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Performance Reporting by Public Financial Corporations

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Victorian Auditor-General's Office

Auditing in the Public Interest

The Hon. Robert Smith MLC
President
Legislative Council
Parliament House
Melbourne

The Hon. Jenny Lindell MP
Speaker
Legislative Assembly
Parliament House
Melbourne

Dear Presiding Officers

Under the provisions of section 16AB of the *Audit Act 1994*, I transmit my report on *Performance Reporting by Public Financial Corporations.*

Yours faithfully

DR PETER FROST
Acting Auditor-General

25 June 2008

Foreword

Effective performance reporting is central to public sector accountability. Relevant, appropriate and reliable performance information helps Parliament and the community make judgements about whether the best outcomes are being achieved with available resources.

Performance indicators are one set of tools used to evaluate the cost-effectiveness of strategies through comparison of actual performance with appropriate baselines and targets. Disclosure of actual results against performance targets is basic to reporting performance.

This audit examined performance reporting by seven state-owned finance and insurance agencies. These agencies largely manage the state's financial risks. They controlled assets and liabilities totalling approximately $39 billion at 30 June 2007.

The audit found these agencies need to improve the quality of their performance reporting. In the absence of any mandated performance reporting framework the audit found wide variation in the approach to reporting on performance. One agency reported over 60 indicators in its annual report. In some instances indicators held out to be performance measures were either not relevant to the agency's objectives or not able to be reliably measured.

In an era of more open, transparent government, lack of consistent and comparable approaches to performance reporting serves only to weaken the overall accountability framework. It is important therefore that each agency, and the government, pays greater attention to what and how performance information is put into the public domain.

DR PETER FROST
Acting Auditor-General

25 June 2008

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1 Executive summary

1.1 Background

1.1.1 Public financial corporations

Public financial corporations (PFCs) are public sector entities that perform central bank functions; accept deposits; or have the authority to incur liabilities and acquire financial assets in the market on their own account.

In Victoria, there are seven PFCs:

- financial intermediation services
    - Rural Finance Corporation (RF)
    - State Trustees Limited (STL)
    - Treasury Corporation of Victoria (TCV)
    - Victorian Funds Management Corporation (VFMC)
- insurance services
    - Transport Accident Commission (TAC)
    - Victorian Managed Insurance Authority (VMIA)
    - Victorian WorkCover Authority (VWA)

1.1.2 Performance reporting framework for PFCs

All public sector entities are required to produce an annual report setting out general and financial information about their operations and performance.

PFCs are required to produce annual financial statements, but are not required to produce separate non-financial performance statements.

1.1.3 Audit objective

A systematic program of auditing performance reporting in selected government sectors has been undertaken since 2003.

This program has been designed to critically review current practice and standards in performance reporting, to gauge whether the chosen sector has developed robust performance measures and to assess the integrity of the underlying data systems.

The objective of this audit was to assess whether the publicly reported performance information of PFCs is relevant, appropriate and fairly presented.

1.1.4 Audit approach

The performance data reported by all seven PFCs was evaluated against criteria for relevance and appropriateness. Three PFCs were selected for testing the fair presentation of data by tracing reported results to underlying systems and verifying their accuracy.

An analysis of findings for each PFC is provided in the appendices to this report.

1.2 Key findings

1.2.1 Relevance

PFCs are generally reporting performance measures that are relevant—relevant in the context of their relationship to organisational objectives, key stakeholder groups, and services delivered by each entity.

However, not all PFCs are systematically reporting on all of the four major dimensions of service delivery—time, cost, quality and quantity.

In addition, not all key performance indicators (KPIs) had a strong nexus with the corporate objective or dimension of performance they were trying to measure. There is considerable scope for PFCs to benchmark the indicators they use with like entities, and where appropriate develop a suite of common KPIs that will facilitate comparative evaluation.

1.2.2 Appropriateness

PFCs generally are not providing sufficient context in their reports for the reported indicators to be useful as a tool to understand performance. From the point of view of discharging public accountability, the effort and cost of producing performance indicator data is therefore largely wasted.

Performance reporting in all PFCs should be significantly improved through clearer articulation of the measures used, including data on targets, long term trends and external benchmarks; and providing succinct explanations for significant variations from expected results.

1.2.3 Presentation

The majority of indicators reported were found to be consistent and accurate, however, exceptions were identified in relation to reliable measurement. This confirms generally that there is integrity in the underlying data systems of the PFCs.

The reporting of KPIs by most PFCs can be improved through clearer identification and consolidation of KPIs in annual reports.

1.3 Recommendations

It is recommended that PFCs:

- review KPIs that relate to their services to ensure they provide information on all dimensions of service delivery **(Recommendation 3.1)**
- compare their suite of KPIs with other like entities in both the public and private sectors, to identify common industry KPIs that could be reported and used for comparative benchmarking **(Recommendation 3.1)**
- review their publicly reported KPIs to ensure that sufficient information is provided (**Recommendation 3.2**)
- review their KPIs to ensure they are capable of reliable measurement **(Recommendation 4.1)**
- include a concise performance statement in their annual report **(Recommendation 4.2).**

RESPONSE provided by the Chief Executive Officer, Rural Finance Corporation

We note the reference to perceived deficiencies in our performance reporting.

We have always operated on the basis that our annual reporting responsibilities are those spelt out in the Financial Management Act 1994.

The Corporation has consistently received complimentary comments from the Office of the Auditor-General in relation to its audit compliance and timeliness. We are an organisation that prides itself in its efficiency and effectiveness. As a participant in a strongly competitive market, any poor performance tends to be reflected in our operational measures very quickly which is why we have a strong focus on these measures. These serve as a relevant litmus test as to our performance in the market place.

We will also consider as part of our future annual reporting processes, suggestions made within this report but query if this may be better achieved by advising the Minister for Finance to consider an amendment to the Financial Management Act so as to clarify any ambiguity as to what may be best practice. These comments are made in light of the fact that there can be difficulties balancing disclosures against competitively sensitive information and privacy considerations.

We have developed KPIs for three of our five corporate objectives and in our annual report elaborated on activities relating to the other two objectives. We plan to review our presentation of this information in future reporting, but we are mindful of having KPIs which are measurable and meaningful.

We note recognition that RF is the only organisation that reports KPIs on quality of service and timeliness.

RESPONSE provided by the Chief Executive Officer, Rural Finance Corporation – continued

We have carried out extensive research to identify reliable information that supports our market share KPI but there is very limited information available. However we believe it is important to attempt to quantify this relevant measure.

ABARE & ABS publish nationwide data which is not relevant to a State based enterprise like RF so the data used is the most reliable at our disposal.

We will review KPIs relating to service delivery and incorporate these into future annual reports. In relation to comparison with a suite of KPIs with other entities, care needs to be taken in comparing a profit based organisation like the Corporation with budget sector agencies that are not profit orientated. Similarly it is difficult to compare our performance with commercial sector institutions as we are not a bank despite operating in a commercial environment. We do however make some comparisons with banks and other financial institutions. Our role as a lender and administrator of Government support programs is a mix that is not replicated in any other organisation in Australia and as such our capacity to identify comparative benchmarking KPIs is difficult. We will however continue to consider any other appropriate organisations for benchmarking.

Reporting of KPIs that might disclose targets or other commercially sensitive material is something we are reluctant to implement on the grounds that it could give our competitors an advantage.

We will address the suggestions made in the report but will need to ensure that implementation does not place us in a position of conflict with commercial sensitivity.

We have always endeavoured to report on KPIs that we believe were relevant to our business and which are measurable. In the light of the Auditor-General's report we will broaden the scope of our KPI reporting to address perceived deficiencies, but would gain comfort if such reporting requirements were incorporated, for completeness, into relevant legislation or regulation.

We will give consideration to (the recommendation that PFCs include a concise performance statement in their annual report) this statement in next year's report.[1]

RESPONSE provided by the Managing Director, State Trustees Limited

As a Government Business Enterprise (GBE) subject to the Corporations Law, State Trustees fulfils its statutory reporting obligations in full compliance with requirements of the Act. We also ensure that the reporting requirements of our shareholder are fulfilled.

[1] Additional response provided by the Chief Executive Officer, Rural Finance Corporation is located at Appendix A.

RESPONSE provided by the Managing Director, State Trustees Limited – continued

In addition, other information that is deemed to be of interest to our stakeholders is reported within the context of our position in a competitive market place and the need to protect our commercial interests.

The recommendations included in the report, where relevant, provide an opportunity for State Trustees to refine its KPI reporting. Future additions to our suite of publicly reported KPI's will take into account the recommendations.

As an example, we have developed a Customer Value Index (CVI) measure and have been compiling data for the past two years (2006/7 & 2007/8). It is our intention to include this measure as a publicly reported KPI supported by creditable data and trend analysis

RESPONSE provided by the Chief Executive, Victorian WorkCover Authority

WorkSafe is committed to being a transparent and accountable regulator. Crucial to the achievement of this aspiration is the setting and evolving of key performance indicators, stretch targets and concise performance reporting. We welcome the VAGO review of our key performance indicators and performance reporting. Third party reviews contribute to the continual improvement in the relevance, appropriateness and presentation of information on our performance.

WorkSafe's KPIs have been developed to ensure they provide information on all dimensions of service delivery. In 2008/09 we will continue our annual review of KPIs to ensure all service dimensions are addressed.

