

Better Practice Guide

Better Practice in Annual Performance Reporting

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PREFACE

This Better Practice Guide has been prepared jointly by the Australian National Audit Office (ANAO) and the Department of Finance and Administration (Finance) as a practical tool to help Commonwealth agencies improve the: transparency; usefulness and quality of performance information; and readability of performance reporting in annual reports. It is the latest in a number of Better Practice Guides that have been developed between the ANAO and other Government agencies.¹

Annual reports are a key mechanism by which agencies are accountable through the Government to the Parliament for the efficiency, effectiveness and economy with which they manage the resources they administer.²

However, transcripts of Senate Legislation committees and other Parliamentary committees indicate that many agencies can do better in reporting their performance. That is, they do not always achieve one of the underlying principles of *Requirements for Annual Reports*³, of providing 'sufficient information and analysis for the Parliament to make a fully informed judgement on departmental performance'. Comments by other stakeholders, such as the general public, educational and research institutions, and the media, confirm that performance information reporting is sometimes incomplete or unclear.

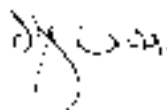
As well as providing practical examples of better practice, this guide includes suggestions about the foundations of good performance reporting, tips for better data measurement and management, and some useful reference sources. In doing so, it also aims to address one of the Joint Committee of Public Administration and Audit's (JCPAA) conclusions about reporting agency performance in the committee's Report 388, *Review of the Accrual Budget Documentation*⁴.

The intended audiences for this guide are people who compile annual reports and performance information, as well as Chief Executive Officers and senior managers with significant programme and other reporting responsibilities and accountabilities.



P J Barrett
Auditor-General

8 April 2004



I J Watt
Secretary
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8 April 2004

¹ See also *Goods and Services Tax (GST) Administration (with the Australian Taxation Office)* and *Building Capability – A framework for managing learning and development in the APS* (with the APS Commission).

² *Portfolio Budget Statements are the other accountability medium. The ANAO issued a Better Practice Guide, Performance Information in Portfolio Budget Statements, in May 2002.*

³ Department of the Prime Minister and Cabinet, *Requirements for Annual Reports for Departments, Executive Agencies and FMA Act Bodies*, June 2003.

⁴ 'The Committee encourages Finance and the ANAO to publish better practice guides in relation to measuring, assessing and reporting agency performance'. Paragraph 5.45, JCPAA report No. 388, *Review of Accrual Budget Documentation*, June 2002.

ABBREVIATIONS

ABS	Australian Bureau of Statistics
AFMA	Australian Fisheries Management Authority
AFP	Australian Federal Police
AMSA	Australian Maritime Safety Authority
ANAO	Australian National Audit Office
APS Commission	Australian Public Service Commission
ATO	Australian Tax Office
CSIRO	Commonwealth Scientific and Industrial Research Organisation
Customs	Australian Customs Service
DEST	Department of Education, Science and Training
DEWR	Department of Employment and Workplace Relations
FaCS	Department of Family and Community Services
Finance	Department of Finance and Administration
GRDC	Grains Research and Development Corporation
JCPAA	Joint Committee of Public Accounts and Audit
NLA	National Library of Australia
NOIE	National Office of the Information Economy
PAES	Portfolio Additional Estimate Statements
PBS	Portfolio Budget Statements
PMC	Department of the Prime Minister and Cabinet
SFPALC	Senate Finance and Public Administration Legislation Committee

GLOSSARY

Administered items	Revenues, expenses, assets and liabilities that the Government controls, but which an agency manages on the Government's behalf. They include: grants, subsidies, benefit payments and transfers to other levels of government; taxes, fees, fines and excise; public debt and related interest; and loans to other governments and related interest. Such resources may be used to produce outputs by third party organisations.
Benchmarking	A systematic process through which an agency process or activity compares its performance with alternatives. For example, it tests an agency's functions, particularly the efficiency and price of outputs, against a standardised function or set of achievements. The objective of benchmarking is to introduce and sustain best practice by making valid comparisons with other processes or organisations, resulting in a continual improvement of activities.
Cost	Expenses an agency incurs for the delivery of outputs.
Effectiveness	The extent to which outputs and/or administered items make positive contributions to the specified outcome. Effectiveness indicators are used to assess the degree of success in achieving outcomes.
Effectiveness Indicators	Indicators to assess the degree of success in achieving outcomes, or the contribution of outputs and administered items to the desired outcomes. As outcomes are generally long-term in nature, effectiveness indicators often relate to intermediate outcomes (shorter-term impacts), which contribute to the planned outcomes specified at Budget.
Efficiency	The extent to which the use of inputs is minimised for a given level of outputs or administered items; or how outputs are maximised for the given level of inputs. Usually measured via the interdependent relationship between quantity, quality and price.
Evaluation	A systematic, objective assessment of the appropriateness, effectiveness or efficiency of an intervention. Depending on the purpose of the evaluation and the stage of development of the relevant business, an evaluation may focus on more than one of these issues.
Intermediate outcomes	The result of the delivery of outputs or the use of administered items that contribute to (higher level or longer-term) planned outcomes – these may be in the form of trend data, targets or milestones, for example.
Outcome statements	These are the written expression of the Government's desired outcomes and legally form the purpose of an appropriation by the Parliament.
Outcomes	The results, impacts or consequences of actions by the Australian Government for the Australian community.
Outputs	The goods and services produced by agencies on behalf of government for external organisations or individuals. Outputs also include goods and services produced for other areas of government external to the agency.

