

Performance measurement and reporting

Introduction

- 3.1 It is incumbent on agencies to demonstrate to government (which allocates scarce resources) and to the public (which provides those resources) what their expectations are and how they are being met. Agencies therefore need to measure and report on their performance in using the resources that have been provided.
- 3.2 This is done by agencies specifying their performance measures in the Portfolio Budget Statements (PBSs), and Portfolio Additional Estimates Statements (PAESs), and finally reporting against those measures in the agency annual report.
- 3.3 There are two main difficulties faced by Coastwatch in measuring its performance:
 - its inability to provide complete area surveillance in its operational area; and
 - the difficulty in defining what constitutes success.

- 3.4 Coastwatch's area of operations is vast, encompassing 37 thousand km of coastline and 9 million km² of offshore maritime area.¹ The areas expected to be covered are the Australian coast, the Australian Antarctic Territory, and around Australia's island territories.² Figure 1 in Chapter 1 provides a map of Australia's maritime zones.
- 3.5 Because it is impossible to provide continuous surveillance of all this area, which is some 20 per cent greater than the area of the Australian mainland, Coastwatch's patrols are based on the risk analysis undertaken by Coastwatch's clients. Coastwatch does provide risk analysis support derived from 'the additional intelligence and predictive capability available in the Coastwatch National Surveillance Centre.'³ By their very nature, risk driven activities mean that on occasions Coastwatch will 'fail'.
- 3.6 A Coastwatch 'failure', such as the landfall of a SIEV, may be due to factors beyond its control, such as:
- the quality of information received from its clients;
 - the unpredictable behaviour of surveillance targets;
 - the weather; and
 - the availability of resources which Coastwatch does not control.
- 3.7 On the other hand measurement of Coastwatch 'success' is also not readily apparent because, as Rear Admiral Shalders told the Committee, Coastwatch successes are actually the successes of its clients.⁴
- 3.8 The success of Coastwatch should be measured in terms of how it is able to cost-effectively undertake the tasks of its clients and manage its way around the impact of factors beyond its control. As the Deputy Auditor-General, Mr Ian McPhee, put it when he appeared before the Committee:

The successful delivery of Coastwatch services depends on effective coordination between Coastwatch and its key client agencies, sound intelligence risk management procedures for the tasking of Coastwatch resources, clear lines of reporting and effective support systems for management of operations for greater effectiveness.⁵

1 Customs, *Submission No. 25*, Volume 1, p. S192.

2 These islands are: Heard and McDonald Islands in the Southern Ocean; Macquarie Island in the South Pacific Ocean; Lord Howe and Norfolk Islands in the Tasman Sea; and Christmas and Cocos Islands in the Indian Ocean.

3 Customs, *Submission No. 25*, Volume 1, p. S241.

4 Customs, *Transcript*, 30 January 2001, p. 309.

5 ANAO, *Transcript*, 18 August 2000, p. 6.

Performance measures

3.9 In Chapter 2 the Committee distilled the various expectations of Coastwatch into a statement which could be regarded as a mission statement. The mission statement included:

- to respond to client tasks by operating efficiently and effectively in gathering, analysing and disseminating intelligence to its client agencies;
- to provide efficient and effective coordination between itself and its clients and external service and information providers; and
- to be transparent and accountable to the Parliament and the public;
- and provide leadership and integrity.

3.10 If Coastwatch is to satisfy itself, its Minister, the Parliament, its clients and the public that it is meeting the expectations placed on it, appropriate performance measures must be devised. This is why the expectations of Coastwatch should be explicit, for how else can the Parliament and the public know whether the performance measures are appropriate?

3.11 Once performance measures have been formulated, there are two uses for the information collected against them:

- for internal management decision-making; and
- for external reporting to the Parliament and the public.

3.12 However, if the performance information that is collected is to be useful for management purposes, it must be comprehensive, representative of Coastwatch activities, and timely. Timeliness is also important for external reporting because it allows adjustments in time for the annual report of performance. These issues were recognised in the Auditor-General's recommendation that:

Coastwatch develop a more comprehensive and useful set of performance indicators that reflect key aspects of service delivery to client agencies and regularly monitor and report on these indicators as a means of improving Coastwatch's operations.⁶

⁶ Auditor-General, *Audit Report No. 38, 1999–2000*, Recommendation 12, p. 96.