WorkSafe supports the benchmarking of performance against like agencies. In 2008/09, we will continue to benchmark ourselves against TAC and other states and territories providing workplace safety, compensation and return to work services. In 2008/09, we will review options to extend benchmarking to include other like PFCs.

WorkSafe will consider how to continue to ensure sufficient information is included in our publically released reports on KPIs. This includes a consideration of a standard performance period - for example 1, 3 or 5 years and including this in our reports.

WorkSafe dedicates resources to ensuring KPIs are capable of reliable measurement. In 2007/08 WorkSafe introduced detailed plain English definitions of KPIs to enable greater transparency around our key indicators. This will continue to evolve in 2008/09.

RESPONSE provided by the Chief Executive, Victorian WorkCover Authority – continued

WorkSafe currently releases a concise performance statement in our corporate plan. In 2008/09 we will consider the options for reflecting the concise performance statement in our annual report[2]

[2] Additional response provided by the Chief Executive, Victorian WorkCover Authority is located at Appendix B.

2 Background

At a glance

Background

A systematic program of auditing performance reporting in selected government sectors has been undertaken since 2003.

General government sector (GGS) or 'on-budget' agencies, mainly departments, have to report against approved output-based key performance indicators in their annual reports. These are not audited.

With the exceptions of the water bodies and TAFEs, 'off-budget' agencies, referred to collectively as public financial corporations (PFCs) and public non-financial corporations (PNFCs), are not required to produce audited performance statements.

The objective of the audit was to assess whether the performance information reported by PFCs is relevant, appropriate and fairly presented.

2.1 Introduction

A systematic program of auditing performance reporting in selected government sectors has been undertaken since 2003.

This program has been designed to critically review current practice and standards in performance reporting, to gauge whether the chosen sector has developed robust performance measures and to assess the integrity of the underlying data systems. The longer-term aim is to include non-financial performance measures within the scope of the annual attest audit function, as envisaged by section 8(3) of the *Audit Act 1994*.

The first sector identified in 2003 was the water industry. That sector and the Department of Sustainability and Environment responded promptly and positively to the challenge, resulting in the issuance in 2004 of a directive of the Minister for Finance for the industry to include a set of non-financial performance measures in their annual reports (as part of their annual performance reporting requirements), and that the measures would be subject to audit. That now occurs.

The second industry sector audited under this strategy was the Technical and Further Education Institutes (TAFE) sector. TAFEs now include audited key performance indicators in their annual reports. However, this requirement is yet to be mandated.

A review of health services performance reporting was completed in June 2006. That audit found that the performance indicators specified in Department of Human Services' *Public Hospitals Financial Reporting Guidelines* were relevant and appropriate.

2.2 Performance reporting framework

Public sector agencies are required by the Standing Directions of the Minister for Finance[1] to produce an annual report that contains a report on operations and audited financial statements.

The Standing Directions state that the annual report:

- is the principal medium through which public sector agencies discharge their accountability to the Parliament, Government and the people of Victoria
- should assist these users in making decisions about the utilisation of resources in the relevant entities
- should provide both general and financial information about the operations and performance of public sector agencies, together with assessments of results and financial position.

[1] Issued under section 8 of the *Financial Management Act 1994*

Readers of annual reports will be familiar with the form and content of financial statements, which portray the financial performance and financial position of each public sector agency. Financial statements are prepared in accordance with accounting standards and as a result are presented consistently between agencies, and contain financial information that is both relevant and reliable.

The same does not hold for reporting non-financial performance by public sector agencies. With the exception of the Water and TAFE sectors there is no requirement for other public sector agencies to produce audited performance statements and there are no mandated performance reporting standards.

2.2.1 Use of performance indicators

Performance reporting is given effect primarily through the use of ‘performance indicators’. These are measures that allow users to assess the extent of progress toward, and achievement of, organisational objectives.

Performance indicators can be developed to relate to all aspects of an entity’s operations, from inputs such as staff resources; through activities and processes, to outputs. They can be developed to measure intended outcomes. They can also be used to measure different attributes, namely time, cost, quality or quantity. Figure 2A sets out the inter-relationships between these two concepts using grants processing as an example.

Figure 2A
Example performance indicator framework—grants

Operations/ Attribute	Input	Process	Output	Outcome
Quality	Staff turnover in grants unit	Rework required after quality review %	Compliance with grant guidelines %	% improvement in subject of grant
Quantity	FTE grants staff	No. of grant applications processed	No. grant applications approved	% and dollar value of grants unused at year end
Time	Backlog of grant applications %	Elapsed days to review application	Elapsed days from application to grant	% grants requiring extension to approved timeframe
Cost	Salaries of grants staff	Average salary cost per grant processed	Actual grants paid compared to budget	Cost of further/ additional grants required

Source: Victorian Auditor-General’s Office

The term ‘**key performance indicators**’ (KPIs) is often used to describe the high-level indicators that provide an overview of how an agency or program is achieving its primary purposes.

2.2.2 Mandated performance indicator reporting requirements

General government sector (GGS) or ‘on-budget’ agencies, mainly departments, have to report against approved output-based key performance indicators in their annual reports.[2] These are not audited.

With the exceptions of the water bodies and TAFEs mentioned above, ‘off-budget’ agencies, referred to collectively as PFCs and public non-financial corporations (PNFCs), are not required to produce audited performance statements.

2.3 Audit objective and scope

The objective of the audit was to assess whether the performance information reported by PFCs is relevant, appropriate and fairly presented.

PFCs are defined as public sector entities that: perform central bank functions; accept demand, time or savings deposits, or that have the authority to incur liabilities and acquire financial assets in the market on their own account.

In Victoria there are seven PFCs:

- financial intermediation services
  - Rural Finance Corporation (RF)
  - State Trustees Limited (STL)
  - Treasury Corporation of Victoria (TCV)
  - Victorian Funds Management Corporation (VFMC)
- insurance services
  - Transport Accident Commission (TAC)
  - Victorian Managed Insurance Authority (VMIA)
  - Victorian Workcover Authority (VWA)

Collectively these agencies manage the financial risks for the state and controlled assets and liabilities approximating $39 billion at 30 June 2007.

As PFCs, the financial performance of these entities is paramount. It is to be expected that they would develop appropriate financial KPIs for inclusion in their annual reports. In addition, as public entities, to the extent they have non-financial objectives and provide other services, it is expected that they would also develop non-financial KPIs.

The performance information of all seven entities was reviewed for its relevance and appropriateness. Fair presentation, including an assessment of underlying systems, was evaluated only in RF, VFMC and VWA.

The audit was performed in accordance with Australian auditing standards. The total cost of the audit, including preparing and printing this report was $206 000.

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[2] Audit Report No. 8 of 2007-08 “Parliamentary Appropriations: Output Measures’ examined this framework in detail.

3 Relevance and appropriateness

At a glance

Background

The usefulness of performance information is determined by how well it corresponds to the needs of users of the information—its relevance; and by whether performance data is accompanied by sufficient information to be able to assess performance—its appropriateness.

Key findings

- Public financial corporations (PFCs) are generally reporting performance measures that are relevant. However, not all PFCs are systematically reporting on all of the four major dimensions of service delivery—time, cost, quality and quantity.
- Not all key performance indicators (KPIs) had a strong nexus with the corporate objective or dimension of performance they were trying to measure. There is considerable scope for PFCs to benchmark the indicators they use with like entities, and where appropriate develop a suite of common KPIs that will facilitate comparative evaluation.
- PFCs generally are not providing sufficient context in their reports for the reported indicators to be useful as a tool to understand performance.
- Performance reporting in all PFCs could be significantly improved through clearer articulation of the measures used, including data on targets, long term trends and external benchmarks; and providing succinct explanations for significant variations from expected results.

Key recommendations

PFCs should:

- review KPIs that relate to their services to ensure they provide information on all four dimensions of service delivery
- compare their suite of KPIs with other like entities, in both the public and private sectors, to identify common industry KPIs that could be reported and used for comparative benchmarking
- review their publicly reported KPIs to ensure that sufficient information is provided with regard to explanations, targets, trends, benchmarks and variances.

3.1 Introduction

The usefulness of performance information is determined by how well it corresponds to the needs of users of the information— its relevance; and by whether performance data is accompanied by sufficient information to be able to assess performance—its appropriateness.

3.2 Relevance

To be relevant, performance indicators must satisfy the information needs of users of that information. In the context of annual reports the key users are Parliament and the community. The recipients of services are also key stakeholders and therefore also an important user of the information in annual reports.

For relevance, audit expected to find that the key performance indicators (KPIs) were:

- **comprehensive**—providing information about the achievement of all key objectives and stakeholders needs, including the delivery of services
- **logical and consistent**—there is a clear nexus between the KPI and the objective to which they purport to relate.

3.2.1 Comprehensive

No public financial corporations (PFCs) explicitly aligned their indicators with their objectives. Most categorised their KPIs into logical stakeholder groupings such as financial performance/sustainability, risk/safety, client/customer and staff. This approach ensured that information was provided for each key stakeholder group.

Nevertheless, analysis of the performance information reported by all PFCs indicated that there is comprehensive coverage of corporate objectives by most PFCs. Only RF and the VMIA were identified as not reporting KPIs that canvassed all corporate objectives.

The overwhelming majority of performance indicators reported were financially-based. This is expected for entities operating in the financial services sector. However, in some cases the balance of the performance data was weighted more toward their shareholder, the government, than to the users of their services.