Price	The sum or amount of money or its equivalent, for which anything is bought, sold or offered for sale.
Programmes	Consist of a group of government-mandated activities that contribute to a common strategic or operational objective that can clearly be linked to the achievement of an outcome statement as articulated in the Appropriation Acts. Programmes are usually funded from administered appropriations.
Quality	Relates to the characteristics by which customers or stakeholders judge an organisation, product or service.
Quantity	Units of products or services delivered through departmental outputs or managed on behalf of the Australian Government through administered items.
Standards	Specify the characteristics of a desired level of service. See also targets.
Targets	Quantifiable performance levels or changes in level to be achieved by a specified date. If a quantitative comparator cannot be identified, a qualitative measure should be applied.

1. Introduction

It is the Committee's view that agencies still have some way to go in improving performance information. The Committee encourages Finance and the ANAO to publish better practice guides in relation to measuring, assessing and reporting agency performance.

Joint Committee of Public Accounts and Audit, Report No.388, June 2002

This guide is provided in response to the above encouragement by the Joint Committee of Public Accounts and Audit (JCPAA), particularly in recognition of their comment that there is room for improvement in agency performance reporting. It builds on the *Requirements for Annual Reports for Departments, Executive Agencies and FMA Act Bodies* (the *Requirements*), approved by the JCPAA and issued by the Department of the Prime Minister and Cabinet (PMC), as well as guidance provided by the Australian National Audit Office (ANAO), the Department of Finance and Administration (Finance), and other agencies such as the National Office of the Information Economy (NOIE).

It is timely for further guidance on performance reporting to be provided. After four budget cycles, the accrual budgeting framework has become more settled, with practitioners and Parliamentarians having gained experience in measuring and assessing performance in this framework.

An effective performance reporting and monitoring system is a key aspect of a well-governed agency. Good governance requires that the agency have a structured and regular system of performance monitoring and review. This system should be aligned with the agency's outcomes and outputs framework and generate information that is appropriate for both internal and external performance management needs and external reporting requirements such as the annual report.

This guide concentrates on areas of performance management that were identified as needing most improvement in the ANAO's Audit Report No. 11 of 2003-04, *Annual Performance Reporting*. The examples of better practice used in this guide have been selected from a range of recent Australian Government agencies' annual reports. This demonstrates that good performance reporting by agencies is achievable. Nevertheless, experience shows that there can be significant challenges to attaining excellence in reporting and accountability. It is fair to say that all annual reports examined by the ANAO for the audit, and in research for this guide, included areas requiring improvement in their performance reporting.

Purpose of the guide

This guide is aimed primarily at people who are responsible for developing, maintaining, collecting, reporting and analysing performance information that is then presented in agencies' annual reports. This includes managers at all levels in departments and other agencies as well as people who coordinate and prepare elements of their agency's annual report.

Relationship to other guidance, including annual report guidance

This guide is different in its treatment to other guidance documents as it focuses specifically on performance information for annual reporting, rather than being a comprehensive guide to annual reporting, organisational performance management and accountability. As noted by the JCPAA, agencies' performance reporting in annual reports is an important area of accountability to the Parliament that requires improvement to meet the needs of key stakeholders.

Where to get more information, make contacts, join a network or get more help

In addition to this guide, and other formal advice from, and for, Australian Government agencies, there is a wealth of information available on the Internet relating to other jurisdictions, countries and international organisations. An internet-based annual report coordinators' network is hosted by NOIE. Appendix 1 provides a list of some current references, organisations and Internet addresses that may be of interest.

