

Structure of the outcomes and outputs framework

Introduction

- 2.1 This chapter focuses on the links between the various components of the Budget documentation. Comments relating to performance information are discussed in Chapter 5.
- 2.2 Since 1999–2000, the Commonwealth Budget has been structured around an accrual-based outcomes and outputs framework. This framework aims to improve how and what is measured for budgeting, accounting and reporting purposes for government agencies. Finance has identified two main objectives for the framework—firstly to improve agencies' corporate governance; and secondly to enhance public accountability.¹

Documents providing framework information

- 2.3 The Budget documentation comprises the four Budget Papers which are tabled in parliament on Budget night each year. Budget Paper No. 4 contains the Appropriation Bills. Additional Budget-related papers are provided throughout the cycle and include, in order, the Portfolio Budget Statements (PBSs), Mid Year Economic and Fiscal Outlook (MYEFO), Portfolio Additional Estimates Statements (PAESs), Final Budget Outcome

¹ Finance, *The Outcomes and Outputs Framework Guidance Document*, November 2000, p. 4.

(FBO), Consolidated Financial Statements (CFS), and agency annual reports.

- 2.4 The main purpose of the budget documentation is to enable Parliamentarians and other users to understand the economic and financial outlook of the Government. It explains the composition of the Budget including new budget measures, and expected outputs and outcomes and performance measures for the budget year. At the end of the cycle the annual reports provide audited financial statements and details of the achievements towards the outcomes proposed in earlier budget papers.
- 2.5 The timeframe for the accrual budgetary cycle spans approximately 18 months. While such an extensive timeframe highlights a significant time lag between estimated and actual reporting, it also demonstrates the need for clear and consistent reporting from the beginning to the end of the budgetary cycle.

Components of the framework

- 2.6 All Commonwealth agencies operate on the basis of an outcomes and outputs framework that was introduced by the Government in 1999–2000. The Government delivers benefits to the Australian community (outcomes) primarily through administered items and agencies' goods and services (outputs) which are delivered against specific performance benchmarks or targets (indicators).²
- 2.7 The framework operates in the following way:
- the Government specifies, via outcome statements, the outcomes it is seeking to achieve in given areas;
 - these outcomes are specified in terms of the impact government is aiming to have on some aspect of society, eg. defence;
 - Parliament appropriates funds, on a full accrual basis, to allow the government to achieve these outcomes through administered items and departmental outputs;
 - items such as grants, transfers and benefit payments are administered on the government's behalf by agencies, with a view to maximising their contribution to the specified outcomes;
 - agencies specify the nature and full accrual price of their outputs and manage them to maximise their contribution to the achievement of the Government's desired outcomes;

2 Finance, *The Outcomes and Outputs Framework Guidance Document*, November 2000, p. 4.

- performance indicators are developed to allow for scrutiny of effectiveness (ie. the impact of the outputs and administered terms on outcomes) and efficiency (especially in terms of the application of administered items and the price, quality and quantity of outputs);³ and
 - agencies discuss in their annual reports their performance against their performance indicators.
- 2.8 The Budget bills contain the outcome statements which define the purpose of appropriations. The portfolio budget statements (PBSs), which form part of the budget papers, are presented by the responsible Ministers and provide explanations to assist the Parliament in considering the annual Appropriation Bills.
- 2.9 The PBS contains details of administered items and departmental outputs.⁴ The main purpose of the PBS is to be a forward-looking document focussing on funding for the coming year and on expected performance.
- 2.10 Annual reports are primarily historical documents from agency heads reporting to Ministers and through them to Parliament on actual performance over the past year.⁵
- 2.11 While the framework provides the context for agencies' corporate governance, management and reporting systems, there is considerable scope for customisation so that each agency can adapt the framework to suit its operations and needs. However, Finance emphasises that the framework is structured in such a way to maximise consistency between agencies.⁶

The link between outcomes and outputs

- 2.12 The framework is designed both as a means of structuring corporate governance and management arrangements, and enhancing public accountability by reporting on planned and actual performance.⁷
- 2.13 The alignment of outcomes and outputs ensures that agency activities fit with the Government's policy agenda. Under this framework Ministers must articulate policy agenda in terms of the outcomes they wish their

