annual reporting for 2015-16. The Department will then prepare the draft 2015-16 annual reporting requirements for the JCPAA's approval as required under the PGPA Act, *Public Service Act 1999* and the *Parliamentary Service Act 1999*.⁴⁴
- 3.43 The Committee enquired about the timeline for the issue of the annual report requirements including provisions for having these approved by the Committee. Finance, in a submission to the Committee, advised that it:
- ... intends to consult with the JCPAA in February 2016 and seek in-principle endorsement to the approach to annual reporting. This will be followed by the presentation of finalised 2015-16 requirements to the JCPAA for approval in May 2016.⁴⁵

43 Section 44, *Public Service Act 1999*.

44 Department of Finance, *Supplementary Submission 17.1*, p. 2.

45 Department of Finance, *Supplementary Submission 17.1*, p. 2.

- 3.44 Finance also advised the Committee that it would continue to assist Commonwealth entities in producing annual reports in line with their Framework obligations. Support would be provided through existing communication channels including the Department's websites, communities of practice and forums for Chief Financial Officers.⁴⁶
- 3.45 In terms of the annual performance statement component of the PGPA Act requirements, the Committee did not receive many comments in this regard. The Reserve Bank of Australia did note however:
- ... the annual performance statement's essential function is to report on the extent to which an entity has achieved its main goals, as set out in its corporate plan. In other words, the content (and therefore function) of a performance statement is entirely derived from the contents of the entity's corporate plan. If the corporate plan sets out what, in relation to its purposes, an entity expects to achieve in a reporting period (as required by the Rule), its performance statement must set out the extent to which it achieved those purposes in that period.⁴⁷

Portfolio Budget Statements

- 3.46 During the Inquiry the Committee received four different proposals from Finance about how to change the system for presenting performance information in entity PBSs. Each of the proposals would constitute a change from the current system in operation, as described in Chapter 2.
- 3.47 The first proposal was to remove all planned performance information from PBSs, with this instead only to be included in corporate plans.
- 3.48 The subsequent three proposals all were in the form of a 'Direction' from the Secretary of Finance, which would set minimum requirements for performance information to be included in PBSs. Each proposed Direction varied in what would be required – for example, whether information was presented at the more detailed 'program' or more aggregated 'purpose' levels.
- 3.49 No draft guidance material was provided to the Committee to support their interpretation of the proposed Directions, apart from some short commentary in proposed Direction #1. However, some explanatory text

46 Department of Finance, *Supplementary Submission 17.1*, p. 3.

47 Reserve Bank of Australia, *Submission 19*, p. 6.

was included in Finance's submissions and the intent of particular minimum requirements within the Directions was discussed at a series of public hearings.

3.50 The following sections discuss each proposal.

Proposal to remove planned performance information from PBSs

3.51 In March, Finance informed the Committee of its proposal to remove planned performance information from PBSs.

3.52 At the Committee's public hearing on 19 March 2015, Finance told the Committee that a central issue:

has been the question of where to publish information about plan[ned] performance. There was a strong view ... that it should not be published in two separate documents that appear close together – that is, the [PBS] which appear on budget night and corporate plans ... The overwhelming view was that only one document should contain the plan performance information, and that should be the corporate plan.⁴⁸

3.53 Finance noted that the way PBSs were currently constructed 'do not go anywhere near providing a picture of the strategies, the resources, or the means that are employed in order to achieve government objectives'.⁴⁹ Finance elaborated on the deficiencies in the information currently included in PBS documents:

PBSs are not a good guide ...to what is really important in terms of how government operates. They are collections of different bits of data that are not covering all the bases. They are not covering, in particular, risk and capability. They are patchy on performance ... They are not commenting on the environment and they are not really covering everything either. Fifteen per cent of entities do not have PBSs. Of those that do have PBSs, the framework that drives the PBS on the performance side does not cover 100 per cent of the money that gets spent; it only covers a proportion of that money. ... about 20 per cent of the total resources that are being applied are being covered in that kind of way.⁵⁰

3.54 Finance was of the view that, following the proposed change, PBSs would still continue to explain the appropriation bills to Parliament on a portfolio

48 Dr Stein Helgeby, *Committee Hansard*, 19 March 2015, p. 1.

49 Dr Stein Helgeby, *Committee Hansard*, 19 March 2015, p. 7.

50 Dr Stein Helgeby, *Committee Hansard*, 19 March 2015, p. 9.

basis at the required level of specificity (outlining the government's planned activities and resourcing in accordance with the outcomes and programs framework). Finance emphasised that the PBS would continue to play an important role in accountability, however, the corporate plan would be the principal planning and operational document detailing how an entity will organise itself to deliver on the activities and programs set out in the PBS.⁵¹

- 3.55 Finance's view on this matter was supported by a number of submissions to the inquiry.⁵² For example, the Attorney-General's Department stated in its submission to the inquiry that:

... the Department is concerned that inclusion of the same or similar information in both the PBS and the corporate plan may be confusing to stakeholders and detract from, rather than improve, the effectiveness of the newly enhanced performance framework. As the timeframe for production of the PBS is short, outcomes are specified at a high level, and some measures in the PBS are new, it can be difficult to develop meaningful performance information for the PBS. While performance information in the PBS could be changed before its inclusion in the corporate plan, this is counter to the purpose of including such information in the PBS. It could also encourage a less rigorous approach to development of performance information for the PBS and is duplication of effort.