- 3.13 The audit report added that it was important that 'Coastwatch provide a full explanation of external factors that may affect performance indicators so that performance information remains contextually relevant'.⁷
- 3.14 Coastwatch agreed with the Auditor-General's recommendation, and in its submission, Customs has acknowledged that its current performance measures were largely quantitative, being measures of work load and some broad measures of effectiveness. Coastwatch was seeking to adopt a more comprehensive approach for both quantitative and qualitative measures which were to be incorporated into its proposed Command and Support System.⁸
- 3.15 The submission added that 'the fundamental measure of Coastwatch's effectiveness will continue to be the level of client satisfaction.'⁹ The audit report acknowledged Coastwatch's efforts in seeking to establish a formal feedback mechanism for its clients by way of bi-annual client agency surveys, but recommended the use of post flight questionnaires be expanded.¹⁰

Problems with measuring performance

- 3.16 The Committee agrees with Customs that Coastwatch's performance measures largely reflect work load and broad measures of effectiveness. The Customs annual report provides a table of performance measures and the targets that are specified relate to aerial surveillance coverage, flying hours, number of marine taskings by clients, and number of sea days for Customs and RAN vessels. A further table showing numbers of detected and undetected SIEVs provides, in the Committee's view, a better measure of performance.¹¹
- 3.17 The Committee reviews below three problems with measuring Coastwatch performance:
- the potential for over-reliance on client satisfaction;
 - the difficulty in measuring how many targets are missed; and
 - the difficulty in measuring the contribution to the 'public good'.

7 Auditor-General, *Audit Report No. 38, 1999-2000*, p. 94.

8 Customs, *Submission No. 25, Volume 1*, p. S236.

9 Customs, *Submission No. 25, Volume 1*, p. S236.

10 Auditor-General, *Audit Report No. 38, 1999-2000*, Recommendation 13, p. 97.

11 Customs, *Annual Report 1999-2000*, pp. 50-1.

Client satisfaction

- 3.18 The Committee has concerns with placing too great an emphasis on client satisfaction as a fundamental performance indicator. In its relationship with its clients Coastwatch is in a monopoly position. In such a situation, clients will be cautious in criticising the monopoly provider. At the final hearing, the Committee was sceptical of the level of satisfaction expressed by Coastwatch's client agencies.¹²
- 3.19 A second risk with too much reliance on client satisfaction is that clients cannot be dissatisfied about unspecified shortcomings or undemonstrated failures. For example, a client may be happy with a certain number of reports of interest to it. However if the client knew this represented only 50 per cent of the total number of occurrences, that same client would be far from happy. The Committee emphasises that it is not implying Coastwatch is failing to report to its clients, but instead is raising the issue that surveillance activities may, for a variety of reasons including the lack of directions from its clients, not detect a number of targets.

Measuring what is not detected

- 3.20 It is easy to measure the numbers of illegal fishing boats sighted in northern waters and not apprehended, or numbers that had been intercepted but had absconded. In fact figures were provided for 1998 by witnesses from AFMA,¹³ and Rear Admiral Shalders told the Committee that of the 500 fishing vessels intercepted the previous 5 years, 2 had absconded.¹⁴
- 3.21 In addressing this problem, client satisfaction surveys have some use. For example, in the case of illegal fishing a deterioration in stocks in an area coupled with a lack of illegal fishing boat sightings may indicate Coastwatch is missing a significant number of boats. In such a case more than one client may be involved and so communication by way of Coastwatch's Regional Operational Planning and Advisory Committee meetings is pivotal in alerting Coastwatch.
- 3.22 Regarding people smuggling operations, the Committee is aware of public concern that boat people may be arriving and disappearing into the Australian population. The Committee does not believe this is a problem for arrivals in the north west of Australia where the boats make no

12 *Transcript, 30 January 2001*, p. 253.