3 Finance, *The Outcomes and Outputs Framework Guidance Document*, November 2000, p. 5.

4 Finance, *The Outcomes and Outputs Framework Guidance Document*, November 2000, p. 5.

5 Finance, *Submission No. 8*, pp. 54-5.

6 Finance, *The Outcomes and Outputs Framework Guidance Document*, November 2000, p. 5.

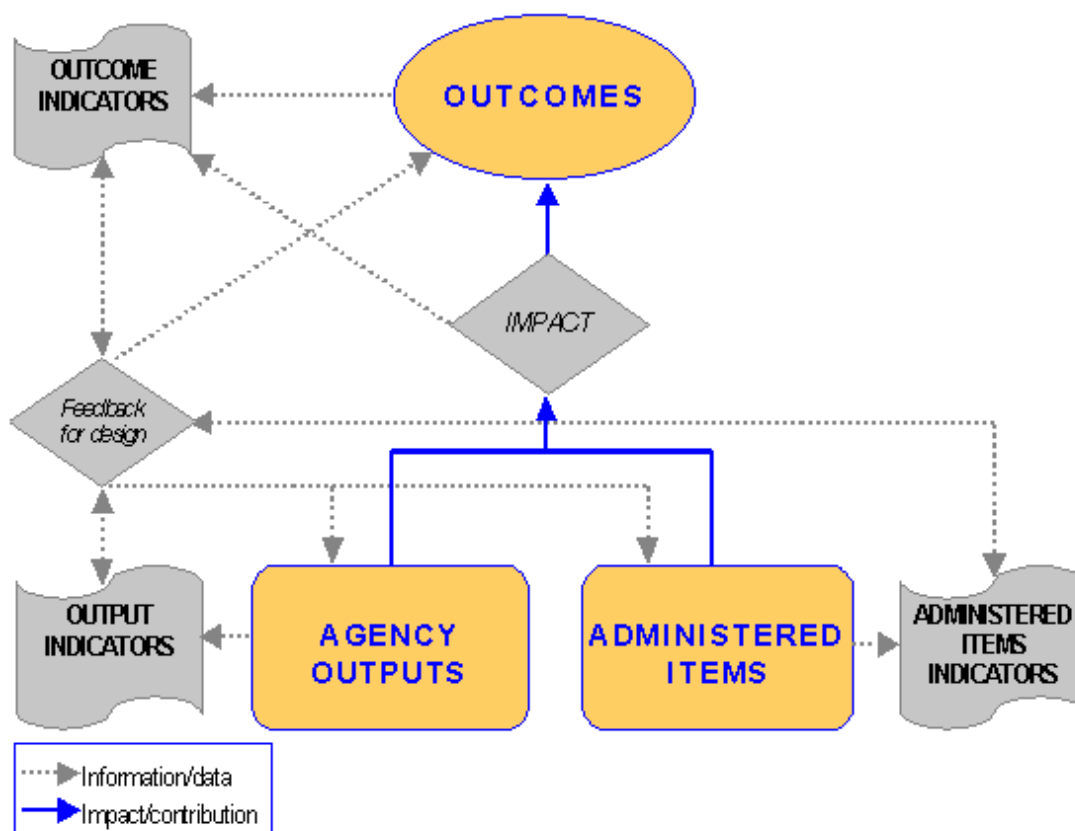
7 Finance, *The Outcomes and Outputs Framework Guidance Document*, November 2000, p. 4.

agencies to achieve. The relevant agencies then can set about producing outputs required to achieve the specified outcomes.

- 2.14 Figure 1, taken from Finance's *Outcomes and Outputs Framework Guidance Document*, illustrates the links between outcomes and agency outputs and administered items.

Figure 1:

Basic Outcome and Output Structure



Source: Department of Finance and Administration

Outcome and outputs

- 2.15 The outcomes and outputs framework is designed to allow Parliamentarians and the public to see the real cost of providing government services. The real cost includes indirect costs such as corporate overheads, depreciation and maintenance, and the opportunity cost of capital. The purpose of linking outcomes with the full costs of outputs demonstrates a clear and accountable contribution to policy formation and service delivery on behalf of the government.
- 2.16 The link between most agency outcomes and outputs is tenuous at present and agencies are aware that there is a need for improvement in this area. The formulation of a meaningful definition for outcomes and outputs is still a challenge for most agencies.
- 2.17 The Committee highlighted several examples of poor output and outcome definitions during the public hearing. There was concern that the outcome statements were too broad and far reaching, whilst some output statements were difficult to comprehend.
- 2.18 Treasury's overall outcome is a good illustration of a generalised high level outcome —*Strong, sustainable economic growth and the improved wellbeing of Australians*.⁸ The Committee questioned Treasury as to how it measured the performance of 'wellbeing'. Treasury admitted that this would be a difficult measure. However it commented that:
- Clearly a whole host of government outputs will contribute to an outcome expressed in those terms —to that overall outcome, well beyond outputs that are produced by Treasury.⁹
- 2.19 In addition to the difficulty of defining outcomes and outputs, many agencies have had difficulties developing meaningful and measurable performance indicators.
- 2.20 The Auditor-General tabled a performance audit report in June 2001¹⁰ which examined performance reporting within the outputs and outcomes framework. The ANAO discussed with the Committee some of its findings from the audit report:
- ... agencies are experiencing difficulties in establishing and demonstrating links between desired outcomes and the outputs to