The Department considers that it would be challenging to effectively include a subset of performance information from the corporate plan in the PBS as the PBS is produced first in time. PBS outcome statements describe the purpose for which budget is allocated which the Department considers sufficiently informs Parliament of the intent of proposed expenditure without the need for additional, high level performance information which is developed within tight time constraints and is subject to change in the context of the corporate plan.⁵³

- 3.56 Airservices (formerly Airservices Australia), while acknowledging that it does not receive appropriations as it is a Corporate Commonwealth Entity
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51 Dr Stein Helgeby, *Committee Hansard*, 19 March 2015, p. 1.

52 Department of Social Services, *Submission 4*, pp. 2. See also Australian Crime Commission, *Submission 10*, p. 2; Department of Health, *Submission 18*, p. 1; Australian Broadcasting Corporation, *Submission 20*, p. 2; CSIRO, *Submission 16*, p. 2; Department of Industry and Science, *Submission 21*, p. 1; Department of Agriculture, *Submission 22*, p. 2; and Civil Aviation Safety Authority, *Submission 12*, pp. 1-2.

53 Attorney-General's Department, *Submission 3*, pp. 1-2.

under the PGPA Act, expressed concern about the continuation of planned performance information in PBSs in its submission to the inquiry suggesting that:

In our view the intended purpose of the Portfolio Budget Statements should be clarified before considering what information needs to be included or excluded from these documents.⁵⁴

Concerns of the Auditor-General

3.57 The ANAO impressed on the Committee that it had a number of concerns about the removal of performance information from the PBS. In its submission, the ANAO reminded the Committee that one of the guiding principles for the PMRA, stated in the Explanatory Memorandum to the PGPA Bill 2013, is:

‘The financial framework, including the rules and supporting policy and guidance, should support the legitimate requirements of the Government and the Parliament in discharging their respective responsibilities’.⁵⁵

3.58 The previous Auditor-General criticised the proposal to remove performance information from the PBS, stating that it:

[T]reats the parliament in the same way as other users rather than recognising the central constitutional role of the parliament especially in appropriating moneys to fund the government’s new policy measures and ongoing programs, of which planned performance is a key consideration.⁵⁶

3.59 The previous Auditor-General further explained that this approach would mean that:

‘Ministers who currently submit [PBSs] to the President of the Senate and the Speaker of the House of Representatives to provide accountability to parliament [would] no longer be directly associated with the specific information presented on planned

54 *Airservices, Submission 5*, p. 2. Supported also by the Australian Public Service Commission, *Submission 11*, p. 1.

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

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

performance, as this information would be included in entity corporate plans and not in the [PBS].⁵⁷

3.60 The previous Auditor-General also agreed with the Committee's contention that the relevant minister is responsible for the performance of a relevant entity and that by not presenting information on planned performance to the parliament at the time of the budget 'weakens' the responsibility of the Executive.⁵⁸

3.61 The previous Auditor-General was of the view that the existing framework could be improved via the use of a succinct policy statement that:

... articulates, firstly, minimum requirements for the inclusion of information on planned performance in entity PBSs, when Government is seeking appropriation funding from the Parliament. Generally, this information would be a subset of planned performance information reflected in an entity's corporate plan. This approach would address the high-level information requirements of the Parliament as well as the timing considerations referred to earlier. It would be envisaged that these requirements would include the expected achievements against program or activity objectives for which funding is being sought.

... in our view the policy should articulate a clear expectation that Commonwealth entities, particularly departments of state, will include measures that both foreshadow, and subsequently assess, the impact of government programs, where policy advising responsibility rests with the department. Thirdly, in our view the policy should articulate criteria that information presented in relation to performance information must satisfy.⁵⁹

Proposed Direction #1

3.62 The Committee did not accept the proposal to remove performance information from PBSs, instead making the commencement of the broader Framework conditional on the retention of performance information. The

57 Mr Ian McPhee AO PSM, Auditor-General (Retired), Australian National Audit Office (ANAO), *Committee Hansard*, 19 March 2015, pp. 2-3.

58 Mr Ian McPhee AO PSM, Auditor-General (Retired), Australian National Audit Office (ANAO), *Committee Hansard*, 19 March 2015, p. 8.

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

Committee wrote to Finance specifically requesting requirements be set for performance information in PBSs that:

- ... address the high level information requirements of the Parliament as well as timing considerations
- ... include the expected achievements against program or activity objectives for which funding is being sought.⁶⁰

3.63 Finance indicated they would retain performance information in PBSs through use of a Direction under subsection 36(3) of the PGPA Act. This authorises the Secretary of Finance to 'give written directions to the accountable authority of a Commonwealth entity' to provide 'any information relating to the budget estimates for the entity that is required by any direction [under the subsection]'.⁶¹ Finance advised the Committee that this practice was consistent with administrative and legislative approach to managing the Budget process and that all relevant entities are bound to follow any such Direction.⁶²

3.64 A proposed Direction, provided to the Committee in late March, specified that performance information would be at the program level and directed at measuring the program's impact.

