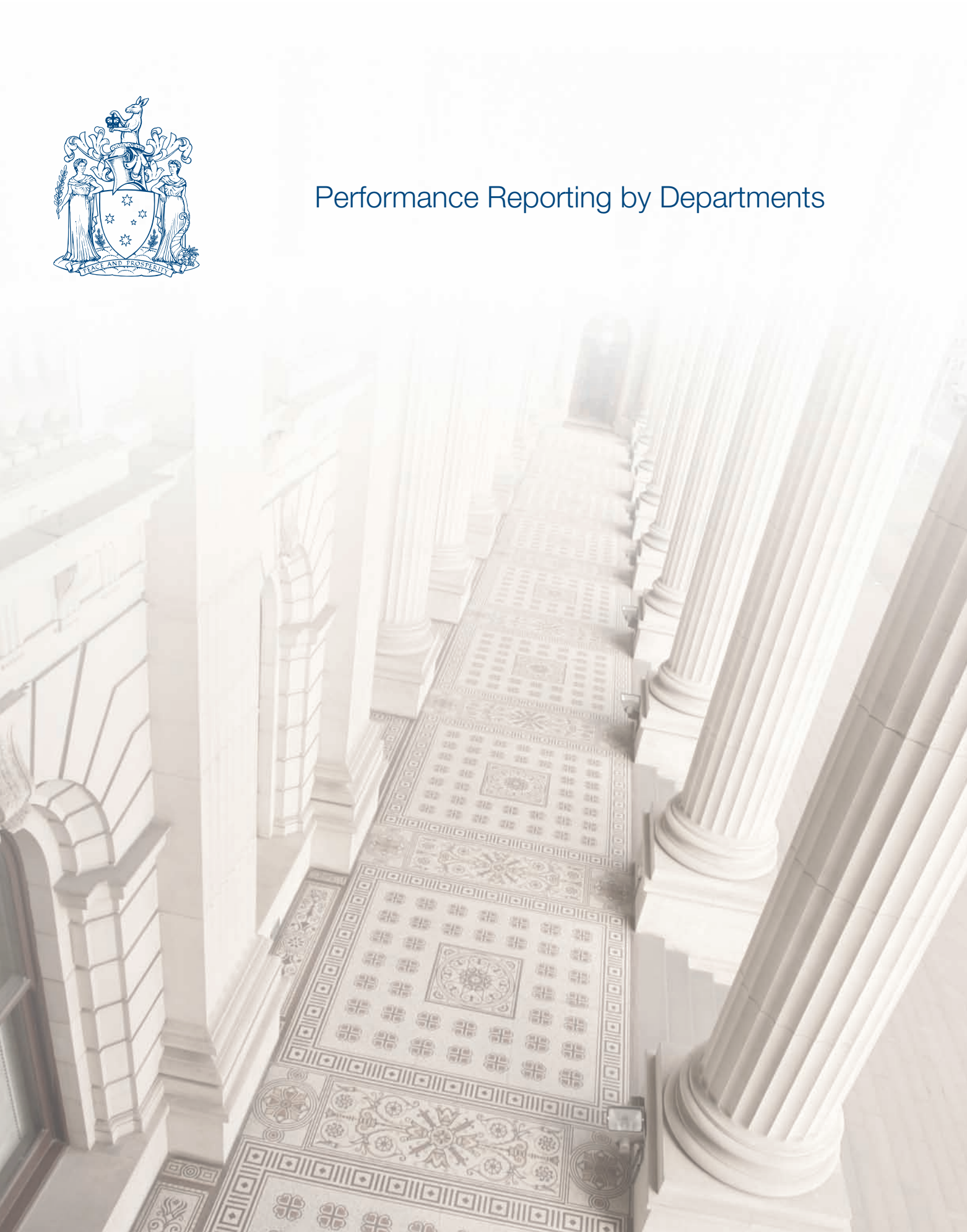


Performance Reporting by Departments



VICTORIA

Victorian
Auditor-General

Performance Reporting by Departments

Ordered to be printed

VICTORIAN
GOVERNMENT PRINTER
May 2010



This report has been produced to ISO14001 environmental standards. It is printed on FSC credited Novatech Satin & Media Print Silk paper. The print supplier, Blue Star PRINT has initiated an EMS promoting minimisation of environmental impact through the deployment of efficient technology, rigorous quality management procedures and a philosophy of reduce, re-use and recycle.

VAGO

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 performance report on *Performance Reporting by Departments*.

Yours faithfully



D D R PEARSON
Auditor-General

5 May 2010

Contents

Audit summary.....	vii
Conclusions	vii
Findings	viii
Recommendations.....	ix
<i>Audit Act 1994</i> section 16—submissions and comments.....	xi
Introduction	xi
Submissions and comments received	xi
Further comment by the Auditor-General	xv
1. Background	1
1.1 Introduction.....	1
1.2 Victoria’s performance reporting framework.....	3
1.3 The role of the Auditor-General.....	4
1.4 Future developments in performance reporting.....	5
1.5 Audit conduct	6
1.6 Structure of the report.....	7
2. The performance reporting framework.....	9
2.1 Introduction.....	10
2.2 Conclusion.....	10
2.3 Current status of the framework.....	10
2.4 Better practice frameworks	13
3. Departmental performance reporting	17
3.1 Introduction.....	18
3.2 Conclusion.....	18
3.3 Developing and using performance indicators	18
3.4 Corporate planning	24
3.5. Annual reporting	27
4. The role of central agencies	29
4.1 Introduction	30
4.2 Conclusion	30
4.3. Department of Premier and Cabinet	30
4.4 Department of Treasury and Finance	31

Appendix A. Case study: New Zealand	33
Appendix B. Case study: Canada	35
Appendix C. Better practice comparisons	37

Audit summary

This audit examined the performance of departments in the development and reporting of performance indicators on the achievement of the departments' objectives, particularly the outcomes and impacts of the departments' programs and services.

Section 45 of the *Financial Management Act 1994* (the Act) is the legislative basis for performance reporting. It requires departments to prepare annual reports on operations and audited financial statements; and to submit them to the relevant Ministers for tabling in Parliament.

The *Standing Directions of the Minister for Finance* require departments to develop outcome performance indicators for their objectives. There is, however, no corresponding obligation to report or make public the results of these indicators.

It is acknowledged that developing performance indicators is a difficult and challenging task, particularly for central agencies where outcomes are less tangible and are complicated by difficulties in measuring aggregate whole of government outcomes. Nevertheless, the experience of other jurisdictions demonstrates that developing a sound performance reporting regime is achievable.

The objectives of the audit were to assess the adequacy of the current departmental performance reporting regime having regard to the relevance, appropriateness and fair representation of performance indicators, including the extent to which these indicators are used by departments in decision making processes.

Conclusions

There is a considerable gap between Victoria and the acknowledged better practice jurisdictions of New Zealand, Canada, United Kingdom and Western Australia in reporting the extent of achievement of intended departmental objectives and the contribution to government desired outcomes. Despite the progress in other jurisdictions, the focus of performance reporting in Victoria has largely remained on output performance measures.

Overall, there is a lack of effective outcomes performance reporting across the departments, and the standard of reporting varies considerably. Only a few departments were able to demonstrate the extent to which objectives had been met. While departments are responsible for improving the standard of performance reporting, stronger central agency leadership is needed to drive the reporting standard to minimum satisfactory levels.

While other jurisdictions have made considerable advances in outcomes performance reporting over the last decade, Victoria has made little demonstrable on the ground progress.

Findings

The Department of Treasury and Finance (DTF) and the Department of Premier and Cabinet (DPC) commenced implementing the *Victorian Government Performance Management and Reporting Framework* (the Framework) in 1999. The Framework aims to provide adequate internal and external accountability for departmental performance. Since 2003, work by the DTF and DPC on the Framework has not progressed.

In the 2001 (*Departmental Performance Management and Reporting*) and 2003 (*Performance Management and Reporting*) parliamentary reports, this Office found that performance indicators at the departmental level remained a gap in the framework. This audit not only confirms that the gap remains, but the extent of reporting has actually declined since the 2003 audit. From 2004–05, disclosure of departmental objectives in the budget papers was discontinued.

The requirements for performance reporting maintained by the Department of Treasury and Finance are not consolidated for departmental access and use. There is a high level of non-compliance with the mandatory requirements under the *Standing Directions of the Minister for Finance* to develop departmental performance indicators.

In addition to non-compliance with the mandatory requirements, there is considerable variation in the standard of outcome performance indicators across departments.

Of the 322 departmental performance indicators reviewed across the 10 departments 152, or nearly half, were relevant. Of those indicators that were relevant, 95 provided appropriate information such as trend or comparative data. This meant that around 30 per cent of the 322 indicators were relevant and appropriate.

Six departments had no or a limited number of departmental indicators that were relevant to the achievement of their objectives. These departments represented nearly half of the state's allocated funding for the general government sector in 2007–08 and 2008–09 years examined. While it is important to note that this funding can be accounted for in a stewardship sense, the effective use of this funding, equating to around \$31 billion over the two years, has not been demonstrated.

Better guidance material needs to be made available to departments to facilitate a consistent approach in the development of performance indicators that not only meet the mandatory requirements but also provide relevant and appropriate outcome performance information.

Specifically, our assessment of departmental performance indicators shows that:

- The Departments of Transport, Innovation Industry and Regional Development, Education and Early Childhood Development and Justice had made considerable progress in developing relevant performance indicators. The first two being the only departments with a high proportion of both relevant and appropriate indicators.

- The Departments of Primary Industries and Human Services have begun to develop performance indicators and outcomes reporting frameworks.
- DPC, the Departments of Planning and Community Development (DPCD), Sustainability and Environment (DSE) and DTF require considerable work to progress the development of their performance indicators.

Of these four departments, DPC and DPCD do not have performance indicators to measure the extent to which departmental objectives are being achieved. DTF and DSE performance indicators relate primarily to relevant high level *Growing Victoria Together* outcomes rather than reflecting outcomes that related to departmental objectives.

Four out of ten departments set out the intended impact of their activities by including performance indicators in their corporate plans. In terms of annual reporting, five departments provided similar details on a limited number of indicators.

Finally, progress reporting on achieving *Growing Victoria Together* outcomes requires further development to:

- expand reporting across a wider range of departments
- update targets that are no longer relevant
- identify actions that need to be undertaken to address any likely shortfalls against performance targets.