8 *Portfolio Budget Statements 2001–02, Treasury Portfolio, Budget Related Paper No. 1.17*, p. 3. The overall outcome has remained unchanged in the Treasury PBS for 2002–03.

9 Dr Paul Grimes, Treasury, *Transcript*, p. 58.

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

be delivered by the agency as well as in identifying performance indicators which can be used to measure and monitor success in delivering outputs and achieving outcomes.¹¹

2.21 Finance noted that the 'alignment of agency organisational structure with their outcomes/outputs under the framework is best practice because this best defines management accountabilities and responsibilities, and enables agencies to directly translate internal activity reporting to external outcome reporting.'¹²

2.22 Finance informed the Committee that several agencies have aligned their organisational structures with the outcome/output framework. These included the Department of Employment, Workplace Reform and Small Business, the Department of Family and Community Services (FaCS), and Finance. However, it also noted that alignment is not essential—it depends on the circumstances applying within individual agencies.¹³

2.23 In terms of identifying best practice, Finance told the Committee that on its website:

... we look to provide, in different areas, categories of best practice, whether it be in the definition of outcomes, the definition of outputs, or alignment between organisational structures and the outcomes and outputs framework.¹⁴

2.24 The Committee asked Finance what its role was in ensuring various agency outcome and output statements and performance measures are consistent with each other. Finance replied that:

While responsibility continues to rest with relevant portfolio ministers for the specification of outcomes, chief executive officers (CEOs) are now explicitly responsible for the products and services delivered (outputs). Guidance on outcome and output specification, and on changes to these, is available on the Finance website.¹⁵

11 ANAO, *Submission No. 7*, p. 47.

12 Finance, *Submission No. 8*, p. 58.

13 Finance, *Submission No. No. 8*, p. 59.

14 Mr Richard Loudon, Finance, *Transcript*, p. 50.

15 Finance, *Submission No. 13*, pp. 111-112.

The link between portfolio budget statements and annual reports

- 2.25 Finance advised the Committee that it was intended that there be ‘a clear read’ between the PBS and the annual report. The two documents were designed to be complementary. The main purpose of PBS was to be a forward-looking document focussing on funding for the coming year and on expected performance. Through identifying performance indicators and resource needs, it defined the Government’s requirement of agencies.¹⁶
- 2.26 Annual reports are primarily historical documents reporting on actual performance over the past year. They should detail the success or otherwise of each agency’s achievements against the Government’s requirement.¹⁷
- 2.27 The Committee raised concerns during the hearing that there were difficulties in tracking accountability information provided by agencies throughout the budgetary cycle from the PBS to PAES to the annual report and then to the PBS of the following year.
- 2.28 The following example highlights the inconsistencies that are evident in the performance reporting between PBSs and annual reports. The Committee found that the Department of Health and Aged Care (DHAC) Annual Report for 1999-2000 includes performance information on *Outcome 8—Enhanced quality of life for older Australians*. However:
- the effectiveness indicators listed for this outcome in the 1999-2000 PBS, are not reported in the same order in the Annual Report; and
 - in the 1999-2000 PBS the effectiveness indicators are listed as *Indicator 1 to Indicator 10* whereas in the 1999-2000 Annual Report the effectiveness indicators are listed as *Indicator A to Indicator J*.¹⁸
- 2.29 The Committee acknowledges that in the 2000–01 cycle, for the same outcome (now reassigned as *Outcome 3*) there is no inconsistency between PBS and the annual report.
- 2.30 The Committee also raised the problem of PAES getting lost in the process with the current focus pre-dominantly on PBSs and annual reports rather than the whole cycle comprising of PBS to PAES to annual report to PBS the following year.