3.65 The following minimum requirements were stated in proposed Direction #1:

- 'The performance measures identified in PBSs must be directed at measuring the impact of programmes and their effectiveness in terms of meeting the Government's outcomes (if applicable) and the key objectives of the entity...
- Where new material activities are being proposed for funding by the parliament, the PBS must outline the performance measures that will apply to these activities...
- The performance measures for established programmes that are reported in an entity's PBS must have a strategic focus, and must be able to be read across the entity's corporate plan for that year.'⁶³

3.66 In support of the minimum requirements, the draft Direction also included guidance as to the desirable qualities of good performance

60 Committee Chair to Dr Stein Helgeby, Department of Finance. Correspondence, 19 March 2015.

61 Section 36(2)(c) and 36(3), Public Governance, Performance and Accountability Act 2013.

62 Department of Finance, *Supplementary Submission 17.1*, pp. 4-5.

63 Department of Finance, *Submission 17, Attachment 3*, p. 4.

information – in particular that ‘[i]t is desirable that performance information in PBSs should clearly define targets (where appropriate)...’⁶⁴.

- 3.67 After viewing the proposed Direction the Committee approved commencement of the Framework, and in particular the preparation of corporate plans under the new arrangements. However, the Committee did not provide comment or in-principle support for the content of the draft Direction.

Proposed Direction #2

- 3.68 In November 2015, Finance submitted an alternative proposed Direction to the Committee.

- 3.69 The new proposal was a substantial change from the one viewed by the Committee in March. The changes included:

- that performance information would be presented at the ‘purpose’ level as opposed to the more detailed ‘programme’ level
- less direct and less specific terminology – for example where proposed Direction #1 stated that performance measures ‘**must** be directed at measuring the **impact** of programmes’⁶⁵ the new proposal stated that ‘performance measures **should** provide an **indication** of the substantial difference made’.⁶⁶

- 3.70 The following minimum requirements were stated in proposed Direction #2:

- Portfolio Budget Statements for each budget year from 2016-17 onwards must include a statement of the discrete purposes described in a Commonwealth entity’s corporate plan that applies to the same reporting period, and as prepared under section 35 of the *Public Governance, Performance and Accountability Act 2013*
- Portfolio Statements must include a set of high-level strategic performance measures against each of the purposes described in an entity’s corporate plan. These high-level strategic performance measures should provide an indication of the substantial difference made when each purpose is fulfilled successfully

64 Department of Finance, *Submission 17, Attachment 3*, p. 4.

65 Department of Finance, *Submission 17, Attachment 3*, p. 4.

66 Department of Finance, *Supplementary Submission 17.2, Attachment A*. [emphasis added]

- Portfolio Budget Statements must provide an indication of the connection between the programmes described in those statements and the entity's purposes. It is expected that this connection will be presented as a mapping of programmes to purposes in a schematic or tabular form
- Where practical, outcomes described in an entity's contribution to Portfolio Budget Statements should provide an indication of links to outcomes provided by other Commonwealth entities.⁶⁷

3.71 In support of the new proposed Direction, Finance's observed that:

Portfolio Budget Statements will continue to provide information to support Parliament's consideration of appropriation amounts being requested, including a *strategic view* of how the funding will be used to fulfil an entity's purposes, and how, at a high level, success will be measured.⁶⁸

3.72 Finance suggested that high-level performance measures would have a number of characteristics:

- be a measure of entity purpose that actively seeks to assess, to the extent possible, the effectiveness of the organisation in meeting its purpose(s) (for example, a measure of a primary activity it undertakes to fulfil its purpose(s));
- contain a clear description of the measure and its rationale i.e. what is expected to change as a result of an entity's activities (for example, comparison or results during a certain period against a baseline established as an average over an appropriate period, because this is considered to provide the best measure of the entity's effectiveness in achieving its purposes over time);
- provide a clear description of the target or outcome that is regarded to be a reasonable representation of success (for example, a change in the productivity of an industry-sector as a result of initiatives aimed at encouraging innovation);
- describe the method that will be used to determine the measure (for example, a data-set collected by the Australian Bureau of Statistics or a survey of clients expected to benefit from a relevant initiative); and
- when the performance is expected to be reported (for example, that the entity intends to report on this measure in its 2015-16 or some later annual performance statement).⁶⁹

67 Department of Finance, *Supplementary Submission 17.2*, Attachment A.

68 Department of Finance, *Submission 17.2*, p. 2.

69 Department of Finance, *Submission 17.2*, pp. 4.

3.73 Finance further stated that:

The strategic information described against the purposes of an entity would point to what is expected to be achieved by the entity and the corporate plan would provide further detail on its other activities. The rendition of this high-level performance information in the Portfolio Budget Statement provides a direct link (an “index”) to more detailed performance information provided in the corporate plan, and gives the Parliament an appropriations context for reading the entity’s corporate plan.⁷⁰

3.74 The ANAO suggested however that:

Portfolio Budget Statements also have a different character to the corporate plan, as they are a Ministerial document presented to the Parliament as part of the Budget Papers. They have been seen as the first stage of Executive accountability to the Parliament for the use of resources, bookended by the Annual Report.

