

## Performance information

### Introduction

- 5.1 As stated by Finance, the development of a practical and informative performance information framework is an integral element of the new outcomes and outputs budget framework as it enables the understanding and monitoring of agency outcomes and outputs.<sup>1</sup>
- 5.2 The Finance submission commented that 'performance information, promised and then reported, is important to the cohesion of accountability documentation, as well as for the internal management of agencies.'<sup>2</sup>

### Performance indicators

- 5.3 Finance's *Outcomes and Outputs Framework Guidance Document* states that the performance indicators should reflect:
- the effectiveness of contributions to outcomes;
  - the price, quality and quantity of outputs; and
  - the desired characteristics of relevant administered items.<sup>3</sup>

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1 Finance web site: [http://www.dofa.gov.au/budget\\_group/](http://www.dofa.gov.au/budget_group/)

2 Finance, *Submission No. 8*, p. 54.

3 Finance, *The Outcomes and Outputs Framework Guidance Document*, November 2000, p. 8.

- 5.4 Finance subsequently advised the Committee that agencies were 'investing considerable effort to identify robust performance management techniques under the framework, including continuous improvement of performance indicators for their outcomes.'<sup>4</sup>
- 5.5 That there has been progress is evidenced by the comment from CPA Australia that there was 'a greater understanding by government and the broader community of what is actually being purchased by government and what are the minimum specifications that the purchaser should expect upon delivery of the output.'<sup>5</sup> However at the hearing CPA Australia witnesses commented that there was still room for improvement, especially in year by year consistency. The witness added that as agencies became more familiar with what they were delivering, their performance measures would improve.<sup>6</sup>
- 5.6 Nevertheless, progress has been patchy. The ACOSS submission was critical of the way performance information on social expenditure was presented. ACOSS suggested that the presentation of information on social expenditures in the Budget Papers had not been implemented in a meaningful way. It stated:
- If governments are really committed to the effective measurement of the outcomes of social programs, then they must be prepared to devote more substantial resources to social research and community consultation in order to:
- identify the need, or potential demand, for social programs (for example, the extent of unmet need for Intensive Employment Assistance through the Job Network);
  - establish clear, objective targets or benchmarks against which to measure performance (for example, benchmarks for the adequacy of social security payments);
  - regularly assess program outcomes against those benchmarks.<sup>7</sup>
- 5.7 The Committee was also concerned about the lack of reporting on performance measurements and during the hearing raised with DHAC witnesses a problem it had identified with the department's PBS. In this document there were several performance indicators, (for example one which referred to the 'reduction in incidence, prevalence and mortality

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4 Finance, *Submission No. 8*, p. 56.

5 CPA Australia, *Beyond Bean Counting 2000*, p. 3.

6 Mr Adam Awty, CPA Australia, *Transcript*, p. 62.

7 ACOSS, *Submission No. 1*, p. 3.

rates of diseases or conditions addressed in national programs') which did not provide target levels.<sup>8</sup>

5.8 The DHAC witness responded:

I would be nervous about putting in, say, the current level of incidence or prevalence of a disease and then putting in a target for one year. It is more of a trend issue. ... I suppose it is a question of judgment as to how much you would want to be able to say, 'It is 79 per cent this year, and we think it will reduce to 77.6 per cent in the following year.'<sup>9</sup>

5.9 The Committee also notes a lack of performance indicator targets in the AFFA 2002–03 PBS for Output 6, Quarantine and Export Services. In this instance the performance indicators for the delivery of effective quarantine services is measured by:

- Intervention levels at the border (%)
- Border interception effectiveness (%).
- The level of awareness of AQIS quarantine services.<sup>10</sup>

5.10 The Committee notes that neither activity levels nor target rates are provided. Consequently, no precise assessment of performance is possible when figures are provided in the agency's annual report.

5.11 The ANAO has recently reviewed the performance information in the PBSs for a sample of 10 agencies. It concluded that:

A common limitation in the performance information ... related to effectiveness indicators which did not actually measure outcome performance. In particular, outcome effectiveness indicators were often influenced by factors beyond the agencies' control ...