Where data is reported on services, not all dimensions of service delivery are measured by all PFCs— that is, timeliness, cost, quantity and quality. Unlike general government sector entities, PFCs are not required to report under an output-outcomes framework and accordingly, there is no external imperative for each to track or report on all dimensions of service delivery, nor on outcomes.

Those PFCs that expressed corporate objectives in terms of service delivery were more likely to have ‘output-based’ indicators, but there was no evidence of systematic reporting of each service dimension across the PFCs.

For example, client satisfaction—a measure of quality of service—was reported by only three agencies, Rural Finance Corporation (RF), Victorian Managed Insurance Authority (VMIA) and the Victorian WorkCover Authority (VWA). Timeliness of service response was reported only by RF and the Victorian Funds Management Corporation (VFMC).

Benchmarking between like entities identified inconsistencies in KPIs used, limiting the ability of users to undertake a comparative assessment of performance.

For example, VMIA and Transport Accident Commission (TAC) both reported on a prudential ratio, described as 'solvency' and 'funding ratio' respectively. However, VWA does not set the funding ratio as a key KPI. Instead it monitors and reports on the funding ratio in the annual report.

Further, VMIA used the annual percentage reduction in its premiums as one measure of the cost-effectiveness of its services. VWA, on the other hand, used the concept of a 'break-even premium' percentage. While both are relevant measures, neither can be compared directly with the other.

3.2.2 Logical and consistent

Measures that were relevant correlate closely with each entity's objectives. There was generally a strong, clear nexus between the performance indicator used and the aspect of performance to which it related.

The general exception to this was the reporting of staff numbers. This was often characterised as a capacity or capability measure. In and of itself, staff numbers are a weak measure of capability. Better indicators of capability would be staff turnover or the percentage of staff with relevant qualifications. Better measures of organisational capacity would relate staff numbers to the value or volume of outputs. This would provide better context, assuming that staff numbers will vary according to activity.

Other specific examples were identified in most PFCs where a better measure could be used. These specific examples are set out in the detailed appendices to this report.

3.2.3 Overall conclusion on relevance

PFCs are generally reporting performance measures that are relevant—relevant in the context of their relationship to organisational objectives, key stakeholder groups, and services delivered by each entity.

However, not all PFCs are systematically reporting on all of the four major dimensions of service delivery—time, cost, quality and quantity.

In addition, not all KPIs had a strong nexus with the corporate objective or dimension of performance they were trying to measure. There is considerable scope for PFCs to benchmark the indicators they use with like entities, and where appropriate develop a suite of common KPIs that will facilitate comparative evaluation.

Recommendation

3.1 It is recommended that PFCs:

- review KPIs that relate to their services to ensure they provide information on all dimensions of service delivery
- compare their suite of KPIs with other like entities in both the public and private sectors, to identify common industry KPIs that could be reported and used for comparative benchmarking.

3.3 Appropriateness

Choosing a performance indicator, establishing a measure, and reporting actual results will not of itself lead to useful information. To be useful the data reported must have appropriate context.

Appropriate context means that sufficient information is provided for users to adequately assess performance. For appropriateness audit expected to find that each KPI was supported by:

- a clear definition and description of how the measure was calculated
- a clear articulation of the expected result or target
- the variance between the actual result and the target, together with sufficient explanation of the underlying reasons for the variance, where significant
- trend data to show how the measure had changed over time, and
- external benchmark data to enable comparative assessment of performance with like agencies.

3.3.1 Definitions and descriptions

With the exception of the VWA, PFCs generally did not provide clear, succinct definitions or descriptions of the KPIs they reported.

The VWA provided a detailed glossary of terms in its business plan that clearly articulated, in plain English, how each measure was calculated or derived, the sources of data used and any exceptions or key assumptions.

Most other PFCs did not provide this level of detail. While many provided narrative for certain measures, it was not consistently provided for all measures, nor did it deal comprehensively with the derivation of each measure.

Accordingly it was difficult to determine the significance or relative importance of each measure to the overall performance of the entity.

3.3.2 Expected targets or results and explanation of variances

Again with the notable exception of the VWA, PFCs did not comprehensively or consistently report targets or expected results. Those that did, did not always explain the derivation of the target. The VWA included targets for all its KPIs in its business plan.

The absence of targets, including annual budgets, meant that little information was provided about variations from each entity's expectations. Most narrative explanation in annual reports focused simply on describing the current year actual result. In this regard even the VWA did not provide variance analysis against its targets.

3.3.3 Use of trend data and external benchmark data

There was minimal use of trend data by PFCs in their reporting. Most financial services PFCs included comparative trend data for three or more years, but it was limited to a selection of KPIs.

With the exception of the VFMC and Treasury Corporation of Victoria, there was limited externally referenced performance data that could be used to benchmark comparative performance. This was the case even where PFCs used indicators that were common with like entities in Victoria and other jurisdictions.

For example, the VMIA reported a target range of 105 to 125 per cent for its 'solvency', whereas the TAC uses a range of 100 to 120 per cent for its equivalent 'funding ratio'. VMIA actual target was 115 per cent and TAC set a target of 110 per cent.

3.3.4 Overall conclusion on appropriateness

PFCs generally are not providing sufficient context in their reports for the reported indicators to be useful as a tool to understand performance. From the point of view of discharging public accountability, the effort and cost of producing performance indicator data is therefore largely wasted.

Performance reporting in all PFCs could be significantly improved through clearer articulation of the measures used, including data on targets, long-term trends and external benchmarks; and providing succinct explanations for significant variations from expected results.

Recommendation

3.2 It is recommended that PFCs review their publicly reported KPIs to ensure that sufficient information is provided with regard to explanations, targets, trends, benchmarks and variances.

4 Presentation

At a glance

Background

Not only must key performance indicators (KPIs) be relevant to be useful, they must also be presented so that they can be readily identified, comprehended, and not misinterpreted.

Key findings

- The majority of measures reported were found to be consistent and accurate, but some were not capable of reliable measurement.
- Reporting of KPIs by most public financial corporations (PFCs) can be improved through clearer identification and consolidation of KPIs in annual reports.

Key recommendations

- PFCs should review their KPIs to ensure they are capable of reliable measurement.
- PFCs should include a concise performance statement in their annual report.

4.1 Introduction

Not only must key performance indicators (KPIs) be relevant to be useful, they must also be presented so that they can be readily identified, comprehended, and not misinterpreted.

The style and format of presentation can contribute to comprehension or hinder it. It is also important that data is reported fairly—this extends beyond accuracy to concepts of consistency and reliable measurement.

4.2 Reliability, consistency and accuracy

Performance information should be presented in such a way that the results are unambiguous and actual performance cannot be misconstrued. In this regard each performance indicator should be:

- able to be reliably quantified
- calculated consistently, where used for more than one period
- based on accurate source data.

The audit included a detailed examination of the underlying systems and records of the Rural Finance Corporation (RF), Victorian Funds Management Corporation (VFMC) and Victorian WorkCover Authority (VWA) to determine whether these criteria had been met.

4.2.1 Reliability

The KPIs reported by the three entities examined in detail were generally found to be capable of reliable measurement. The exceptions to this were:

- the ‘market share’ used by RF— which was based on proxy data
- the ‘centre of excellence’ and ’profile’ KPIs of the VFMC—for which no indicators had been defined—and ‘client reporting’ times, which were planned rather than actual data
- the ‘sustained return to work’ measure used by VWA—which was based on a sample, but no data was provided on confidence levels and sample error limits.

Review of the measures used by the other public financial corporations (PFCs) indicates that most also appear capable of reliable measurement. Generally measures used are based on a combination of financial and volume or activity data, all of which should be able to be extracted readily from underlying systems.

4.2.2 Consistency and accuracy

No material errors were detected in the accuracy of data reported by the three PFCs examined in detail. The measures were also found to have been calculated consistently where they had been used in prior years.

4.2.3 Conclusion

The majority of indicators reported were found to be consistent and accurate, however, some exceptions were identified in relation to reliable measurement. This confirms generally that PFCs are in a position to be able to stand the scrutiny of an independent audit of their KPIs.

Recommendation

4.1 It is recommended that PFCs review their KPIs to ensure they are capable of reliable measurement.

4.3 Style of presentation

The style of presentation should also aid comprehension. In this regard key performance information should:

- be clearly identified as such
- be aided by the use charts and graphs where appropriate.

4.3.1 Identification

No PFC produced a concise performance statement in their annual report. While this is not a requirement, the use of a single statement that sets out each entity's KPIs, its targets and actual results, and which provides a succinct explanation of variances, would improve transparency in reporting and enhance accountability.

The reporting on performance information by PFCs in their annual reports generally took the form of a highlights page, with repetition of this data throughout the report on operations.

The discussion of performance data in context throughout the annual report is appropriate. However, the performance information was not always presented consistently. For example, the use of prior year data or trend data, and the expression of targets, was inconsistent.

This approach to reporting also meant that it was not always clear what were the **key** performance indicators for the entity. Without an indication of the relative importance of each measure it is harder to judge overall performance.

4.3.2 Use of visual aids

A number of PFCs used graphical representation of data and summary tables to good effect throughout their annual reports. However, their capacity to use such visual aids was constrained by the fact that many did not provide comparative, target or trend data.

4.3.3 Conclusion

The reporting of KPIs by most PFCs can be improved through clearer identification and consolidation of KPIs in annual reports.