Many non-profit organisations, professional associations and private sector consultants provide training, advice, guidance, awards and opportunities to network with other practitioners. For example, in each State and Territory there is an Institute of Public Administration, an Institute of Management and a division of the Australasian Evaluation Society, all of which have events and networks on performance related issues.

Layout of the guide

The main body of the guide is divided into four parts as follows:

Chapter 2 provides an overview of strategies and tools to improve performance reporting.

Chapter 3 provides advice on how to improve the foundations of performance information. This is a crucial element in the achievement of sound reporting.

Chapter 4 offers suggestions, and illustrations, as to how to improve the quality and reliability of performance information systems.

Chapter 5 provides examples, and suggestions, as to how to present performance information in the annual report in a coherent, balanced and effective manner.

Appendices to the guide provide a set of further references, sources of information and relevant professional networks. In addition, there is a separate booklet that contains a self-assessment tool to improve an agency's performance reporting skills.

2. Better Performance Reporting Helps Management

It is not an easy task to establish good performance information and reporting that is useful for both internal and external reporting. The ANAO's audit on *Annual Performance Reporting* identified some important challenges facing agencies. These include: integrating annual reporting into broader agency performance management; providing concise, but sufficient, information in reports; establishing appropriate measures and targets; and addressing particular sensitivities in the presentation of information.

With good information, executives and other stakeholders have a powerful tool to communicate their vision and motivate their teams to achieve it effectively.

For good governance, it is important that performance information used for external reporting requirements, such as in an annual report, is consistent with, and integral to: internal planning; budgets; analysis; and other internal performance reporting.⁵

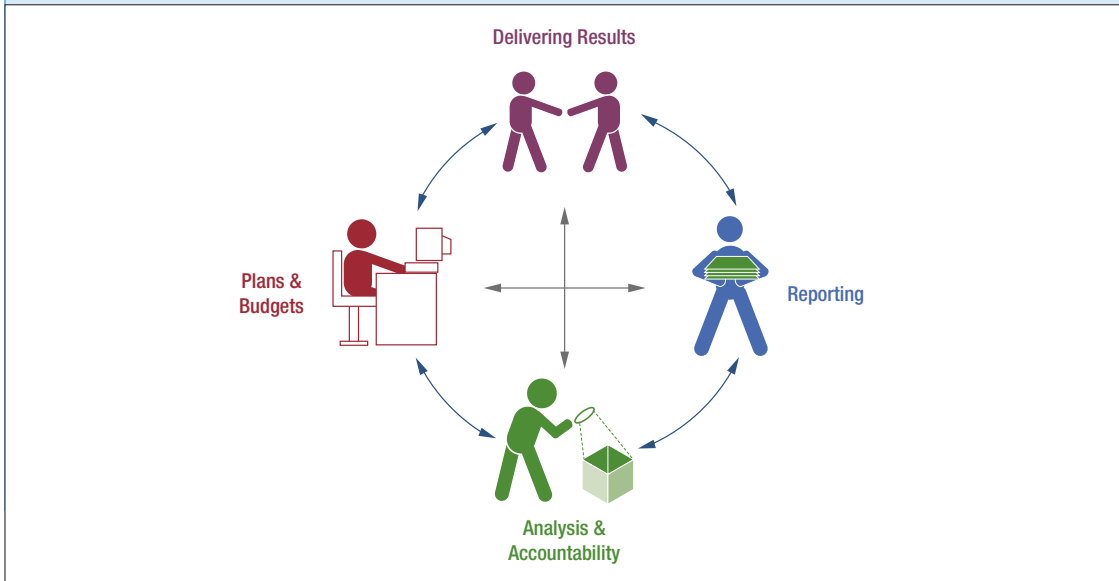
The main responsibility for achieving good performance reporting lies with an agency's senior executives. One of the major determinants of better performance reporting is leadership. There is a direct relationship between the quality of performance reporting and the importance placed on it by the highest-level executives in an agency.

There is much to gain from striving for better performance reporting, built on robust frameworks that are directly linked to organisational plans, budgets and strategies. When able to draw on sound and reliable information, executives have a powerful tool to motivate their teams and to help communicate their vision to stakeholders. They can also monitor progress; steer the agency more effectively; and promote their achievements more convincingly.

Performance reporting has a role to play in all phases of the management and accountability cycle as shown in Figure 2.1.

⁵ ANAO Better Practice Guide, *Public Sector Governance*, Volume 1, July 2003.

Figure 2.1: Management and accountability cycle



Source: ANAO

Performance reports provide a foundation for planning and budgeting by providing succinct information on past results as a guide to priorities and changes required for the future. Without performance reports, planners would have to rely on intuition and opinions, which are likely to be less precise and more subjective than carefully designed and balanced reporting.