Under the proposed arrangements, funding will be sought by government based on outcomes and programs, and performance will be measured against an entity’s purposes. While entities will be required to map outcomes and programs to their purposes... the nexus between funding proposals and what is expected to be achieved with the amounts appropriated by the Parliament is not as direct as it is under the current framework ...therefore, a risk that the Parliament will have less measurable information available that links directly to the outcomes and programs for which funding is being sought ...⁷¹

3.75 The ANAO further emphasised these risks, noting that:

- the performance measures included in Portfolio Budget Statements will not focus on the impact of programs and their effectiveness in achieving expected outcomes or objectives. The revised direction no longer refers to impact or effectiveness, focussing instead on providing an ‘indication of the substantial difference made when each purpose is fulfilled successfully’. There is also a difference in emphasis between the proposed direction and other guidance material on the features of good performance measures. Specifically, Finance’s Resource Management Guide No. 131 states that ‘measures should provide meaningful information on an entity’s purposes in

70 Department of Finance, *Submission 17.2*, p. 5.

71 Australian National Audit Office, *Submission 7.1*, p. 1.

terms of the effectiveness and efficiency of activities focussed on that purpose'

- performance measures on new activities may not be provided to the Parliament as a matter of course. This was a requirement in the earlier draft of the direction but not in the revised direction.⁷²

Discussion at public hearing regarding proposed Direction #2

3.76 Following receipt of the submissions from both Finance and the ANAO, the Committee invited both entities to a public hearing on 26 November 2015 to discuss the updated proposal. At the public hearing, the Auditor-General expressed his high level support for work being undertaken by Finance, noting that '[C]onceptually, there is not much in what Finance are talking about that we disagree with. The framework is not something that we think is a poor one that they are describing'.⁷³

3.77 Commenting on the ANAO's submission in relation to Draft direction #2, the Auditor-General stated the key question raised by the submission was:

... whether portfolio budget statements should be a stand-alone document and contain sufficient information so that parliamentarians do not have to unduly rely on other documents such as corporate plans or annual reports when considering budget proposals.⁷⁴

3.78 The public hearing canvassed three further areas of interest to the Committee:

- granularity, particularly with respect to the provision of performance information at the 'program' level
- the use of direct, specific and clear terminology
- the timely update of corporate plans relative to the appropriations cycle.

Granularity

3.79 One of the key concerns of the Committee was that the level of performance information that would be provided in PBSs would not be presented in a manner that would be sufficiently detailed for the needs of

72 Australian National Audit Office, *Submission 7.1*, p. 2.

73 Mr Grant Hehir, Auditor-General, Australian National Audit Office, *Proof Committee Hansard*, 26 November 2015, p. 5.

74 Mr Grant Hehir, *Proof Committee Hansard*, 26 November 2015, p. 7.

parliamentarians. In particular, concerns were raised that 'program' level performance information would not be included in PBSs and instead performance information would only be published at the aggregated 'purpose' level.

3.80 The Auditor-General told the Committee that:

There will no longer be a requirement to assess performance against quantitative deliverables and key performance indicators at a program level in performance budget statements. Performance is to be assessed against entities' purposes. It will therefore be important that there is a clear relationship between outcomes, programs and the related purposes in the guidance that the department puts out.⁷⁵

3.81 Although not discussing program level changes, Finance noted, however, that those matters 'that would materially change the corporate plan – financially or in performance terms – will be in the PBS'.⁷⁶

Terminology

3.82 The use of particular terminology during the development of the proposed Directions has been one of the Committee's core concerns. The Committee questioned whether the terms used in various iterations of the Direction were sufficiently direct, specific and clearly explained.

3.83 Considering the revised draft Direction, the Auditor-General told the Committee that proposed Direction #2:

... no longer refers to measuring the impact of programs and their effectiveness but focuses instead on requiring entities to provide an indication of the substantial difference made when each purpose is fulfilled.⁷⁷

3.84 The Committee was interested in why Finance was suggesting that the terminology change from the more direct and specific language in proposed Direction #1 to the less direct and less specific terms in proposed Direction #2. Finance advised the Committee:

Efficiency, economy, effectiveness and ethical are the key principles in the PGPA. In one sense, I think the language is different, but it is not intended to express an entirely different concept. When people use the word 'outcomes', they typically

75 Mr Grant Hehir, *Proof Committee Hansard*, 26 November 2015, p. 2.

76 Dr Stein Helgeby, *Proof Committee Hansard*, 26 November 2015, p. 2.

77 Mr Grant Hehir, *Proof Committee Hansard*, 26 November 2015, p. 2.

mean two things, which are not particularly well correlated. One is a thing called an outcome which forms the basis on which a lot of appropriations are conducted. Then there is another definition of 'outcome' which is effectively the difference that you make, as in 'what you have achieved for the community'... All we are trying to do is to nuance that language to allow those other concepts, the concepts of efficiency, the concepts of economy and the concepts of appropriateness, to come into the mix ...⁷⁸

- 3.85 The Committee was interested as to whether changes in the language of the revised draft Direction would make auditing of the performance of programs and entities more difficult. The Auditor-General advised that it would not. However, it was noted that if there was '...clarity around what the words mean, then it gives us a better framework to operate from' and also 'making sure that there is clarity in the guidance it sits around'.⁷⁹
- 3.86 Regarding the clarity of terminology, the key issue discussed was that linkages and/or differences between the budget framework and performance framework terminology. Specifically that the budget framework uses the terms of 'outcomes' and 'programs', but the performance framework uses 'purposes' and 'activities'.
- 3.87 Finance acknowledged that some of this terminology refers to closely aligned concepts. Finance advised the Committee that:

There are naturally questions about what is the relationship between outcomes, programs and purposes. In many cases they would be identical, but not in all cases ... purposes and corporate plans become the thing that really articulates what this is all about. Outcomes and programs will either evolve to match that or we will have to reframe them in some way so that we do not get simply an exercise in cutting up agencies and cutting up financing in four different ways.⁸⁰

Timeliness

- 3.88 The Committee was also concerned about how long it might take to update entity corporate plans after each point in the budget cycle – in particular whether, following the tabling of a budget, updated corporate plans would be available for Senate Estimate's scrutiny.