Recommendation

4.2 It is recommended that PFCs include a concise performance statement in their annual report.

Appendix A. Analysis of financial service agencies

Introduction

The four financial services agencies reviewed operate diverse businesses. Rural Finance Corporation (RF) is a significant lender to Victoria's primary producers and rural businesses. State Trustees Limited (STL) is a provider of estate management, trustee and financial services. Treasury Corporation of Victoria (TCV) is the central financing authority and financial adviser for the state. Victorian Funds Management Corporation (VFMC) is the state's fund management authority.

The following review is an assessment of reported key performance indicators (KPIs) and not an assessment of each agency's actual performance.

Rural Finance Corporation

Background

RF is wholly owned by the Victorian Government and is a significant lender to Victoria's primary producers and rural businesses. At 30 June 2007 the corporation had net assets of $220 million and interest-bearing debt totalling $680 million. Its loan book stood at $910 million. The *Rural Finance Act 1988* (RFA) requires the corporation to pay a dividend to the state, in accordance with section 26(1)(b) of the RFA, in an amount and at times agreed by the Treasurer and RF's board of directors.

The statutory objectives of RF, established by the RFA, are to:

- promote the establishment, growth and stability of, and increased opportunities in rural industries in Victoria
- promote economic growth in regional Victoria
- provide financial and other services for rural industries in accordance with the RFA in a profitable, efficient and competitive manner and, if appropriate, in co-operation with other financial institutions.

The corporation's principal activities are:

- **primary industry lending**—a range of variable and fixed rate loans are available to primary producers at competitive interest rates and on appropriate terms
- **rural business lending**—loans are available to develop and maintain rural businesses in Victoria, particularly those that 'value add'—or where the industry is an integral part of a rural community.

- **exceptional circumstances support**—special assistance is available to normally profitable farmers whose businesses have been affected by adverse seasonal conditions or other rare and severe events deemed by the Australian Minister for Agriculture, Fisheries and Forestry to be an Exceptional Circumstance (EC). The corporation is currently administering EC for a large part of Victoria following extended drought conditions.
- **State Government policy initiatives**—the corporation is engaged by government or its agencies to deliver specifically targeted programs aimed at achieving government policy outcomes for rural Victoria.

More specific corporate objectives, as set out in RFs latest available Statement of Corporate Intent'[1] (SCI) are to:

- increase value for the shareholder
- deliver improved service for rural communities
- maintain and strengthen position as an employer of choice
- enhance relationship with government agencies
- deliver a social policy targeting young people.

Approach to performance reporting

A review of RFs annual report for 2006-07 identified the following quantified performance information:

- Commercial lending
  - $234 million in loans, an increase of $32 million on the previous year
  - rural loan portfolio grew by a record $126.4 million or 16% to $1 billion
  - loans purposes were for land purchases (36%), refinancing other debts (10%) and provision of working capital (22%), plus significant restructuring of borrowings
- Concessional lending
  - $14.48 million loans approved to support 87 young farmers
  - since inception of the scheme in 1981, 1 594 loans provided totalling $170.9 million
- Government schemes and exceptional circumstances
  - data on the number and value of support provided for various schemes.

This data was recapitulated in a summary 'Review of Operations' on page 15 of the annual report.

In addition to the performance data in its 2006-07 annual report RF also represented a set of key performance indicators in its SCI as set out in Figure A1.

[1] Details are published on the Rural Finance Corporation website at <http://www.ruralfinance.com.au>

Figure A1
Rural Finance Corporation
publicly reported key performance indicators

KEY PERFORMANCE INDICATORS	PERFORMANCE			FORECASTS		
	2004-05	2005-06	2006-07 (Estimates)	2007-08	2008-09	2009-10
A) Lending Activity						
Market Share by Value %[1]	16%	>16%	>16%	>16%	>16%	>16%
Market Share by # of Farmers %[1]	22%	>22%	>22%	>22%	>22%	>22%
B) Performance						
Payout Ratio (%)	50%	50%	50%	50%	50%	50%
Employees	75	75	92	97	99	101
Net Profit Before Tax & CSO per Employee	229,440	258,227	226,380	219,274	217,142	233,321
Interest Earning Assets (%)	99.5%	99.5%	99.6%	99.6%	99.7%	99.7%
Return on Assets Before Tax & CSO (%)	2.5%	2.5%	2.4%	2.2%	2.0%	2.0%
Return to Gov't - Equity Before Tax & CSO (%)	8.4%	9.2%	9.5%	9.4%	9.3%	9.8%
C) Risk						
Capital Adequacy Ratio	29%	27%	25%	23%	21%	19%
Ave. Risk Rating (Farms)[2]	4.40	4.25	<5.5	<5.5	<5.5	<5.5
D) Customer Satisfaction						
Loan Processing Turnaround Time	95% <10 days	95% <10 days	95% <10 days	95% <5 days	95% <5 days	95% <5 days
New Client Service Complaints	<0.1%	<0.1%	<0.1%	<0.1%	<0.1%	<0.1%
Existing Client Service Complaints	<0.1%	<0.1%	<0.1%	<0.1%	<0.1%	<0.1%

1. Figures are based on the proportion of farmers who are of commercial scale who have institutional debt.
2. Ratings range from 1-10 but even a score of 10 while somewhat riskier can represent prudent lending.

Source: Rural Finance Corporation, Statement of Corporate Intent.

Relevance

The correlation between the above KPIs and the corporation's objectives is not clear. Figure A2 aligns the KPIs to the corporate objectives of RF.

The figure shows that the majority of indicators relate to the financial performance of RF and, as such, are of direct relevance primarily to its shareholder, the government.

Figure A2
Correlation of objectives to KPIs: Rural Finance Corporation

Corporate objectives	Increase shareholder value	Improved service	Employer of choice	Agency relationship	Social policy
Key performance indicators					
Lending activity					
Market share by value of loans		●			
Market share by number of farmers		●			
Performance					
Payout (dividend) ratio	●				
Employee numbers			●		
Net profit per employee	●				
Interest earning assets	●				
Return on assets	●				
Return to government	●				
Risk					
Capital adequacy ratio	●				
Average risk rating (farms)		●			
Customer satisfaction					
Loan processing time		●			
New client service complaints		●			
Existing client service complaints		●			

Source: Victorian Auditor-General's Office.

Some of the KPIs correlate weakly to corporate objectives. The market share indicators of RF are at best a proxy for improved service for rural communities, in as much as they reflect RFs lending policies, which are:

- varying instalments or even deferring repayments as circumstances warrant
- no ongoing fees for the term of the loan—no line fees, no property valuation fees and no account maintenance fees
- no penalties imposed for early loan repayments, except for fixed term products, the details of which are specified up front at the time of approval
- no additional risk margins—interest rates are the same for everyone who borrows a particular product.

More directly relevant KPIs that link to these lending policies could include:

- the value and number of loans refinanced by RF from private sector loans
- the 'comparison rate' charged by RF on its loans, which takes account of all interest and other fees and charges payable during the life of the loan.

The number of employees is not a direct measure of employer of choice. More relevant measures would be employee satisfaction and employee turnover.

Two corporate objectives, improved agency relationships and social policy targeting young people, have no relevant key performance indicators. In relation to the latter objective, the RF concessional farm lending scheme, the *Young Farmer's Finance Scheme*, is targeted directly at suitably qualified young farmers. Relevant indicators for this scheme are the number and value of loans provided, which is provided in the annual report; and the value of interest revenue forgone by RF.

Appropriateness

RF does not, either in its annual report or in its SCI, provide a clear definition or description for most of its KPIs or other performance data. It does not explain why each is relevant or how each is computed.

Examples include:

- descriptors such a 'payout ratio' could be better expressed as 'dividend payout ratio'
- 'return on assets' does not clarify whether it is return on net assets or on total assets
- 'employees' does not clarify whether it is nominal staff numbers or full time equivalents
- 'capital adequacy ratio' is not defined—this is an important 'prudential' ratio that relates equity to loan portfolio value
- 'loan processing times' do not clarify the processing start and end points used for measurement, or whether the 'clock stops' when additional information is requested from an applicant.

In the SCI, actual and forecast results are provided to allow users to discern past trends and future expected performance. However, the KPIs used by RF fail other criteria for appropriateness.

While there are targets in the SCI there is no clarity about how they are derived. For example, the capital adequacy ratio is an externally imposed prudential target, approved annually by the Minster for Finance. The dividend 'payout ratio' is also determined by government policy.

The performance data in the annual report does not include targets. Consequently, it is not possible to determine whether actual results reported were ahead of, behind, or achieved expectations.

There is also no variance analysis provided in the annual report that succinctly explains actual performance against targets or movements between years.

Presentation

RF does not include a concise performance statement in its annual report. It has also yet to update its SCI on its website for its actual results for 2006–07.

The 2006–07 results for the KPIs reported by RF in its SCI were traced to supporting information systems and source data to establish whether they were able to be reliably measured, accurate, and had been consistently calculated over time.

Both ‘market share’ measures used by RF were found to have problems with reliable measurement.

‘Market share by value’ is computed using an estimate of the value of all loans to Victorian farmers. This estimate was found to have been based on data from an Australian Bureau of Statistics census conducted during the 2003–04 financial year. The KPI included in the SCI used this data.