External reporting of performance provides an opportunity for agencies to demonstrate and promote their achievements and explain any variance from expectations or reference points, while meeting statutory accountability requirements. It also offers a counter to ill-informed judgements and assertions about the agency's contribution and achievements.

Strategies to improve performance reporting

Performance information is crucial to good performance reporting. Organisations that have reliable performance information for both external requirements and internal management and review have achieved good performance reporting through some, or all, of the following strategies:

- establishing a robust performance culture based on public sector values;
- maintaining strong links between reporting, planning and management; and
- ensuring strong links between external and internal reporting.

Each of these strategies is discussed under separate headings below.

Establishing a robust performance culture

A robust performance culture involves the agency's leadership having a strong focus on performance and sound processes in providing clear accountability for setting and achieving performance targets. Managers and staff are aware that such a focus is crucial to their success. A performance culture is one in which everyone knows what they are specifically expected to achieve or what outcome(s) they have to contribute to, and have the motivation and incentive to do so within a framework of public sector values and ethics.

Various ways to achieve a robust performance culture include:

- **Full engagement by senior executives.** This involves measuring and/or assessing the performance of critical factors, as agreed between senior executives and managers, making them accountable for the results achieved, and for the quality of information in their reports;
- **Executives promote and recognise good performance.** Leading by example sends a powerful signal, as does being clearly accountable for achieving plans and targets;
- **Explicit performance requirements.** Performance should be measured against clearly specified targets, monitored and taken into account in individual performance assessment and linked to agency performance bonus schemes;
- **A clear 'line of sight' between organisational performance and individual performance requirements.** This provides a clearly understood relationship between what an individual does, their contribution to the delivery of programmes and outputs, and to the achievement of outcomes; and
- **A robust framework for performance evaluation and review.** A regular review of performance through evaluation and review should be an expected, and accepted, element of performance management.

A performance culture is one in which everyone knows what they are expected to achieve and have the motivation and incentive to do so within a framework of public sector values and ethics.

Maintaining strong links between reporting, planning and management responsibilities

Stability in reporting regimes from year to year is central to the reliability of a performance management system. This makes the choice and specification of performance indicators one of the most important functions of performance reporting.

Identifying and using the same measures throughout the annual cycle allows agencies to develop strategies based on evidence of past performance, and estimates of future performance by monitoring results and adjusting actions and behaviour in response to measured and/or assessed progress. The interrelationship between reporting documents covering any one financial year (particularly Portfolio Budget Statements, Portfolio Additional Estimates Statements and agencies' annual reports) is referred to as the 'clear read' principle. The 'clear read' principle is a fundamental tenet of the Australian Government's financial management framework.

Ensuring strong links between internal and external reporting

This involves using the same basic indicators and measures for internal and external use. For internal reporting, the measures would usually be more detailed, or disaggregated, for ongoing management purposes, but should allow performance to be aggregated or collated, at a higher level for external reports. This minimises the potential for inefficiencies through a parallel reporting system, that is, having one system for internal decision-making and another for external compliance. It also ensures that incentives for internal and external performance are aligned. This approach can also improve efficiency of monitoring and review, as suggested in the ANAO's Audit Report No. 11, 2003-04 on *Annual Performance Reporting*.

Tools for achieving good performance reporting

Good performance reporting does not usually come easily or quickly. It involves focusing everyone in the agency on capturing accurately the essence of what success means for an agency and presenting it in context for all users. It entails review and refinement over time in consultation with both internal and external stakeholders. The foundations for better reporting can be built on tools and techniques in four basic areas, which can be summarised as the four "P"s of reporting: people, planning, processes and presentation.

People: training and knowledge

There are many sources of training and expertise in relation to better performance management practices and associated leadership skills accessible to agencies. These include the Australian Public Service Commission, which runs relevant courses. As well there are courses and conferences organised by private sector providers, and tailored courses that agencies can commission from such providers to meet agencies' needs. There are also professional networks and associations that can assist. A sample of such opportunities is listed at Appendix 1.

Planning: integrated design of the performance framework

Drawing on the agency's policy, priorities, legislative remit, stakeholder consultations and strategic plan provides a strong, integrated and consistent basis for choosing the appropriate performance indicators and measures. Previous guidance provided by Finance and ANAO, referred to above (Chapter 1), can help to develop the necessary framework. Chapter 3 also provides guidance on this aspect.