13 AFMA, *Transcript, 8 September 2000*, p. 96.

14 The Committee was also told that during the year 2000, only one SIEV out of the 50 arrivals had been missed. Customs, *Transcript, 30 January 2001*, p. 300.

attempt at avoiding the authorities. However, it is along the east coast where there may be a problem. For example, in July 2000 several suspected illegal immigrants were arrested in Queensland. In this instance Coastwatch was able to coordinate the arrest of the fishing boat that had allegedly brought them to Australia.¹⁵

- 3.23 The issue of covert arrivals of illegal immigrants by boat was discussed with witnesses from DIMA.
- 3.24 Mr Andrew Metcalfe, Deputy Secretary, DIMA, told the Committee that although DIMA was able to intercept some 2 000 illegal immigrants at airports each year, there were about 53 000 illegal immigrants in Australia at any one time. He continued:

... we locate in the community around 13,000, about a quarter of the estimated overstayer population, each year. We cannot, from our collective memory, recall an incident where any of those 13,000 people have not been able to satisfy us that they came into Australia by anything other than ordinary commercial means: they came on an aircraft and overstayed, they came on a ship and deserted or they did not report as crew ... [with] that one-quarter of all illegal immigrants who are found in the community—we do not find situations where people satisfy us or where we are unable to explain that they have come in through a completely covert method without detection.¹⁶

- 3.25 The Committee is satisfied that the evidence presented to it shows that **covert** people smuggling to Australia does not pose a problem at present. It would seem easier for people trying to illegally immigrate to Australia to arrive as a tourist and simply overstay their visa. However, the people smuggling incidents in Europe and the US demonstrate the continued need for vigilance.

Measuring the 'public good'

- 3.26 Coastwatch operations can contribute to the public good in several ways such as:
- providing training and skills maintenance opportunities to Defence personnel engaged in Coastwatch operations;

15 Senator the Hon Amanda Vanstone, Minister for Justice and Customs, *Suspect boat detained by Customs—alleged organisers arrested*, Media Release, 15 July 2000.

16 DIMA, *Transcript*, 18 August 2000, p. 57.

- contributing to Defence preparedness and subsequent deterrence capability; and
 - assisting the law enforcement activities of the AFP and Customs and thereby contributing to a deterrent affect.
- 3.27 A Customs supplementary submission advised the Committee that Coastwatch had commissioned a study:
- to determine the actual and potential contribution of surveillance to civil law enforcement and military operations,
 - to assess the effectiveness of that contribution towards the achievement of overall operation success, and
 - to identify, as a result of that assessment, areas of weakness in the surveillance architecture.¹⁷
- 3.28 In addition, any public information campaign and increased public knowledge of Coastwatch operations will contribute to a deterrent effect.¹⁸ The difficulty in measuring such an effect was acknowledged in the Customs submission.¹⁹ The Committee agrees that measuring something which does not occur is challenging.
- 3.29 The level of deterrence will also be influenced by external factors such as the sentences and penalties handed down by the courts to offenders that are caught due to Coastwatch operations.
- 3.30 Mr Peter Venslovas, Senior Manager Compliance, AFMA told the Committee that while fisheries legislation allowed 'fines up to \$550 000 and also forfeiture of vessel, catch and gear', penalties handed down by the courts to foreign illegal fishermen sometimes did not reflect the maximum allowed. The Courts were also restrained by the United Nations Convention on the Law of the Sea which prevented penalties involving imprisonment under national laws. However, there were occasions where recidivists were imprisoned because of breaches of bond conditions arising from previous offences.²⁰

The Committee's conclusion

- 3.31 The Committee considers that Coastwatch should broaden its performance measures. It should also remain aware of the problem of determining what it doesn't detect and continue its efforts to quantify its contribution to the public good.

17 Customs, *Submission No. 56*, Volume 4, p. S662.

18 Customs, *Transcript, 30 January 2001*, p. 255.

19 Customs, *Submission No. 25*, Volume 1, p. S236.

20 AFMA, *Transcript, 30 January 2001*, p. 311.

- 3.32 The Committee notes that the Auditor-General also recognised a need for performance measurement to reflect ‘the range of objectives [Coastwatch] has to meet’. To achieve this the Auditor-General recommended Coastwatch should consider a ‘balanced scorecard’ approach to performance measurement.²¹ The Committee reviews the scorecard approach in the next section.

