

# Outcome Based Management

Guidelines for use in the  
Western Australian Public Sector

NOVEMBER 2004



Department of Treasury and Finance  
Government of Western Australia

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## FOREWORD

Government agencies exist to achieve desired outcomes for the community. Recognising that they provide services for this purpose, Western Australia's performance management framework has been retitled 'Outcome Based Management' (OBM).

OBM retains the acronym and most of the elements of the previous framework, but its emphasis is more forward looking – it focuses on why things are done not just what is done, and facilitates managing for results.

OBM dovetails with *Better Planning: Better Services – A Strategic Planning Framework for the Western Australian Public Sector*, which articulates government's goals and strategic outcomes.

The changes to OBM will be seamless for reporting the performance of government agencies – annual reports will still report (and have audited) key performance indicators (KPIs) for each desired outcome and the services delivered

by agencies. Budget papers will continue to report outcomes and key effectiveness indicators, but outputs are now referred to more broadly as services and key efficiency indicators will replace output measures. The result – annual reports and budget papers will be aligned for the first time.

The emphasis on managing for results and the alignment between plans in the budget papers and results in annual reports should help agencies streamline their management and monitoring practices and synchronise internal and external reporting. This will lead to improved efficiency, more effective service delivery and ultimately better results for the community.



**David Smith**  
ACTING UNDER TREASURER

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# 1 INTRODUCTION

## About These Guidelines

Western Australia's performance management framework, referred to as Outcome Based Management (OBM), facilitates the monitoring of progress towards achievement of outcomes through the delivery of services.

These guidelines reflect the results of an extensive departmental review of OBM and incorporate feedback from a range of key stakeholders including other jurisdictions in Australia and overseas, Members of Parliament and public sector agencies, including those represented on the Financial Reform Consultative Committee<sup>1</sup>, in particular the Department of the Premier and Cabinet and the Office of the Auditor General.

Chapter 1 explains what OBM is all about and to whom it is relevant. It defines the elements of OBM (outcomes, services and indicators). Readers should go to Chapters 2 and 3 for details on how to develop these individual elements.

Chapter 4 discusses the means by which monitoring and reporting is undertaken. Chapter 5 outlines OBM's relationship to the budget process including the costing of services.

Further guidance and information may be obtained by contacting the Financial Policy Division on 9222 9358 or by viewing the list of publications at Appendix 2.

## Elements of OBM

### Outcomes

Outcomes are defined as the effects, impacts, results on or consequences for the community/target clients of services delivered by agencies.

All outcomes in the Western Australian Public Sector are expressed as government desired

outcomes, which can be either strategic or agency level. As part of the policy development process, government identifies the broader strategic outcomes that contribute to its higher level goals. These strategic outcomes are high level, long term, and often qualitative in nature.

In order to give effect to the government's goals and strategic outcomes, agency level government desired outcomes should be developed. Agency level outcomes are pitched at a level more relevant to agencies and are required to link to government goals. They are intended to either bring about behavioural change or satisfy a community or client need.

### Services

Services are the activities and goods that agencies deliver to external users in order to achieve outcomes. They can be in the nature of outputs or programs. The external reporting of services should be at a level that conveys meaningful understanding of an agency's performance. It should not be at a level so high as to obscure the agency's service delivery, or so low as to result in very detailed listing of all activities and tasks.

### Key Performance Indicators

Relevant and useful key performance indicators (KPIs) provide an overview of the critical or material aspects of outcome achievement (in terms of effectiveness) and service delivery (in terms of efficiency).

### The OBM Process

Figure 1 illustrates the cyclical nature of OBM. Having developed their strategic and operational plans, agencies should develop performance targets each year. The effectiveness and efficiency of services are monitored as they are delivered, which feeds into further planning.

<sup>1</sup> The Financial Reform Consultative Committee is chaired by the Department of Treasury and Finance and has representation from 22 public sector agencies.

**Figure 1: The OBM Cycle**

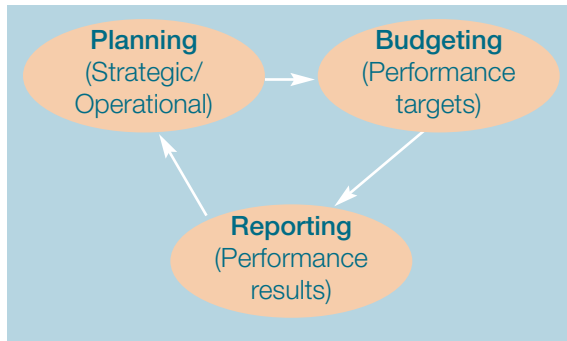


Figure 1 is expanded on by Figure 2, which provides an overview of the OBM process. The starting point is the government’s strategic planning framework, which provides guidance on strategic planning at agency level.

Agency planning generates OBM elements. The first of these is agency level government desired outcomes, which the agency’s Minister confirms on behalf of government. At this stage agencies also determine which services would contribute to the achievement of the desired outcomes, and KPIs to assess how well they are doing.

Development of targets for KPIs informs and underpins the budget process – i.e. resources are

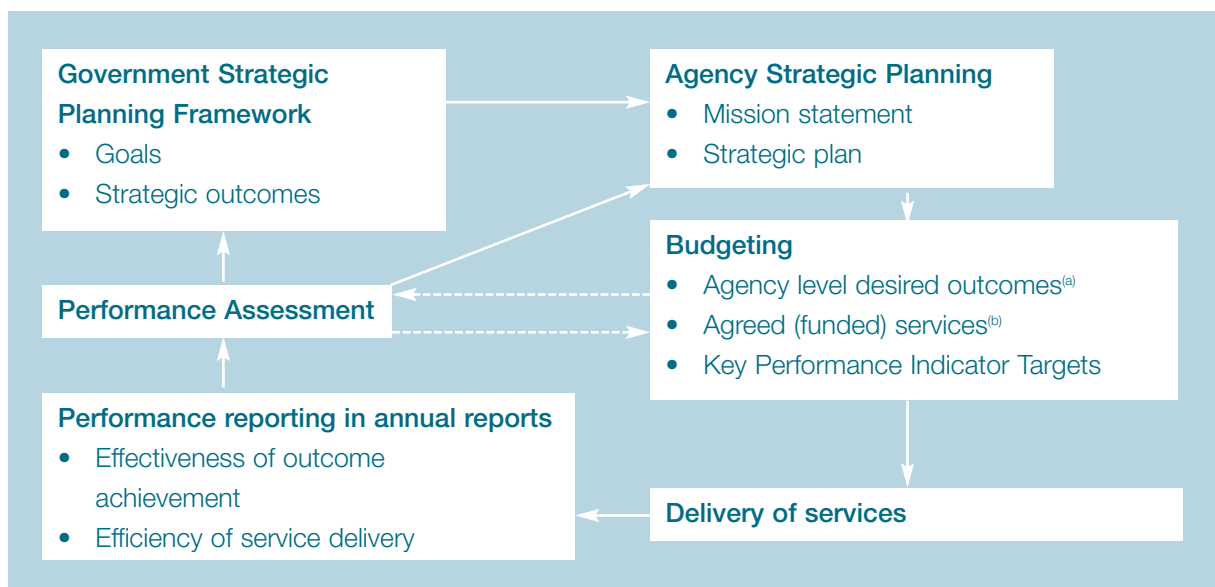
allocated for the purpose of achieving the government desired outcomes through service delivery.

As agencies work towards achieving outcomes they generate performance information that is reported internally and externally in the form of KPIs to assist with the assessment of performance. Assessment of performance then feeds into every level of planning including what services should be delivered in the future.

### OBM and Management Approaches

Treasurer’s Instruction 904 prescribes the mandatory requirements of OBM for agencies, but it does not preclude the application of other, consistent, management methodologies. In addition, OBM is expected to further evolve on the basis of experience in this State and with similar systems in other jurisdictions. Consequently, constructive feedback on how OBM can be improved is always welcomed.

**Figure 2: The OBM Process**



(a) Includes link to government goals/strategic outcomes

(b) Includes link to agency level government desired outcomes



## 2 DEVELOPING DESIRED OUTCOMES AND SERVICES

### Outcomes

As defined in Chapter 1, outcomes are the effects, impacts, results on or consequences for the community of the provision of services. Outcomes may be described as **why** services are delivered. Consequently, outcomes should not be written in such a way as to describe how services are delivered. By describing the ends while not prescribing the means, outcomes give decision makers the flexibility to fully explore alternative service delivery strategies.

### Strategic Planning Framework

Agency level government desired outcomes integrate with the government’s strategic directions articulated in its document *Better Planning: Better Services – A Strategic Planning Framework for the Western Australian Public Sector*. This document sets out government’s vision and goals as well as a number of strategic outcomes.

The strategic outcomes contribute to the realisation of five goals, relating to:

- people and communities;
- the economy;
- the environment;
- the regions; and
- governance.

Every agency level government desired outcome relates to at least one of these goals.

Further details of the government’s goals and strategic outcomes are available on the internet at <http://www.dpc.wa.gov.au/psmd/pubs/psrd/spfnov2.pdf>.

### Specifying agency level outcomes

An agency level outcome needs to clearly state the end result or impact that the agency is contributing to – it is a focus on results, not effort. It should reflect one of government’s goals without being so generalised as to diminish its

usefulness. The relationship between government goals/strategic outcomes, agency level outcomes and services is illustrated in Figure 3.