... the PBS performance information did not always include targets, or the targets that were provided were often vague and/or ambiguous.'<sup>11</sup>

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8 *Portfolio Budget Statements 2001–02, Health and Aged Care Portfolio, Budget Related Paper No. 1.11, pp. 57–8.*

9 Dr Robert Wooding, *Transcript*, pp. 62–3.

10 *Portfolio Budget Statements 2002–03, Agriculture, Fisheries and Forestry Portfolio, Budget Related Paper No. 1.1, p. 65.*

11 Auditor-General, *Audit Report No. 18, 2001–2002, Performance Information in Portfolio Budget Statements*, p. 14.

## Committee comment

- 5.12 The Committee is of the firm view that if agencies provide administrative performance indicators in their PBS, they should provide target information against which performance can be assessed.
- 5.13 The effectiveness indicators should be within the agency's control and the targets that are set should be reasonable. Agencies falling short of their targets have not necessarily failed—for example, circumstances beyond agency control may have changed, or the target may subsequently have been found to have been unreasonable. The annual report provides ample opportunity for agencies to discuss their performance against their performance targets and why they have experienced variations. Indeed, excessive over achievement in some areas could be regarded as an indicator of poor management, because it could result from a disproportionate use of resources in one area to the neglect of other areas.

### Recommendation 6

- 5.14 **Agency performance measures identified in the portfolio budget statements must always be accompanied by a comparative standard. Agencies should report their performance against this comparative standard in their annual reports, with a discussion if actual performance significantly varies from that expected.**

## Performance measurement and reporting

- 5.15 Measurement and reporting are intimately linked. Agencies might have well defined performance indicators with achievable targets, but if they are unable to measure progress against those parameters they will not be able to report on their performance in a meaningful way.
- 5.16 The point was conceded by ACOSS when it commented that it was:
- ... genuinely difficult to measure the outcomes of many social programs, since they usually have a range of objectives that may conflict (for example, social security payments should be adequate without undermining work incentives). In addition, the programs are usually only one factor among many that influence the desired

outcomes (for example, child care is only one factor affecting female labour force participation).<sup>12</sup>

- 5.17 The challenge, therefore, that all agencies face is to be able to successfully quantify, measure and report on outputs. Finance reported to the Committee that ‘performance reporting relating to departmental outputs is of a good overall standard, and improvements are evident in outcomes and administered items reporting.’ Finance also referred to favourable comments made by the Institute of Public Administration Australia (IPAA) about the quality of agency annual reports. IPAA commented that there had been a ‘quantum leap’ in performance reporting in the 1999–2000 annual reports compared to the previous year.<sup>13</sup>
- 5.18 Finance identified the annual reports of the Department of Immigration and Multicultural Affairs (DIMA) and itself as good practice examples of agency reporting on performance indicators and targets for outcomes and outputs. Finance commented that DIMA’s PBS had identified performance indicators and targets and reproduced the same material in its annual report, but with an additional results column.<sup>14</sup>
- 5.19 Finance noted that performance reporting was most effective where trends could be compared over time. It added that reporting could be expected to evolve with experience, and the availability of more relevant or more reliable information.<sup>15</sup>
- 5.20 On the other side of the spectrum, the ANAO has been critical of the reporting of performance information by the Australian Taxation Office (ATO). Deficiencies identified by the ANAO included:
- some performance indicators were reported in graphs, which were ambiguous in that it was not clear what the data was representing, and many had only minimal explanatory commentary;
  - the performance measure in the PBS was listed at the beginning of a section on each output, but ‘in numerous instances there was no further mention or report on performance against that measure’; and
  - reports on performance against output measures were included in other parts of the annual report, but with no cross-reference to the chapter on performance.<sup>16</sup>

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12 ACOSS, *Submission No. 1*, p. 3.

13 Finance, *Submission No. 8*, p. 56.

14 Finance, *Submission No. 8*, p. 55.

15 Finance, *Submission No. 13*, p. 108.

16 Auditor-General, *Audit Report No. 46, 2000–2001, ATO Performance Reporting under the Outcomes and Outputs Framework*, p. 81.