Recommendations

Number	Recommendation	Page
1.	The Department of Treasury and Finance should: <ul style="list-style-type: none"> • establish a performance reporting framework linking departmental performance to the government's strategic outcomes and goals • embed this framework, particularly the reporting of outcomes performance information, into the management cycle covering planning, budgeting, management and accountability processes. 	16
2.	In relation to the development of performance indicators: <ul style="list-style-type: none"> • Departments of Sustainability and Environment and Treasury and Finance should continue to develop performance indicators for all their departmental objectives • Departments of Premier and Cabinet and Planning and Community Development should develop performance indicators to underpin departmental objectives. 	28

Recommendations – continued

Number	Recommendation	Page
3.	In relation to their corporate plans: <ul style="list-style-type: none"> Departments of Premier and Cabinet, Primary Industries, Sustainability and Environment, Planning and Community Development and Treasury and Finance should link departmental objectives and activities to government outcomes Departments of Human Services/Health, Premier and Cabinet, Primary Industries, Sustainability and Environment, Planning and Community Development and Treasury and Finance should include performance indicators and targets underpinning the objectives specified. 	28
4.	In relation to their annual reports: <ul style="list-style-type: none"> Departments of Premier and Cabinet, Primary Industries, Sustainability and Environment and Treasury and Finance should link departmental objectives to government outcomes all departments should include results against performance indicators in the annual reports. 	28
5.	The Department of Premier and Cabinet should improve progress reporting on achieving <i>Growing Victoria Together</i> government outcomes by: <ul style="list-style-type: none"> seeking contributions from all departments in the preparation of progress reports identifying actions to address shortfalls in meeting targets updating and revising progress measures as required. 	32
6.	The Department of Treasury and Finance should: <ul style="list-style-type: none"> review and consolidate existing guidance material for clarity and ease of access alert departments to the need for increased compliance with the <i>Standing Directions of the Minister for Finance</i> under the <i>Financial Management Act 1994</i> and business rules contained in <i>Budget and Financial Management Guidance</i> statements monitor and report on its effectiveness in assisting departments to consistently implement reporting reforms. 	32

Audit Act 1994 section 16— submissions and comments

Introduction

In accordance with section 16(3) of the *Audit Act 1994* a copy of this report, or relevant extracts from the report, was provided to the Department of Premier and Cabinet, the Department of Treasury and Finance, the Department of Education and Early Childhood Development, the Department of Health, the Department of Human Services, the Department of Innovation, Industry and Regional Development, the Department of Justice, the Department of Planning and Community Development, the Department of Primary Industries, the Department of Sustainability and Environment, and the Department of Transport with a request for comments or submissions.

The comments and submissions provided are not subject to audit nor the evidentiary standards required to reach an audit conclusion. Responsibility for the accuracy, fairness and balance of those comments rests solely with the agency head.

Submissions and comments received

RESPONSE provided by the Secretaries of the Departments of Premier and Cabinet and Treasury and Finance on behalf of all Victorian Departments

The Departments of Treasury and Finance (DTF) and Premier and Cabinet (DPC) note that in large part the report's recommendations restate the work that has already been undertaken and the directions already endorsed for implementation through the Government's Public Finance and Accountability reforms presently before Parliament.

Extensive work has been undertaken to develop the legislation and associated frameworks underpinning the Government's Public Finance and Accountability Bill (PFAB). The legislation, and the associated directions and guidance aim to strengthen public sector accountability to Parliament and the public. A central feature of the reforms is the proposed strengthened performance reporting arrangements.

RESPONSE provided by the Secretaries of the Departments of Premier and Cabinet and Treasury and Finance on behalf of all Victorian Departments – continued

We note that the scope of this audit is narrow, focussing on the performance of departments in the development and reporting of performance indicators in the achievement of departmental objectives. We consider development and use of performance indicators to measure performance against departmental objectives to be only one component of a much broader framework of performance monitoring and accountability within the Victorian public sector. We also believe that the audit's focus on monitoring of outcomes without recognising the crucial role that outputs play as a control mechanism to achieve whole-of-government outcomes is flawed. Accordingly, it is important to note that the key role of departments is to deliver the Government's strategy (the output mix) in contributing to the achievement of whole-of-government outcomes.

The narrow lens through which performance monitoring is viewed in the report has also led to bias in the findings drawn. For example, the report presents a claim that: '...the effective use of...around \$31 billion over the two years, has not been demonstrated'. While the audit report makes reference to appropriate 'stewardship' of this funding, we believe this assessment does not appropriately take into account other internal and external accountability mechanisms to manage and monitor departmental expenditure.

We consider accountability for expenditure to be of the utmost importance and highlight regular Government reporting in the Budget Papers against Growing Victoria Together outcomes (see below), the publication of narrative information in departmental and portfolio reporting, and Public Accounts and Estimates Committee processes that hold Ministers to account for their departmental activities and expenditures as evidence of this.

In addition, the Victorian Government monitors departmental service delivery through: the certification of revenue; extensive output performance reporting in the Budget papers; the Expenditure Review Committee (ERC) process; and Secretaries' performance plans and assessments, all of which inform frank and appropriate discussions surrounding departmental performance. To suggest (in section 4.3) that because ERC and Secretaries' performance plans are not public processes 'Parliament and the wider community [are] without a basis to assess performance', ignores the considerable information that is publicly available.

Indeed, the PFAB reforms will build on this strong record of accountability, and will more closely link expenditure to the achievement of outcomes.

RESPONSE provided by the Secretaries of the Departments of Premier and Cabinet and Treasury and Finance on behalf of all Victorian Departments – continued

We also wish to reiterate comments made by our departments in the 2003 VAGO audit of performance management and reporting, that Growing Victoria Together (GVT) is a different outcome model to that used by VAGO. GVT is intended to guide agencies' strategic planning to ensure broad alignment between the delivery of outputs and the government's policy priorities. In addition, to ensure robust trend reporting, changes were only made to the GVT performance measures and targets during the 'refresh' in 2005. Incrementally changing targets would undermine the purpose of long-term outcome performance reporting.

Section 2.4 of the report (including figure 2C) compares performance reporting in Victoria against reporting in other jurisdictions and the Auditor-General's own set of better practice criteria.

Based on the considerable research undertaken in developing the PFAB reforms, we believe the criteria presented are incomplete and overlook several important and valid performance reporting criteria against which the Victorian public sector would perform well (for example, criteria around output planning and reporting, and reporting on the achievement of whole-of-government outcomes).

Furthermore, we disagree with several of the negative assessments of Victoria's performance against the VAGO criteria. We are of the firm view that we clearly satisfy many of the stated criteria, including, but not limited to, the following:

- Outcomes/results performance informs strategic planning at whole-of-government level.
- Desired outcomes/results and past performance transparently inform government-wide resources allocation decisions.
- Desired outcomes/results and targets included in budget papers.

When comparing jurisdictions (Figures 2C and C1 in the audit report), we consider it is important to draw a distinction between the 'adoption' of a framework and the 'implementation' of that framework. This is underscored by the OECD finding that in most OECD countries [a]lthough legislation on performance budgeting has been enacted, actual practice and behaviour have not been altered. Inertia has dominated, with less than full implementation and/or a lack of incentive to change behaviour.¹ It is not clear that Figures 2C and C1 in the audit report accurately capture this distinction between policy and practice.

¹ P.68 Performance Budgeting in OECD Countries, 2007 OECD

RESPONSE provided by the Secretaries of the Departments of Premier and Cabinet and Treasury and Finance on behalf of all Victorian Departments – continued

While we concur that there is further work to be done in identifying appropriate performance indicators in Victoria, much of this is already scheduled to occur with the passage of the new legislation and implementation of the reforms. However, it is worth highlighting that PAEC identified from its visits to the various overseas jurisdictions that every jurisdiction struggled with the notion of identifying appropriate performance indicators.²

The inclusion of further detail and analysis of practice in other jurisdictions in the report would more fairly represent the Victorian public sector's performance and provide better practice examples from which departments could improve their performance indicators.

As a final comment, we note that performance monitoring is undertaken to drive the achievement of government outcomes. As such, an important context for assessing the effectiveness of performance monitoring is identifying whether or not outcomes are being achieved. Independent reports, such as the Productivity Commission's Report on Government Services, suggest that Victoria is achieving efficiency and effectiveness in service delivery relative to other jurisdictions. This broader context for performance monitoring is largely absent from this audit report.

Recommendations and departmental responses

We note the broad directions of the report's recommendations, as they reflect the Government's endorsed Public Finance and Accountability reforms.

Specific departmental responses to the report are in the main positive and supportive of the issues raised in the letter.

² P.60 'New Directions in Accountability', 85th Report to Parliament, June 2009, Public Accounts and Estimates Committee

Further comment by the Auditor-General

It is pleasing that the response both acknowledges the need to strengthen performance reporting arrangements and identifies that the PFAB reforms will more closely link expenditure to the achievement of outcomes. Both matters address the conclusion and findings of this report and its major recommendations.

Notwithstanding their acceptance, the response raises issues of bias, lack of fairness, and questions the validity of audit findings and recommendations. This requires further comment.

As the report notes, the focus of the audit is clearly on performance reporting by departments, and particularly their development and use of performance indicators. At the inception of this audit its scope and objectives were discussed with the Departments of Treasury and Finance and Premier and Cabinet. During consultation DTF requested only that we clarify in the background to the audit, the difference between outcome performance indicators, which were in scope, and output performance measures, which were not in scope. DPC raised no issues. For the response now to suggest at the conclusion of the audit, that its focus is flawed, is difficult to reconcile with these earlier comments.

Having set the audit objectives and scope, it is not appropriate to opine on matters that were not examined during the audit. The 'broader framework of performance monitoring and accountability' was not examined. However, the statement that the report does not recognise the other framework elements and particularly the role of outputs, is at odds with section 2.3 where all elements of the framework are discussed at some length; and with Figure 2A which sets out which elements are in place and which are not. This was done to provide clear context for the reader of the report.

In the departments' response particular concern is expressed with the finding that those departments without relevant and appropriate indicators cannot demonstrate effective use of their allocated funds. The finding is clearly contextualised to refer to effectiveness reporting by departments against achievement of their own objectives. Referring to other accountability mechanisms misses the point that effectiveness reporting is not about how much, but about how well public funds have been spent.