Processes: focus on data quality and systems

Establishing efficient systems and practices is just as important as choosing appropriate indicators and measures. Practical performance information is best collected and recorded throughout the year, and collated and assessed in a predictable and consistent manner. This topic is discussed further in Chapter 4.

Presentation: coherent, concise and balanced reports

Drawing together the agency's achievements in a way that tells an even-handed, interesting and informative story can be learned from stakeholder feedback and adapting successful approaches used by others. This aspect is explored further in Chapter 5. The examples and references used in this guide can also provide a starting point for ideas on how to improve presentation of an agency's performance in its annual report.

See the Appendices for further help in designing performance management arrangements.

3. A Better Performance Reporting Framework

This chapter provides a brief summary of how to achieve some of the important attributes of performance information in supporting a robust performance reporting framework. It also provides some illustrative examples from Australian Government agencies.

A robust framework is crucial to good reporting. Without a sound system for identifying, collecting and reporting on indicators, it is virtually impossible to provide reliable performance information and analysis. It is the foundation on which the rest of the management accountability cycle is built.

A good performance reporting framework involves clear and precise specification of well-chosen indicators that are drawn from policies and plans for the agency. Such a framework contains a balanced set of measures, addressing all key aspects of agency performance, with accurate and reliable systems, methods and bases for reference or comparison of performance. The key features are summarised in Figure 3.1.

Guidance provided by Finance, ANAO, the Senate Finance and Public Administration Legislation Committee (SFPALC) and the JCPAA indicate in some detail what agencies need to do to establish the features identified in Figure 3.1. They also offer information on tools for strategic planning, use of scorecards, budgeting and costing. Appendix 1 provides references to many sources of advice and examples regarding better performance frameworks.

Without a sound framework, it is virtually impossible to provide useful and valuable performance information and analysis.

How to create a better performance reporting framework

There are many ways in which an agency can develop the features identified in Figure 3.1. Nine specific ways that are particularly useful are presented below, including good examples from some Australian Government agencies. The nine techniques discussed in this chapter were chosen because they relate to areas identified in the ANAO's Audit Report No. 11, 2003-04 of *Annual Performance Reporting* as needing improvement across many agencies.

Figure 3.1: Features of a good performance reporting framework

- ✓ Specify desired outcomes (including any intermediate outcomes):
 - address any shared outcomes and provide information on the agency's contribution; and
 - identify the contributing departmental outputs and administered items (usually programmes), and assess their contribution to the outcome(s).
- ✓ Identify measurable performance indicators for effectiveness at the outcome level, and, at the departmental output and administered item programme level:
 - use valid, accurate and reliable measures and maintain information on methodology and sources;
 - establish links between financial and non-financial performance information and assess the efficiency and cost effectiveness of the agency; and
 - use researched and realistic targets, standards and bases for comparison including multi-year targets where necessary.

In addition to the nine areas discussed below, another tool that agencies have used to enhance their performance reporting frameworks is the balanced scorecard approach. This approach is concerned with aligning strategy and operations so that they are consistent with the overall purpose of the organisation. The balanced scorecard provides a matrix to check the consistency of performance information from all levels in the organisation within the four (or sometimes five) perspectives of customers, internal processes, innovation and financial performance. Agencies that have adopted this approach include Centrelink, the ANAO and the Department of Defence⁶.

Use of accepted, standard definitions to relate to each element of the framework

This not only aids data collection but will ensure that people reading an agency's report gain a clear understanding of the agency's results. A list of standard definitions is provided in the glossary to this guide as well as in other guides mentioned above.