5.21 One of the limitations to performance measurement appears to be the systems and procedures in agencies. The ANAO commented:

... not all agencies have implemented systems and processes necessary to cost accurately and measure the delivery of all outputs. It can be difficult to define precisely what outputs have been delivered and at what cost or price. ... the current ANAO audit of performance information within agencies has indicated widely ranging practice with some agencies collecting performance information only on an annual basis and conducting little quality control over that information, instead of relying on the operational areas to provide accurate data. Conversely, better practice organisations are utilising techniques such as monthly updates of intranet based records for collecting and monitoring performance information, and for executive reporting.<sup>17</sup>

### Committee comment

5.22 The Committee believes the scrutiny by Parliamentary committees, the ANAO, and others, such as IPAA's annual assessment of agency annual reports, will serve to encourage agencies to improve their performance reporting. The pace of improvement will be influenced by the systems introduced by agencies to capture the necessary information, and the willingness of agencies to adopt better performance management practices.

5.23 In providing costing information in their reports, it is important that agencies provide accurate information. Agency financial management systems must be able to capture relevant and accurate information. Moreover, agency employees must be in a position to be able to provide accurate information, if meaningful information is to be generated by those systems. Inaccurate costing data may be worse than no data at all, because it can lead to misinformed decisions which can compound the original error.

5.24 The Committee recalls its comment made in Chapter 3 that Finance should monitor whether agencies are adopting the better practice identified in the advice it provides, and bring to Parliament's attention where agencies appear not to be adopting better practice. The Committee acknowledges the contribution in this regard of the performance audits of agency performance reporting conducted by the ANAO.

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17 ANAO, *Submission No. 7*, p. 51.

## Guidance provided to agencies

- 5.25 Finance advised the Committee that it ‘comprehensively revised its website advice on outcomes and outputs in November 2000, and continues to identify better practice in performance reporting.’<sup>18</sup> It added that this information was continuously updated.<sup>19</sup>
- 5.26 Finance also advised the Committee that its Minister had consulted his colleagues on an updated *Performance Management Principles* which ‘aimed to identify the main features of good practice in performance reporting and management.’<sup>20</sup>
- 5.27 The ANAO has conducted several performance audits on APS agencies to assess performance information in the 2000–2001 PBSs and annual reports for 1999–2000.
- 5.28 During one of the audits in the series—on the ATO’s reporting of its performance, the ANAO developed a number of principles for better practice in specifying outputs, performance measures; and measuring, assessing and reporting performance.<sup>21</sup> The ANAO recommended the publishing of clear performance targets in the PBS,<sup>22</sup> and recommended the following to improve clarity and accuracy of performance measurement:
- the development of a data dictionary of the terminology used in the outcomes and outputs framework;
  - the promulgation of agency-wide measurement methodologies and counting rules; and
  - ensuring appropriate audit trails are maintained of progress against outputs.<sup>23</sup>
- 5.29 The Committee sought a comment from Finance in relation to this guidance provided by the ANAO. Finance responded by referring to the guidance it presented on its web site and added that the areas were ‘best addressed by CEOs in a manner appropriate to the operations of their agencies.’ There were, Finance continued, ‘a range of private sector

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18 Finance, *Submission No. 8*, p. 56.

19 Finance, *Submission No. 13*, p. 116.

20 Finance, *Submission No. 8*, p. 56.

21 Auditor-General, *Audit Report No. 46, 2000–2001*, p. 63.

22 Auditor-General, *Audit Report No. 46, 2000–2001*, Recommendation 7, p. 70.

23 Auditor-General, *Audit Report No. 46, 2000–2001*, Recommendation 8, p. 72.

advisers offering performance management and audit services, and these issues are aired at conferences.’<sup>24</sup>

- 5.30 Finance also commented that its PBS guidelines included a dictionary of terms which was reproduced in all PBSs, and its other website guidance together with that provided or foreshadowed by the ANAO, was ‘considered an appropriate level of central guidance in the Commonwealth’s devolved environment.’<sup>25</sup>
- 5.31 The ANAO has concluded its series of audits of performance information provided by agencies by releasing its *Better Practice Guide: Performance Information in Portfolio Budget Statements*. The guide also contains advice concerning performance assessment and reporting. The Committee commends this guide to agencies.

### Committee comment

- 5.32 The Committee is satisfied that Finance and the ANAO are providing the appropriate level of guidance to agencies. However, the corollary of providing such guidance is the need to determine whether the guidance is adopted or has some other positive outcome. Consequently, it is incumbent on Finance and the ANAO to seek feedback from agencies on the usefulness or otherwise of the guidance that is provided. One practical form of feedback is whether agency performance in the area has improved.
- 5.33 Therefore, the Committee considers Finance and the ANAO should monitor the improvements shown by agencies in areas related to the outputs and outcomes framework. Indeed, changes in agency performance in this area could be considered as performance measures for the quality of the guidance provided.<sup>26</sup> As such, these performance measures should have associated targets, and progress towards the achievements of those targets should be discussed in the Finance and ANAO annual reports.
- 5.34 The Committee acknowledges that the ANAO through its performance audits is in part giving effect to the Committee’s suggestion.