**Figure 3: Performance Management Hierarchy**



For an individual agency, this hierarchy could translate into an OBM structure analogous to the example in Figure 4.

**Figure 4: Performance Management Hierarchy Example**



## Outcome Based Management

When developing an agency level government desired outcome, the checklist in Table 1 could be helpful.

Table 1 OUTCOME CHECKLIST	
Characteristic	Check
Does it describe an end result, impact or consequence for the community or target client group?	<input type="checkbox"/>
Is it well aligned with the agency's or business unit's mission or purpose?	<input type="checkbox"/>
Is it consistent with one of government's goals (and strategic outcome where appropriate)?	<input type="checkbox"/>
Is it consistent with any enabling legislation?	<input type="checkbox"/>
Does it have a strategic focus, without being pitched at too high a level?	<input type="checkbox"/>
Does it describe <b>why</b> an agency delivers particular services, rather than 'what' or 'how' services are delivered?	<input type="checkbox"/>
Is it designed to avoid perverse incentives on staff and managerial behaviours?	<input type="checkbox"/>
Is it measurable using potential KPIs?	<input type="checkbox"/>

### Outcome examples

For on-budget agencies (i.e. agencies that are Divisions of the Consolidated Fund Estimates), the desired outcomes are those specified in the budget statements each year. For off-budget agencies, the desired outcomes are either identified within enabling legislation or specified by the Minister.

#### Example 1

Accessible, reliable and safe public transport system.

#### Example 2

A fair and independent criminal prosecution service for the State of Western Australia.

### Presentation of outcome information

Information presented in graphic form is more likely to have an impact and be useful to stakeholders. User friendly presentation of data helps agency managers and other stakeholders to quickly recognise variations, identify trends and monitor performance over a number of reporting periods.

### Use of outcome information by agencies

Outcome information is only as good as the management decisions it informs. Knowing how

outcome information will be used, and actually using it in decision making, helps focus measurement on the right outcomes. Outcome information can be used to<sup>2</sup>:

- Trigger corrective action, for example:
  - identify problem areas requiring changes in service delivery;
  - evaluate which changes in service delivery led to improvements in outcomes; and
  - re-prioritise resources.
- Identify and encourage best practice such as:
  - identify successful services; and
  - disseminate best practice information.
- Motivate employees by:
  - using it as a basis for demonstrating performance; and
  - recognising and acknowledging good practice.
- Plan and budget, for example:
  - set priorities and allocate resources; and
  - develop plans and set targets.

Users of outcome information should continually ask why differences occur and what can be done to improve the mix of services that are contributing to desired outcomes.

2 Based on Hatry, H. P., Morley, E., Rossman, S. B. & Wholey, J. S. (May 2003). *How Federal Programs Use Outcome Information: Opportunities for Federal Managers*. National Academy of Public Administration.

As outcome information increasingly becomes more available to service managers it is more likely to be routinely used in decision making.

**Use of outcome information by external stakeholders**

Outcome information for public sector agencies is particularly important to government and the Parliament, and should be useful as a basis for allocating resources to deliver services.

Other uses of outcome information and its associated KPI information include:

- economic analysis – to assess the economic health of the State;
- to provide informed commentary (social and environmental analysis) to interest groups and the public in general; and
- benchmarking – to provide a reliable basis of comparison with similar service delivery in other jurisdictions or the private sector.

**Agency Control**

Achievement of agency level government desired outcomes may be influenced by other agencies’ performance, other levels of government and external influences such as cost pressures and demographic changes. In these circumstances it is important for agencies to report on their progress towards outcome achievement, as well as to discuss other influences on the outcome.

**Other Agencies**

Where more than one agency is contributing to a desired outcome, agencies are encouraged to coordinate their efforts and reporting, facilitating ‘joined up government’. A lead agency should be identified that has overall responsibility for coordinating the delivery of, and reporting on, that outcome. In this situation each non-lead (or support) agency should include its contribution to the overall government desired outcome in its own reporting.

The government has a range of cross-agency initiatives in place, which reflect this multiple

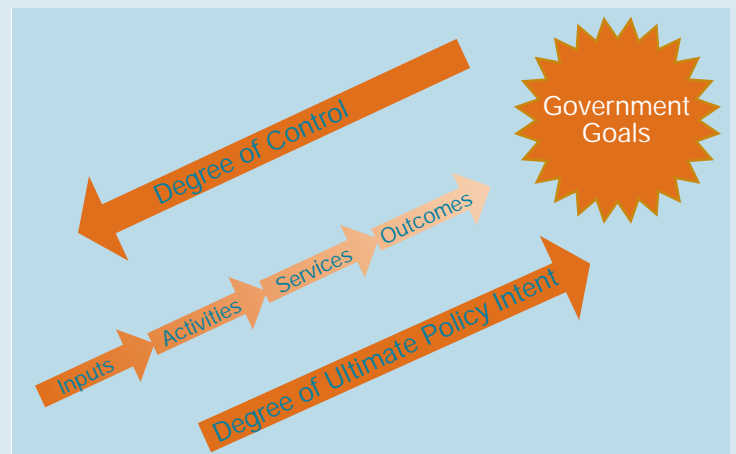
agency or ‘joined up’ approach to achieving policy priorities of government. Examples of such initiatives include the ‘Response to the Gordon Inquiry into Family Violence and Child Abuse’, ‘State Salinity Strategy’, ‘WA Greenhouse Strategy’ and the ‘State Homelessness Strategy’.

The mechanisms currently in place to identify and report progress on cross-agency initiatives include the budget papers (*Budget Overview and Budget Paper Number 2, Chapter 3 – Major Achievements and Major Initiatives*), various interagency committees and resource agreements.

**External Influences**

In addition, there may be influences on outcomes which are beyond the control of government as a whole. This is more likely to be the case for the highest level elements of strategic planning and reporting, as illustrated in Figure 5<sup>3</sup>.

**Figure 5: Control Versus Results**



When agencies report on outcomes that are subject to external influences, it is recommended that they include commentary on those influences.

**Services**

**Specifying services to best achieve outcomes**

After identifying the appropriate government goals and desired outcomes to which an agency contributes, each agency needs to determine

3 Figure 5 is based on work published by the Oregon Progress Board.

what services it will deliver to help achieve the desired outcomes. OBM places the onus on agencies to demonstrate the link between desired outcomes and the services (**what** is delivered) for which they seek resources in the budget process. As a guiding principle, resources should not be allocated to any service unless it can be demonstrated to contribute to the achievement of a government desired outcome.

There is no requirement that services be aligned with current organisational structure. But where such an alignment is achieved, the collection of cost and performance data is generally more readily facilitated.

Once the services have been specified agencies are expected to review service specifications as part of their ongoing strategic planning process, and may be required to do so as part of any service

evaluations<sup>4</sup>. Such reviews and any subsequent revisions should take into account both lessons learnt and changes to government priorities.

### Service Checklist

When specifying services the following questions should be asked:

- What services are delivered, or should be delivered, by the agency?
- What outcomes are the services addressing? Are they consistent with the government's goals and strategic outcomes?
- What results are the services generating?
- If a particular service ceased, what would be the consequences?
- Who has responsibility for the delivery of the service?

The checklist in Table 2 should also be considered.

**Table 2 SERVICE SPECIFICATION CHECKLIST**

Characteristic	Test	Check
<i>External Focus</i>	Does the service describe a distinct service or group of activities delivered to external customers?	<input type="checkbox"/>
<i>Strategic focus</i>	Can a link be demonstrated between the service and one or more of government's goals (and a strategic outcome where appropriate)?	<input type="checkbox"/>
<i>Clarity</i>	Is the service information pitched at the right level to assist stakeholders to understand what is being delivered?	<input type="checkbox"/>
<i>Measurability</i>	Can the service be routinely measured so that government will know if it is getting the services for which it has allocated resources?	<input type="checkbox"/>
<i>Comparability</i>	Does the service specification enable comparison of the performance of existing and potential providers of the service?	<input type="checkbox"/>
<i>Structural alignment</i>	Does the service (where appropriate) closely align with the organisational structure of the agency?	<input type="checkbox"/>

### Level of service specification

Finding the right level of service definition to assist management and reporting is ultimately a matter of judgment by individual agencies and their Ministers. Considerations in determining the level of service specification include:

- materiality of the resources involved;

- the relationship of the services to achievement of desired outcomes;
- the provision of adequate information for government decision making and Parliamentary scrutiny; and
- where activities are aggregated to form a service for external reporting purposes, the activities should be of a similar type.

<sup>4</sup> Further details on evaluations may be found in the Department of the Premier and Cabinet's publication *Guidelines for Public Sector Reviews and Evaluations*.

A service is in the nature of an **output** when it is a standard, discrete unit that can be measured in terms of quantity and cost. This allows cost per unit to be calculated with reasonable accuracy.

Where an agency's effort does not result in discrete, measurable units of output but continuous or non-standard units, the service is in the nature of a **program**.

Examples of outputs and programs are given below.

**Output example**

Resolution of complaints. (Provides an independent review and complaint resolution process, which resolves cases in a timely manner and balances the competing needs and expectations of applicants, agencies and Parliament within legislative requirements prescribed by the *Freedom of Information Act 1992*.)