The balanced scorecard approach to performance measurement

- 3.33 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 nonfinancial performance measures: they are derived from a top-down process driven by the mission and strategy of the [organisation].²²

- 3.34 In the Committee’s view, therefore, it is critical that Coastwatch has a clear view of its mission if it is to adopt a balanced scorecard approach.

- 3.35 In suggesting Coastwatch consider the balanced scorecard approach, the audit report described the scorecard as:

... a performance management tool which combines assessments of a range of operational features such as financial performance, learning and innovation, internal organisational processes ... and customer satisfaction to determine an organisation’s overall performance. ... [it] moderates the misleading effects of individual performance indicators, by basing overall performance on a combined weighted score of all key performance indicators.²³

- 3.36 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

21 Auditor-General, *Audit Report No. 38, 1999–2000*, Recommendation 14, p. 101.

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

23 Auditor-General, *Audit Report No. 38, 1999–2000*, p. 100.

more of the 'soft' qualitative indicators, abandoning some and altering the frequency of others.²⁴

- 3.37 The MAB also commented that the balanced scorecard was 'a valuable tool for organisations in both the public and private sectors that wish to drive a process of strategic change', and it had 'a number of potential benefits for [Australian Public Service] departments and agencies.'²⁵
- 3.38 The audit report acknowledged it would take time and resources to develop a valid scorecard.²⁶ Mr Peter White, Executive Director, Performance Audit Services Group, ANAO, added that it was a 'longer term recommendation', but that the main point was that Coastwatch should examine its performance measurement system with a view to improving the information provided to Parliament and the public.²⁷
- 3.39 Rear Admiral Shalders responded that Coastwatch remained unconvinced that the balanced scorecard approach was the best way forward, but a study had been commissioned to look at Coastwatch's measures of effectiveness.²⁸
- 3.40 The Committee considers 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.

A possible model scorecard for Coastwatch

- 3.41 In Chapter 2 the Committee identified a possible mission statement for Coastwatch. The Committee has used this statement as the basis for a possible model scorecard for Coastwatch. Where appropriate the mission statement has been subdivided, and for each division the Committee has given examples of performance information which might be collected.

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

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

26 Auditor-General, *Audit Report No. 38, 1999–2000*, p. 100.

27 ANAO, *Transcript, 30 January 2001*, p. 286.

28 Customs, *Transcript, 30 January 2001*, p. 286.

- 3.42 The Committee emphasises that the list of performance information which could be collected is illustrative and not definitive. Also, the Committee has not attempted to weight the areas of performance as it believes such weighting would be premature, and in the event the actual weighting should be decided through discussions between Coastwatch and its Minister.

MISSION: To respond to client tasks by operating efficiently and effectively in gathering, analysing and disseminating intelligence to its client agencies.

Operational Coverage	Performance information <ul style="list-style-type: none"> ■ Aerial surveillance coverage ■ Aerial surveillance hours flown ■ Sea days provided by Customs and Defence ■ Number of SIEVs sighted ■ Number of illegal fishing boats sighted ■ Number of other sightings of interest ■ Number of law enforcement operations
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Internal organisation	Performance information <ul style="list-style-type: none"> ■ % of CATO accompanied surveillance flights ■ Nature and amount of training ■ Person hours evaluating new technology ■ Outcome of staff surveys ■ Staff turnover
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Cost effectiveness	Performance information <ul style="list-style-type: none"> ■ Average cost per surveillance flight hour ■ Average cost per patrol boat hour ■ Total costs—Defence, Customs marine fleet, contractors, and Coastwatch administration
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MISSION: To provide efficient and effective coordination between itself and its clients and external service and information providers.