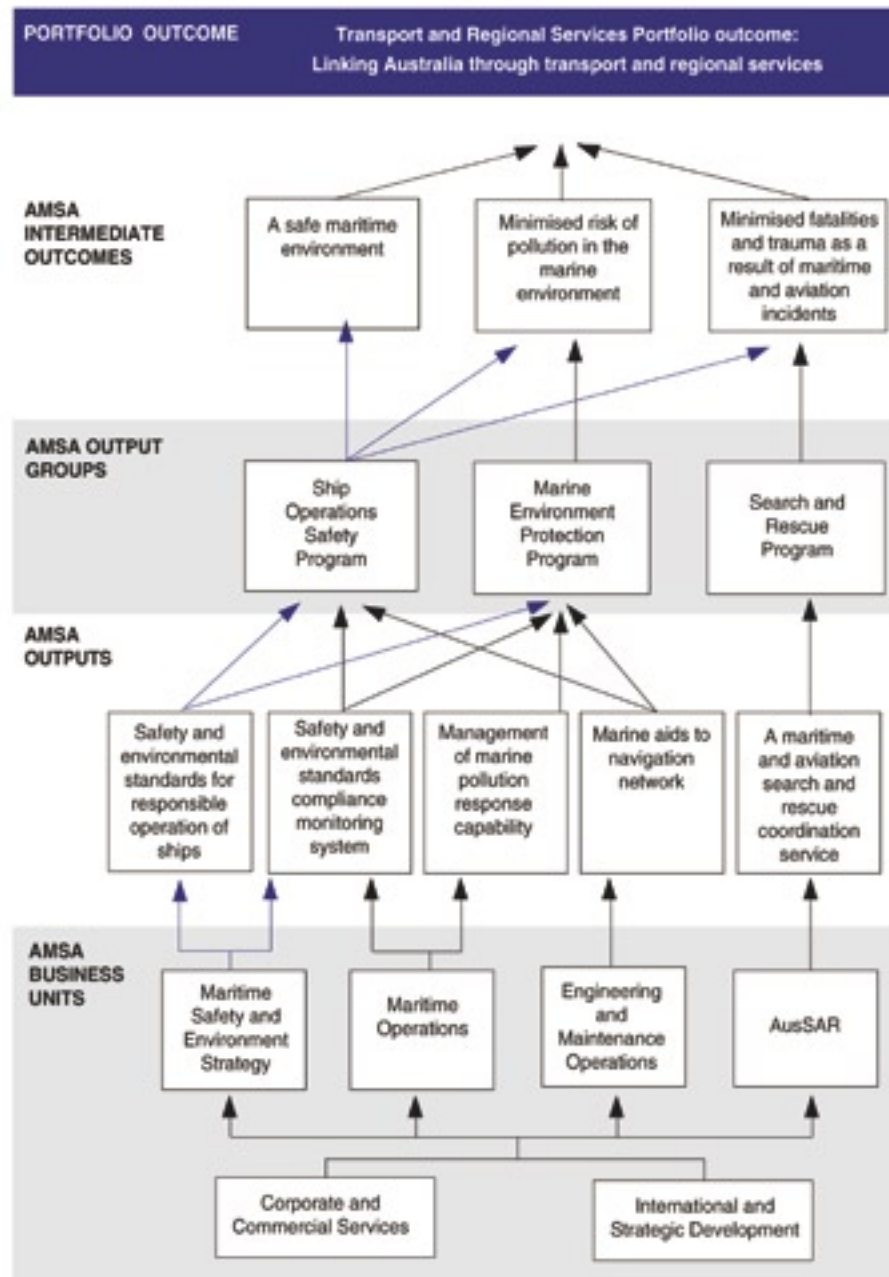
Outcomes, administered items and departmental outputs represent explicit key results identified in government policies, agency plans and strategies

This will ensure relevance and acceptance of the agency's measures as a reflection of what is important in assessing its performance. The characteristics of well-specified and appropriate indicators and measures of outcomes, administered items and departmental outputs are explained in Finance guidance and the ANAO Better Practice Guide on *Performance Information in Portfolio Budget Statements*. Further advice from Finance on the principles of outcome statements is at Appendix 2.

One example of a clearly specified agency performance information framework is provided in Figure 3.2. In this example, the Australian Maritime Safety Authority (AMSA) has shown its outputs, output groups, intermediate outcomes and portfolio outcome. It has also shown how its organisational structure links with the services delivered and impact achieved. This example is unusual in that a portfolio-level outcome is employed. In this case, the portfolio outcome is very general and high level, which makes it particularly important to have intermediate outcomes that provide a more tangible indication of the agency's impact over time.

⁶ For further information on the Balanced Scorecard approach see: R S Kaplan and D P Norton, *Translating Strategy into Action - The Balanced Scorecard*, Harvard Business School Press, 1996.

Figure 3.2: Better practice in presenting a performance information framework
Australian Maritime Safety Authority Annual Report, 2001-02, p. 12



Why is this better practice?

The diagram summarises succinctly the relationships between AMSA's business units, the agency's outputs and output groups, its intermediate or agency level outcomes and the portfolio outcome. The portfolio outcome is general and high level so it is not immediately apparent what impact is intended. By specifying clear intermediate outcomes, AMSA provides greater clarity about what impact it is seeking to have and how precisely it will contribute to the higher level outcome through its outputs and operations.