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24 Finance, *Submission No. 13*, p. 116.

25 Finance, *Submission No. 13*, p. 116.

26 While Finance’s PBS for 2002–03 notes that its Outcome 1 evaluations include its Budget Group seeking feedback from a range of stakeholders on its budget processes and advice, there are no associated performance measures with targets. *Portfolio Budget Statements 2002–03, Finance and Administration Portfolio, Budget Related Paper No. 1.9*, pp. 31–2.



## Recommendation 7

- 5.35 **The Department of Finance and Administration and the Australian National Audit Office should develop performance measures for the advice they provide to agencies. Performance targets should accompany those measures.**

## The balanced scorecard model

- 5.36 Emphasis is now being placed on the measurement of outputs through mechanisms such as the balanced business scorecard. These mechanisms are being adopted to give management a better way of identifying achievements against 'targets' and to create real linkages to the planning cycle.

- 5.37 The balanced scorecard concept was developed by Professor Robert Kaplan of the Harvard Business School. In his book on the topic, Professor Kaplan states:

The objectives and the measures for the Balanced Scorecard are more than just a somewhat ad hoc collection of financial and non financial performance measures: they are derived from a top-down process driven by the mission and strategy of the [organisation].<sup>27</sup>

- 5.38 The Management Advisory Board (MAB), in its publication, *Beyond Bean Counting*, made the further comment:

The balanced scorecard also serves to focus management attention on a smaller number of truly critical performance indicators, getting away from measuring everything, to deciding what are the key measures for the particular organisation, perhaps including more of the 'soft' qualitative indicators, abandoning some and altering the frequency of others.<sup>28</sup>

- 5.39 The MAB also commented that the balanced scorecard was 'a valuable tool for organisations in both the public and private sectors that wish to

27 R S Kaplan and D P Norlan, *Translating Strategy into Action—The Balanced Scorecard*, Harvard Business School Press, 1996, pp. 9–10.

28 Management Advisory Board, *Beyond Bean Counting—Effective Financial Management in the APS—1998 & Beyond*, Management Advisory Board, 1997, p. 51.

drive a process of strategic change', and it had 'a number of potential benefits for [Australian Public Service] departments and agencies.'<sup>29</sup>

- 5.40 In its report of its review of Coastwatch operations, the Committee discussed the usefulness of the balanced scorecard approach to performance indicator setting, performance measurement, and performance reporting.<sup>30</sup>
- 5.41 The Committee developed a possible mission statement for Coastwatch which is the starting point for a scorecard. The scorecard approach would use the mission statement to identify the performance information which would be collected. Each category of performance information would have a performance target and achievement against this target would attract a numerical score. These would be weighted and be added to provide a total score. The actual weighting to be used would be determined through discussions between the agency and its Minister.
- 5.42 The Committee considered the value of a balanced scorecard approach is that the agency focuses on the full range of its activities and also has to decide the relative importance of those activities. This leads to a recognition that to achieve overall improvement, effort may be better spent on activities which have a greater weighting. The weightings will in large part be determined by the expectations of Government and the public and as these change, the weighting given to particular activities can be adjusted and if necessary effort redirected.
- 5.43 The Committee believes the information collected for a balanced scorecard would form the basis of information included in the PBS and PAES and reported against in the annual report.
- 5.44 In its review of Coastwatch the Committee emphasised that in adopting such an approach it would be important to keep the performance measures unchanged for a number of years so that trend information can be obtained.

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29 Management Advisory Board, *Beyond Bean Counting—Effective Financial Management in the APS—1998 & Beyond*, Management Advisory Board, 1997, p. 54.

30 JCPAA: *Report 384, Review of Coastwatch*, Canberra 2001, pp. 20–1, 31–3.

## **Conclusion**

- 5.45 It is the Committee's view that agencies still have some way to go in improving performance information. The Committee encourages Finance and the ANAO to publish better practice guides in relation to measuring, assessing and reporting agency performance.