	Performance information <ul style="list-style-type: none"> ■ Number of OPAC and ROPAC meetings ■ Outcome of client satisfaction surveys ■ Outcome of Defence satisfaction surveys ■ Extent of public relations campaigns ■ Number of useful Customs Watch calls
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MISSION: To be transparent and accountable to the Parliament and the public, and provide leadership and integrity

	Performance information <ul style="list-style-type: none"> ■ Number of media releases and public briefings ■ Number and results of internal audits ■ Responses to external reviews ■ Benchmarking comparisons with comparable agencies
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- 3.43 The performance information would be used to produce a numerical score against each performance measure. These would be weighted and added to provide a total score for Coastwatch.
- 3.44 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. The Committee envisages the overall score would increase over the years as performance improved until a plateau was reached. Maintenance of that plateau score would itself indicate an organisation meeting new challenges whilst continuing to perform at a high level.
- 3.45 The Committee notes Rear Admiral Shalders' advice that Coastwatch would be introducing a new Command Support System which would enable the provision of surveillance data in a form suitable to its clients' information needs.²⁹ The Committee believes the new system would allow Coastwatch to capture and process much of the data needed for the range of performance measures that would make up a balanced scorecard.
- 3.46 The Committee cautions that, as the Management Advisory Board has commented, it is important to focus on truly critical performance measures rather than attempting to measure everything.
- 3.47 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.

Information provided to Parliament

- 3.48 The audit report recommended that Coastwatch separate its budget and financial data from that provided by Customs for reporting purposes. The report suggested that this should be 'in sufficient detail to meet transparency and accountability arrangements.' The audit report also recorded that the recommendation had been agreed to, with Customs commenting:

The Coastwatch activities are a separate "Output" and as such all financial data will be identified and reported separately.³⁰

²⁹ Customs, *Transcript, 30 January 2001*, p. 284.

³⁰ Auditor-General, *Audit Report No. 38, 1999–2000*, Recommendation 15, p. 105 and p. 104.

- 3.49 The Customs submission confirmed its agreement with the recommendation, with further advice that the annual report now shows Coastwatch activities as a separate output.³¹
- 3.50 The Committee, nevertheless, has decided to review the information provided in the Customs PBS, PAES, and annual report for 1999–2000 to satisfy itself that the information is sufficiently detailed and reflective of Coastwatch’s activities.
- 3.51 As well, these three documents provide the first complete set of accountability documents under the present accruals-based budgeting and reporting framework. The Committee has also continued its review by examining the information provided in the PBS and PAES for 2000–01, and the PBS for 2001–02.

The accruals based framework

- 3.52 The present accruals-based budgeting and reporting framework was introduced for the 1999–2000 financial year. During the Committee’s review of the Financial Management and Accountability Act (FMA Act), the advantages of the new framework were noted by the Secretary to the Department of Finance and Administration who told the Committee:

... there will be a read across from the appropriation bills to the portfolio budget statements through to the annual report where agencies will be reporting on their performance against key indicators. Probably for the first time we will have systematic reporting of outputs and outcomes by agencies against performance indicators, and agencies will be able to discuss where they succeeded and where they did not ...³²

- 3.53 Information published by DoFA obtained during the FMA Act review inquiry indicated greater flexibility for agencies, because appropriations would be for stated outcomes and outputs rather than for specific programs. As well, CEOs would:

... be able to shift resources between outputs and outcomes. Subject to agreement by their Minister, agency managers may respecify or replace outputs with others that are more cost

31 Customs, *Submission No. 25*, Volume 1, p. S221; Customs, *Annual Report 1999–2000*, pp. 50–4.

32 DoFA, *Review of the Financial Management and Accountability Act 1997 and the Commonwealth Authorities and Companies Act 1997*, Transcript, 13 September 1999, pp. 4–5.

effective in achieving desired outcomes. Any such change would need to be noted in the annual report.³³

Accruals information provided in portfolio papers and annual report

- 3.54 In this inquiry the Committee has reviewed two aspects of the accruals information provided to Parliament—the description of Coastwatch activities, and the costs of those activities.