**Program example**

Industry development services. (Facilitates the growth of internationally competitive industry, assists indigenous clients to develop their business capability and promotes Western Australia as a source of internationally competitive products and services.)

Under the OBM framework agencies should clearly specify all the services they deliver and their full costs. A guiding rule is that information disclosed for external budget reporting should have a strategic or whole-of-government focus, which may require some aggregation of services. However, lower level information may be more relevant for internal management purposes and for resource agreements.

**Policy advice**

Policy advice is generally considered a service of central agencies such as the Department of the Premier and Cabinet and the Department of Treasury and Finance. As with other services, it should only be defined as a service when it is provided to clients external to the agency.

**Outcome Structure Review Group**

In December 2003 government approved the establishment of an Outcome Structure Review Group (OSRG). Membership of the group comprises senior representatives of the Department of Treasury and Finance (chair), the Department of the Premier and Cabinet, the Office of the Auditor General (on an advisory basis), and a line agency representative.

The primary role of the OSRG is to ensure that all proposals for major changes to OBM structures increase the relevance and usefulness of performance information and are acceptable from a whole of government perspective prior to the changes being endorsed by agency Ministers.

With the increasing recognition that achievement of outcomes is not always agency specific, the OSRG may also be able to assist in defining shared outcomes and identifying the participating 'lead' and 'support' agencies.

Although the OSRG operates under delegated authority of the Under Treasurer to review OBM structures, the group has no direct input to the resource allocation process.

When submitting details of proposed changes to outcome/service structures to the OSRG, agencies are required to include the following supporting information:

- linkage of agency level desired outcomes to the higher level goals and strategic outcomes of government;
- rationale for proposed changes, including evidence of government policy changes (where applicable);
- evidence of consultation with key stakeholders, including agency Ministers; and
- details of continuing and/or revisions to KPIs (where applicable).

Agencies may make submissions to the OSRG at any time during the year, however deadlines for reflecting changes in the budget papers will apply. These deadlines will be determined each year as part of the budget process.

### 3 DEVELOPING PERFORMANCE INDICATORS

Performance indicators enable performance to be measured, monitored, evaluated, reported and improved. They play a key role in managing performance at all levels in the organisation – strategic and operational. The performance indicators comprise:

- effectiveness indicators (including cost effectiveness); and
- efficiency indicators (such as cost efficiency and productivity).

Treasurer's Instruction 904 mandates the reporting of KPIs, which is consistent with the annual advice to agencies by the Department of Treasury and Finance regarding the content of budget papers.

Measuring performance enables managers to achieve the benefits discussed below.

- *Continuous improvement.* KPIs assist assessment of the extent to which desired outcomes have been achieved and the efficiency with which services have been provided to contribute to outcome achievement. They assist agency managers to identify emerging issues, specify the best services and improve service delivery.
- *Accountability.* KPIs help agencies account for their expenditure of public monies. Major stakeholders including government, Parliament and members of the public have a legitimate interest in what public sector agencies do and how well they do it.

#### Characteristics of Good KPIs

Treasurer's Instruction 904 requires the reporting of KPIs, which should:

- be relevant;
- be appropriate; and
- fairly represent indicated performance.

**Relevance** means the performance indicators logically relate to the needs of stakeholders. The indicators should relate to clearly defined agency level government desired outcomes and services that communicate what is to be measured and assist with resource allocation decisions.

**Appropriateness** means the performance indicators should enable users to assess an agency's performance. The performance indicators need to provide an accurate understanding of the extent to which an agency has achieved predetermined targets, trends in performance over time and performance relative to the performance of similar service providers. Appropriateness can be achieved by examining the indicators currently being used or developed by other organisations or peak bodies in the same field. Using widely recognised indicators facilitates benchmarking. Indicators are also more likely to be appropriate if they are used for internal management as well as for external reporting.

Appropriate indicators reduce the risk of distorting the incentives of agencies. For example, it would be inappropriate for performance indicators to encourage agencies to focus on a large number of less severe cases (e.g. health or criminal) when better results could be achieved by focusing on a smaller number of more severe cases.

Appropriate indicators should be supported by explanations, either in the form of narrative or notes to tables, to ensure that the significance of statistics is clearly explained.

**Fairly represent indicated performance** means the performance indicators are free from bias, and should be measurable (in either quantitative or qualitative terms) so that appropriately qualified individuals working independently can verify them.



## Process of Developing Indicators

The information in this section may be supplemented by the publication *Preparing Performance Indicators – A Practical Guide*<sup>5</sup> which is available from the Department of the Premier and Cabinet web site.

## Evaluation

The development of useful performance indicators relies on clear specification of desired outcomes and services.

Once the desired outcome and service structure has been documented, the next step is to critically evaluate the existing performance information published in budget statements, strategic plans and agency annual reports, to determine which information should be retained.

As well as being relevant, appropriate, and fairly representative of indicated performance, performance indicators should be:

- developed in consultation with major stakeholders – the Minister, the Department of Treasury and Finance, agency staff and key customer groups; and
- in the case of effectiveness indicators, linked directly to government goals and either directly or indirectly to government strategic outcomes.

## Identify alternatives

In addition to reviewing currently reported performance information, agencies are encouraged to continually explore other potential sources of useful performance indicators, such as:

- benchmarks from other jurisdictions;
- Productivity Commission – Report on Government Services (annual);
- Commonwealth Grants Commission – comparisons across jurisdictions;
- Commonwealth agencies – e.g. Training and Health funding arrangements; and
- Australian Bureau of Statistics – relevant statistical publications.

## Consultation with Key Stakeholders

Key stakeholders should be consulted when KPIs are reviewed. Consultation should be ongoing, not just at the final stage of a review. As well as assisting the development of good indicators, consultation will enhance their acceptance by stakeholders. As far as possible performance indicators should be developed that are relevant to both agency management and stakeholders.

Changes to performance indicators are required to be endorsed by the Outcome Structure Review Group, as discussed in Chapter 2.

## Summary of the development process

The preparation of good performance indicators requires agencies to follow the steps below:

- identify the linkages between government goals, desired outcomes and services;
- consult internal and external stakeholders;
- ensure that the proposed KPIs are endorsed by the agency's executive and Minister;
- promote an organisational culture that emphasises the achievement of outcomes, self-evaluation, staff participation and consultation;
- assign development of indicators to appropriately skilled staff;
- use performance indicators for agency planning and management at both strategic and operational levels; and
- remember that performance indicators by definition provide indicative rather than absolute and all-embracing measures of performance.

## Effectiveness Indicators

Effectiveness indicators provide information that assists with assessment of the extent to which government desired outcomes have been achieved through the resourcing and delivery of services to the community. Desired characteristics of effectiveness indicators include the measurement of how well services meet client needs and the accessibility and affordability of particular services.

<sup>5</sup> Co-produced by Department of the Premier and Cabinet, Office of the Auditor General and Department of Treasury and Finance.

As examples, how easily the community can obtain education and police services, or the proportion of clients receiving the services that they need.

It is recognised that there may be lags between the delivery of services and achievement of desired outcomes. To reflect this, it is appropriate for agencies to estimate the timing of outcome achievement and utilise agreed milestones to indicate progress towards achieving desired outcomes. The role of milestone reporting is recognised in the statutory reporting framework (Treasurer's Instruction 904).

Effectiveness indicators will generally be derived from some characteristic of the outcome and they should be designed to identify as clearly as possible the causal relationship between the service(s) and the outcome. Some effectiveness indicators will be derived from a specific service. This may occur where there is a clear one-to-one causal relationship between the outcome and the service, or where the optimal means of identifying the achievement of the outcome is through reporting the separate effects of a number of services.

Designing indicators of effectiveness also checks the appropriateness of the associated outcome and service framework. If, for example, a service is not well specified, it may prove difficult to identify robust and reliable indicators of its contribution to the outcome. Similarly, if the outcome itself is too general or couched in inappropriate language, it may not be possible to establish effectiveness criteria that demonstrate a link between a service(s) and the outcome.

The design process for outcomes, services and effectiveness indicators should provide opportunities to cross-check the fit and alignment of each element of the structure.

As previously mentioned, an outcome may be influenced by the services of a number of agencies, other levels of government and non-government influences such as cost pressures

and demographic changes. Consequently, effectiveness needs to be reported with expanded narrative. The narrative should not only disclose the amount of inputs and progress towards the desired outcome, but also discuss other influences on the outcome such as the work of other agencies and external influences.

### **Cost effectiveness**

Cost effectiveness permits an overview of agency effectiveness and efficiency, as it relates outcomes directly to the cost of the services produced to achieve them. In other words, cost effectiveness compares change in outcome to total cost and may be expressed as an average over time. Cost effectiveness ensures that efficiency can in some sense be accounted for where per unit measurement of cost is impractical, for example when services are delivered in the form of programs rather than standardised outputs.

Agencies are encouraged to report cost effectiveness when doing so clarifies their performance or adds value to performance information. However, reporting cost effectiveness is only mandatory where reporting efficiency is not feasible.

As more than one service delivered by an agency may contribute to a government desired outcome, the inputs allocated to those services may have to be aggregated when cost effectiveness is being calculated.

### **Efficiency Indicators**

Efficiency indicators monitor the relationship between the service delivered and the resources used to produce the service. They compare inputs and outputs and are usually expressed as a fraction, percentage or ratio.