‘Market share by number’ is based on the number of dairy farmers with loans, as a proxy for all farmers, but this is not disclosed. It is calculated as the number of dairy farmers with loans from RF divided into the total number of Victorian dairy farmers. The total number of Victorian dairy farmers is obtained from a Dairy Australia publication ‘Australian Dairy Industry in Focus’, but is adjusted downwards by 30 per cent to obtain an estimate of the number of dairy farmers of commercial scale—that is, with earnings of $100 000 or more—without institutional debt. However, the 30 per cent estimate is not based on any published statistics.

RF’s KPI on loan processing turnaround time includes data on loan offers for purchase of property under auction. These ‘Offers in Principle’ are given to RF clients prior to auction, and where successful a formal offer is made. However, the ‘Offers in Principle’ do not include the additional time to process the loan if successful at auction.

RESPONSE provided by the Chief Executive Officer, Rural Finance Corporation

We are a financial institution and have focused on KPIs relating to lending activities. We will review our range of KPIs and consider appropriate non-financial measures that will add more depth to our future reporting if reasonable and meaningful measures can be found.

It is our intention to review our range of KPIs and identify relevant non-financial KPIs from our narrative reporting for inclusion with our financial KPIs. We have provided extensive reporting on agency schemes and our commitment to social policy on pages 9–17 of the annual report and believe that this provides a more meaningful explanation of our achievements in these areas rather than using a few KPI measures.

Due to timing requirements for submitting our Corporate Plan for 2007/08 to the Treasurer, the results for 2006/07 were only estimates but were included for comparative purposes. Our 2008/09 Plan which has recently been prepared show actual results for 2006/07 and will be placed on the website after the Treasurer has approved the plan later this month.

RESPONSE provided by the Chief Executive Officer, Rural Finance Corporation – continued

Our Market share KPIs will continue to be based on the latest statistical information available however we will continue to try and locate other reliable data sources.

State Trustees Limited

Background

The STL is wholly owned by the Victorian Government and is a trustee company that provides estate planning and executor services, trustee services, and other financial planning and investment services. At 30 June 2007 the corporation had net assets of $39 million.

STL has no statute-based objectives. Its stated objective in its 2007 annual report is ‘to help Victorians with their financial needs so they can make the most of their opportunities’.

Under its memorandum of association, STL has two objectives:

- operating its business and pursuing its undertaking as efficiently as possible consistent with prudent commercial practice
- maximising its contribution to the economy and well being of the State of Victoria.

The company’s principal activities are:

- **estate services**—estate planning, funeral funding and executor services
- **trust services**—trust products for personal, commercial or charitable purposes, and trustee services
- **finances and planning**—taxation and legal advice, and investment funds
- **other services**—managing administration orders, power of attorney services, Victorian Civil and Administrative Tribunal (VCAT) exams and genealogy services.

Approach to performance reporting

Figure A3 sets out the performance measures reported by STL in its 2007 Annual Report.

From this list, STL nominated the following as its KPIs:

- revenue
- profit from continuing operations before tax
- operating result after tax
- percentage of wills where STL is nominated as executor
- number of statutory (VCAT) clients
- personal financial solutions (PFS) statutory client satisfaction
- number of staff.

Figure A3
State Trustees Limited publicly reported performance measures

Key performance indicator	2006/07 result	2005/06 result	Change
Our shareholder			
Commissions and fees	$35 824 000	$33 741 000	+6%
Community service obligation revenue	$9 851 000	$9 562 000	+3%
Revenue	$47 320 000	$44 790 000	+6%
Profit from continuing operations before tax	$3 829 000	$3 412 000	+12%
Operating result after tax	$2 521 000	$2 525 000	-0.2%
Total year's dividend	$2 269 000	$2 273 000	-0.2%
Property, plant and equipment assets	$19 216 000	$13 970 000	+38%
Shareholder equity	$38 778 000	$33 600 000	+15%
Our customers			
$ value of external financial planning funds under advice	$51 695 419	$32 857 229	+57%
$ value of revenue from external financial planning	$372 073	$164 328	+126%
Number of tax returns completed	6 177	6 004	+3%
% of wills where STL is nominated as executor	75%	69%	+9%
$ value of new estates for the year	$193 385 000	$210 193 000	-8%
$ value of trust funds under management	$268 200 000	$229 700 000	+17%
$ value of premium and common funds under management	$743 681 202	$688 606 240	+8%
Total assets under management	$1 498 000 000	$1 387 000 000	+8%
Total value of clients' properties sold this financial year	$95 645 251	$72 006 446	+33%
Number of property facilitation jobs completed	1 143	975	+17%
$ value of pro-bono legal work / litigation on clients' behalf	$114 987	$99 874	+15%
Number of heirs located via our genealogy service	1 848	1 065	+74%
Number of statutory (VCAT) clients	8 749	8 519	+5%
New clients by order of VCAT	1 113	1 146	-5%
PFS statutory client satisfaction	78%	75%	+5%
Total calls to the customer contact centre	225 629	202 515	+11%
Our people and community			
Number of staff	480	479	0%
Staff participation rate (customer care survey)	84%	58%	+45%
% of staff who have learning plans in place	97%	94%	+3%
$ value of grants	$40 000	$20 000	+100%
$ value of State Trustee Australia Foundation disbursements	$938 329	$416 595	+125%

Source: State Trustees Limited Annual Report, 2006–07, pp 4–5.

Relevance

Generally, the performance measures reported by STL correlate with its three objectives. The first eight performance measures in Figure A3 (our shareholder) are financial performance measures, which are relevant to the objective of maximizing STL's contribution to the economy and the state. More comprehensive measures could include commonly reported KPIs such as return on equity, and measures by product line.

The 'our customers' section of performance measures relate to the objectives of financial needs and efficient/prudent operations. However, they do not address all products and services provided. In addition, the number of employees is not a directly relevant measure for any objective and correlates weakly with efficient operations. A better measure could be average funds managed per employee.

Comparison with like bodies in other juridisdictions identified other potentially relevant measures:

- number of clients by service or product line as used by Public Trustees of Queensland (PTQ)
- cost of providing services and percentage of work completed within a target timeframe as used by PTQ
- customer satisfaction index as used by PTQ and Public Trustees NSW.

Appropriateness

There is no clear definition or description for most KPIs, why each is relevant, and how it is computed. In addition, none of their KPIs include any trend data, targets, or benchmarks.

Examples:

- Revenue, profit and operating results are taken directly from the audited financial statements, but this is not explained.
- Three KPIs (percentage of wills where STL is nominated as the executor, number of statutory (VCAT) clients, and PFS statutory client satisfaction) do not provide the source of the data.
- The number of staff KPI does not clarify whether it is nominal or full time equivalents.

Presentation

STL reports its scorecard as a table at the beginning of its annual report, which contains a number of performance measures, including its KPIs. As they are not reported separately, users will not be able to determine which are their KPIs.

In addition, the STL's annual report includes five years of trend data for six financial measures, indicating that these are important indicators. Their KPIs are not included with these measures, which may further confuse readers.

Treasury Corporation of Victoria

Background

The TCV is the government-owned, central financing authority and financial adviser for the State of Victoria, established under the *Treasury Corporation of Victoria Act 1992* (TCVA). It assists the government in managing the state's financing risks by centralising financing and providing financing advisory services. In accordance with section 31 of the TCVA, an agreed portion of TCV's surplus must be repaid to the state.

At 30 June 2007 the corporation had net assets of $148 million and interest-bearing debt totalling $12 700 million.

The statutory objectives of the TCV, established by the TCVA, are to:

- act as a financial institution for the benefit of the state and participating authorities
- enhance the financial position of the state, the corporation and participating authorities
- provide services in an effective, efficient and competitive manner.

The corporation's principal activities are:

- **Treasury client services**—financing advice and solutions to assist with deposit and loan facilities, managing interest and foreign exchange risk, and economic and Treasury advice
- **project/structured finance**—support in developing infrastructure financing proposals, including investment evaluation and finance, business planning, and advise under the Victorian Government's Partnerships Victoria policy.

Approach to performance reporting

TCV's Annual Report 2007 provides quantified performance data throughout, including:

- loans outstanding increased to $10.1 billion for 45 borrowing clients (2006: $9.3 billion for 34 borrowing clients)
- deposits decreased to $3.6 billion for 96 authorities (2006: $4.2 billion for 97 borrowing clients)
- participating authorities increased from 79 to 81
- Margin to Commonwealth bonds (for a ten year duration), compared to the New South Wales Treasury Corporation (NSWTC) and the Queensland Treasury Corporation (QTC)
- mix of TCV's debt
- Margin to Swap for the longest dated TCV domestic inscribed stock, compared to NSWTC and QTC
- total and source debt outstanding for ten years
- domestic inscribed stock outstandings by maturity date

- domestic inscribed stock turnover (DIST) as an indicator of market liquidity for TCV stock.

Relevance

The value of loans and deposits, the number of clients, and DIST are measures against TCV's objective of providing services and liquidity to the state and participating authorities.

Information presented in the financial summary, such as profit and dividends declared provide measures against the objective of enhancing the financial position of the state and the corporation. However, there are no measurable indicators to assess whether TCV has enhanced the position of clients, which may be provided by risk management or client satisfaction KPIs.

'Margin to Commonwealth' and 'TCV Margin to Swap' provide measures against the objective of operating in an effective, efficient and competitive manner.