The response also asserts that other independent reports suggest that Victoria is achieving efficiency and effectiveness in service delivery relative to other jurisdictions. The validity of this statement is not able to be commented on directly, because this was not addressed in the audit. However, it is instructive to refer to the Productivity Commission's 2010 report on government service provision which states at page 2.7 'There continues to be a paucity of information about cost-effectiveness (that is, measures of cost per outcome achieved). The lack of cost-effectiveness data partly reflects the difficulty of collecting robust quantitative information on outcomes. No cost-effectiveness indicators are reported, and only one notional indicator of cost-effectiveness has been identified...and the indicator has not been developed.'

The response also states that the outcome model used in the audit is different to the Growing Victoria Together (GVT) model. The model used in the audit is the Victorian Government Performance Management and Reporting Framework developed by the Department of Treasury and Finance.

The response raises concerns with the assessment of how Victorian departments performed compared to better practice in performance reporting. As this report and my office's previous 2001 and 2003 audit reports and the subsequent 2005 and 2009 Public Accounts and Estimates Committee of Parliament reports have pointed out, the lack of departmental reporting of outcomes in Victoria is a significant deficiency. This is the major contributing factor to Victoria's poor standing.

The response also raises concerns that comparisons to other jurisdictions do not take account of whether these other jurisdictions have implemented their own frameworks. The extent to which practice falls short of intent is one of the salient lessons from this audit. That not all departments have implemented the existing requirements under the Minister for Finance's Standing Directions, and that this gap has been highlighted repeatedly over a number of years, raises the risk that this situation could recur under any future arrangements. If the proposed PFAB reforms are passed by Parliament, the challenge will be to implement them without delay.

1 Background

1.1 Introduction

Performance reporting is central to achieving public accountability. It is important to demonstrate to Parliament and the community the extent to which public funds spent by agencies have achieved their intended outcomes. It is also critical for rational resource allocation and enables management to track performance against organisational objectives and outcomes, and to take appropriate and timely action.

1.1.1 The importance of performance indicators

Performance indicators are at the core of performance reporting systems. They assess the extent to which departments have achieved their objectives.

Performance indicators can assist departments, Parliament and the community to answer questions such as:

- Is the department doing what it said it would do, and how well?
- Is the department making progress in achieving its objectives?
- Have the activities funded by taxpayers achieved the intended outcome?

Outputs are the services delivered to the community. Outcomes are the intended impacts of these outputs on the community. Both outcomes and outputs are defined in terms of their objectives. Typically, outcome objectives stem from the strategic priorities of government and are achieved over time.

In the Victorian context, the term 'performance measures' is applied specifically to outputs. These measures are used primarily in the annual appropriation certification process, to assess the progress of departments in producing the outputs they have been funded to deliver. Performance is measured in terms of quantities produced and their cost, time and quality.

Figure 1A explains the different terminology used in Victoria and throughout this report.

Figure 1A
Performance reporting terminology

Term	Definition	Example
Output-based reporting		
Service objectives	The intended purposes of a particular function or program	The provision of train services
Service inputs	Resources that contribute to producing outputs	Employees and railway infrastructure
Service outputs	Products or services produced or delivered by a department	The number of train services
Performance measures	Quantifiable units of measurement used to determine and assess the delivery of outputs. Measures the time, cost, quantity and quality of services produced.	The percentage of passenger train services delivered against scheduled services
Outcome-based reporting		
Entity level		
Departmental objectives	The purpose of the department and the intended impacts to be achieved through the production or delivery of its outputs.	Providing an effective and resilient transport system
Departmental (intermediate) outcomes	The impact the agency's activities have made in the community and their contribution to achieving strategic outcomes in the short to medium term.	A reduction in train cancellations within specific reliability targets
Performance indicators	Quantifiable units of measurement that indicate progress towards achieving departmental objectives. They reflect the effectiveness of outputs in contributing to outcomes.	Train reliability: on-time running and cancellation rates: trends over time compared to reliability targets.
Whole-of-government level		
Strategic goals	Desired state to be experienced by members of the community	A transport system that grows and links all of Victoria
Strategic outcomes	Intended impact on the community of the outputs delivered. Single or multiple agencies through their outputs and impacts contribute to achieving these outcomes.	Improved access to an effective public transport system
Progress measures	The extent to which there has been measurable improvements towards reaching strategic outcomes.	Increased use of public transport

Source: Victorian Auditor-General's Office.

1.1.2 Legislative basis

Section 45 of the *Financial Management Act 1994* is the legislative basis for performance reporting. The Act requires government departments to prepare annual reports comprising:

- reports on operations
- audited financial statements.

Annual reports are submitted to the relevant Ministers for tabling in Parliament.

While financial statements provide a basis to assess departments' management of their finances, the report on operations is the component of the annual report that directly relates to performance reporting.

The Act is supported by the *Standing Directions of the Minister for Finance*. Standing Direction 4.4 requires government departments to develop performance indicators for their respective departmental objectives.

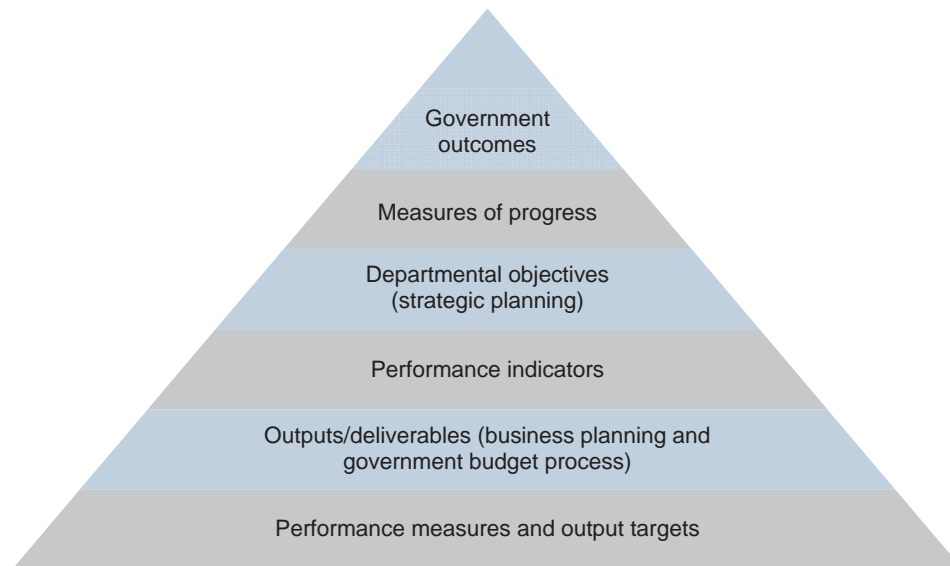
1.2 Victoria's performance reporting framework

1.2.1 Background

In 1999, the Department of Treasury and Finance (DTF) and the Department of Premier and Cabinet (DPC) commenced developing a Performance Management and Reporting Framework as outlined in Figure 1B. Recognising that the increased devolution of decision-making powers to departments required greater accountability, there was an increased focus on improved performance reporting.

Victoria moved from an input to output focus with the introduction in 1998–99 of accrual, output-based budgeting. This has involved defining the services delivered to the community by departments and costing them on the basis of accrued costs rather than cash disbursements. Performance measures for each output and results achieved relating to each measure are included in the government's annual budget papers.

Figure 1B
Performance management and reporting framework



Source: Victorian Auditor-General's Office 2001 Report, *Departmental Performance Management and Reporting*.

1.3 The role of the Auditor-General

In December 1999, amendments to section 8(3) of the *Audit Act 1994* provided the Auditor-General with the authority to audit performance indicators included in the annual reports of public sector entities. The Act provides that performance indicators are to be assessed in terms of their relevance, appropriateness, and whether performance is fairly represented. These criteria were used as the basis to assess performance indicators developed by departments as part of this audit.

This authority of the Auditor-General has been exercised for local councils, regional water authorities and TAFE institutions, not across the public sector, and only in respect to fair representation of their performance indicators and not for relevance or appropriateness.

Both the 2001 (*Departmental Performance Management and Reporting*) and 2003 (*Performance Management and Reporting*) reports of this office found that departmental performance indicators had not been developed and reported in annual reports. This office could not exercise its authority then, and since that time, this situation remains unchanged.

The Public Accounts and Estimates Committee (PAEC) of Parliament have indicated in a number of inquiries that departmental performance indicators should be audited by the Auditor-General. Most recently in its June 2009 report, *New Directions in Accountability Inquiry into Victoria's Public Finance Practices and Legislation (Report No 85)*, the PAEC indicated that the credibility of public sector agencies' performance reports:

'is subject to question when it is not accompanied by assurance provided by the Auditor-General stating whether or not the performance indicators are relevant, appropriate, and the reported results fairly represent the agencies' actual performance.'

1.4 Future developments in performance reporting

Following the 2006 election commitment to modernise fundamental legislation in Victoria, DTF commenced reviewing the State's public finance legislation with the objective of introducing the Public Finance and Accountability Bill (the Bill) to replace the *Financial Management Act* of 1994.

In October 2008, DTF circulated the *Discussion paper on reforming Victoria's public finance legislation*. Submissions from both the public and private sectors were received and considered by DTF. The Bill was introduced into Parliament on 8 December 2009.

The explanatory memorandum states that one of the three key elements of the Bill involves focusing on the *'requirement for government planning, budgeting and accountability processes to focus on the achievement of outcomes.'*

In addressing the performance indicator aspects of the Bill, the Minister for Finance stated in the second reading speech to the Bill that:

'A greater amount of better quality non-financial information will also be disclosed, and it will be better aligned with financial information. Departments will prepare a detailed report of operations each year that will compare:

- *actual performance against output measures*
- *actual performance against intermediate performance indicators*
- *historical trend series information for performance against intermediate performance indicators.*

These reports will also comment on the contribution of outputs towards achieving outcomes (based on intermediate performance indicators) and the influence of external factors on this contribution.'

The Bill states that *'the Minister must publish a statement of the government's current intended outcomes.'*

The Bill further provides that:

‘Government planning, budgeting and accountability processes will:

- *focus on the achievement of stated outcomes*
- *clearly identify the outputs and investments that need to be delivered to achieve the stated outcomes*
- *establish a means for measuring achievement of stated outcomes.’*

The Bill states that it is departments’ responsibility to support the achievement of outcomes by ensuring that outputs are delivered in an efficient and economical manner and obligations are met in a timely manner. Performance indicators or intermediate outcomes are not referred to in the Bill.

At the time of this report, the Bill remains under consideration by Parliament.