Broad, or shared, outcomes require identification of the contribution of more than one programme or agency

Broad outcomes can involve contributions from a number of areas within and outside the agency, each of which provide a milestone towards the achievement of the overall result. The key challenge is to identify the agency's area of influence, and be aware of the influence of other players, in other Australian Government agencies, or at other levels of government. In the federal context, about 80 per cent of the budget is transferred to other levels of government or paid to individuals or organisations through benefit payments or grants. Acknowledging the influence of these players is important. Outcomes specification at the Australian Government level is important, because good performance reporting flows from clear achievable outcomes focused on the result to be achieved, not just the means by which they are achieved.

There may be occasions where shared outcomes between federal agencies are desirable, but this would require accountability to be clearly specified at the time that Ministerial or government approval is sought. The Grains Research and Development Corporation (GRDC) provides a good example of how agencies have addressed shared outcomes, in this case with players external to government. In its annual report the GRDC describes how it contributes to the outcome of a competitive grain industry through research and product development. The GRDC also undertook a survey of farmers to determine the extent to which farmers used their products. This provided them with some more precise information on the extent of GRDC influence on the outcome, which could be used to help assess their effectiveness.

More use of explanatory text in accountability documentation is another avenue available to agencies to better specify their own influence on, and contributions to, broadly stated or shared outcomes. Figure 3.3 provides an example of how the Department of Family and Community Services (FaCS) in its 2002-03 Annual Report has used explanatory text to clarify the agency's contribution to a broad outcome.

The key challenge is to identify the agency's area of influence, and be aware of the influence of other players.

Figure 3.3: Better practice in using explanatory text to clarify agency contribution to broad outcomes
Department of Family and Community Services, Annual Report, 2002-03, volume 2, p.13

Outcome 1 | Stronger Families

Families, young people and students, have access to financial assistance and family support services

Description

This outcome reflects the Government's commitment to support and strengthen families as the fundamental unit of society. FaCS will:

- assist families to build their capacity and their resilience through supporting and strengthening relationships
- facilitate families in selecting and receiving the help they need at times of transition or crisis
- build the community's knowledge base about the needs, priorities and aspirations of contemporary Australian families
- develop partnerships with key stakeholders to improve the efficiency of services delivered and to identify emerging problems and develop appropriate policy responses
- assist young people and their families access the skills and opportunities they need to develop independence and self reliance.

Why is this better practice?

In this example, FaCS' broadly stated outcome of Stronger Families is clarified by using further explanatory text which identifies FaCS' target group and the department's area of influence. As well, the description of FaCS' activities provides information on how FaCS contributes to the achievement of the outcome.

Intermediate outcomes that define progress towards the achievement of longer term or higher level outcomes

An intermediate outcome is not a lower-level outcome statement, nor a substitute for a clear outcome statement. The specification of intermediate outcomes allows clearer understanding of an agency's contribution to important results, in a similar way to explaining the contribution to shared outcomes. They can also help to improve understanding and explanation for outcomes that are set at a high level or which are only achievable in the long term. Outcome statements should not be overly broad⁷, unless it is explicitly decided that they are to be cross-portfolio in nature. They must also be pitched at a level that is measurable and /or assessable. The specification of intermediate outcomes can further assist in clarifying the impacts arising from the interventions of Australian Government agencies.

An intermediate outcome is a shorter term 'milestone' of progress, that is, a point along the 'cause and effect' chain from outputs to the desired outcome which is both significant to the agency and for which its contribution to the outcome can be clearly defined and controlled. Figure 3.4 provides an example of the use of intermediate outcomes indicators to help measure and assess contribution to outcomes and progress towards the agency's final outcomes.

⁷ See Outcomes Principles at Appendix 2. These were promulgated in Estimates Memorandum 2004/01.

Figure 3.4: Better practice in reporting intermediate outcomes

Australian Fisheries Management Authority, Annual Report, 2001-02, refer to pp.20-30