78 Dr Stein Helgeby, *Proof Committee Hansard*, 26 November 2015, p. 4.

79 Mr Grant Hehir, *Proof Committee Hansard*, 26 November 2015, p. 5.

80 Dr Stein Helgeby, *Proof Committee Hansard*, 26 November 2015, p. 2.

- 3.89 As noted in the previous chapter, corporate plans for 2015-16 were published by the end of August. A core concern of both the Committee and the Auditor-General was that this release cycle comes several months after the release of the federal Budget and does not inform the passage of the May Appropriation Bills through Parliament.
- 3.90 The Auditor-General suggested that financial reports should be released as soon as possible.⁸¹
- 3.91 Finance was asked about how the PBS interacts with the corporate plans and the annual reports, and how these elements of the Framework can be timed appropriately for the benefit of Senators during the budget estimates process.⁸² Finance informed the Committee that:
- ... the Committee has previously debated whether or not to seek to bring forward the formal tabling of corporate plans to budget night. There is simply a practical logistical issue, given the way that budgets are normally managed ... We would expect that corporate plans would be updated quickly thereafter. The other discussion in this committee has been how quickly that can be. For the first round of corporate plans, we made it August to get everybody across the line. As experience builds, we will be seeking to bring that forward, because we think that the case for being able to expedite that grows stronger as people become comfortable with it.⁸³
- 3.92 The Committee asked Finance whether, as part of the Senate Estimates processes, the performance information that Senators would have access to would be accurate and whether Senators would have access to all the information that they require to 'prosecute the PBS'. On this matter, Finance advised the Committee that it could not provide a 'yes or no' response.⁸⁴ However, Finance noted that:
- ...in a PBS, as we currently envisage it, all the changes which would subsequently be reflected in a corporate plan that are driven by the decisions of the government will be in the PBS. So those things which materially change the corporate plan – financially or in performance terms – will be in the PBS. The corporate plan itself will at some point in time – and we are

81 Mr Grant Hehir, *Proof Committee Hansard*, 26 November 2015, pp. 6-7.

82 Senator McKenzie, Committee Member, *Proof Committee Hansard*, 26 November 2015, p. 5.

83 Dr Stein Helgeby, *Proof Committee Hansard*, 26 November 2015, p. 5.

84 Dr Stein Helgeby, *Proof Committee Hansard*, 26 November 2015, p. 5.

trying to bring that point in time forward – catch up with the PBS.⁸⁵

- 3.93 On the related matter, the Committee flagged that next year it would consider whether the current 15 October deadline for delivery of Annual Reports to Ministers for subsequent tabling in Parliament should be brought forward to ensure reports are available for use in the October Senate Estimate hearings.⁸⁶

Proposed Direction #3

- 3.94 In response to the concerns raised by the Committee, Finance provided a third proposed Direction on 2 December 2015. The Committee held a final public hearing on 3 December 2015.
- 3.95 The following minimum requirements were stated in proposed Direction #3:
- Portfolio Budget Statements must indicate the connection between the appropriated outcomes and programs of an entity to the entity's purposes as expressed in its corporate plan. This connection will be presented by mapping outcomes and programs to purposes in a schematic or tabular form
 - Portfolio Budget Statements must include at least one high level performance criterion to assess the impact of programs and their effectiveness in meeting each of the entity's outcomes and purposes
 - Where new or materially changed programs are proposed for funding, the Portfolio Budget Statement must outline the delivery and performance criteria for these programs, and the purpose in the entity's corporate plan to which it is linked
 - High-level performance criteria for established programs that are reported in an entity's Portfolio Budget Statements must be able to be read across to the entity's corporate plan
 - Outcomes or programs described in an entity's Portfolio Budget Statements should provide an indication of links to relevant outcomes or programs in other Commonwealth entities.⁸⁷

85 Dr Stein Helgeby, *Proof Committee Hansard*, 26 November 2015, p. 6.

86 Mr Ian Macfarlane, Committee Chair, *Proof Committee Hansard*, 26 November 2015, p. 6.

87 Department of Finance, *Supplementary Submission 17.3*, Attachment A.

- 3.96 Proposed Direction #3 reincorporates many of the elements contained in proposed Direction #1, viewed by the Committee in March. In particular, it provides:
- performance information at the ‘program’ rather than the ‘purpose’ level
 - includes more direct and specific terminology in some instances.
- 3.97 Although the terminology of proposed Direction #3 could be more specific, it also indicates:
- that for every program in the PBS there must be least one high level performance criterion⁸⁸
 - that for new or materially changed programs, all performance criteria must be included in the PBS⁸⁹
 - that for established programs a high level sub-set of the program’s performance criteria must be included in the PBS.
- 3.98 The Committee’s investigation of proposed Direction #3 focused on:
- the differences between current guidance and proposed Direction #3
 - the timeliness of corporate plan updates
 - the presentation of financial information in PBSs.
- 3.99 Each of these aspects is discussed in detail below.