1.5 Audit conduct

The audit objective was to assess the extent to which effective performance reporting is in place across departments by assessing:

- the adequacy of the current departmental performance reporting regime
- the relevance, appropriateness and fair representation of departmental performance indicators, including the extent to which these indicators are used by departments in decision making processes.

The audit’s scope was:

- to review the performance reporting regime across government departments, including the status of the Framework, and the role of central agencies
- to review the development and use of performance indicators in departments
- to assess the extent to which reported departmental performance indicators inform decision-making processes.

The audit examined ten departments. An additional department, the Department of Health, was created during the audit with the transfer of health-related functions from the Department of Human Services, which continued to administer other functions such as housing. The Department of Human Services referred to in the report is based on the pre-machinery of government changes.

Given the role of *Growing Victoria Together* (GVT) in outlining overall government priorities and informing departmental objectives, the audit also covered performance reporting of GVT.

The audit was performed in accordance with the Australian auditing standards applicable to performance audits. The total cost of the audit was \$340 000.

1.6 Structure of the report

Part 2 of this report deals with the adequacy of the performance reporting framework by comparing it to other jurisdictions which are acknowledged leaders in performance reporting.

Part 3 of this report addresses whether effective performance reporting is in place across the ten departments by examining the relevance, appropriateness and fair representation of departmental performance indicators. This includes how they inform decision making and, from a public accountability perspective, their reporting in corporate plans and annual reports.

Part 4 of this report covered the roles of central agencies in initiating, coordinating, monitoring and reporting on whole-of-government performance reporting initiatives and providing guidance and advice to departments.

2 The performance reporting framework

At a glance

Background

As the demand for more and better government services increases, governments are increasingly using a range of performance information to inform resource allocation decisions and to move beyond output information by incorporating objectives and performance indicators on outcomes in budget and related documentation.

Findings

- Victoria continues to focus reporting on outputs whereas other jurisdictions have moved to outcomes-based reporting.
- In general, the lack of reliable and appropriate departmental performance indicators significantly limits the ability of some departments to report on the extent to which they are achieving their objectives.

Recommendation

The Department of Treasury and Finance should:

- establish a performance reporting framework linking departmental performance to the government's strategic outcomes and goals
- embed this framework, particularly the reporting of outcomes performance information, into the management cycle covering planning, budgeting, management and accountability processes.

2.1 Introduction

Many jurisdictions are increasingly using a range of performance information to inform resource allocation decisions by incorporating objectives and performance indicators on outcomes in budget and related documentation.

Most OECD countries now require their public sector agencies to produce performance information about the outcomes their outputs have achieved as part of the budgeting process. The focus of outcome information is on the effectiveness of the delivered programs, products or services in producing the desired results or outcomes for the community.

2.2 Conclusion

Ten years after its commencement in 1999, the *Victorian Government Performance Management and Reporting Framework* (the Framework) has not been fully implemented. The structure of the Framework remains relevant and is consistent with the *Financial Management Act 1994*, the Standing Directions, Financial Regulation Directions and *Budget and Financial Management Guidelines*. These guidelines depict a three-tier framework of government outcomes, departmental objectives and outputs. However, the residual and significant gap in entity level performance reporting has not been addressed.

The lack of clear departmental objectives and performance indicators means that there is no clarity regarding individual departments' performance in achieving their objectives and in contributing to the strategic outcomes under *Growing Victoria Together* (GVT).

Victoria now lags behind other jurisdictions in terms of performance reporting. Notwithstanding a number of reports by Public Accounts and Estimates Committee (PAEC) of Parliament and this office recommending further implementation of the Framework, it remains incomplete.

2.3 Current status of the framework

The Departments of Treasury and Finance (DTF) and Premier and Cabinet (DPC) started developing the Framework in 1999. The Framework aimed to provide for adequate internal and external accountability for departmental performance.

The 2001 *Departmental Performance Management and Reporting* and 2003 *Performance Management and Reporting* audit reports, found that performance indicators remained as a gap in the framework. This meant that departments had not been able to provide information on how effectively the activities were contributing to the achievement of desired departmental objectives.

In September 2005, the PAEC report on *Parliamentary Control and Management of Appropriations (Report No 64)* noted that ‘the development of the intended Framework has stalled’, and recommended that the Framework be finalised to allow the Auditor-General to audit performance indicators. There was no evidence authorising not proceeding with the full implementation of the Framework as originally intended.

Most recently, the June 2009 PAEC report, *New Directions in Accountability (Report No 85)*, reaffirmed the importance of the focus on outcomes, and the need for a centrally developed performance reporting framework.

2.3.1 Application of elements of the framework

The history and current status of the application of elements of the performance reporting framework is summarised in Figure 2A below.

Figure 2A
Application of performance reporting framework

Components of the Framework	2001	2003	2010
Whole-of-government level			
Government outcomes	✓	✓	✓
Progress measures	✗	✓	✓
Entity level			
Departmental objectives	✗	✓	✗
Performance indicators	✗	✗	✗
Service level			
Departmental outputs	✓	✓	✓
Performance measures	✓	✓	✓

Source: Victorian Auditor-General's Office.

Whole-of-government level

This component of the Framework was first implemented in 2001 with the identification of desired government outcomes in GVT.

GVT provides a framework to drive government performance towards achieving ten goals underpinning five vision statements which include *thriving economy, quality health and education, healthy environment, caring communities and vibrant democracy*. GVT identified:

- issues of importance in areas covering economic, social and environmental considerations such as life long education, protecting the environment and sound financial management
- priority actions that needed to be taken to demonstrate progress.

Initially designed as a ten year vision until 2010, GVT was updated in 2005. It was stated that GVT would enable the government 'to build on the achievements and track progress to 2010 and beyond'. The government launched a strategic framework and website in 2009, *Action for Victoria's Future* (AVF) which provides an online tool consolidating existing Victorian public sector strategies in one central location. DPC however has advised that AVF has not replaced GVT, and the latter continues to be the key strategic outcome statement of government.

Thirty six GVT progress measures have been developed to track achievement of ten goals. Since then, annual progress reports have been published in Appendix B of Budget Paper 3.

Entity level

Departmental objectives specify what departments intend to achieve. These should be consistent with the government's desired outcomes. Performance indicators assess the extent to which these objectives have been achieved.

Performance indicators that underpin departmental objectives have not been systematically developed and reported across the portfolio departments. The development of departmental objectives and associated performance indicators are a gap in the framework.

Whilst departmental objectives were developed and articulated in the 2002–03 and 2003–04 State Budget Papers as part of Budget Paper 3, this practice was discontinued in the 2004–05 Budget Papers. It has since been left to each department to decide what to include in its annual report about its objectives and performance indicators. Part 3 of this report shows that across departments, this is done neither consistently nor well.

The recent linking of departmental outputs to GVT outcomes in the budget papers does not provide additional relevant information on departmental performance. It is not clear whether departmental outcomes have met objectives or the extent to which departmental outcomes have contributed to GVT outcomes.

Service level

This third tier of the framework is generally implemented across the ten departments. Departments are held to account by government for their delivery of outputs and annual targets of output delivery, and results on output performance measures are generally reported in both the Budget Papers and departmental annual reports.

Summary

In effect, current performance reporting in many departments proceeds from the operational delivery of outputs to the strategic level outcomes contained in GVT. This means the outcomes or impacts of these services and the extent to which they are contributing to and achieving departmental objectives are not evident.

2.4 Better practice frameworks

2.4.1 Other jurisdictions

Jurisdictions such as New Zealand, Canada at a federal as well as provincial level (e.g. British Columbia), and the United Kingdom have moved to outcomes-based performance reporting. In Australia, the Commonwealth is moving to tie funding to outcomes, for example via the National Partnership Agreement on Preventative Health. To provide guidance on how other jurisdictions have approached this task, Appendices A and B provide an outline of developments in New Zealand and Canada.

In addition to a focus on outcomes, these jurisdictions also have as common characteristics:

- clearly defined, measurable and agreed objectives
- coherent linkages between framework elements
- an integrated outcomes-oriented performance management cycle within departments.

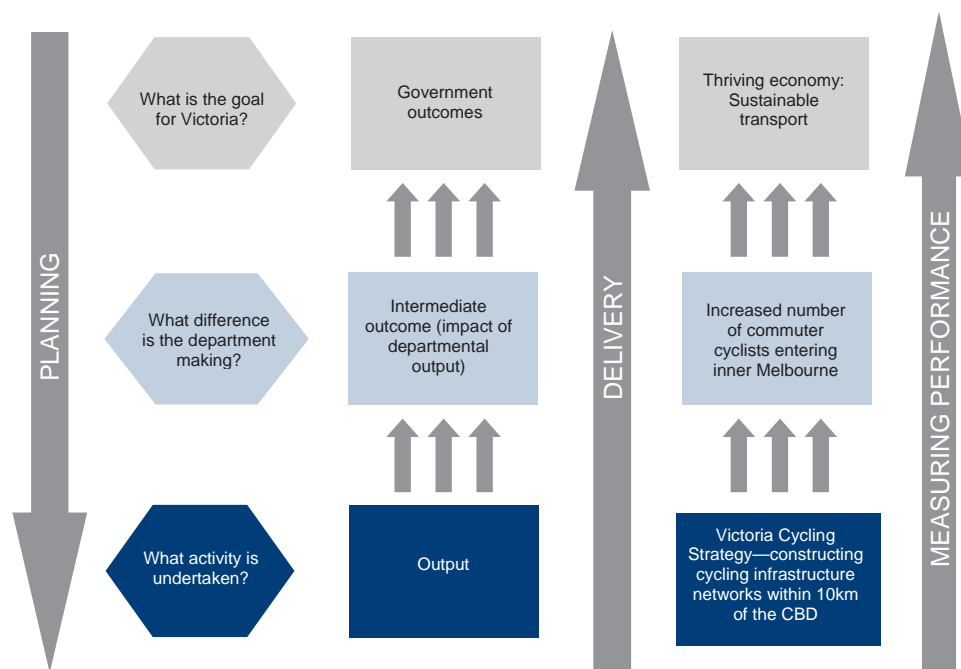
Clearly defined, measurable and agreed objectives

Fundamental to the reporting of outcome information is establishing clearly defined, measurable and agreed objectives that focus on the outcomes desired from the provision of services to the community. These should be expressed in terms of the desired effects, impacts, results or consequences that are intended for the community at large or for specified target groups.