Description of activities

- 3.55 Customs activities fall within the one outcome:

Effective border management that, with minimal disruption to legitimate trade and travel, prevents illegal movement across the border, raises revenue and provides trade statistics.³⁴

- 3.56 Within that single outcome there are five outputs and as Mrs Marsden-Smedley, Director Coastwatch Resources, told the Committee:

... Output 3 is basically civil maritime coastal surveillance, and incorporated in that is some element of the Bay class, the marine fleet, which has been there historically. They do provide ... about 30 per cent of their work for us and that will be incorporated in there. In totality, Output 3 pretty well represents all of Coastwatch, including the appropriated funds that have gone to DIMA, with the free of charge services provided by Defence.³⁵

- 3.57 The Committee examined the descriptions for the various Customs outputs in the Portfolio Budget Statements for 1999–2000, 2000–01 and 2001–02, especially those for outputs 1, 2, and 3.

- 3.58 The broad descriptions for the outputs in the PBSs are:

- Output 1 Facilitation of the legitimate movement of goods across the border, while intercepting prohibited and restricted imports and exports
- Output 2 Facilitation of the legitimate movement of people across the border, while identifying illegal movements
- Output 3 Coastal and offshore surveillance and response³⁶

33 DoFA, *Accrual Resourcing Framework*, DoFA, 2000, p. 2.

34 This single outcome first appeared in the Customs Annual report for 1998–99 and has remained unchanged since then.

35 Customs, *Transcript, 18 August 2000*, p. 19.

36 In the PBS for 2001–02 the description is 'Civil maritime surveillance and response'.

- 3.59 However, the more detailed description of outputs 1 and 2 both refer to the activity, aerial and marine surveillance/response for specific operations, while output 3—the Coastwatch output—contains the following information:

This output covers the provision of air and marine based civil surveillance and response services to a number of government agencies. The aim of the output is to detect, report and respond to potential or actual non-compliance with relevant laws in coastal and offshore regions.

Specific surveillance and response operations related to prohibited imports or illegal people movements are covered under outputs 1 and 2.³⁷

- 3.60 The Committee notes that the second paragraph has been **omitted** in Custom's *Annual Report 1999–2000*³⁸ (although it is reinstated in the PBS for the following two years³⁹).
- 3.61 From the activity information in the PBSs, the Committee infers that Coastwatch tactical⁴⁰ responses for the AFP, Customs and DIMA (but not for other client agencies) would be met from funds allocated to outputs 1 and 2. In contrast, the description for Coastwatch in the annual report implies on first reading that funds would come from output 3.
- 3.62 However, earlier in the annual report the description of output 2 retains the reference to 'aerial and marine surveillance/response for specific operations',⁴¹ but for output 1 the word 'aerial' has been omitted.⁴² From this revised reading of the annual report, the Committee infers that Coastwatch tactical responses for DIMA (output 2, the movement of people) funds may come from output 2 or output 3, but for tactical responses for the AFP and Customs (output 1, the movement of goods) funds could only come from output 3.

37 *Portfolio Budget Statements 1999–2000, Attorney-General's Portfolio*, p. 262; *Portfolio Budget Statements 2000–01, Attorney-General's Portfolio*, p. 243; *Portfolio Budget Statements 2001–02, Attorney-General's Portfolio*, p. 324.

38 Customs, *Annual Report, 1999–2000*, p. 50.

39 In the annual report the description of output 2 on p. 46, retains the reference to 'aerial and marine surveillance/response for specific operations'; whereas for output 1 on p. 31, the word 'aerial' has been omitted.

40 A tactical response is a response to immediate event. This contrasts to strategic operations which are planned medium to long term activities.

41 Customs, *Annual Report, 1999–2000*, p. 46.

42 Customs, *Annual Report, 1999–2000*, p. 31.

- 3.63 If the reader finds themselves confused at the activities information provided by Customs, so too is the Committee.

Funds expended on Coastwatch

- 3.64 The ANAO criticism of the financial information provided about Coastwatch, was that while the Customs 1999–2000 PBS showed total expenses relating to the coastwatch function, it was unclear whether the Defence contribution noted in the PBS was part of the total Coastwatch costs.⁴³
- 3.65 The Committee examined the price for output 3, Coastwatch, to track the changes between PBS through PAES to the annual report and on to the subsequent PBS and PAES to test whether explanations for the changes are transparent. The information is provided in the table below.