Differences between the current guidance and proposed Direction #3

- 3.100 Finance’s supplementary submission included information about how the proposed changes would differ from the way that PBSs are currently presented.
- 3.101 Of importance also was how the current instructions to entities regarding preparation of performance information for PBSs (the current guidance) differed from proposed Direction #3 – in other words, what might be lost or gained from a framework rather than an operational perspective.
- 3.102 Firstly, the Committee noted that the current system only includes ‘guidance’ for performance information in PBSs, rather than the more authoritative ‘Direction’ under consideration.

88 Dr Stein Helgeby, *Proof Committee Hansard*, 3 December 2015, p. 1.

89 Mr Lembit Suur, *Proof Committee Hansard*, 3 December 2015, p. 2.

3.103 However, the Committee's investigation found that the current Guidance contains specific references to the following elements that are not discussed in proposed Direction #3:

... how the programme delivered against a target for the last Budget, in this case 2014-15, with data also provided about planned targets for the current Budget and forward years, where relevant.⁹⁰

3.104 The Committee queried whether the as yet undeveloped guidance supporting the Direction would discuss these matters.

3.105 In relation to whether entities PBSs would be required to report 'how programmes delivered against a target for the last Budget, Finance responded that it is not proposed to 'significantly change guidance in this area for the preparation of the 2016-17 Portfolio Budget Statements'.⁹¹

3.106 Finance also stated that the guidance would explain that PBSs should include planned program targets for the current Budget, forward years, or beyond.⁹² However, it was not clear from Finance's response that actual targets or expected achievements would be expected to be included in entity PBSs.

3.107 Finance also confirmed that: 'where a new program is proposed in the Budget, the full suite of the performance criteria by which results will be assessed must be set out for budget year and, where relevant, forward years in the Portfolio Budget Statement'.⁹³

3.108 Finance further confirmed that corporate plans: 'should contain information on planned programme targets for the current Budget, forward years, or beyond'. Finance noted that 'a corporate plan must include information on how the entity's performance will be measured and assessed, including any measures, targets and assessments that will be used to measure and assess performance'. This includes coverage of at least four reporting periods. Finance further stated that '[E]ntities are free to set out how their performance will be measured and assessed over a longer period of time if required'.⁹⁴

90 Department of Finance (March 2015), *Guide to preparing the 2015-16 Portfolio Budget Statements*, pp. 37-38.

91 Department of Finance, *Supplementary Submission 17.4*, pp. 1 - 2.

92 Department of Finance, *Supplementary Submission 17.4*, pp. 1 - 2.

93 Department of Finance, *Supplementary Submission 17.4*, pp. 1 - 2.

94 Department of Finance, *Supplementary Submission 17.4*, pp. 1 - 2.

3.109 At the Committee's public hearing, the Committee asked Finance about whether Senators would lose any information in PBSs as a result of the changes outlined in the third draft Direction. Finance, referring to Appendix C of its submission, responded:

... You will see that there are quite a number of areas where there are no changes. A couple of areas in the portfolio overview and also in section 1 remove duplication. The duplication that is removed ...in the hierarchy of things, budget papers rank higher than portfolio budget statements... In section 1, there is a small proposed change to third-party payments. It is a consolidation within a table ... Down below is where the changes would be. Reading across, the first item there is, for each outcome, the description of the strategy and contributions. What we would be proposing here is that parliament would still see the outcome statement, but it would also draw attention to the performance information tables ...Further detail around the purposes and strategies is in the corporate plan.⁹⁵

3.110 One of the newly introduced terms into draft Direction #3 was in reference to the provision of detailed performance information. Draft Direction #3 requires that newly introduced measures that will have a 'material impact' on existing measures will be highlighted in PBSs. In outlining this change, Finance advised the Committee that:

We have also included a provision that, where new or materially changed programs are proposed for funding, the portfolio budget statement must outline the delivery of performance criteria for those programs. In the interest of clarity, existing program-level performance information and information for new or changed programs is proposed to be presented in one table within the portfolio budget statements.⁹⁶

3.111 Finance also advised the Committee that:

The key improvement ...is that we show each measure in the budget against the program it relates to. Where that measure has a material impact on the program, or indeed if the measure represents a new program, in that third column across, called 'performance criteria', we show in italicised text how that budget measure's performance will be assessed. If it is a change to an existing performance criteria in a program of which that measure

95 Dr Stein Helgeby, *Proof Committee Hansard*, 3 December 2015, p. 2.

96 Dr Stein Helgeby, *Proof Committee Hansard*, 3 December 2015, p. 1.

is a part, then that will be showed in italicised text. If it is a completely new program, all of the performance criteria relating to that new program will be shown in italicised text. By looking down that column, senators and members can see where there is continuity in the performance criteria or where the performance criteria has changed. I think that gives a much clearer read as to the impact of the moneys that we are seeking the parliament to appropriate and to the impact those moneys will have on government activities.⁹⁷