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

17 Finance, *Submission No. 8*, pp. 55.

18 *Portfolio Budget Statements 1999–2000 Health and Aged Care Portfolio, Budget Related Paper No. 1.11*, pp.196-7, DHAC, *Annual Report 1999–2000*, p. 57 onwards.

- 2.31 During the public hearing, Finance commented that it 'acknowledges that there is room for improvement at a practical level in the PBSs, in places and in parts.'¹⁹
- 2.32 A witness from the Certified Practising Accountants of Australia (CPA Australia) stated that 'while it was understandable that the Commonwealth had concerns regarding the lack of continuity between budget papers and annual reports it was not a new and unexpected problem.'²⁰

Conclusion

- 2.33 The Committee acknowledges that with the introduction of a new budgetary framework there will be a period of settling in and adjustment. The Committee is satisfied that agencies have to date endeavoured to achieve consistency.
- 2.34 Nevertheless, the Committee is determined that all agencies achieve consistency in all Budget related reporting.**

The links between agencies

Consistency between agency PBSs

- 2.35 Finance recognised there was room for greater consistency between the PBSs provided by different agencies:
- ... I think there is a case that the guidelines could be not necessarily prescriptive or controlling but made a little more explicit and expressed in a firmer way to try to encourage greater consistency. ... I discerned in this most recent round of PBSs a greater degree of consistency, but I fully accept that there was probably not as much bringing them together into a consistent format as a number of Senators would have liked.²¹
- 2.36 The Committee agrees and encourages Finance to be more proactive in maintaining progress in achieving more consistency in agency PBSs. The Committee believes that an increased level of consistency in PBSs would:
- improve the ease of reading PBSs;

19 Mr Phillip Prior, Finance, *Transcript*, p. 30.

20 Mr Adam Awty, CPA Australia, *Transcript*, p. 16.

21 Mr Stephen Bartos, Finance, *Transcript*, p. 21.

- enhance the comparability of performance and financial information in the agency PBS; and
- encourage agencies to have consistent aims which would be particularly important when agencies had shared outcomes.

Cross portfolio statements

2.37 The link between ministerial cross portfolio budget statements and the PBS was identified as a difficult area for reporting by the SFPALC. The ANAO summed up the difficulties with such reporting:

... it can be difficult to obtain an understanding of the overall program when individual agencies report their own involvement with the program and no organisation is responsible for reporting on the overall program. ... One solution would be the nomination of a lead agency for each major cross portfolio program with designated responsibility for reporting.²²

2.38 The Committee sought comment from Finance which responded that there were:

... a number of Budget-related papers released each year, most of which deal with issues on a cross-portfolio basis. The 2001-02 Budget was accompanied by the release of papers dealing with matters affecting, for example, women, indigenous Australians, people in regional Australia, and our natural and cultural heritage.

Fundamentally, the PBSs are portfolio-specific documents, issued under the authority of the relevant portfolio minister and intended to meet the needs of the particular estimates committee covering the portfolio.²³

2.39 Finance concluded that 'it remains open to the Parliament to commission a Committee or ANAO inquiry into a specific whole of government matter of sufficient concern.'²⁴

Committee comment

2.40 The Committee acknowledges that reporting against cross portfolio statements presents a difficulty at a Ministerial level. Each Minister is wholly responsible for his/her portfolio reporting, however, in the case of cross portfolio reporting, if there were to be a nominated 'lead agency' as was suggested by the ANAO, then one Minister would be responsible for

22 ANAO, *Submission No. 11*, pp. 91-2.

23 Finance, *Submission No. 13*, p. 115.

24 Finance, *Submission No. 13*, p. 115.

reporting and would include information from another Minister's portfolio.

Shared outcomes

- 2.41 While agencies may experience difficulty measuring and assessing performance in achieving government outcomes, problems are much greater where an outcome is so broad as to encompass the activities of one or a number of other agencies. In such situations it is difficult to determine whether progress towards achieving the outcome results from the activities of all or only some of the agencies involved.
- 2.42 An example of a broad outcome is Treasury's overall outcome of *Strong, sustainable economic growth and the improved wellbeing of Australians*. During the public hearing, Treasury admitted that several agencies would contribute to the wellbeing component of its outcome.²⁵
- 2.43 The ANAO suggested to the Committee that there could be more extensive reporting of outcomes within the PBS. Where a portfolio agency makes a major contribution to a shared outcome, such reporting could address:
- progress achieved towards outcomes, including whether planned intermediate outcomes had been met;
 - the actions taken by the agency to influence the actions of such other parties, where applicable; and
 - expected outcomes in the budget and forward years.²⁶
- 2.44 The ANAO added that this would improve the present lack of cross-portfolio information available on outcomes.²⁷
- 2.45 The ANAO suggested that the agency with the most significant role in relation to the outcome should report on it. That agency would 'include in its report how other parties, including other government entities, had contributed towards the achievement of the outcome.'²⁸
- 2.46 The Department of Transport and Regional Services was provided as an example of a department taking prime responsibility for reporting on the outcomes relating to the Government's regional Australia agenda.²⁹