Efficiency indicators provide information about the production of a service at a given level of resources and can be used to demonstrate an entity's relative efficiency when compared with benchmarks such as previous results, internally established goals and objectives, generally



accepted norms or standards, or results achieved by similar jurisdictions. Although required to address the scope of agency operations, key efficiency indicators need only cover material expenditure or activity levels of the services to which they are applied. Materiality is meant in the same sense as in the Accounting Standards.

Efficiency indicators can be expressed in terms of unit cost or productivity.

**Cost efficiency**

The comparison of **input to output** (resources used divided by number of units produced) can be used to create a **cost efficiency** indicator.

This indicator focuses on the cost of the resources used in dollars per unit of output.

Examples of cost efficiency indicators include:

- cost per full-time-equivalent student;
- cost per student graduated;
- cost per public transport place kilometre;
- cost per kilometre of road repaired; and
- cost per licence issued.

**Productivity**

The comparison of **output to input** (number produced divided by resources used, holding other things constant) can create indicators of **productive** efficiency. The inputs used are often time related. Examples of productivity efficiency indicators include:

- licences/permits processed per employee hour;
- phone calls handled per hour;
- cases resolved per officer;
- units produced per week; and
- students taught per teacher.

**Efficiency Improvements**

An efficiency gain or improvement is achieved when:

- the same level of output (of the same quality) is produced at a lower cost (unit cost efficiency); or
- more output and/or output of higher quality is produced for the same cost (productive efficiency).

**Table 3 COMPARISON OF UNIT COST EFFICIENCY AND PRODUCTIVITY EFFICIENCY**

Unit cost	Productivity
Cost per full-time-equivalent student	Number of full-time-equivalent students per university or per \$'s in education budget
Cost per student graduated	Students graduated per semester
Cost per public transport place kilometre	Public transport place kilometres per trip
Cost per kilometre of road repaired	Kilometres of road repaired per year
Cost per licence/permit issued	Number of licences/permits processed per employee
Cost per phone call	Phone calls handled per hour
Cost per case resolved	Cases resolved per officer
Cost per unit	Units produced per week or other agreed timeframe
Cost per student	Students taught per teacher

### Internal Management

A good indication of the quality of performance indicators is that they are used for internal management purposes such as strategic and operational planning, as well as for indicating where corrective action is required.

An integrated set of performance indicators is preferable, rather than different sets for different purposes. More detailed information could be provided to assist frontline management, with aggregated data being used for more strategic purposes.

Internal and external reporting should, therefore, as far as possible be aligned or be capable of being reconciled. Agencies should consider whether to develop a hierarchy of information, with different parts of the information being used for different purposes.

### Presenting Indicators

Changes in effectiveness and efficiency over time may be more meaningful to managers, members of Parliament and other analysts rather than an actual dollar figure or production level at a specific point in time.

Wherever possible, agencies should present time series information in a form that enables trends to be easily identified.

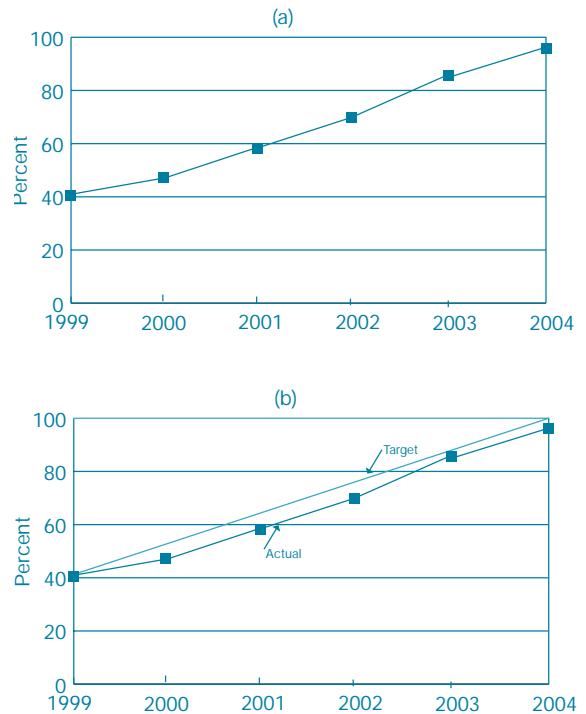
Examples of presentation methods using graphs, indices and tables are illustrated in the following pages.

### Graphs

The three graphs present performance information on effectiveness relating to the desired outcome 'quality education for all Western Australians who choose government schooling'.

Figure 6: Line Graph Examples

#### % ASSESSED STUDENTS ACHIEVING NATIONAL LITERACY AND NUMERACY BENCHMARKS



Line graph (b) presents the line graph (a) with the performance target included.

Figure 7: Bar Graph Example

#### % ASSESSED STUDENTS ACHIEVING NATIONAL LITERACY AND NUMERACY BENCHMARKS

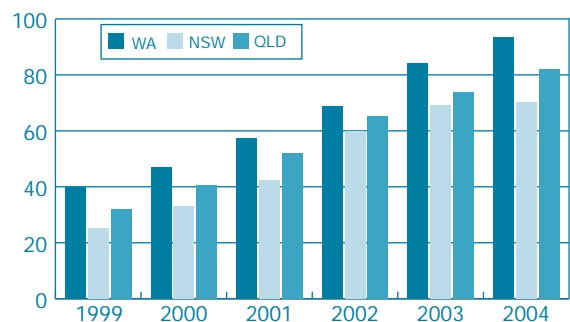


Figure 7 presents the same performance measurement information as Figure 6, but with comparative information from other jurisdictions.

**Indices**

The Gross Unit Cost Index methodology represents a notional index figure measured against a base year, similar to the Consumer Price Index used by the Australian Bureau of Statistics.

It provides a comparison over time of the relative costs of services and can be used for reporting efficiency.

Large fluctuations in the index across years require explanation to enhance the performance information. Without such explanations, the information is of limited use.

<b>Table 4 INDICES – GROSS UNIT COST INDEX</b>				
<b>Year</b>	<b>Criminal Law</b>	<b>Family Law</b>	<b>General Law</b>	<b>Total – All Programs</b>
1993-94	100.0	100.0	100.0	100.0
1994-95	105.2	87.8	103.8	105.4
1995-96	87.1	94.6	71.7	89.1
1996-97	85.4	90.3	60.8	86.0
1997-98	87.0	100.0	60.8	89.9

*Source: Legal Aid Commission Annual Report 1998 (figures are unaudited)*

*Note: The base year (1993-94) is taken as an index figure of 100*

**Tables**

<b>Table 5 COST OF REGISTRATION SERVICES</b>	
<b>Year</b>	<b>Average cost per registration service</b>
1999	\$5.75
2000	\$5.80
2001	\$6.00
2002	\$5.90
2003	\$6.10
2004	\$6.05

Table 5 presents cost (efficiency) information in a basic table format. Although data is easily interpreted large fluctuations of costs across the years would require further explanation.

**Checklist**

The following checklist may assist in developing KPIs.

Table 6 KEY PERFORMANCE INDICATOR CHECKLIST	
Characteristic	Check
Are the linkages between government goals, agency level desired outcomes and services clearly identifiable?	<input type="checkbox"/>
Does the KPI enable assessment of service delivery by key stakeholders, including government, Parliament and the Department of Treasury and Finance? For example: <ul style="list-style-type: none"> <li>the <b>effectiveness</b> indicator should assist stakeholders to assess the extent to which desired outcomes are being achieved (any <b>cost effectiveness</b> indicator should enable comparison between the achievement of desired outcomes and the resources being contributed to achieve them); and</li> <li>the <b>efficiency indicator</b> should provide useful information to decision makers about the economical use of inputs.</li> </ul>	<input type="checkbox"/>
Does the KPI assist agency managers with strategic planning, resource allocation and identification of situations in which timely corrective action is warranted?	<input type="checkbox"/>
Does the KPI facilitate comparison with other service providers?	<input type="checkbox"/>
Does the KPI describe what is to be measured, e.g. the crime rate (as opposed to the desired direction of change in the crime rate)?	<input type="checkbox"/>
Can data be readily collected and reported against the indicator when required?	<input type="checkbox"/>
Have the KPIs been endorsed by the agency's executive?	<input type="checkbox"/>
Are the requirements of Treasurer's Instruction 904 and the <i>Financial Administration and Audit Act</i> sections 63 or 68 met?	<input type="checkbox"/>
Has the Outcome Structure Review Group endorsed the performance information changes?	<input type="checkbox"/>

Further assistance with developing performance indicators may be obtained from the Department of Treasury and Finance and the Department of the Premier and Cabinet – see contact details in Appendix 1.

### Examples of Outcomes, Services, and KPIs

The following tables provide examples of the various elements of the outcome based management framework. In the case of KPIs (the final three columns) accompanying text should explain the significance of the indicators, for example the distinction between passenger kilometres and place kilometres.