Coherent linkages between framework elements

Better practice jurisdictions use 'results logic' to establish a causal link between what an agency does in terms of outputs of services delivered and the desired goals and outcomes that the government wishes to achieve for the community through impacts or intermediate outcomes at the agency level. This is illustrated by Figure 2B.

Figure 2B
Linkages between levels of performance reporting



Source: Victorian Auditor-General's Office.

Integrated management cycle

In many jurisdictions there has been increasing attention focussed on an integrated management cycle to improve public sector performance by incorporating outcomes-based performance information into:

- **Planning**—setting of strategic directions and priorities.
- **Budgeting**—selecting the appropriate mix of programs and services and improving the transparency of resource allocation to program and services.
- **Management**—guiding management decisions on the delivery of services.
- **Accountability**—demonstrating the extent to which services delivered have been effective and efficient.

2.4.2 Comparison with other jurisdictions

At a macro level, Victoria's performance reporting framework has a number of shortfalls when compared to other jurisdictions:

- performance reporting is focused on the number of services and products delivered (outputs), not how well the services delivered meet their intended purpose
- there is no consistent and comprehensive reporting of departmental objectives and the results achieved as a consequence of departmental activity

- there are no causal linkages to demonstrate whether impacts or intermediate outcomes at the entity level relate to or achieve the higher level government strategic goals and outcomes
- there is limited evidence that performance information is used across departments to support the various elements of the management cycle.

In relation to this last point, DTF developed a guidance document, the Integrated Management Cycle (IMC), which ‘describes an annual process that integrates and aligns decision making with the government’s desired outcomes and strategic priorities for resource allocation and service delivery’. This document was first made available in 2001 and revised in 2005.

No guidance is currently available for departments in this area, as IMC was withdrawn for revision by DTF in October 2009 in the course of this audit.

Figure 2C provides a more detailed comparison of Victoria’s performance reporting arrangements against better practice criteria. The assessment of other jurisdictions based on an analysis of publicly reported information is contained in Appendix C.

Figure 2C
Better practice—Performance reporting by departments

Comparison of better practice	
Planning	
Desired outcomes/results published at whole-of-government level	✓
Desired outcomes/results published at agency level	X
Desired final outcomes/results and intermediate outcomes/results are linked through a published results-logic hierarchy of objectives and sub objectives	X
Outcome/results performance informs strategic planning at whole-of-government level	X
Outcome/results performance informs strategic planning at agency level	X
Outcome/results performance informs operational planning within agencies	X
Resource allocation	
Desired outcomes/results and past performance transparently inform government-wide resource allocation decisions	X
Desired outcomes/results and targets included in budget papers	X
Indicators and targets established to monitor and report on achievement of outcomes/results at all levels in the objectives hierarchy	X
Output mix, quantity and quality are not fixed by appropriation to allow management discretion in achieving outcomes	X
Service delivery	
Agencies required to manage for outcomes/results	X
Agencies use outcomes/results to inform internal decisions	X

Figure 2C
Better practice—Performance reporting by departments – *continued*

Accountability/reporting	
Mandatory reporting of outcome/results includes performance information at a whole-of-government level	✓
Mandatory agency reporting of effectiveness indicators explicitly disclosing objective/sub-objective contribution to whole-of-government outcomes/results	X
Agency annual accountability report relates outcome/results to resources consumed	X
Performance information is audited	✓
Role of central agencies	
Central agencies are jointly involved in driving departmental outcome/results based performance reporting	X
Clear guidance is publicly available about results logic/program performance architectures and performance measurement and reporting	X
As part of the budget process, central agencies endorse departmental outcomes/results and associated performance information and the departmental contribution to whole-of-government outcomes.	X

Source: Victorian Auditor-General's Office.

Recommendation

- The Department of Treasury and Finance should:
 - establish a performance reporting framework linking departmental performance to the government's strategic outcomes and goals
 - embed this framework, particularly the reporting of outcomes performance information, into the management cycle covering planning, budgeting, management and accountability processes.

3 Departmental performance reporting

At a glance

Background

Relevant and appropriate departmental performance information assists Parliament and the community to determine whether the outcomes are meeting objectives.

Findings

- Approximately 30 per cent of the 322 performance indicators examined were both relevant and appropriate.
- The Departments of Transport, Innovation, Industry and Regional Development, Education and Early Childhood Development and Justice have made significant progress in developing performance indicators.
- The majority of the corporate plans reviewed did not include performance indicators to demonstrate how departments are progressing in achieving their objectives.
- Most performance information included in annual reports does not enable a reliable assessment of the extent to which departmental objectives had been achieved.

Recommendations

- In relation to the development of performance indicators:
 - Departments of Sustainability and Environment and Treasury and Finance should continue to develop performance indicators for all their departmental objectives.
 - Departments of Premier and Cabinet and Planning and Community Development should develop performance indicators to underpin departmental objectives.
- In relation to their corporate plans, the Departments of Human Services/Health, Premier and Cabinet, Primary Industries, Sustainability and Environment, Planning and Community Development and Treasury and Finance should include performance indicators and targets underpinning the objectives specified.
- All departments should include results against performance indicators in their annual reports.

3.1 Introduction

Unlike the private sector, the objectives of government are not primarily focused on the pursuit of quantitative goals such as profit maximisation. Rather, the public sector deploys its resources to achieve goals for the community benefit. This means that 'bottom line' financial accountability alone, while useful in acquitting stewardship obligations, is insufficient to report on performance in the public sector.

Performance information should answer questions such as:

- How well is government doing what it said it will do?
- To what extent have set objectives been met?

Equally important, performance reporting facilitates improved decision making in the public sector by providing management with information to trigger revision of approaches and to develop continuous improvement strategies.

3.2 Conclusion

Performance reporting is not uniformly effective across the departments. There has been a lack of systematic development of performance indicators across departments. The Departments of Transport (DOT), Innovation, Industry and Regional Development (DIIRD), Education and Early Childhood Development (DEECD) and Justice (DOJ) have made considerable progress in developing relevant outcome performance indicators. The majority of both DOT's and DIIRD's performance indicators are both relevant and appropriate.

Apart from these four departments, corporate plans do not include performance indicators to measure the progress made in meeting departmental objectives.

Performance reporting is still overly focused on output performance measures and consequently, annual reports do not enable a reliable assessment of the extent to which departmental objectives have been achieved.

3.3 Developing and using performance indicators

The Standing Directions of the Minister for Finance under the *Financial Management Act 1994* (Standing Directions) state that:

Government Departments must set performance indicators for their Departmental objectives in accordance with the business rules contained in Budget and Financial Management Guidance BFMG-08.

Compliance with business rules within BFMGs is mandatory.

Departmental performance indicators were assessed for relevance, appropriateness, and fair representation. These criteria are defined below in Figure 3A.

Figure 3A
Definitions of audit criteria

Heading	Definition
Relevant	The indicator should have a logical and consistent relationship to the agency's objectives which are linked to the government's desired outcomes.
Appropriate	<p>The agency is accountable for achieving the objective and for reporting against the indicator.</p> <p>The indicator should have sufficient information to assess the extent to which the agency has achieved a pre-determined target, goal or outcome, by reference to:</p> <ul style="list-style-type: none"> • the trend in performance over time • performance relative to the performance of similar agencies • performance relative to pre-determined benchmarks. <p>The indicator should be accompanied by adequate notes that assist the user to draw meaningful conclusions about the performance of the agency.</p>
Fairly represented	In order to fairly represent the performance of an agency, the information provided must be capable of measurement, represent what it purports to indicate, consistently and without bias, and be accurate, reliable and auditable.

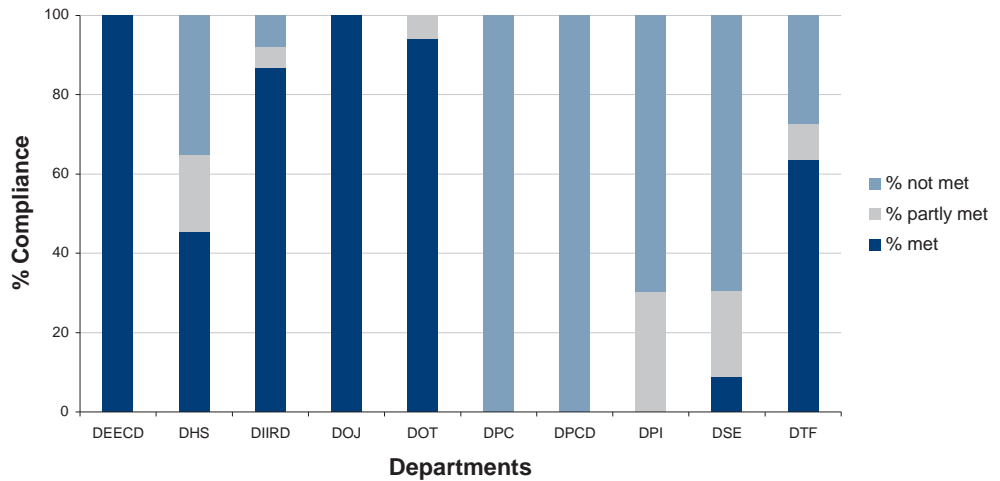
Source: Victorian Auditor-General's Office.

3.3.1 Relevance and appropriateness

There were 322 performance indicators examined across the ten departments. These departments had allocated funding of around \$65 billion for 2007–08 and 2008–09 years examined. Of these indicators 152 or nearly one-half were relevant to departmental objectives of which 95 or around 60 per cent provided appropriate information. This equates to around 30 per cent of the 322 performance indicators being both relevant and appropriate. The remaining 170 performance indicators were not relevant and therefore cannot be considered appropriate.

Figure 3B shows the percentage of departmental performance indicators that were assessed as relevant. In the absence of performance indicators, the output performance measures of the Department of Premier and Cabinet (DPC) and the Department of Planning and Community Development (DPCD) were assessed.