Source	Coastwatch price	Committee comment
1999–2000 PBS pp. 259, 267, 268	\$144.222m	Total revenue from other sources is given as \$117.803m with 'the bulk' coming from Defence. It is unclear to which output this Defence revenue contributes.
1999–2000 PAES, pp 77–8	\$153.239m	The increase is explained as due to increased funding of \$3.1m operating revenue, \$3.7m capital revenue to Customs for the Coastwatch National Surveillance Centre, and \$5.5m to DIMA to allow it to engage additional surveillance from Coastwatch on a user pays basis.
Annual Report 1999–2000, p. 28	\$179.307m	A footnote advised that the Budgeted price had been revised to \$186.030m because of additional free resources not identified by the Customs accounting system at the PAES stage, and revisions in attributing activity costs to the various outputs.
2000–01 PBS pp. 238, 241	\$216.558m	Figures were broken down into the appropriated amount (\$50.035m) and revenue from other sources (\$166.523m), but the Defence or DIMA contribution was not given.
2000–01 PAES p. 156	\$202.228m	The variation was due to a drop of \$14.595m in appropriated amount to \$35.440m. No explanation was given. The Committee notes appropriations for outputs 1, 2, 4 and 5 rose by \$11.915m.
2001–02 PBS pp. 321, 323	\$205.797m	Figures were broken down into the appropriated amount (\$36.409m) and revenue from other sources (\$169.388m), but the Defence or DIMA contribution was not given.

43 Auditor-General, *Audit Report No. 38, 1999–2000*, p. 104.

- 3.66 The Committee agrees with the ANAO's comment about lack of clarity in the PBS for 1999–2000,⁴⁴ and has its own reservations concerning the information about Coastwatch costs. These are:
- the increase in funds in the 1999–2000 PAES for output 3 is less than the increase provided in the explanation (\$9.0m as compared to \$12.3m);
 - the explanation for the revision in the 1999–2000 Annual Report is vague, refers the reader to a set of previous financial statements (which themselves provide no enlightenment⁴⁵), and does not separate the amount of free resources from increases in the attribution of activity costs;
 - in both the 2000–01 and 2001–02 PBSs there is no separation between the resources received free of charge from Defence from that received from DIMA; and
 - in the 2000–01 PAES there is no explanation for the reduction \$14.6m in the appropriation for output 3.
- 3.67 In regard to the final point, the Committee notes the remaining \$35.4m is close to the price in the audit report for the contract for fixed and rotary wing surveillance aircraft (given inflationary increases and the increase in contracted flying hours from 16 000 hours⁴⁶ to 19 750 hours⁴⁷).
- 3.68 The Committee sought an explanation for the reduction in the appropriation for output 3.
- 3.69 Customs' response contained within a supplementary submission provided reasons for the decrease in appropriations for output 3 of \$14.6m. These reasons included:
- 'a remapping of Marine activity' to Output 1 (-\$10m); and
 - 'a shift in funding for the Marine fleet (-\$4.668m)'.⁴⁸

44 Auditor-General, *Audit Report No. 38, 1999–2000*, p. 104.

45 In the Customs annual report for 1998–99 under the heading 'Revenues from Government' it notes that 'Resources received free of charge' amounted to \$136.363m. Customs, *Annual Report, 1998–99*, p. 100.