PEOPLE AND COMMUNITIES				
To enhance the quality of life and wellbeing of all people throughout Western Australia				
Desired Outcome	Service	Effectiveness Indicators	Cost Effectiveness Indicators	Efficiency Indicators
Lawful road-use behaviour	<ul style="list-style-type: none"> <li>Traffic law enforcement and management</li> </ul>	<ul style="list-style-type: none"> <li>Percentage of drivers tested for drink-driving who are found to be <b>within</b> the lawful alcohol limit</li> <li>Percentage of vehicles monitored for speeding by speed cameras that are found to be <b>within</b> the lawful speed limit</li> </ul>	<ul style="list-style-type: none"> <li>Estimated change in speed related crashes after expenditure on relevant safety campaigns<sup>1</sup></li> </ul>	<ul style="list-style-type: none"> <li>Average cost (\$) per hour of traffic law enforcement and management</li> <li>Average number of vehicles monitored per speed camera hour<sup>1</sup> (productivity)</li> </ul>
Quality education for all Western Australians who choose government schooling	<ul style="list-style-type: none"> <li>Secondary Education</li> </ul>	<ul style="list-style-type: none"> <li>Secondary graduation rate (proportion of year 8 cohort achieving secondary graduation in year 12)</li> <li>Percentage of assessed students achieving national literacy and numeracy benchmarks</li> </ul>	<ul style="list-style-type: none"> <li>Average cost per student graduating<sup>1</sup></li> </ul>	<ul style="list-style-type: none"> <li>Average cost per student</li> <li>Student to teacher ratio (productivity)</li> </ul>
Accessible, reliable and safe public transport system	<ul style="list-style-type: none"> <li>Metro passenger services<sup>(1)</sup></li> </ul>	<ul style="list-style-type: none"> <li>Use of public transport – passengers per service kilometre</li> </ul>	<ul style="list-style-type: none"> <li>Average cost per passenger kilometre</li> </ul>	<ul style="list-style-type: none"> <li>Average cost per 1,000 place kilometres</li> </ul>
Restoration of the health of people with acute illness	<ul style="list-style-type: none"> <li>Prevention and promotion</li> <li>Diagnosis and treatment</li> </ul>	<ul style="list-style-type: none"> <li>Person years of life lost per 1,000 population due to preventable disease or injury</li> <li>Percentage of acute hospital separations that are discharges to home</li> <li>Waiting times for elective surgery<sup>1</sup></li> </ul>	<ul style="list-style-type: none"> <li>Estimated number of people who quit smoking after a health campaign to cost of campaign<sup>1</sup></li> </ul>	<ul style="list-style-type: none"> <li>Average cost per priority health promotion program</li> <li>Average cost per weighted separation at public hospitals</li> <li>Relative stay index – actual number of acute bed days by expected number of acute bed days<sup>1</sup> (productivity)</li> </ul>

<sup>1</sup> These indicators are new suggestions, whereas all other information in this table is sourced from agency annual reports and the budget papers.

## Outcome Based Management

THE ECONOMY				
To develop a strong economy that delivers more jobs, more opportunities and greater wealth to Western Australians by creating the conditions required for investment and growth				
Desired Outcome	Service	Effectiveness Indicators	Cost Effectiveness Indicators	Efficiency Indicators
Increased competitiveness and profitability of agriculture, food and fibre industries	<ul style="list-style-type: none"> <li>Food and fibre industry development</li> </ul>	<ul style="list-style-type: none"> <li>Total Factor Productivity Index</li> <li>Gross Value of Production</li> <li>% change in uptake of grain varieties</li> </ul>	<ul style="list-style-type: none"> <li>Change in value of production per dollar of government spending<sup>1</sup></li> </ul>	<ul style="list-style-type: none"> <li>Average hourly cost per person involved in investment attraction and market development</li> </ul>
Responsible development of the State's industry and resources for the benefit of Western Australians	<ul style="list-style-type: none"> <li>Industry development services</li> </ul>	<ul style="list-style-type: none"> <li>Environmental performance of the industry measured as a % of audited projects which attract zero major corrective action reports</li> <li>Percentage of Australian mineral exploration expenditure expended in Western Australia</li> </ul>		<ul style="list-style-type: none"> <li>Average cost of industry and trade projects facilitated</li> </ul>
Science and innovation has increased in significance as a driver of economic growth for Western Australia	<ul style="list-style-type: none"> <li>Science and innovation promotion and support</li> </ul>	<ul style="list-style-type: none"> <li>Change in the level of total investment in scientific research and development in Western Australia</li> <li>Index of funding leverage obtained for Western Australia from Centres of Excellence grants</li> </ul>	<ul style="list-style-type: none"> <li>Cost per \$m change in the level of investment<sup>1</sup></li> <li>Cost per % point change in the index<sup>1</sup></li> </ul>	<ul style="list-style-type: none"> <li>Average cost of administration per research capability and infrastructure grant</li> <li>Average cost per science and innovation program and project managed</li> </ul>
Western Australia is promoted as an attractive destination	<ul style="list-style-type: none"> <li>Destination marketing</li> </ul>	<ul style="list-style-type: none"> <li>Awareness amongst potential visitors that WA offers iconic tourist experiences</li> <li>Ratio of WA increase in visitor expenditure to the national average increase in visitor expenditure</li> </ul>	<ul style="list-style-type: none"> <li>Ratio of cost of incremental tourism activities to visitor expenditure generated</li> </ul>	<ul style="list-style-type: none"> <li>Cost per consumer awareness strategy</li> </ul>

1 These indicators are new suggestions, whereas all other information in this table is sourced from agency annual reports and the budget papers.

THE ENVIRONMENT				
To ensure that Western Australia has an environment in which resources are managed, developed and used sustainably, biological diversity is preserved and habitats protected				
Desired Outcome	Service	Effectiveness Indicators	Cost Effectiveness Indicators	Efficiency Indicators
An increase in the adoption of renewable energy and energy efficiency	<ul style="list-style-type: none"> <li>Development and implementation of sustainable energy policy and programs</li> </ul>	<ul style="list-style-type: none"> <li>Use of renewable energy through incentive programs, indicated by the displacement of fossil fuel. Kilowatt hour of fossil fuel displaced by:                             <ul style="list-style-type: none"> <li>Solar Hot Water Subsidy Scheme</li> <li>Renewable Remote Power Generation Program</li> <li>Renewable Energy Water Pumping Program</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Estimated cost of reducing fossil fuel usage by x% per kilowatt hour<sup>1</sup></li> </ul>	<ul style="list-style-type: none"> <li>Average cost per incentive grant administered</li> <li>Average cost of meeting major policy and program implementation milestones</li> </ul>
Conservation of wildlife	<ul style="list-style-type: none"> <li>Wildlife collection management</li> </ul>	<ul style="list-style-type: none"> <li>Percentage of species in the animal collection that are part of a regionally managed program</li> </ul>		<ul style="list-style-type: none"> <li>Average cost per species</li> </ul>
Conservation and sustainable development of the State's fish resources	<ul style="list-style-type: none"> <li>Management of the State's commercial fisheries</li> </ul>	<ul style="list-style-type: none"> <li>The proportion (%) of fisheries where breeding stocks of the major target species are both assessed and adequate to ensure catches are sustained at maximum levels within the range expected under typical environmental conditions</li> </ul>	<ul style="list-style-type: none"> <li>Cost of managing commercial fish stocks at a sustainable level per major target species<sup>1</sup></li> </ul>	<ul style="list-style-type: none"> <li>Average cost per hour for research</li> <li>Average number of assessed catches per inspection hours<sup>1</sup> (productivity)</li> </ul>
Protection and enhancement of the quality of the State's surface and groundwater	<ul style="list-style-type: none"> <li>Water protection policies, guidelines and regulation</li> </ul>	<ul style="list-style-type: none"> <li>The percentage of plans completed to guide the protection of the State's water supply catchments/basins<sup>1</sup></li> </ul>	<ul style="list-style-type: none"> <li>Cost of reduction in specified pollutants in the State's water supply<sup>1</sup></li> </ul>	<ul style="list-style-type: none"> <li>Average cost per key protection policies developed</li> <li>Average cost per million kilolitres of groundwater managed and protected</li> </ul>

<sup>1</sup> These indicators are new suggestions, whereas all other information in this table is sourced from agency annual reports and the budget papers.

## Outcome Based Management

THE REGIONS				
To ensure that regional Western Australia is strong and vibrant				
Desired Outcome	Service	Effectiveness Indicators	Cost Effectiveness Indicators	Efficiency Indicators
Effective management of biosecurity	<ul style="list-style-type: none"> <li>Biosecurity</li> </ul>	<ul style="list-style-type: none"> <li>Identifications of notifiable animal diseases</li> <li>Interceptions of significant pests, diseases and weeds</li> </ul>		<ul style="list-style-type: none"> <li>Average cost per diagnostic sample processed (animal and plant disease and plant pest)</li> <li>Average cost per passenger quarantine checking post</li> </ul>
Enhancement of the Pilbara region's economic and social development	<ul style="list-style-type: none"> <li>Business and Industry Development</li> </ul>	<ul style="list-style-type: none"> <li>Customers satisfied that the Pilbara Development Commission is effective in encouraging business and industry development through the identification and coordination of projects</li> </ul>	<ul style="list-style-type: none"> <li>Value of new business investment per cost of projects<sup>1</sup></li> </ul>	<ul style="list-style-type: none"> <li>Average cost per project</li> </ul>
Protection of the productive resource base	<ul style="list-style-type: none"> <li>Agriculture resource protection</li> </ul>	<ul style="list-style-type: none"> <li>Proportion of inspected properties with infestations of declared animal pests, plant pests and diseases</li> </ul>	<ul style="list-style-type: none"> <li>Value of agricultural production impacted per successful eradication campaign<sup>1</sup></li> </ul>	<ul style="list-style-type: none"> <li>Average cost per property contact for agency control/eradication activities for animal pests, plant pests and diseases</li> </ul>

<sup>1</sup> These indicators are new suggestions, whereas all other information in this table is sourced from agency annual reports and the budget papers.