TCV should also consider other possible relevant measures, such as:

- market share, as measured by the actual number of TCV clients to the potential number of clients for significant services used by RF and VFMC
- savings for customers as used by the QTC
- interest rate savings to clients as used by the Western Australian Treasury Corporation (WATC)
- administration ratio—measuring the percentage of net administration expense to average lending assets as used by WATC.

Appropriateness

The performance information in TCV's annual report was not accompanied by clear definitions or explanations, nor did it include formulas, key assumptions, or details of how data is obtained. In addition, it did not generally include targets or trend data for its key measures.

While performance targets are clearly established in its business plan, these targets do not flow through to its annual report. Consequently, explanations of variances are limited to shifts from prior year performance. Inclusion of targets and explanations relating to achievement of targets would add valuable context.

The KPIs on Margin to Commonwealth and TCV Margin to Swap include benchmarking against agencies in other jurisdictions.

Presentation

The TCV was not selected for a detailed review of the accuracy and reliability of its reported performance information. However, it is clear that its measures are readily quantifiable.

The TCV does not include a separate performance statement in its annual report, nor does it explicitly express, either in its statement of corporate intent (SCI) or it annual report, what its key performance indicators are.

There is inconsistency in the way that performance information is presented. Comprehension would be improved if for each indicator, the actual result was reported against a target and the prior year result.

Victorian Funds Management Corporation

Background

The VFMC provides fund management services to the state and public authorities that have been accepted under the *Victorian Funds Management Corporation Act 1994* (VFMCA). At 30 June 2007 the corporation had net assets of $7 million and funds under management in excess of $40 billion.

The statutory objectives of the VFMC, established by the VFMCA, are:

- to provide investment and funds management services to participating bodies and the state
- to provide its services in a commercially effective, efficient and competitive manner.

In accordance with section 27 of the VFMCA, the VFMC is required to pay a dividend to the state in an amount and at times agreed by the Treasurer and VFMC's board of directors.

The corporation's principal activities are:

- **funds management**—provide access to equity markets on a large scale to allow for economies of scale
- **financial services and advice**—assist agencies to model asset and liability requirements, and to propose strategies to ensure investments produce adequate returns given client risk profiles.

Approach to performance reporting

The VFMC identified key performance indicators under eight headings on pages 12 to 14 of its 2006–07 annual report:

- **coverage of client base**—14 clients with $41.3 billion funds under management
- **long-term investment performance and risk management**—actual and target returns by client (but actual data provided for the Victorian WorkCover Authority and Transport Accident Commission only)
- **peer group comparison**—three year return by asset class compared to the median return for a peer group of six comparable funds managers
- **client reporting**—turnaround times for accounting of 5–7 days and for investment performance reports of 10–12 days

- **expense ratio**—expense associated with fund management fees, master custody costs and VFMC services, expressed in terms of:
  - $12.9 million in fee aggregation 'benefits' (that is, savings)
  - 35 'basis points' to enable direct comparison with investment returns
- **profile**—achieving leading edge status in the industry
- **financial performance**—$518 868 pre-tax profit, representing a 7.6 per cent return on total equity
- **centre of excellence**—organisation restructured and strong progress achieved in recruiting investment professionals.

Relevance

The key performance indicators used by the VFMC relate strongly and directly to its objectives and services, with the exception of 'profile' and 'centre of investment excellence'. The last two indicators do not have any associated performance measures, and it is not clear which dimension of performance they seek to measure. At best they correlate weakly to quality of service.

Figure A4
Victorian Funds Management Corporation
FMC correlation of objectives to KPIs

Corporate objectives	Provide investment and funds management services to participating bodies and the State	Commercially effective, efficient and competitive manner
Key performance indicators		
Coverage of client base	●	
Long-term investment performance	●	●
Peer group comparison		●
Client reporting— turnaround time		●
Expense ratio		●
Financial performance		●
Profile		
Centre of Investment Excellence		

Source: Victorian Auditor-General's Office.

Appropriateness

The performance indicators used are generally well described and the basis of computation defined.

However, scope remains for reconsideration of the basis of measurement for some indicators. For example, expressing client coverage in relative terms rather than absolute numbers may provide more meaningful data. Expressing this measure as the percentage of all ‘possible’ clients, or measuring the proportion of clients who do not have to use the services of VFMC, would be more meaningful. Further, selective reporting of the ‘long-term investment performance’ of two clients only should be replaced with the weighted average differential between target and actual returns for all clients.

The VFMC generally also did not provide prior year comparative data or targets for its indicators. Nor did it provide trend data, apart from three and five year averages for two indicators. This meant that explanations of performance against most KPIs lacked this context—without this data no variances are reported or explained.

However, VFMC was the only public financial corporation to include external benchmark data on returns, against which to gauge performance. This can be attributed to its explicit objective of being commercially competitive.

Presentation

The VFMC does not produce a separate concise performance statement in its annual report.

Actual results reported by VFMC were traced to supporting systems and source data to establish whether they were able to be reliably measured, accurate and had been consistently calculated over time.

The VFMC’s quantified KPIs were found to be able to be reliably measured. However, a number of anomalous results were noted:

- long term investment performance
  - was expressed in nominal terms, whereas real rates of return are of more relevance to clients
- peer group comparison
  - the benchmark survey result used as a proxy of the market return was described as being a median result of six fund management consultants. The results were actually from one consultant only
  - VFMC used the returns of the Emergency Services and State Super (ESSS) as indicative of client returns, as it is one of the largest funds managed by VFMC. SSF returns may not be indicative of all funds
- client reporting
  - the turnaround time figures reported were planned figures from client service level agreements.

Appendix B. Analysis of insurance service agencies

Introduction

The three insurance agencies reviewed operate in different insurable risk categories. The Transport Accident Commission (TAC) is responsible for maintaining the transport accident scheme. The Victorian Managed Insurance Authority (VMIA) provides insurance for the state's assets and risk management advice to departments. The Victorian WorkCover Authority (VWA) is responsible for maintaining the workplace safety system.

While the TAC pays dividends to the state, currently at 50 per cent of profit, the VMIA and VWA operate schemes that are considered 'revenue neutral' in that any excess profit is to be offset against reduction in premiums. The following review on the insurance agencies is an assessment of their reported key performance indicators (KPIs) and not an assessment of each agency's actual performance.

Transport Accident Commission

Background

The TAC is government owned, established under the *Transport Accident Act 1986* (TAA) to manage Victoria's transport accident personal injury scheme. It funds treatment and services for people injured in transport accidents. In accordance with section 29B of the TAA, the TAC must pay a dividend to the state, currently set at 50 per cent of profit.

At 30 June 2007 the TAC had net assets of $1 422 million and outstanding claims totalling $5 874 million. Its investments stood at $7 719 million.

The statutory objectives of the TAC, established by the TAA, are to:

- to manage the transport accident compensation scheme as effectively, efficiently and economically as possible
- to ensure that appropriate compensation is delivered in the most socially and economically appropriate manner and as expeditiously as possible
- to ensure that the transport accident scheme emphasises accident prevention and effective rehabilitation

- to develop such internal management structures and procedures as will enable it to perform its functions and exercise its powers effectively, efficiently and economically
- to manage claims under the *Accident Compensation Act 1985* as an authorised agent of the Victorian WorkCover Authority as effectively, efficiently and economically as possible
- if appointed as an agent of a self-insurer under section 143A of the *Accident Compensation Act 1985*, to carry out the functions and powers of a self-insurer as effectively, efficiently and economically as possible.

The TAC's principal activities are:

- **delivering benefits**—pay the costs of medical treatment and non-medical services that people need to treat injuries sustained in transport accidents. TAC can also pay benefits including income, impairment and common law benefits
- **accident prevention**—TAC works with Victoria Police and VicRoads and develops campaigns to educate and change behaviour, in order to reduce the incidence of road trauma. Reducing transport accidents saves lives, reduces claims and impacts on the long-term viability of the transport accident scheme.

Approach to performance reporting

Review of TACs last annual report identified the following quantified performance data listed on page 4 as part of 'Highlights 06/07':

- $709 million in benefits paid to more than 39 000 recipients
- record client satisfaction score of 7.4 maintained
- $16.3 million funding for 24 approved neurotrauma initiative projects
- actuarial release of $118 million
- funding ratio of 115.3 per cent
- investment return of 13.8 per cent
- impact on profit from internal factors of $380 million
- after tax profit of $691 million.

On pages 25, 26 and 27 of the annual report the following further details relevant to performance are provided:

- a 'target funding ratio' of 110 per cent was set, mid-way between 100 per cent and 120 per cent
- the scheme has an 'appropriate' level of reinsurance cover
- the current year after tax profit of $691 million was up from $604 million in 2005–06
- investment return of 13.8 per cent compared to 14.1 per cent in the previous year
- rolling ten year real investment return of 6.3 per cent was above the targeted real return of 5 per cent per annum
- actuarial release—or write-down of projected liabilities—was $118 million
- dividend of $302 million was paid
- transport accident charges for motorists increased in line with CPI (2.68 per cent)
- 132 formal complaints were received during the year

- 448 requests for informal review of TAC decisions lodged, a reduction of 14 per cent from 519 in 2005–06
- 72 clients sought further review at VCAT, a reduction of 23 per cent from 93 in 2005–06
- 729 applications lodged with TAC under the ‘No Fault Dispute Resolution Protocols’ compared to 339 last year
- 563 merit reviews were lodged at VCAT compared to 529 last year
- 716 common law claims were resolved during 2006–07, 3 per cent more than the 694 in 2005–06
- five formal complaints were received under the model litigant guidelines
- 20 letters of caution were issued for breaches of the TAA relating to fraud and false information and three prosecutions were finalised.