46 Auditor-General, *Audit Report No. 38, 1999–2000*, p. 68–9.

47 Budget Related Paper No. 1.2, *Portfolio Budget Statements 2000–01, Attorney-General's Portfolio*, p. 246

48 Customs, *Submission No. 58, Volume 4*, p. S670.

The Committee's conclusion

- 3.70 The Committee acknowledges that Coastwatch information has been largely separated out from other Customs information in the Customs annual report and the Defence contribution has been identified. However, the Committee considers there is some way to go.
- 3.71 A major problem in the Committee's view is that the Customs output structure is not aligned to its organisational structure. This has resulted in Coastwatch activities being included in outputs other than output 3 which has been identified as 'pretty well' representing all of Coastwatch. Unless there is complete and exclusive alignment of Coastwatch to output 3, it may be difficult to determine the true costs of Coastwatch before final figures are provided in the annual report.
- 3.72 This is because during the year some of the appropriations to outputs 1 and 2 could be legitimately transferred to output 3 to meet funding shortfalls. And on the other hand, funds may be moved out of output 3, as revealed in the 2000–01 PAES.
- 3.73 The Committee notes that the 'alignment problem' was raised by the Senate Finance and Public Administration Legislation Committee in its report on the PBSs. The report quoted a DoFA statement that 'alignment is likely to maximise the benefits of the new [accrual budgeting] framework for resource management and performance reporting'.⁴⁹
- 3.74 The Committee notes that while Coastwatch remains within the Customs organisation this misalignment, together with the CEO's ability to legitimately 'shift resources between outputs and outcomes', provides flexibility to meet unexpected resource demands. As Mr Woodward told the Committee:
- At the moment, if Coastwatch gets into financial difficulties, [Rear Admiral Shalders] comes to me and we talk. In all probability we work on the assumption that the Department of Finance and Administration will not help us, so we find a way through it.⁵⁰
- 3.75 Mr Woodward later referred to the funding of a Coastwatch initiative from the Customs area because it was important from 'the national border perspective'.⁵¹

49 Senate Finance and Public Administration Legislation Committee, *The Format of the Portfolio Budget Statements, Third Report*, November 2000, p. 10. The committee was referring to DoFA, *Outcomes and outputs—November 1999*, p. 12.

50 Customs, *Transcript, 30 January 2001*, pp. 263–4.

51 Customs, *Transcript, 30 January 2001*, p. 285.

- 3.76 A consequence of this improved flexibility, is that when Parliament provides appropriations to agencies for its outputs, it cannot be sure that the funds provided will actually be spent on the purpose Parliament intended. When changes are identified in the annual report, it is too late for Parliament to apply the brakes.
- 3.77 Reviewing the cost of Coastwatch identified in the information provided to Parliament, the Committee concludes there is a lack of clarity, and the identification of the value of the contribution of Defence and DIMA to Coastwatch is patchy.
- 3.78 The Committee also regards the explanation for the increased expenses for Coastwatch in the 1999–2000 Customs annual report as being inadequate. The revised amount in the PAES of \$153.2m was not provided and the explanation for the \$32.8m increase in the budgeted amount⁵² provided by Customs was:
- The total outcome price and the output prices vary from the published Portfolio Additional Estimates Statements. The total outcome price has been adjusted to reflect the increased resources received free of charge evident in the 1998–1999 financial statements. This information was not available when the Accrual Information Management System adjustments were made during additional estimates. The changed output prices reflect this additional resourcing and also take account of revisions made during the Output Pricing Review when activity costs and attribution to outputs were re-examined.⁵³
- 3.79 The Senate review also noted that ‘many of the quite large variations in output funding were explained as being the result of changes to the attribution of overheads.’⁵⁴
- 3.80 Nevertheless, the lack of reference to the original amount, the merging of two sources of variation and reference to an earlier annual report, all contained within a footnote, have the effect of obscuring results.
- 3.81 The Committee notes that surely it is not beyond Customs’ ability to establish, record and report on a chart of accounts which will capture the expense of Coastwatch.

52 The annual report indicates that only shows that the Budget amount was \$186.0m, but only \$179.3m was spent. Customs, *Annual Report, 1999–2000*, p. 28.

53 Customs, *Annual Report, 1999–2000*, p. 28.

54 SFPALC, *The Format of the Portfolio Budget Statements*, p. 13.

3.82 As a result of its ongoing concern about the quality of information contained within the accrual budgetary documentation, the Committee resolved on 4 April 2001 to undertake a review of the issues. The Committee's terms of reference identified its concerns which included:

- the link between the information contained in the PBSs and annual reports;
- the explanatory information in each PBS to assist Members and Senators to understand how funds were expended;
- the explanation of significant variations in budgeted program expenditure; and
- the relationship of the outcomes/outputs framework with the existing organisational structure of agencies.