<b>GOVERNANCE</b>				
<b>To govern for all Western Australians in an open, effective and efficient manner that also ensures a sustainable future.</b>				
<b>Desired Outcome</b>	<b>Service</b>	<b>Effectiveness Indicators</b>	<b>Cost Effectiveness Indicators</b>	<b>Efficiency Indicators</b>
Compliance with lawful gambling and liquor services in accordance with the legislation	<ul style="list-style-type: none"> <li>Compliance audits and inspections</li> </ul>	<ul style="list-style-type: none"> <li>Licensees/service providers that comply with audit requirements and statutory criteria</li> </ul>		<ul style="list-style-type: none"> <li>Cost per compliance audit/inspection</li> </ul>
All electors are able to participate in impartial, effective and democratic elections or referenda conducted by the Commission	<ul style="list-style-type: none"> <li>Electoral services</li> </ul>	<ul style="list-style-type: none"> <li>Average participation rate of eligible electors in elections</li> </ul>	<ul style="list-style-type: none"> <li>Average cost per valid vote cast<sup>1</sup></li> </ul>	<ul style="list-style-type: none"> <li>Proportion of affected electors per election that are aware of boundary changes<sup>1</sup></li> <li>Average cost per elector of conducting elections</li> </ul>
Improved integrity and reduced incidence of misconduct in the public sector	<ul style="list-style-type: none"> <li>Investigations into misconduct in the public sector</li> </ul>	<ul style="list-style-type: none"> <li>Strategic assessments indicating the incidence of misconduct in the public sector</li> </ul>		<ul style="list-style-type: none"> <li>Cost per allegation assessed</li> <li>Average time taken to respond to an allegation<sup>1</sup></li> </ul>

<sup>1</sup> These indicators are new suggestions, whereas all other information in this table is sourced from agency annual reports and the budget papers.

## 4 PERFORMANCE MONITORING AND REPORTING

### Benefits of Performance Monitoring and Reporting

The benefits of performance monitoring and reporting are realised when an agency's internal stakeholders, i.e. management and employees, embrace a culture that focuses on performance. These benefits are also heavily dependant on external stakeholders keeping an eye on performance reports and utilising the results in their decision making.

Such benefits include:

- enhanced knowledge in Parliament of what agency budgets are planning to provide;
- greater public transparency of agency services;
- help to identify successful ('best') practices and promulgate those practices to other areas within and between agencies and/or government (refer to the section 'Benchmarking' in this chapter for further information);
- the ability of agencies to assess their performance against targets;
- the ability to investigate the reasons for any inconsistent performance against targets, and suggest remedial action to prevent recurrence and/or improve results; and
- assisting agencies to estimate performance levels in out-years.

To obtain these benefits performance reports should be evaluated. Information on undertaking evaluations can be found in *Guidelines on Agency Strategic Management*, which is produced by the Department of the Premier and Cabinet.

### Reporting

Performance monitoring and reporting should be undertaken by agencies on an ongoing basis, rather than as an annual compliance exercise, if the potential benefits are to be realised by agencies and government as a whole.

Agencies are required to report performance

information to key stakeholders through the following means:

- budget statements;
- strategic development plans/statements of corporate intent;
- annual reports; and
- agency management reports.

### Budget Statements

The budget statements are the primary document against which the performance of on-budget agencies is assessed. They disclose results and forecasts for KPIs over the previous, current and budget years. The disclosure of trends using time series information is considered to be more useful than the results for any single year.

The primary target audience of the budget statements is Parliament, to which the statements provide detailed information in support of agency resourcing. The budget statements are accessible by all members of the public. Chapter 5 contains more detail about OBM and the budget.

From the 2005–06 budget, mandatory reporting of output measures (quantity, quality, timeliness and cost) has been discontinued. For monitoring purposes the emphasis is now on the audited KPIs of effectiveness and efficiency. Development of these indicators is dealt with in Chapter 3 of these guidelines.

### Strategic Development Plans/Statements of Corporate Intent

These corporate planning documents are prepared annually by a number of off-budget agencies that have a commercial focus.

The Strategic Development Plan (SDP) is a rolling plan with a five-year outlook while the Statement of Corporate Intent (SCI) looks at the first year in detail. In some cases, applicable legislation specifies the matters which are to be included in the SDP and SCI, which generally includes reference to performance targets and other measures against which financial and non-financial performance may be reviewed.

## Annual Reports

The *Financial Administration and Audit Act* requires that KPIs be included in annual reports and that they be audited. More specifically, Treasurer's Instruction 904 requires that at least one key effectiveness indicator is required for each agency level government desired outcome and one key efficiency indicator for each service (or cost effectiveness indicator in the absence of an appropriate efficiency indicator). Additional KPIs should be published where they add value.

In order to facilitate meaningful comparison and assessment of agency performance, the KPIs published in the annual report should be the same as those published in either the budget statements or the SDP/SCI. At the conclusion of the current rolling review of agency OBM structures, the intention is that all major on-budget agencies will have had all their published KPIs reviewed by the Outcome Structure Review Group. The same KPIs should be subsequently audited and published in agency annual reports and the budget statements.

Annual reports are public documents that are tabled in Parliament and are available on the Parliament and agency web sites. The annual report provides a significant opportunity for government agencies to publish their achievements. Further assistance in preparing annual reports can be obtained from the Department of the Premier and Cabinet's publications *Annual Report Framework and Premier's Circular 2004/08 Annual Reporting*.

## Agency Management Reports

KPIs should be designed to be used as both management tools and for reporting. Management should be aware of progress towards the annual targets in order to take corrective action if progress is not satisfactory.

## State Progress Report

Alignment of agency level outcomes to government's goals and strategic outcomes ensures that agency performance is in line with government expectations. It is envisaged that selected effectiveness KPIs together with relevant data published by independent organisations

such as the Australian Bureau of Statistics will be used to help report future progress against government goals and strategic outcomes as outlined in *Better Planning: Better Services*.

## Benchmarking

### What is benchmarking?

Benchmarking is the process of assessing an agency's performance in producing a service against a comparable service within or external to the agency.

Benchmarking is not just about setting target levels. It entails searching for the methods and processes that lead to best practice performance, and developing an action plan to implement them where they are not being used.

### Why benchmark?

Major reasons why government agencies should benchmark their service delivery include:

- the scarcity of resources increases the pressure to know about best practice in resource usage, to raise productivity in service delivery and to improve outcomes;
- better management tools are required to instil an increased customer focus and ensure that customers become the main judges of service quality; and
- government services are becoming increasingly contestable and governments often consider alternative means of service delivery.

Benchmarking aligns with OBM by:

- testing the competitiveness of the cost of services relative to other jurisdictions or service providers;
- identifying inefficiencies within agencies;
- comparing the effectiveness and quality of service delivery against other jurisdictions or service providers; and
- setting goals or standards for agencies to improve efficiency and effectiveness.

Benchmarking assists agencies to:

- review priorities;
- reallocate resources; and
- improve the quality of services they deliver.

## 5 OBM AND THE BUDGET

The budget is the blueprint for the government's plans for the budget year and beyond, setting out the projected financial implications of delivering those plans. The budget is framed in light of the following set of financial management principles, which are stipulated in the *Government Financial Responsibility Act*:

- funding for current services is to be provided by the current generation;
- spending and taxing policies are to be formulated and applied so as to give rise to a reasonable degree of stability and predictability;
- financial risks are to be managed prudently; and
- spending and taxing policies are to be formulated and applied with consideration to the effect of these policies on employment and the economic prosperity of the State.

These financial management principles are underpinned by financial targets that set the boundaries within which the plans are to be delivered.

Performance information has a dual role in relation to the budget. Firstly, it is available to assist decision making in the budget formulation phase and secondly, it illustrates and articulates plans in the budget statements.

### OBM and Budget Formulation

Each year the Department of Treasury and Finance advises agencies (through the annual budget circular) of the steps involved in the budget formulation process, as approved by the government of the day. One of the steps will typically be for agencies, through their Ministers, to submit details of cost and demand pressures, capital investment plans and any new spending proposals.

In addition to the financial impact, budget submissions for new spending proposals by agencies should provide the information described below.

- The relationships between the agency level government desired outcome(s), government goals and strategic outcomes.
- Quantitative and qualitative information on what services are to be delivered. This may be at a lower level (e.g. product or activity) than the services published in the budget statements, but nevertheless should link through to the services level.
- The expected impact on KPI targets for the level of resources sought and, if possible, the expected impacts at a range of resource levels.

Submissions involving cost and demand pressures can also be enhanced by providing this information, and any scrutiny of existing levels of service delivery is also likely to examine these elements.

The characteristics illustrated in Table 7 below should be considered when determining targets.