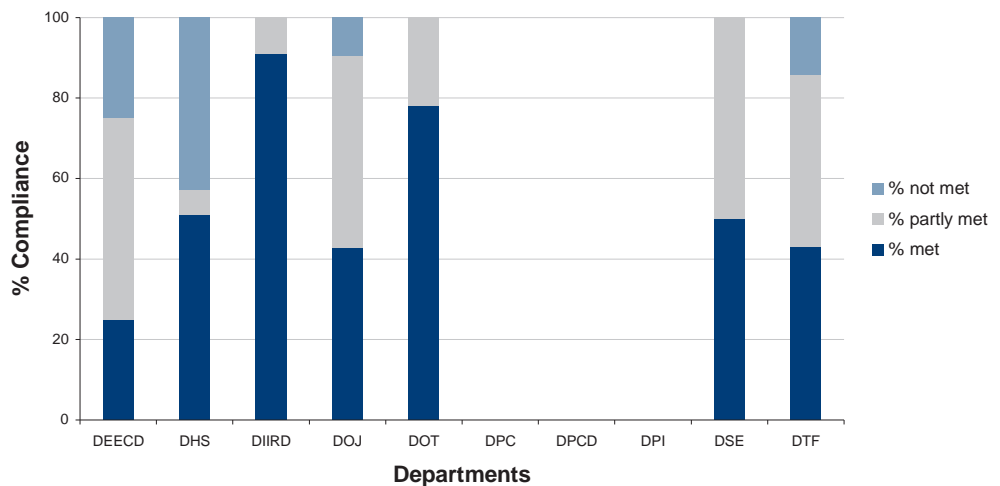
Figure 3B
Relevance of department performance indicators



Source: Victorian Auditor-General's Office.

Figure 3C below shows the percentage of the 152 relevant departmental performance indicators that were assessed as appropriate.

Figure 3C
Appropriateness of departmental performance indicators



Source: Victorian Auditor-General's Office.

Six departments had no or limited departmental indicators that were relevant to the achievement of their objectives. These departments accounted for nearly half of the state's allocated funding for the general government sector in 2007–08 and 2008–09. While this funding can be accounted for in a stewardship sense, the effective use of this funding has not been demonstrated. This funding equates to around \$31 billion over the two years examined.

DOT, DEECD, DOJ and DIIRD

The performance indicators of DOT and DIIRD are generally *relevant* and *appropriate*, and there is a coherent link between the indicators, departmental objectives and in turn *Growing Victoria Together* (GVT) outcomes.

The performance indicators of DEECD and DOJ are all relevant. There is less robustness, however, in terms of their appropriateness. Some indicators had:

- Been introduced only recently because of a previous lack of available baseline data, for example due to the recent machinery of government changes which added early childhood development responsibilities to the DEECD portfolio. Therefore the trend in performance over time cannot yet be demonstrated.
- Not been fully developed, due to difficulties in developing measurable performance indicators.

To further enhance reporting on its performance indicators, DEECD is developing a performance reporting framework that clearly sets out not only links between departmental performance reporting and GVT, but also links to federal and international strategic priorities. Since the completion of the conduct of the audit, DEECD has advised it has undertaken further work to improve the appropriateness of indicators.

DHS and DPI

The Department of Human Services (DHS) and the Department of Primary Industries (DPI) performance indicators are being actively developed. DHS is currently tracking results on a considerable number of performance indicators and has begun developing an over-arching outcomes reporting framework.

Currently, DPI's performance indicators are not appropriate for external reporting. Many of the indicators are expressed in technical terms and are not readily understood beyond the DPI readership. DPI is aware of this and has commenced the process of redeveloping their indicators.

DPC, DPCD, DTF and DSE

In the absence of outcome performance indicators, DPC's and DPCD's output performance measures were assessed against the criteria of relevance and appropriateness. None of these measures were found to be either relevant or appropriate.

The Department of Treasury and Finance (DTF) and the Department of Sustainability and Environment (DSE) performance indicators relate primarily to high level government performance measures under GVT rather than relating specifically to outcomes that reflect departmental objectives.

3.3.2 Fair representation

For results on performance indicators to be considered *fairly represented*, performance information should reliably represent actual performance. This means that data is consistently and accurately collected and control procedures are in place to assure accuracy and reliability of the information gathered.

This criterion could only be examined for performance indicators that are both relevant and appropriate. In this regard, selected indicators of DOT and DEECD were examined. These were:

- public transport punctuality and reliability at DOT
- attendance in early childhood education programs in DEECD.

To determine whether reported performance against these indicators is fairly represented, the audit assessed whether:

- data was consistently collected and collated
- control procedures are in place to assure the accuracy of the data obtained.

Department of Transport

The public transport punctuality and reliability performance indicator provides separate reports for trams, trains and buses. The audit found that the results on the punctuality indicator of trams and trains were generally robust and reliable, but not for buses.

Trams

Tram data is obtained on real-time basis from figures generated by the tram provider's Automatic Vehicle Monitoring System (AVMS). This system is in place across the tram network and enables controllers to track the location of trams at any given point. This means that arrival times are automatically generated and compared against time tables. The data collated is electronically transmitted to DOT on a daily basis. VAGO examined the system design and procedure of AVMS and determined that:

- tram arrival data are consistently collected and collated
- integrity controls are in place to prevent data from being corrupted or inappropriately manipulated.

Trains

Train data is manually recorded by train operator staff at the point of origin and final destination. The data collected is entered into the train operator's database and is electronically sent to DOT on a daily basis. Because train information is manually recorded, train data is more susceptible to human error, however there are compensating controls namely:

- sample verification of information is conducted by DOT, i.e. three per cent of arrival times at final destination are manually recorded by DOT-contracted personnel and matched against operator provided data
- built-in DOT database system controls are in place such as automatic data validation processes where faulty or contradictory data sets are highlighted for attention.

VAGO examined the controls procedures and confirmed actual October 2009 DOT data with those of the train providers.

Buses

Compared to trams and trains, less reliance can be placed on the bus punctuality indicator. Data on buses is not consistently obtained and there are no reliable and consistent controls in place to assure the accuracy of the data collected.

Bus operators are required to provide DOT a monthly record on the punctuality of five per cent of their bus services. Data collection is based solely on the self-reporting by bus operators. DOT is unable to confirm that bus operators uniformly apply the reporting rules on 'on-time' and 'late running'.

DOT has recognised this and is in the process of delivering electronic monitoring of bus services through the SmartBus and Bus Tracking Systems programs. It is intended that the installation of the required electronic monitoring hardware across the bus fleet will enable more reliable reporting on the punctuality and reliability of buses.

Department of Education and Early Childhood Development

The attendance in early childhood education programs indicator assesses the:

- proportion of four-year-olds accessing these programs
- participation rate of vulnerable four-year-olds
- participation rate of three and four-year-old Indigenous children.

Results on the proportion of four-year-olds accessing kindergarten indicator are generally fairly represented. Data is collected from 1670 kindergarten service providers who complete a uniformly prepared survey form. DEECD have set up control measures to verify the accuracy of the data by:

- identifying anomalies and discrepancies when data is entered in the DEECD database

- confirming data by conducting random spot-checks on kindergartens in the regions
- correlating the data with the Australian Bureau of Statistics and Maternal and Child Health data.

The results on the participation rate of vulnerable and Indigenous children are less reliable. Data gathered by kindergarten service providers on these indicators are based solely on the representation made by parents on whether or not their child is vulnerable and/or Indigenous. Currently, DEECD does not have control measures in place to verify the accuracy of the data collected on these indicators.

However, DEECD was aware of these concerns before the audit commenced and had initiated action to improve the quality of its data by benchmarking against national databases such as Centrelink.

3.3.3 Using performance indicators to make decisions

Performance indicators play an important role in providing management with information to make effective decisions to manage for results.

The results of performance indicators are considered by DOT, DEECD, DIIRD and DOJ when monitoring progress against the achievement of outcomes. This occurs through the inclusion of performance indicators results in monthly and/or quarterly business reports considered by senior management.

By comparison with other departments, DEECD has gone a step further and developed a data system on its intranet that allows its employees to have real-time access to results on performance indicators and other performance information data. In this regard, DEECD is the only department we have reviewed that has introduced this initiative.

DHS includes performance information in quarterly executive performance reports in a highly readable and user-friendly format.

3.4 Corporate planning

Corporate plans outline departmental objectives and the strategies departments intend to use to meet these objectives. The inclusion of performance indicators in the corporate plan foreshadows how these objectives are measured and achieved.

Compliance with business rules in BFMGs is mandatory. *BFMG 01 Departmental Budget Planning*, *BFMG 02 Outcomes, Departmental Objectives and Outputs*, and the *Integrated Management Cycle* set a clear expectation for departments to develop and continually review their corporate plans.

These details are outlined below:

- Business rule 1 of BFMG 01 states
'Departments should review their departmental strategic and corporate plans annually at least a year before the commencement of the next financial year. Departmental strategic and corporate plans should clearly indicate how departmental objectives and outputs will align to government outcomes.'
- Business rule 1 of BFMG 02 also states
'As part of the strategic planning process (refer BFMG 01), departments should develop corporate and business plans on the basis of the strategic direction articulated by government.'
- The Integrated Management Cycle (IMC) further indicates
'At the completion of the annual planning process, a department should be able to document the strategic context for its key activities and publish details of these activities in departmental planning documents. Typically this information will include the link between the department's activities and government outcomes and Growing Victoria Together, the department's vision and mission statements, the external context of the department's operations, short to medium-term departmental priorities and key projects and outputs.'

A review of departmental planning documents reveals that nine of the ten departments have corporate plans covering the 2007–08 and 2008–09 financial years. DPC did not have corporate plan/s for these financial years. It does, however, have one for the 2009–10 and 2010–11 financial years as do all other departments.

Corporate plans were assessed in terms of:

- reference to departmental objectives
- inclusion of outcomes performance indicators
- linkages to government desired outcomes
- availability to the public.

Reference to departmental objectives

All nine departmental corporate plans reviewed indicate some reference to departmental objectives. BFMG 08 requires that departmental objectives:

1. are clear and concise
2. are expressed in terms of the impact the department's outputs can be reasonably expected to achieve
3. identify the target group/s who will benefit
4. are measurable within a specific time frame
5. have an explicit relationship to government outcomes and priorities
6. do not include a strategy for achieving the objective.

When read in light of the requirement of BFMG 08 above, the objectives of the nine departments are at times expressed in vague terms. Consequently, they are of limited use for reporting actual outcomes. Examples of unclear objectives are illustrated in Figure 3D below. These have been assessed against BFMG 08 requirements with the numbering in the table reflecting the points above.