3.112 In commenting on the overall Draft Direction#3 provided by Finance, the Auditor-General advised the Committee that:

I think they address a number of the issues raised by the committee at the last meeting. The one area which the committee raised some issues about which is still substantive is what has been alluded to today that information which currently is in the PBS with respect to KPIs and specific information around performance is now going to be in other documents, the annual report and the corporate plan. Finance, in their document, state that the corporate planes will be expected to be updated prior to estimates, which I think is a response to the committee's concerns in there. It might be a view that the committee might take that they would like a stronger statement than in a policy paper. If that is going to be the key source document for consideration of budget documentations or the key contemporary source document for a lot of detail, there should be a stronger expectation or maybe a direction around the making of that information available for committee consideration at budget time. As we said last time, a lot of these changes we are very supportive of. I think a lot of what Finance has done addresses concerns but that still would be the key issue that was raised last time, where there might be room for some more activity.⁹⁸

Timeliness of corporate plan updates

3.113 In relation to the issue of timeliness, Finance's supplementary submission advised that:

It is expected that entities' corporate plans will be updated to incorporate new or materially changed programs, as presented in

97 Mr Lembit Suur, *Proof Committee Hansard*, 3 December 2015, p. 2.

98 Mr Grant Hehir, *Proof Committee Hansard*, 3 December 2015, p. 6.

the Portfolio Budget Statements, as soon as practicable following the presentation of appropriation bills to the Parliament, noting the Committee's interest in having up-to-date corporate plans available for Senate Estimates hearings.⁹⁹

- 3.114 However, Finance later commented in the public hearing that corporate plans might only be updated after Senate Estimates:

We would expect entities to update their corporate plans to include new or changed programs as soon as practicable after the appropriation bills have been passed by parliament.¹⁰⁰

- 3.115 The Committee asked whether there were any difficulties in providing a direction that performance information in corporate plans be updated prior to the commencement of the Budget estimates cycle. Finance advised the Committee that the guidance relating to the PBS would express such an expectation, However, given the nature of Budget delivery:

In some cases, it is only when the budget bills are presented to the parliament that entities know the detail of what is in the budget that relates to them, so our intention is to say in the guidance that, when the budget bills are presented to the parliament ...entities then update their corporate plan for the budget. If they do that in a timely fashion, those updated corporate plans will be available for the budget estimates hearings.¹⁰¹

- 3.116 Additionally, Finance noted that while it was intended to require that corporate plans be updated following the presentation of the Budget, that:

... the question, really, is about what the appropriate form is and what the appropriate document is, within which that intention is expressed ... it is actually currently in the submission, but it certainly will be in our documentation.¹⁰²

- 3.117 The Committee was interested in the distinction between Finance's expectation that corporate plans would be updated 'as soon as practicable' following the release of the Budget and the requirement that this process occur prior to the commencement of the Senate Estimate's process. Finance advised the Committee that:

The words 'soon as practicable' are a reference to the words used in section 16E of the PGPA rule, which is, 'Corporate Plan for

99 Department of Finance, *Supplementary Submission 17.3*, p. 3.

100 Dr Stein Helgeby, *Proof Committee Hansard*, 3 December 2015, p. 1.

101 Mr Lembit Suur, *Proof Committee Hansard*, 3 December 2015, p. 6.

102 Dr Stein Helgeby, *Proof Committee Hansard*, 3 December 2015, pp. 6-7.

Commonwealth Entities'. Subsection 6 of that rule requires, where there is a variation that is significant, an accountable authority to publish that variation in the corporate plan 'as soon as practicable'. We are using the words that are used in the framework ...¹⁰³

3.118 In relation to timing, the Auditor-General told the Committee:

... one of the changes that are happening here is that some information is going from a document to parliament to another document which is not to parliament, which is the corporate plan. What parliament has to rely on is a document which does not go to parliament. With respect to the documents that go to parliament, there are strict rules about when they have to be available. With this document, the corporate plan – the intent of the introduction of which we support – it does not have that framework around it, but there is an expectation that the parliament should rely on that information in undertaking its activities, and I think that the tension between those two things is the issue that you would need to deal with in your consideration.¹⁰⁴

3.119 In its supplementary submission to the inquiry, the ANAO notes that:

... paragraph 20 of Finance's submission comments on the timing and updating of corporate plans, including updates aimed at providing the Parliament with information when it is considering the appropriation bills. This observation raises the question of whether to align the publication of entity Corporate Plans with the Budget cycle, which would enable corporate plans to be available to the Parliament at the time of its consideration of the appropriation bills, or to include relevant updated information from the corporate plan in the Portfolio Budget Statements.¹⁰⁵

3.120 The Auditor-General also emphasised this point at the Committee's public hearing stating that:

Finance, in their document, state that the corporate plans will be expected to be updated prior to estimates, which I think is a response to the committee's concerns in there. It might be a view that the committee might take that they would like a stronger statement than in a policy paper. If that is going to be the key source document for consideration of budget documentations or

103 Mr Lembit Suur, *Proof Committee Hansard*, 3 December 2015, p. 7.

104 Mr Grant Hehir, *Proof Committee Hansard*, 3 December 2015, p. 7.

105 Australian National Audit Office, *Supplementary Submission 7.1*, pp. 1-2.

the key contemporary source document for a lot of detail, there should be a stronger expectation or maybe a direction around the making of that information available for committee consideration at budget time.¹⁰⁶