25 Dr Paul Grimes, Treasury, *Transcript*, p. 57.

26 ANAO, *Submission No. 7*, p. 48.

27 ANAO, *Submission No. 7*, p. 48.

28 ANAO, *Submission No. 7*, p. 48.

29 ANAO, *Submission No. 7*, p. 48.

2.47 In *Audit Report No. 46, 2000–2001, ATO Performance Reporting under the Outcomes and Outputs Framework*, the Auditor-General discussed the issue of cooperation between agencies working towards common or shared outcomes. He suggested that:

MOUs [memorandums of understanding] could be used as a strategy to improve overall performance whilst managing individual, as well as shared risks, corporate governance and reporting of performance information.³⁰

2.48 However, from another perspective Mr Tony Harris, appearing in an individual capacity, raised a difficulty he had with shared outcomes. He commented that:

... budgeting on outcomes can only work when there is responsibility for those outcomes that can be figured and when there is no overlap between the outcomes so as to dilute the responsibility chain.³¹

2.49 When the issue of shared outcomes was raised with Finance, it responded that ‘under the outcome-output framework, there are no outcomes shared between portfolios.’ There were, however, agencies such as Centrelink which had business partnership agreements with other agencies with the aim of achieving a particular government outcome.³²

Committee comment

2.50 The PBSs are not currently designed to provide cross portfolio information as the information they contain is focussed on single agencies. The Committee, while noting Finance’s response that there are no shared outcomes, believes that some outcomes are so broad and far reaching as to be in effect outcomes shared with other agencies.

2.51 The Committee therefore considers that agencies should acquaint themselves with the outcomes of other agencies to identify areas of overlap and synergy. Where shared outcomes are identified they should be indicated as such in the PBS and agency annual report. Agencies with shared outcomes should determine a lead agency with prime responsibility for the outcome, but all involved agencies should identify and report on their contribution to the outcome in their PBS and annual report.

30 Auditor General, *Audit Report No. 46 2000–2001, ATO Performance Reporting under the Outcomes and Outputs Framework*, p. 75.

31 Mr Tony Harris, *Transcript*, p. 15.

32 Finance, *Submission No. 13*, p. 115.

- 2.52 To ensure good communication and understanding between agencies sharing outcomes, the Committee encourages the use of MOUs as these will lead to a clarity in contribution towards the outcome and accountability when progress in achieving the outcome is reported.
- 2.53 Such MOUs would identify the shared outcome and the agencies which contribute to that outcome; and identify the agency with prime responsibility for the shared outcome which would be responsible for reporting progress in achieving that outcome.

Recommendation 1

2.54 **Agencies with a shared outcome should:**

- **identify the shared outcome and the contribution of other agencies in achieving that outcome in their PBS and annual report;**
- **determine a lead agency with prime responsibility for that outcome; and**
- **consider entering into memoranda of understanding with the other agencies to clarify the responsibilities of each agency in achieving the shared outcome.**

- 2.55 An alternative would be for agencies with broad and far reaching outcomes to redefine them so as to remove any overlap with the outcomes of other agencies. The Committee discusses the appropriate level of disaggregation of outcomes in Chapter 4.

Conclusion

- 2.56 The structure of the accrual budget documentation framework aims to link information in the budget papers with the PBS, PAES, and annual reports. The Committee is of the view that while the overall structure of the framework is sound, there will need to be continuous refinement. The Committee acknowledges that this may take a number of years.
- 2.57 The Committee notes that reforms to the public sector have provided much benefit by freeing agencies from central control. Inevitably there will be a tendency for the new system to go beyond that which is desirable. This will require central agencies to reassert some

control. The Committee believes that initially this can be achieved with a 'light touch' through Finance providing agencies with continuous advice in the form of better practice guides aimed at achieving consistency across the public sector.

- 2.58 The Committee believes that consistency within the outputs and outcomes framework is at the heart of accountability and transparency of government. The Committee will maintain a watching brief to see this is delivered in the longer term.