Figure 3D
Illustrations of unclear expression of objectives using BFMG 08 Criteria

Objective	1	2	3	4	5	6	
DPI	• Enable transformation in Victoria's Primary and Energy Industries	O	x	✓	x	✓	✓
	• Sustainably increase wealth and well being	O	x	x	x	x	✓
	• Protect and enhance safety, community, animal welfare and the environment	O	O	x	x	✓	✓
DHS	• Building sustainable, well managed and efficient human services	O	O	x	x	✓	✓
	• Providing timely and accessible human services	O	O	x	O	✓	✓
	• Improving human service safety and quality	O	O	x	O	✓	✓
	• Promoting least intrusive and earliest effective care	O	O	x	x	✓	✓
	• Strengthening the capacity of individuals, families and communities	O	O	O	x	✓	✓
	• Reducing inequality by improving health and wellbeing, particularly for disadvantaged people and communities	O	O	O	✓	✓	✓

Legend: ✓ met (complies with) O somewhat met x not met

Source: Victorian Auditor-General's Office.

Inclusion of outcomes performance indicators

Most departmental corporate plans do not set clear expectations of the intended impact of their activities. The corporate plans reviewed covering the financial years 2007–08 and 2008–09 reveal that only those of DIIRD, DOJ and DOT included performance indicators that would indicate how they are progressing towards achieving their objectives.

DEECD's corporate plan did not include performance indicators that would track the extent to which the department is meeting its objectives. Changes in machinery of government led to the formation of DEECD in August 2007. At the time the interim corporate plan covering 2007–08 and 2008–09 was released, the department's outcomes evaluation framework was still being developed. This framework is now complete and performance indicators are included in the 2009–10 DEECD corporate plan.

Linkages to government desired outcomes

BFMG 01 and the Integrated Management Cycle both require corporate plans to clearly indicate how departmental objectives and outputs will align to government outcomes.

The corporate plans of DEECD, DHS, DIIRD, DOJ and DOT clearly articulate linkages with GVT outcomes. GVT is not mentioned in the DTF corporate plan. DPI and DPCD refer to GVT but do not expressly identify to which outcomes objectives and activities contribute. DSE, on the other hand, refers to *Action for Victoria's Future (AVF)*, as the document articulating government outcomes. The advice from DPC is that GVT continues as the primary source of the government's strategic outcomes.

Availability to the public

The IMC sets an expectation that corporate planning documents are made available to the public. It states that departments '*should publish*' details of their key activities in departmental planning documents.

Seven of the nine corporate plans reviewed are publicly available on departmental websites. DPCD's and DPI's were available only on their internal website.

3.5 Annual reporting

Departments are required in their annual reports, under Financial Reporting Direction *FRD 22B Standard Disclosures in the Report of Operations* (June 2007), to report on whether departmental objectives were achieved. How this should be reported however, is not specifically prescribed.

FRDs made under the *Financial Management Act* focus mainly on financial reporting and provide little guidance on the reporting of non-financial operational results. While it is clear that annual reports should include reporting on output performance measures, there is no corresponding direction or guidance to:

- report on results of outcomes performance indicators that demonstrate the extent to which departmental objectives have been achieved
- link departmental outputs with departmental objectives and government outcomes.

At present departmental annual reports include:

- extensive financial information
- information about the outputs the department has produced
- a large amount of descriptive detail about the activities the department has undertaken.

However, most of the performance information provided does not include an assessment of the impact the departments' activities have had on their target groups. Moreover, the information currently provided does not enable the Parliament or the community to assess departmental performance in terms of the extent to which departmental objectives have been achieved. Currently, most reporting on performance is limited to financial and output reporting.

For example, DPCD's annual report focused on activities undertaken by the department. The section of the annual report that dealt with departmental performance referred only to output performance such as the completion of environmental assessments. How these activities contributed to the desired community outcome are not clearly explained.

DOJ's annual report was considerably more outcomes focused. For example, relative to the *Safer Streets* campaign (output) that the department undertook in 2007–08, the annual report noted that this campaign had the effect of influencing '76 per cent of the young men who saw the campaign think about how they and their friends could avoid trouble while out drinking.' DOJ's annual report could have been further improved by including all its performance indicators.

DHS, DPC, DPI, DPCD and DSE reported results only on their output performance measures. DEECD, DIIRD, DOJ, DOT and DTF included results on a limited number of performance indicators covering a few departmental objectives.

Recommendations

2. In relation to the development of performance indicators:
 - Departments of Sustainability and Environment and Treasury and Finance should continue to develop performance indicators for all their departmental objectives.
 - Departments of Premier and Cabinet and Planning and Community Development should develop performance indicators to underpin departmental objectives.
 3. In relation to their corporate plans:
 - Departments of Premier and Cabinet, Primary Industries, Sustainability and Environment, Planning and Community Development and Treasury and Finance should link departmental objectives and activities to government outcomes.
 - Departments of Human Services/Health, Premier and Cabinet, Primary Industries, Sustainability and Environment, Planning and Community Development and Treasury and Finance should include performance indicators and targets underpinning the objectives specified.
 4. In relation to their annual reports:
 - Departments of Premier and Cabinet, Primary Industries, Sustainability and Environment and Treasury and Finance should link departmental objectives to government outcomes.
 - All departments should include results against performance indicators in the annual reports.
-

4 The role of central agencies

At a glance

Background

Central agencies play a key role in raising the standard of performance reporting by, for example, assisting departments through guidance and support as well as coordinating reporting on progress in achieving the government's strategic outcomes.

Findings

- The requirements for developing and reporting on performance indicators were not readily consolidated for departments' use which contributed to their general lack of awareness of these requirements.
- Progress reporting on achieving *Growing Victoria Together* outcomes had a number of shortcomings in comprehensiveness, continuing relevance and as a means of signalling remedial actions to address lack of progress.

Recommendations

- The Department of Premier and Cabinet should improve progress reporting on achieving *Growing Victoria Together* government outcomes by:
 - seeking contributions from all departments in the preparation of progress reports
 - identifying actions to address shortfalls in meeting targets
 - updating and revising progress measures as required.
- The Department of Treasury and Finance should:
 - review and consolidate existing guidance material for clarity and ease of access
 - alert departments to the need for increased compliance with the *Standing Directions of the Minister for Finance* under the *Financial Management Act 1994* and business rules contained in *Budget and Financial Management Guidance* statements
 - monitor and report on its effectiveness in assisting departments to consistently implement reporting reforms.

4.1 Introduction

Central agencies play a key role in influencing the quality of departmental public performance reporting. The experience of other jurisdictions such as Canada, where performance management and reporting is well developed, is that strong central agency leadership is needed to drive whole-of-government reforms.

A review of better practice in these jurisdictions indicates that central agencies:

- sponsor the introduction of whole-of-government performance reporting regimes, including overseeing the preparation of enabling legislation and regulation
- manage and coordinate whole-of-government performance reporting on the government's strategic outcomes within agreed frameworks
- provide support to agencies through advice and guidance backed by written guidelines and good practice guides to facilitate consistency in departmental reporting.

4.2 Conclusion

Central agencies have given insufficient attention to producing accessible and easily referenced guidance and support to departments on the requirements of mandatory performance reporting directions, and in providing up to date and comprehensive progress reporting on the extent to which the government's strategic outcomes have been achieved.

4.3 Department of Premier and Cabinet

The Department of Premier and Cabinet (DPC) is concerned with overseeing the development of government outcomes including maintaining the currency of *Growing Victoria Together* (GVT) and the coordination of whole-of-government GVT reporting. DPC states that it '*has a leadership role in the identification and implementation of the strategic directions of government.*'

In relation to DPC's leadership role on GVT:

- There was not a shared understanding across departments that GVT continues to be the key statement of the government's strategic outcomes. For example, the Department of Sustainability and Environment's (DSE) corporate plan for 2008-2011 makes no mention of GVT. It refers instead to *Action for Victoria's Future* as embodying the government's new set of strategic goals.
- There are gaps in involving individual departments in whole-of-government GVT progress reporting. The Department of Primary Industries (DPI) was not consulted in the preparation of the 2008–09 progress report.

- GVT progress reports are currently not used to indicate what actions have been taken to facilitate achieving GVT outcomes particularly in circumstances where targets are unlikely to be met. In October 2006, DPC noted that results on GVT progress measures are reported '*with little analysis and no recommendations to address poor performance.*' Performance reporting contains no reference to actions to enhance performance.
- Of the ten progress measures with specific targets, the target for regional population growth to increase to 1.25 per cent annually by 2006 was not achieved. Further measures that are not likely to be achieved are the proportion of freight transported to and from ports by rail, public transport use in Melbourne, and the health of Victoria's rivers. There is no evidence that DPC had adopted a coordination role to address the failure to meet performance targets as part of whole-of-government performance reporting.
- There are three progress measures relating to regional population, crime rate and transport accidents that are no longer current, however, they have not been either updated or deleted. The completion dates for these progress measures were 2006, 2008 and 2007 respectively.

DPC has advised that it has begun addressing a number of these issues by incorporating GVT considerations in departmental Secretaries' performance plans. Each GVT progress measure is assigned to a lead Secretary who is expected to work on progressing the measure. Also, proposed initiatives are now required to demonstrate that they align with and contribute to a GVT goal through the Expenditure Review Committee (ERC) process.

However, the ERC process and Secretaries' performance plans are not publicly available for scrutiny, leaving Parliament and the wider community without a basis to assess performance.

4.4 Department of Treasury and Finance

The Department of Treasury and Finance (DTF) is the lead agency for developing and maintaining guidelines and directions on performance reporting, however, the focus to date has been on reporting financial outcomes and output performance measures.

There was a lack of awareness across departments of the requirement under the Standing Directions and BFMG08 to develop and report on performance indicators relative to departmental objectives. Aside from DPC and DTF, only the Department of Innovation, Industry and Regional Development (DIIRD) acknowledged that they were aware of this requirement.

DTF states that its functions include '*developing and implementing resource allocation and management reform frameworks for the Victorian budget sector.*' Chapter 2 commented specifically on DTF's role in this regard.

In terms of providing guidance, BFMG 00 states that, '*DTF is responsible for maintaining the accuracy of BFMGs and ensuring their contents are up to date.*' DTF also issues directions '*to impose other government non-financial policy and disclosure requirements*'.

This lack of understanding of performance reporting requirements is exacerbated by relevant DTF guidelines and direction documents not being readily accessible as there is no consolidated documentation that outlines the minimum requirements on performance reporting. In addition there is no overarching reference document for all the performance reporting guidance documents.

DTF and DPC acknowledged that the current guidelines for developing departmental performance indicators underpinning departmental objectives have not led to consistent reporting of overall departmental performance across government. There is, however, no evidence that either DPC or DTF has taken any action in response to this issue.