**Table 7 PERFORMANCE TARGETS CHECKLIST**

Characteristic	Check
Does it represent a balance between being realistic and challenging?	<input type="checkbox"/>
Is it achievable within the agency’s approved resources?	<input type="checkbox"/>
Can data be collected and reported against the targets?	<input type="checkbox"/>
Are targets expressed simply?	<input type="checkbox"/>
Do stakeholders regard the targets as appropriate?	<input type="checkbox"/>
Is there consistency with the agency’s strategic plan?	<input type="checkbox"/>
Are targets consistent with government’s overarching goals and strategic outcomes?	<input type="checkbox"/>

Actual results are then published in annual reports, including a comparison against targets, to complete the OBM cycle. Those actual results, in conjunction with any changes in policy settings, resourcing levels and the external environment, provide a basis for setting future targets in the next cycle.

**OBM and Budget Presentation**

**Relationship to government goals**

As previously indicated, government goals are documented in the publication *Better Planning: Better Services*. They are listed below:

- People and Communities – to enhance the quality of life and wellbeing of all people throughout Western Australia;
- The Economy – to develop a strong economy that delivers more jobs, more opportunities and greater wealth to Western Australians by creating the conditions required for investment and growth;
- The Environment – to ensure that Western Australia has an environment in which

resources are managed, developed and used sustainably, biological diversity is preserved and habitats protected;

- The Regions – to ensure that regional Western Australia is strong and vibrant; and
- Governance – to govern for all Western Australians in an open, effective and efficient manner that also ensures a sustainable future.

As discussed in Chapter 2, the strategic outcomes in *Better Planning: Better Services* contribute to these goals. For budget presentation purposes, agencies are required to link their desired outcomes (and services) to the most appropriate government goal(s).

Ideally, agency level outcomes should also relate to government strategic outcomes. In rare instances it is possible for an agency level outcome to be the same as a strategic outcome, but generally agency outcomes are at a lower level, describing a more tangible result or impact.

An example of this relationship is shown in Table 8.

**Table 8 RELATIONSHIP TO GOVERNMENT GOALS**

Government Goal	Strategic Outcome	Agency Level Outcome
People and Communities – to enhance the quality of life and wellbeing of all people throughout Western Australia	Accessible and reliable public transport	Accessible, reliable and safe public transport system

Note that presently the table in the budget statements shows the sequence: government goal, agency level desired outcome(s) and services – strategic outcomes are not shown.

### Cost of Services

The total cost of each service is disclosed in the budget statements for the budget year and the previous two years. The aggregate total cost of all services is disclosed for the forward estimate years, and the total cost of all services for all years should equal the amount shown against that line in the Income Statement (formerly known as the Statement of Financial Performance).

The Department of Treasury and Finance publication *Costing and Pricing Government Outputs*<sup>6</sup> provides guidelines to assist agencies with the costing of services. Whilst the guidelines point out that there is no single universally applicable costing methodology, the following principles should be applied generally to costing exercises:

- all costs should be accurate and verifiable;
- full costs are to be used, including any indirect costs (i.e. costs shared between a number of services);
- recurrent impact of capital costs such as depreciation and opportunity cost of capital (capital user charge) are to be included; and
- the cost of resources received free of charge from other agencies is to be included as part of the total cost of services.

### Key Performance Indicators, initiatives and achievements

KPIs assist in assessing achievement of outcomes and efficiency of services. KPIs are published in the budget statements with targets for the budget year, and actual and expected results for the previous two years. The KPIs are subsequently audited and published with the audit opinion in agency annual reports. Due to space considerations, it may not be practical for agencies that have a large number of KPIs to include all of them in strategic documents such as the budget statements. Significant variations between actuals, estimates or targets require explanation in the budget statements (as they would in annual reports).

Major initiatives and achievements are also published in the budget statements – initiatives for the budget year and achievements for the previous year. These are expressed in narrative form and pitched at a level lower than services, such as product, activity or project. They should describe what is being done and why it is being done.

Where practical, demonstration of a direct relationship with KPIs or desired outcomes is preferable for major initiatives and achievements. Phrases like ‘continue to’ should be avoided, as should other business as usual statements.

The results of major initiatives in one year should be reported as major achievements in the following year’s budget statements to achieve continuity. It is not intended, however, to publish initiatives that were not progressed to the point of being major achievements in the following year. Despite this, agencies should be prepared to discuss in forums such as Parliament’s Estimates Committee hearings progress towards achieving major initiatives or the reasons why an initiative may have been discontinued.

### Capital Works and Administered Expenses

Direct expenditure on capital works (e.g. purchase of assets) does not form part of total cost of services. These outlays are, however, reflected in the total cost of services as a depreciation expense (i.e. allocation of the cost of assets over their useful life).

Asset needs that are identified through the planning, management and review processes should be specified in the agency’s strategic asset plan. This broad plan should then be articulated through an appropriate capital investment plan, asset maintenance and operation plan, and/or asset disposal plan and associated processes. Agency planning at strategic and business/operational levels within the OBM framework is illustrated in Figure 8.

6 A forthcoming edition will be known as *Costing and Pricing Government Services*.

Further information about strategic asset management is available from the publications listed towards the back of this document (Appendix 2). Assistance may also be obtained from the Asset Planning and Management Division of the Department of Treasury and Finance by telephoning 9222 9380.

Administered expenses, such as some grants and subsidy payments, do not form part of an agency's services – by definition they are not controlled and therefore do not constitute OBM information. However, activities associated with payments of such grants and subsidies would be treated as a service provided by the agency, particularly where the cost associated with these activities is material.

### Resource Agreements

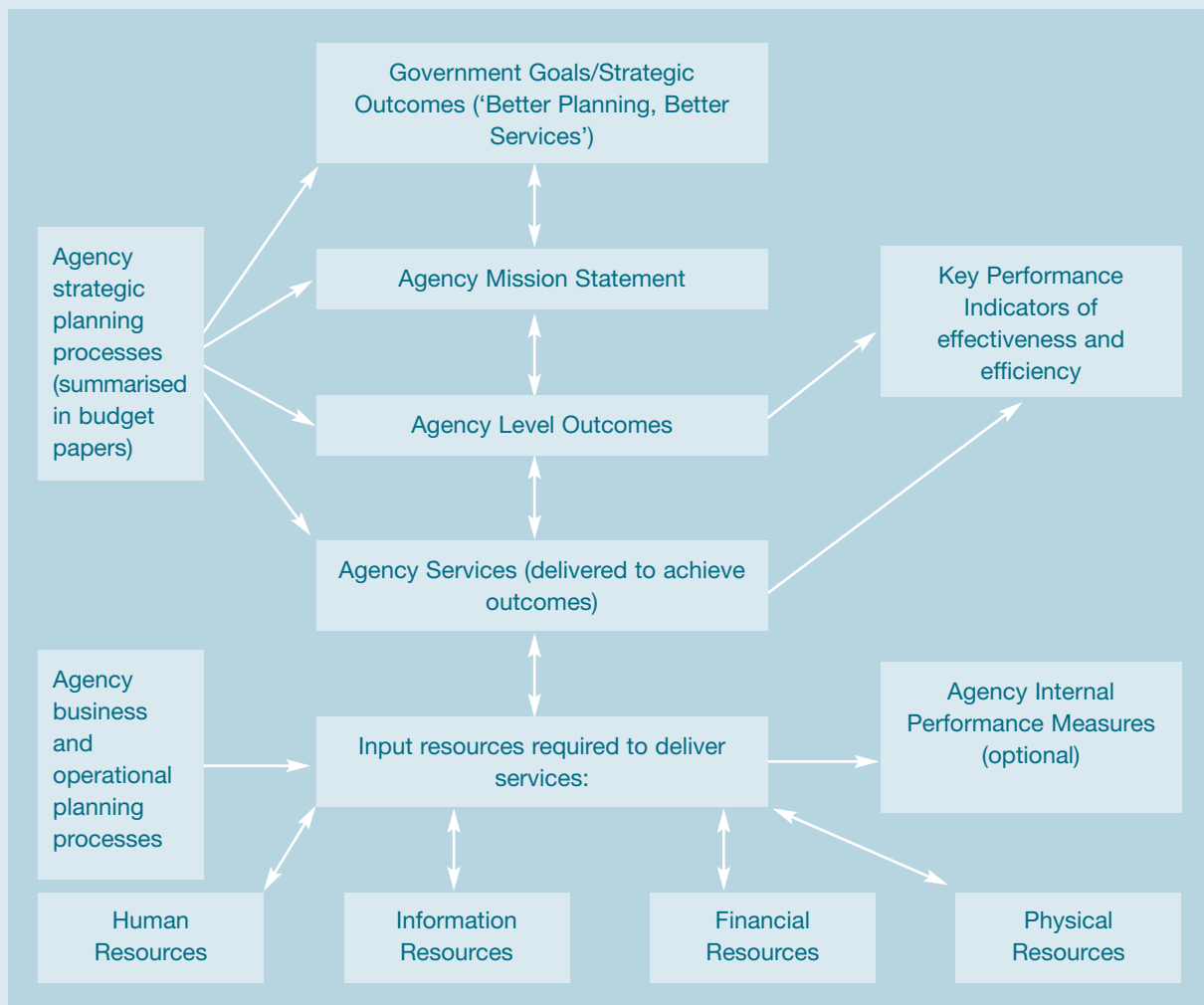
On-budget agencies are subject to resource agreements signed by the Chief Executive Officer (CEO), Minister and Treasurer (and a representative of the statutory board in the case of a statutory authority).