On page 38 of the annual report, performance information is provided related to road safety:

- annual road toll of 336, half of the road toll compared to 1987
- acute hospitalised claim rate of 7.6 per 10 000 vehicles compared to 8.2 in the previous year
- accepted no-fault claim rate was 42.2 per 10 000 vehicles, down from 45.7 in 2005–06.

Relevance

The TAC nominated its investment return, actuarial release and funding ratio as its ‘key performance indicators’.

The investment return and actuarial release bear directly on the statutory objective of managing the transport accident compensation scheme as effectively, efficiently and economically as possible. The funding ratio is a prudential limit established to ensure that sufficient funds are obtained from premiums and investment returns to meet future liabilities. To this extent it relates indirectly to the cost of compensation.

The other performance information included in the TAC annual report relates to most of its other corporate objectives, and to the services it provides. For example, the client satisfaction score and customer complaints data are indicators of ‘appropriate compensation delivered in the most socially and economically appropriate manner and as expeditiously as possible’. However, the nexus between these measures and the objective is indirect. There remains scope for more direct measures for these two objectives. There is also no clear indicator relating to the ‘effective rehabilitation scheme’ objective.

Appropriateness

The TAC does not provide users with clear descriptions or explanations of its performance measures; how each is computed, or why each is important. For example, the funding ratio is a measure of the scheme viability, but there is no explanation of the composition of this KPI. Nor is there a clear rationale for why 110 per cent was chosen as the target, or why a target range of 100 per cent to 120 per cent is relevant to this measure.

With the exception of the funding ratio and investment return measures, no other targets or expected results are clearly articulated. Further the variances between the two measures with targets and the actual results are not explained.

Prior year comparative data is provided for almost all measures. However, apart from the ‘rolling 10-year real investment return’, no other trend data is provided.

Presentation

The TAC was not selected for a detailed review of the accuracy and reliability of its reported performance information. However, it is clear that its measures are readily quantifiable. It has also maintained continuity of the reported performance information from previous years.

The TAC does not include a separate performance statement in its annual report, nor does it explicitly express, either in its statement of corporate intent (SCI) or it annual report, what its key performance indicators are.

There is inconsistency in the way that performance information is presented. Comprehension would be improved if for each indicator, the actual result was reported against a target and the prior year result.

Victorian Managed Insurance Authority

Background

The VMIA is a statutory authority that provides insurance for state assets. It was established under the *Victorian Managed Insurance Authority Act 1996* (VMIAA). In accordance with section 27(3) of the VMIAA, the accumulated surplus of the Authority is repayable as a rebate on premiums to departments and other participating bodies.

At 30 June 2007 the net assets of the VMIA were $313 million and outstanding claims totalled $673 million. Its investments stood at $934 million.

The objectives of the VMIA are to:

- **alert**—deliver risk management advice to government
- **prevent**—deliver operational risk review, advice and support to clients
- **protect—**tailor appropriate insurance products and services

- **enable—**ensure clients' needs are understood and build internal capability to provide superior customer service.

The VMIA's principal activities are to:

- assist clients to establish programs to enable the identification, quantification and management of risk
- monitor risk management of clients
- act as insurer and provide insurance services to government clients
- provide indemnities to current or former officers of state companies or statutory authorities against liabilities
- provide risk management advice to the state and risk management advice and training to government departments and participating agencies

Approach to performance reporting

Review of VMIAs last annual report identified the following quantified performance data listed on page 4 as part of 'Highlights':

- Risk management:
  - $1 million co-funded projects
- Claims/insurance
  - 17 per cent premium reduction for the vast majority of clients
  - $69.6 million in gross claims paid
  - $5 billion additional insurance coverage of state regional rail infrastructure
- Financial
  - $40.2 million favourable performance from insurance operations
  - $113.6 million operating surplus
  - 134 per cent solvency
  - 13.7 per cent investment return
  - 44 per cent return on equity
  - $132 million estimated savings to government over the next four years
- People
  - net staff increase of 18 to build internal capability
  - established a benchmark for staff satisfaction
- Clients
  - 15 per cent increase in client satisfaction in risk management services and products.

Relevance

The VMIA's publicly reported KPIs relate to all of its key statutory objectives. However, the emphasis is clearly on the financial performance of the insurance scheme—that is, the 'protect' objective. The 'claims' and 'financial' indicators used have a strong logical nexus with this objective.

Indicators for the objective to 'enable'—client satisfaction and staff numbers—while relevant, are less direct measures. Staff numbers per se, provide information more about capacity rather than capability. Capability can be better measured using quality metrics such as the percentage of staff with professional accreditation in insurance and risk management, or by measuring staff turnover or staff satisfaction.

Other measures relevant to the objective to 'enable' include the ratio of outstanding claims to claims administered, and claims processing times.

The statutory objective that does not have a direct publicly reported KPI is 'delivering risk management advice to government'.

Appropriateness

The VMIA exhibits some best practices with regard to appropriateness. It generally provides a clear description of each KPI. It also provides comparative and trend data for most of its KPIs.

However, with the exception of the 'operating result' and 'solvency' indicators it does not provide targets, and therefore its explanations of performance lack consideration of this dimension. For example, 'performance from insurance operations' includes the explanation that it is 'close to target', but the target is not included.

It also does not always clearly define how a measure is calculated. For example, for the 'annual premium reduction' of 17 per cent it is not clear whether this is a cumulative reduction from a base year, or the reduction in premium from the prior year. It is also not clear whether this is the average reduction in premiums, or an across-the-board reduction that each affected client received.

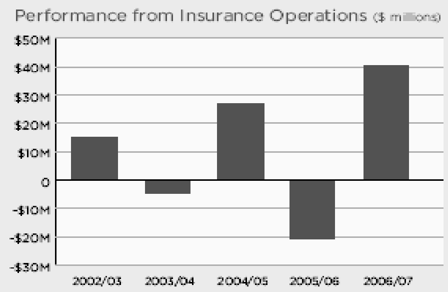
Presentation

The VMIA was not selected for a detailed review of the accuracy and reliability of its reported performance information. However, it is clear that its measures are readily quantifiable. Notable is that it has not maintained continuity of the reported performance information from previous years. The VMIA advises that it expects to obtain continuity of their KPIs from the 2008 financial year onwards.

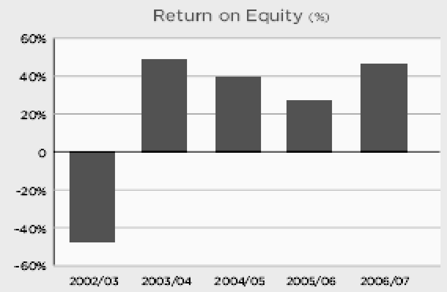
The VMIA does not include a separate performance statement in its annual report, nor does it explicitly express what its key performance indicators are.

It does present its performance information consistently and uses graphical representation to aid comprehension. Figure B1, an extract from VMIA's annual report for 2006–07, demonstrates this better practice approach.

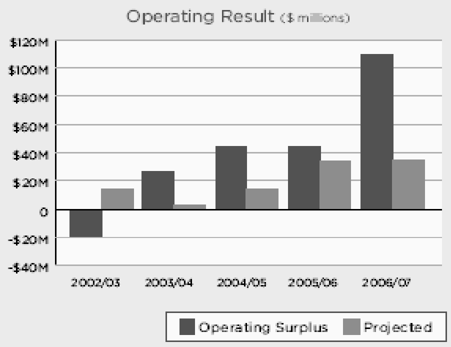
Figure B1
Victorian Managed Insurance Authority publicly reported key performance indicators



Performance is close to target, with some large claims for losses from bushfires and floods offset by improved expectations in medical indemnity claims. The negative result in 2005/06 was due to a review of the runoff program in 2005/06, which increased in the estimate of potential asbestos claims and the period over which the claims would be reported.

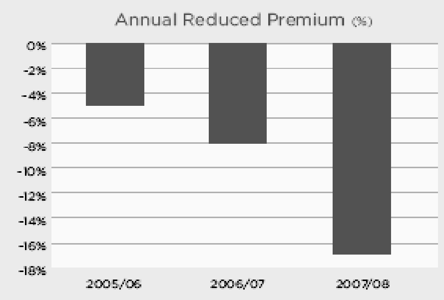


Strong investment returns together with a sound operating performance delivered a Return on Equity of 44%.

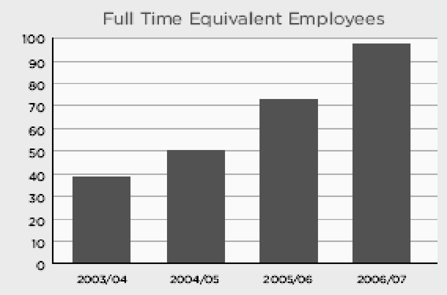


The operating surplus is due to strong investment returns of 13.7% compared to budget of 7.5%, and lower claims expenses due to an actuarial release in the medical indemnity portfolio predominantly for claims below $0.6 million.

Client satisfaction increased by 15% in the area of risk management during a period of significant change. The measure for insurance services was maintained at high levels.