Recommendations

5. The Department of Premier and Cabinet should improve progress reporting on achieving *Growing Victoria Together* government outcomes by:
 - seeking contributions from all departments in the preparation of progress reports
 - identifying actions to address shortfalls in meeting targets
 - updating and revising progress measures as required.
 6. The Department of Treasury and Finance should:
 - review and consolidate existing guidance material for clarity and ease of access
 - alert departments to the need for increased compliance with the *Standing Directions of the Minister for Finance* under the *Financial Management Act 1994* and business rules contained in *Budget and Financial Management Guidance* statements
 - monitor and report on its effectiveness in assisting departments to consistently implement reporting reforms.
-

Appendix A.

Case study: New Zealand

Case study of better practice performance reporting New Zealand

New Zealand was at the forefront of the move towards output based budgeting and accountability introducing this along with other major public sector financial and management reforms at the end of the 1980s.

These reforms were seen to have improved the level of information available to decision makers about what departments do and how much it costs and as well as introducing some overall improvement in operational efficiency. Over the next decade however, concerns began to mount that operational efficiency was poorly targeted, agencies had failed to draw strong connections between the outputs they produced and the impact those outputs had on Government's policy objectives and individual agency output agreements failed to address cross agency issues.

To address these deficiencies, New Zealand began developing and implementing its current 'Managing for Outcomes' (MfO) framework in 2001. MfO places a strong emphasis on outcomes and associated performance information throughout the cycle of planning, implementing and delivering and reviewing the outcome results. This in turn feeds back into the cycle to inform future planning, enabling a cycle of ongoing improvement. To give effect to this, significant amendments were made to the New Zealand's *Public Finance Act* 1989 and other legislation which now require State sector agencies to identify and report on outcomes.

Although New Zealand continues to appropriate funds on an output basis under the amended legislation, the outcome-oriented Statement of Intent produced by each entity is combined with other performance information to support the estimates for each appropriation.

The initial emphasis of MfO was mainly on planning and reporting at a whole of agency level, but the emphasis has since moved to encourage integration of MfO into agencies' internal management cycles, incorporating outcome oriented performance measurement into various elements of the management cycle from planning to performance reporting.

As in the UK and Canada, a feature of the MfO initiative has been the strong and coordinated leadership shown by central agencies such as the New Zealand Department of Prime Minister and Cabinet and the Treasury.

New Zealand's departments continue to be responsible for reporting primarily on the delivery of outputs (service performance). They are expected however to provide information on the relationship between the department's outputs and the Government's desired outcomes.

To this end, the advice provided by central agencies has paid a lot of attention to methods of identifying performance measures for 'impact' or 'intermediate outcomes'; the crucial middle layer of outcomes. This allows agencies to articulate the effect that their services and interventions are having on New Zealanders.

Appendix B.

Case study: Canada

Case study of better practice performance reporting Canada

The Management Accountability Framework (MAF) sets out to strengthen Canada's public sector management and accountability by providing a standard basis for reporting to citizens and Parliament on the alignment of resources, programs and results. Canada has gone further than the input-output-outcome framework for performance reporting and has begun to systematically address the effectiveness of departmental business processes that are also focused on achieving result.

MAF is governed by the Treasury Board's Policy on Management, Resources and Results Structure (MRRS), which has the objective of ensuring that the government and Parliament receive integrated financial and non-financial program performance information for use to support improved allocation and reallocation decisions in individual departments and across the government.

The key elements required by MRRS are:

- Clearly defined strategic outcomes that:
 - reflect the department's mandate and vision as well as being linked to government's priorities and intended results
 - provide the basis for establishing horizontal linkages between departments with similar or natural groupings of strategic outcomes.
- A Program Activity Architecture (PAA), which is a logic model that explains how inputs used by a department contribute to outputs, and a hierarchy of intermediate outcomes to the final desired Strategic Outcomes. The PAA:
 - links planned resource allocations, expected results and performance measures to each program at all levels
 - forms the foundation for constructing any horizontal program activity architectures that involve more than one department
 - establishes the structure for estimates documents and parliamentary reporting
 - serves as the basis for resource allocation by Parliament, the Treasury Board and departmental management

- provides the framework for those responsible for program activities at each level so they can commit to the results they intend to achieve with the resources they have been allocated and for which they report inside and outside the department.
- Defined Governance Structures which outline departmental decision making mechanisms, responsibilities and accountabilities.

MAF requires the development of metrics that assess and/or report on an agency's performance with respect to:

- **Governance and strategic directions**—internal coherence, corporate discipline and alignment to outcomes to ensure delivery of results.
- **Policy and programs**—agency research capacity to assure high quality policy options and program design.
- **People**—focussed on the extent to which the agency builds and sustains its human resource capacity and capability.
- **Citizen-focussed service**—the extent to which policies and programs are developed from the 'outside in'.
- **Risk management**—the extent to which organisational and strategic risks are managed proactively.
- **Stewardship**—the effectiveness of control of public assets including money, capital assets and infrastructure.
- **Accountability**—the extent to which delegations and accountability for results are defined and are appropriate to capabilities.
- **Public service values**—the effectiveness with which ethics are promulgated
- **Learning and development**—the management of continuous development of staff and organisational learning.
- **Performance and results**—relevant information on results on internal services and programs is used to guide agency decisions and public reporting is balanced, transparent and easy to understand.

These metrics embrace a range of issues affecting agency performance such as organisational sustainability. In this regard, Canada has moved further than most other jurisdictions in reporting performance against strategic outcomes.

Appendix C.

Better practice comparisons

Figure C1
Performance reporting—a comparison of interstate and overseas jurisdictions against better practice

Comparison of better practice	Canada	British Columbia	UK	New Zealand	Australia	Western Australia
Planning						
Desired outcomes/results published at whole of government level	✓	✓	✓	✓	X	✓
Desired outcomes/results published at agency level	✓	✓	✓	X	X	✓
Desired final outcomes/results and intermediate outcomes/results are linked through a published results-logic hierarchy of objectives and sub objectives	✓	X	✓	✓	X	X
Outcome/results performance informs strategic planning at whole of government level	✓	✓	✓	✓	X	✓
Outcome/results performance informs strategic planning at agency level	✓	✓	✓	✓	✓	✓
Outcome/results performance informs operational planning within agencies	✓	✓	✓	✓	✓	✓
Resource allocation						
Desired outcomes/results and past performance transparently inform government-wide resource allocation decisions	✓	✓	✓	✓	X	✓
Desired outcomes/results and targets included in budget papers	✓	✓	✓	✓	✓	✓
Indicators and targets established to monitor and report on achievement of outcomes/results at all levels in the objectives hierarchy	✓	✓	✓	✓	X	✓
Output mix, quantity and quality are not fixed by appropriation to allow management discretion in achieving outcomes	✓	✓	✓	X	X	✓

Figure C1
Performance reporting—a comparison of interstate and overseas jurisdictions against better practice – continued

Comparison of better practice	Canada	British Columbia	UK	New Zealand	Australia	Western Australia
Service delivery						
Agencies required to manage for outcomes/results	✓	✓	✓	✓	✓	✓
Agencies use outcomes/results to inform internal decisions	✓	✓	✓	✓	✓	✓
Accountability/reporting						
Mandatory reporting of outcome/results includes performance information at a whole of government level.	✓	✓	✓	✓	X	X
Mandatory agency reporting of effectiveness indicators explicitly disclosing objective/sub-objective contribution to whole of government outcomes/results	✓	✓	✓	X	X	X
Agency annual accountability report relates outcome/results to resources consumed	✓	✓	✓	✓	✓	✓
Performance information is audited (*=mandatory auditing)	✓	✓	✓	✓*	✓	✓*
Role of central agencies						
Central agencies are jointly involved in driving departmental outcome/results based performance reporting	✓	✓	✓	✓	✓	✓
Clear guidance is publicly available about results logic/program performance architectures and performance measurement and reporting	✓	✓	✓	✓	✓	✓
As part of the budget process, central agencies endorse departmental outcomes/results and associated performance information and the departmental contribution to whole of government outcomes	✓	X	✓	✓	X	✓

Source: Victorian Auditor-General's Office.

Auditor-General's reports

Reports tabled during 2009–10

Report title	Date tabled
Local Government: Results of the 2008–09 Audits (2009–10:1)	November 2009
Public Hospitals: Results of the 2008–09 Audits (2009–10:2)	November 2009
Towards a 'smart grid'— <i>the roll-out of Advanced Metering Infrastructure</i> (2009–10:3)	November 2009
Responding to Mental Health Crises in the Community (2009–10:4)	November 2009
Management of the Community Support Fund (2009–10:5)	November 2009
Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2008–2009 (2009–10:6)	November 2009
Water Entities: Results of the 2008–09 Audits (2009–10:7)	November 2009
Maintaining the Integrity and Confidentiality of Personal Information (2009–10:8)	November 2009
Vehicle Fleet Management (2009–10:9)	November 2009
Managing Offenders on Community Corrections Orders (2009–10:10)	November 2009
Portfolio Departments and Associated Entities: Results of the 2008–09 Audits (2009–10:11)	December 2009
Making Public Transport More Accessible for People Who Face Mobility Challenges (2009–10:12)	December 2009
Use of Development Contributions by Local Government (2009–10:13)	December 2009
The Effectiveness of Student Wellbeing Programs and Services (2009–10:14)	February 2010
Tendering and Contracting in Local Government (2009–10:15)	February 2010
Management of Concessions by the Department of Human Services (2009–10:16)	February 2010
Irrigation Water Stores: Lake Mokoan and Tarago Reservoir (2009–10:17)	March 2010
Management of Safety Risks at Level Crossings (2009–10:18)	March 2010
Fees and Charges—cost recovery by local government (2009-10:19)	April 2010

VAGO's website at <www.audit.vic.gov.au> contains a comprehensive list of all reports issued by the Office. The full text of the reports issued is available at the website.



Victorian Auditor-General's Office

Auditing in the Public Interest

Availability of reports

Copies of all reports issued by the Victorian Auditor-General's Office are available from:

- Information Victoria Bookshop
505 Little Collins Street
Melbourne Vic. 3000
AUSTRALIA

Phone: 1300 366 356 (local call cost)
Fax: +61 3 9603 9920
Email: <bookshop@diird.vic.gov.au>

- Victorian Auditor-General's website: <www.audit.vic.gov.au>