Resource agreements link OBM performance information – desired outcomes, services and KPIs – to the government's financial targets. Signatories to the resource agreements commit to their respective roles in regard to:

- providing resources;
- delivering services; and
- achieving outcomes

within the constraints of the government's financial targets.

**Figure 8: Agency Planning within the OBM Framework**



## APPENDIX 1 FURTHER ASSISTANCE

### Department of Treasury and Finance

197 St George's Terrace  
Perth WA 6000

Queries to the Department of Treasury and Finance should be raised in the first instance by contacting the Agency Resources Division on 9222 9169 and asking for the Analyst responsible for the relevant agency.

Issues of a broad policy nature may be directed to the Financial Policy Division by telephoning 9222 9358.

### Department of the Premier and Cabinet

197 St George's Terrace  
Perth WA 6000  
Tel. 9222 8741

The Public Sector Management Division within the Department of the Premier and Cabinet can advise on the development of performance indicators and related reporting requirements. The department can also refer agencies to other publications and relevant information.

### Office of the Auditor General

4th Floor, Dumas House  
2 Havelock Street  
West Perth WA 6005  
Tel. 9222 7500

The Office of the Auditor General is able to offer general advice. Please contact the Performance Indicator Coordinator on the number listed above.



## APPENDIX 2 FURTHER READING

### Department of Treasury and Finance website: [www.dtf.wa.gov.au](http://www.dtf.wa.gov.au)

- *Accrual Appropriations and Capital User Charge – A User Manual*, Second edition, December 2003
- *Costing and Pricing Government Outputs – Guidelines for use by agencies*, Fourth edition, October 2001
- *Purchasing and Analysing Outputs*, June 2000
- *Strategic Asset Management – An Overview*, June 1994

### Department of the Premier and Cabinet website: [www.dpc.wa.gov.au](http://www.dpc.wa.gov.au)

- *Annual Report Framework*
- *Better Planning: Better Services – A Strategic Planning Framework for the Western Australian Public Sector*, November 2003
- *Guidelines for Public Sector Reviews and Evaluations*
- *Guidelines on Agency Strategic Management*
- Premier's Circular 2003/16 – *Agency Strategic Management*

- Premier's Circular 2004/08 – *Annual Reporting*
- *Preparing Performance Indicators – A Practical Guide*, Revised April 1997

### Office of the Auditor General website: [www.audit.wa.gov.au](http://www.audit.wa.gov.au)

- *Listen and Learn – Using Customer Surveys to Report Performance in the Western Australian Public Sector*
- *OAG Audit Standard – The Audit of Performance Indicators*

### Other publications

- Hatry, H. P., Morley, E., Rossman, S. B. & Wholey, J. S. (May 2003). *How Federal Programs Use Outcome Information: Opportunities for Federal Managers*. National Academy of Public Administration
- Productivity Commission – *Report on Government Services* (annual)

## APPENDIX 3 BACKGROUND TO OBM

### Historical Background

OBM has been progressively implemented as part of an inter-related package of financial and administrative reforms.

In the 1997–98 Budget, agencies were first required to identify and report outcomes and key outputs, the latter defined as discrete goods or services. The requirement for agencies to report actual results against output targets in their annual reports was introduced for the 1998–99 financial year.

In the 200–02 Budget, the historical cash based appropriations regime was replaced by the accrual appropriations regime, which defines an appropriation in terms of the full cost of resources required to deliver specific outputs, consistent with the move to OBM.

Comprehensive output measures and key indicators of efficiency and effectiveness have been progressively developed to measure agency performance in delivering outputs and achievement of desired outcomes. The current challenges are to integrate agency level desired outcomes with the goals and strategic outcomes identified in *Better Planning: Better Services* and to develop more relevant and useful performance indicators.

As the focus has shifted from outputs to outcomes, the framework is now referred to as Outcome Based Management. This name change reflects the fact that government agencies are established and operate with a view to achieving outcomes that are desired by government for the community and should utilise their resources effectively and efficiently to achieve those desired outcomes.

### OBM Stakeholders

Public sector agencies have many stakeholders. Any person or organisation to which an agency is accountable or which is affected by the actions of an agency is a stakeholder of that agency. An external stakeholder is one outside the agency.

In terms of accountability the key external stakeholders are Parliament, government Ministers and the central agencies: Department of Treasury and Finance, Department of the Premier and Cabinet, and Office of the Auditor General.

Relevant and useful information on performance is disclosed to stakeholders in order to satisfy accountability. Performance information should also facilitate improved decisions about resource allocation.

### Using OBM Generated Information

Performance information should not only be analysed by stakeholders, but also by the managers striving to achieve the desired outcomes. Managers should use performance information to monitor the efficiency of their services and to determine how and what services to deliver in order to best achieve the desired outcomes.

Performance results should be reviewed and compared to targets, but falling short of targets should not necessarily be seen as constituting failure. External factors may influence results. For example, if demand for a service falls the cost per unit may rise, even though service provision is efficient. Conversely, exceeding a target is not necessarily a sign of success.

Results are compared to targets in order to:

- highlight any issues in the way that, or which type of, services are delivered; and
- obtain a better understanding of any external influences on outcomes in addition to an agency's own efforts.

Fluctuations in results from year to year should, therefore, trigger reappraisal of both an agency's own operations and its understanding of the environment in which it operates. This should be done both as part of the budget cycle and any service evaluations.

## APPENDIX 4 GLOSSARY

Agency	A department or statutory authority as defined in the FAAA.
Agency level government desired outcome	A government desired outcome pitched at a level more relevant to agencies. These lower level outcomes are required to link to one of government's goals.
Better Planning: Better Services	The document which outlines the government's strategic planning framework for the Western Australian public sector.
Benchmarking	The process of assessing an agency's performance in producing a service against a comparable service external to the agency.
FAAA	<i>Financial Administration and Audit Act 1985.</i>
Financial Reform Consultative Committee (FRCC)	The FRCC is a committee which facilitates agency participation in the public sector financial policy process. It is chaired by the Department of Treasury and Finance and has representation from 22 agencies.
Government desired outcome	An outcome endorsed by government and classified as either strategic or agency level. The desired outcomes pitched at agency level may involve a number of agencies.
Government goal	An expression of high level policies and/or priorities that support the government's vision. Government desired outcomes contribute to these goals.
Inputs	The resources expended in the process of delivering services.
Key cost effectiveness indicator	Relates achievement of an agency level government desired outcome to the cost of the services which achieved it.
Key effectiveness indicator (KPI)	Provides information on the extent of, or progress in a reporting period towards, achievement of an agency level government desired outcome through the delivery of agreed services.
Key efficiency indicator	Relates a service to the level of resource input required to deliver it.
Key performance indicator (KPI)	Provides an overview of the critical or material aspects of outcome achievement or service delivery.
Off-budget agencies	Agencies that are not Divisions of the Consolidated Fund Estimates.

## Outcome Based Management

On-budget agencies	Agencies that are Divisions of the Consolidated Fund Estimates.
Operational Plan	A plan, usually with a focus of a year or less, outlining how to achieve government goals and desired outcomes set out in an agency strategic plan.
Outcome Structure Review Group (OSRG)	A group which comprises senior representatives of central and line agencies and has a primary role of ensuring that all proposals for major changes to OBM structures are acceptable from a whole of government perspective prior to the changes being endorsed by agency Ministers.
Outcome	The effect, impact, result on, or consequence for the community, environment or target clients of government services. The reason why services are delivered.
Outcome Based Management	The Western Australian public sector's framework for managing the performance of agencies. It identifies the outcomes desired by government that agencies are expected to contribute to, and the services to be delivered to help achieve the desired outcomes.
Output	A service that is standardised, so that it readily lends itself to meaningful per unit measurement.
Performance Information	Information reported under OBM or a comparable performance management system, encompassing desired outcomes, services, KPIs and major initiatives or achievements.
Performance Target	The current estimate of the future result to be achieved if the resources provided for that purpose are used as per the agreed plan.
Program	A service that comprises related but non-standardised activities.
Service	The supply of an activity or good to a user external to the agency providing the service.
Stakeholder	A person or organisation to which an agency is accountable, or which is affected by the actions of an agency.
Statement of Corporate Intent (SCI)	The SCI is a public document prepared annually and is aimed at satisfying the accountability requirements of government. It is required by legislation for some of the more commercial public sector agencies.
Strategic Asset Management	The management of assets to achieve better value for money by a systematic approach to capital investment decision making, including the examination of non asset solutions.

Strategic Development Plan (SDP)	The SDP is a confidential document prepared annually which looks forward five years and sets out the agency's economic and financial objectives and operational targets and how these are to be achieved. It is required by legislation for some of the more commercial public sector agencies.
Strategic Outcome	An outcome pitched at a high level, long term, often qualitative and intended to contribute to a government goal.
Strategic Plan	At agency level, it is a plan on how to achieve government goals and desired outcomes. It will usually have a multi-year focus, but may be revised annually. For above agency level, see 'strategic planning framework'.
Strategic Planning Framework	A policy structure that facilitates high level long term planning. The strategic planning framework for the Western Australian public sector is in the document <i>Better Planning: Better Services</i> .
Treasurer's Instructions	Under section 58 of the FAAA the Treasurer may issue instructions with respect to matters of financial administration. These have the force of law and prescribe requirements at a minimum level on matters such as accounting for revenue, expenditure and property and the standards of reporting.



Department of Treasury and Finance  
Government of Western Australia