A solid financial position through strong underwriting performance and robust investment returns has resulted in ongoing premium savings and rebates to clients. The VMIA's objective is to continue to provide value for money premiums to our clients.



The increase in full time equivalent employees reflects the building of our internal capability and recruiting skilled staff to meet client needs and policy initiatives driven by Government and the Victorian Auditor-General's Office.

Source: VMIA Annual Report 2006–07, page 5.

Victorian WorkCover Authority

Background

The VWA is a statutory authority that manages Victoria's workplace safety system. The VWA was established under the *Accident Compensation Act 1985* (the AC Act). The VWA is responsible for operating a fully funded scheme and does not pay dividends to the government.

The statutory obligations of the VWA are detailed in several Acts of Parliament including:

- *Occupational Health & Safety Act 2004*
- *Accident Compensation (WorkCover Insurance) Act 1993*
- *Dangerous Goods Act 1995*
- *Road Transport Reform (Dangerous Goods) Act 1995*
- *Equipment (Public Safety) Act 1994.*

At 30 June 2007 the net assets of the VWA were $2 655 million and outstanding claims totalled $1 458 million. Its investments stood at $10 806 million.

The objectives of the VWA are to:

- manage the accident compensation scheme as effectively and efficiently and economically as is possible
- administer the relevant Acts
- assist employers and workers in achieving healthy and safe working environments
- promote the effective occupational rehabilitation of injured workers and their early return to work
- encourage the provision of suitable employment opportunities to workers who have been injured
- ensure that appropriate compensation is paid to injured workers in the most socially and economically appropriate manner and as expeditiously as possible
- develop such internal management structures and procedures as will enable the VWA to perform its functions and exercise its powers effectively, efficiently and economically.

The responsibilities of the VWA are to:

- help avoid workplace injuries occurring
- enforce Victoria's occupational health and safety laws
- provide reasonably priced workplace injury insurance for employers
- help injured workers back into the workforce
- manage the workers' compensation scheme by ensuring the prompt delivery of appropriate services and adopting prudent financial practices.

Approach to performance reporting

The VWA includes over 60 performance indicators in its business plan and in its annual report. Figure B2 sets out the ‘key performance measures’ included in the appendices to its current business plan.

Figure B2
Victorian WorkCover Authority key performance measures

Key performance measures

Indicator	2006/07 result	2006/07 target		2007/08 target	
Safety					
Standard claims per 1,000 workers employed	11.32	11.13	(8.7% ↓)	10.58	(6.5%↓)
Claims with >4 weeks compensation per 1,000 workers	4.47	4.90	(3% ↓)	4.18	(6.5%↓)
Hospital admissions (2 days+) per 10,000 workers	7.22	7.34	(4%↓)	6.75	(6.5%↓)
Service					
Client service measure	82.5%	82.5%*	(1.8%↑)	83.8%	(1.5%↑)
Employer satisfaction with advice and guidance	8.21	8.27	(2% ↑)	8.33	(1.5%↑)
Employer & HSR satisfaction with support from WorkSafe	8.01	8.21	(2% ↑)	8.13	(1.5%↑)
Employer & HSR satisfaction with inspectorate	7.43	7.53	(3% ↑)	7.62	(2.5%↑)
Employer satisfaction with agents (% satisfied)	82.3%	83.5%	(Steady)	83.6%	(1.6%↑)
Injured worker satisfaction with agents (% satisfied)	68.6%	72.1%	(5%↑)	73.5%	(7.1%↑)
At work 14-19 months after injury reported (sustained RTW %)	75.8%	77.0%	(2% ↑)	76.9%	(1.5%↑)
Agent employee turnover (claims related) †	20.9%	16.6%	(10% ↓)	19.9%	(5%↓)
Enrolments in tertiary & vocational personal injury management courses	95	90		110	
Sustainability					
Performance From Insurance Operations (PFIO)	$729m	$465m		$536m	
Actuarial release	$394m	$200m		$200m	
Breakeven premium	1.45%**	1.48%**	(3%↓)	1.34%	(7.6%↓)
Operating expenses ††	$196m	$202m		$218m	
Billed premium collected	$1.64b	$1.63b		$1.54b	
Employee Opinion Survey index †††	59%	60%	(3.4%↑)	66%	(3.1%↑)

Source: Details published in VWA Business Plan 2007–08, page 28, located on the VWA website at http://www.workcover.vic.gov.au.

Relevance

The indicators above that are explicitly stated to be 'key performance measures' of VWA all relate clearly and directly to its objectives. The key performance measures do not, however, contemplate all objectives.

The VWA business plan and annual report contain additional performance indicators that are able to be related to all of its objectives. For example, the VWA has three enforcement indicators that relate to the objective of administering the AC Act and other legislation. These indicators are:

- investigations conversion rate (percentage)
- investigations to charges in 12 months (percentage)
- successful prosecutions (percentage).

In this respect the VWA exhibits best practice by providing a comprehensive suite of directly relevant performance information addressing all of its statutory objectives.

Appropriateness

The VWA exhibits best practice against most evaluation criteria for appropriateness.

It provides very clear definitions and extensive explanations of its KPIs in the glossary to its business plan. Formulas, key assumptions and exceptions, and information about how data is obtained, are generally well articulated. It would be appropriate to include a shortened version of the glossary in the annual report.

It consistently provides comparative prior year data for all its measures. It also provides trend data for some of its key measures. However, it could be more consistent in this respect by providing trend data for all key measures.

While performance targets are clearly established in its business plan, these targets do not flow through to its annual report. Consequently, explanations of variances are limited to shifts from prior year performance. Inclusion of targets and explanations relating to achievement of targets would add valuable context.

Presentation

The VWA does not mirror the concise performance statement from its business plan in its annual report. Instead it provides the performance data in context throughout its report on operations.

This means that performance data is not always represented consistently, and also that it is not easy to discern 'key performance data'.

The VWA places a significant emphasis on planning and development of performance indicators. This resulted in some changes to performance indicators from previous years. However, where new indicators were introduced, or the basis of calculation changed, this was clearly highlighted in the business plan.

The actual results reported by the VWA in its annual report were verified by tracing to supporting systems and source data. This confirmed that the KPIs generally are reliably measured, accurate and had been consistently calculated over time.

Only two exceptions were noted:

- ***'At work 14–19 months after injury reported (sustained RTW %)'—***this KPI is measured based on a survey. The response rate to the survey was 56.3 per cent. It would be appropriate to provide the sampling error for such measures.
- ***Client service measure—***this is defined as the weighted average of the percentage of workers and employers satisfied with VWA's performance, taken from five component surveys. Only two of the survey results, instead of the weighted average of the five survey results, are disclosed in the annual report.

RESPONSE Provided by the Chief Executive, Victorian WorkCover Authority

WorkSafe welcomes the VAGO review that states that WorkSafe exhibits best practice in relation to, relevance and appropriateness of publicly released information on our performance. WorkSafe will address the two exceptions noted as part of our annual review of KPIs and reporting.

Auditor-General's reports

Reports tabled during 2007-08

Report title	Date tabled
Program for Students with Disabilities: Program Accountability (2007-08:1)	September 2007
Improving our Schools: Monitoring and Support (2007-08:2)	October 2007
Management of Specific Purpose Funds by Public Health Services (2007-08:3)	October 2007
New Ticketing System Tender (2007-08:4)	October 2007
Public Sector Procurement: Turning Principles into Practice (2007-08:5)	October 2007
Discovering Bendigo Project (2007-08:6)	November 2007
Audits of 2 Major Partnership Victoria Projects (2007-08:7)	November 2007
Parliamentary Appropriations: Output Measures (2007-08:8)	November 2007
Auditor General's Report on the Annual Financial Report of the State of Victoria, 2006-07 (2007-08:9)	November 2007
Funding and Delivery of Two Freeway Upgrade Projects (2007-08:10)	December 2007
Results of Financial Statement Audits for Agencies with 30 June 2007 Balance Dates (2007-08:11)	December 2007
Local Government: Results of the 2006-07 Audits (2007-08:12)	February 2008
Agricultural Research Investment, Monitoring and Review (2007-08:13)	February 2008
Accommodation for People with a Disability (2007-08:14)	March 2008
Records Management in the Victorian Public Sector (2007-08:15)	March 2008
Planning for Water Infrastructure in Victoria (2007-08:16)	April 2008
Delivering Health*SMART*—Victoria's whole-of-health ICT strategy (2007-08:17)	April 2008
Victoria's Planning Framework for Land Use and Development (2007-08:18)	May 2008
Planning Permit Application: Assessment Checklist (2007-08:19)	May 2008
Planning Scheme Amendment: Assessment Checklist (2007-08:20)	May 2008
Patient Safety in Public Hospitals (2007-08:21)	May 2008
Project Rosetta (2007-08:22)	May 2008
Results of Audits for Entities with other than 30 June 2007 Balance Dates (2007-08:23)	May 2008
Review of South East Water's Works Alliance Agreement (2007-08:24)	May 2008
Piping the System (2007-08:25)	May 2008
Implementation of the Criminal Justice Enhancement Program (2007-08:26)	June 2008
Performance Reporting in Local Government (2007-08:27)	June 2008

Report title	Date tabled
Services to Young Offenders (2007-08:28)	June 2008
Local Government Performance Reporting: Turning Principles into Practice (2007-08:29)	June 2008

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VAGO

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