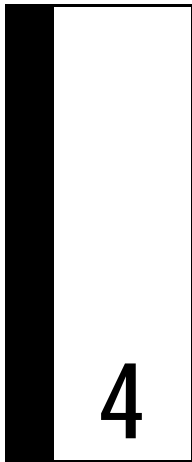
Presentation of financial information in PBSs

3.121 Finance also advised in relation to improving the presentation of financial information in the PBSs that:

At the moment there are two tables in the portfolio budget statements that have this information, and the program information is not made explicit in either of those tables. What we are proposing to do is to structure the tables so that the outcome is specified, the program is specified in detail, you have the estimated actual expenses from the current year and then you have the appropriations being sought in the budget year and the three forward estimates years, and all of that is in one table. At the moment, you have to go to three places in the PBS to put all of this together. Our view is that this is a significant improvement in the presentation of information.¹⁰⁷

106 Mr Grant Hehir, *Proof Committee Hansard*, 3 December 2015, p. 6.

107 Mr Lembit Suur, *Proof Committee Hansard*, 3 December 2015, p. 3.



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.¹
- 4.10 The Committee agrees that establishing such criteria would be an enhancement to the Framework. The Committee notes that such criteria

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.²
- 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.

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,³ but has at times undertaken aspects of such a role.

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,⁴ and assisting the University of Sydney's Graduate School of Government's research into entity corporate plans.⁵ 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.

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.⁶ 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 2015.⁷ 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

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).⁸ 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.⁹ 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

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.¹⁰
- 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.

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.

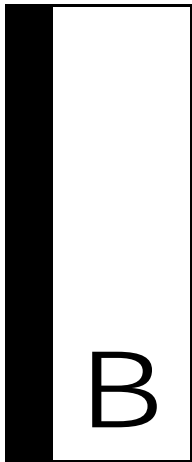
Hon. Ian Macfarlane MP
Chair



Appendix A - Submissions

- 1 Professor Kerry Jacobs
- 2 Department of the House of Representatives
- 3 Attorney-General's Department
- 4 Department of Social Services
- 5 AirServicesAustralia
- 6 Australasian Evaluation Society
- 7 Australian National Audit Office
 - 7.1 Australian National Audit Office Supplementary Submission
- 8 Commonwealth Ombudsman
- 9 ScottCromwell Pty Ltd
 - 9.1 ScottCromwell Pty Ltd Supplementary Submission
 - 9.2 ScottCromwell Pty Ltd Supplementary Submission
- 10 Australian Crime Commission
- 11 Australian Public Service Commission
- 12 Civil Aviation Safety Authority
- 13 Community Council for Australia
- 14 Department of Veterans' Affairs
- 15 Capital Training College
- 16 CSIRO
- 17 Department of Finance
 - 17.1 Department of Finance Supplementary Submission
 - 17.2 Department of Finance Supplementary Submission
 - 17.3 Department of Finance Supplementary Submission
- 18 Department of Health
- 19 Reserve Bank of Australia
- 20 Australian Broadcasting Corporation
- 21 Department of Industry and Science
- 22 Department of Agriculture
- 23 Immigration and Border Protection

- 24 Professor Suresh Cuganesan
- 25 The Institute of Internal Auditors - Australia
- 26 Peter Fane
- 27 Ms Glenys Jones



Appendix B – Public Hearings

Thursday 19 March 2015

Australian National Audit Office

Mr Ian McPhee, Auditor-General

Dr Tom Ioannou, Group Executive Director

Mr Russell Coleman, Senior Director

Department of Finance

Dr Stein Helgeby, Deputy Secretary

Mr Lembit Suur, First Assistant Secretary

Mr Bradley Cook, Assistant Secretary

Thursday 4 June 2015

Professor Kerry Jacobs

Thursday 18 June 2015

Mr David McDonald, Australian Risk Policy Institute

Mr Kevin Riley, Capital Training Pty Ltd

Mr John Scott, ScottCromwell Pty Ltd

Thursday 10 September 2015**Australian National Audit Office**

Mr Grant Hehir, Auditor-General
Dr Tom Ioannou, Executive Director
Mr Russell Coleman, Senior Director

Department of Finance

Dr Stein Helgeby, Deputy Secretary
Mr Lembit Suur, First Assistant Secretary
Mr Robert Antich, Assistant Secretary
Mr Robert Cook, Assistant Secretary
Ms Thea Daniel, Assistant Secretary

Thursday 26 November 2015**Australian National Audit Office**

Mr Grant Hehir, Auditor-General
Dr Tom Ioannou, Group Executive Director
Mr Russell, Senior Director

Department of Finance

Dr Stein Helgeby, Deputy Secretary
Ms Thea Daniel, Acting First Assistant Secretary

Thursday 3 December 2015**Australian National Audit Office**

Mr Grant Hehir, Auditor-General
Dr Tom Ioannou, Group Executive Director
Mr Russell, Senior Director

Department of Finance

Dr Stein Helgeby, Deputy Secretary
Mr Lembit Suur, First Assistant Secretary
Mr Brad Cook, Assistant Secretary