DIAGRAM A: Indicators of AFMA's outputs contribution to its outcome

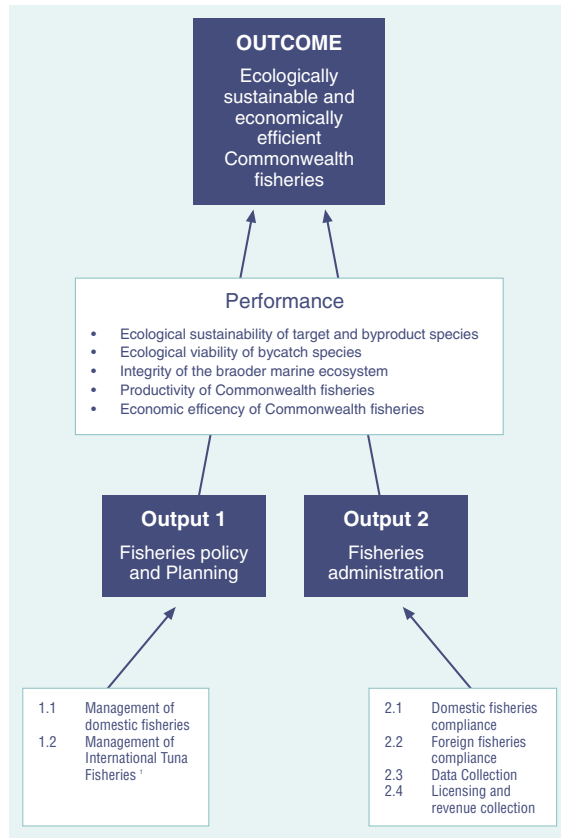


DIAGRAM B: Primary and Secondary indicators of outcome contribution

Ecological viability of bycatch species

<p>Primary Indicator:</p> <p>Fishing is conducted at a level that does not compromise the ecological viability of bycatch species</p>	<p>Primary Measure:</p> <p>Percentage of bycatch species assessed as being ecologically viable</p>
<p>Secondary Indicator:</p> <p>Where the ecological viability of bycatch species is determined to be compromised fishing is conducted in a manner which promotes recovery</p>	<p>Secondary Measure:</p> <p>Percentage of bycatch species identified as at risk or vulnerable as a result of fishing, for which an agreed recovery program is in place</p>

Why is this better practice?

Australian Fisheries Management Authority (AFMA) demonstrates very clearly how it assesses its contribution to a seemingly esoteric outcome with an explicit hierarchy of indicators and measures. This permits the agency to translate the outcome into a practical and measurable concept that is used in AFMA planning and service delivery. The example shows how, in Diagram A, AFMA uses five broad effectiveness indicators to assess its contribution to the outcome. Those broad indicators are underpinned by a series of sub-indicators and specific measures that are reported upon. One example of the primary and secondary outcome sub-indicators is shown in Diagram B. These are intermediate outcome effectiveness indicators relating to achievement of, or progress towards, the higher-level outcome represented by AFMA's sustainability targets for fish species and fisheries.

It need not be necessary for an agency to re-specify its outcomes statements or framework to use intermediate outcomes in its planning and reporting. Intermediate outcomes are lower level results than the approved government outcomes and can be seen as more of a step on the way, or an essential indicator of success, that demonstrates progress towards the broader outcome.

Indicators and measures provide a fair and balanced representation of each outcome, output and administered item

It is sometimes difficult to find indicators which, when measured, fully reflect the outcome or quality that is being monitored and assessed. In this situation, approximate indicators need to be used. There are many variants of guidance on tests for good indicators in the reference list at Appendix 1. One easy to remember set of characteristics to aim for is the SMART test, as outlined in Figure 3.5.

<p>Figure 3.5: The SMART test</p> <p>The SMART test</p> <ul style="list-style-type: none"> Specific – clear and concise Measurable - quantifiable Achievable – practical & reasonable Relevant – to users Timed – range or time limit <p><i>Tip</i></p> <p>Test your indicators and measures against the criteria: are they all SMART?</p>

Measures used are the best available at reasonable cost

The SMART and other tests can be used in relation to measures as well as indicators. Measures are the quantitative representation of indicators. It may not always be practical or economical to use the ideal measure but, on balance, the measure should be of a standard that is acceptable to key stakeholders. Where the measures used are not the best way to present performance, the agency should be prepared to explain why. As noted in the Performance Management Principles promulgated by the Minister for Finance and Administration in 2001, ‘candour in disclosure and action on performance information will add credibility’.⁸

Use approximate indicators where it is difficult to fully reflect performance, and explain why they are used.

The Australian Federal Police (AFP), 2002-03 annual report, illustrates two examples of best available indicators and measures. The first, in Figure 3.6A, shows how they have calculated the harm associated with drug availability and applied that to estimating the harm avoided by their work on drug seizures. They acknowledge that the measure is not perfect but is the best available. It allows some understanding of the scope and value of their efforts, as well as a basis for comparison over time.

The second example, in Figure 3.6B, outlines the AFP’s use of ratings of the seriousness of crime impacts as a basis for improving the quality and effectiveness of their investigations output. The Case Categorisation and Prioritisation Model provides a way of translating qualitative assessments into a mechanism for priority setting. This has also provided the AFP with a means of explaining why it has undertaken its investigations in a particular way.

⁸ Performance Management Principles (2001) at <www.finance.gov.au> and in Appendix 3 of this document.

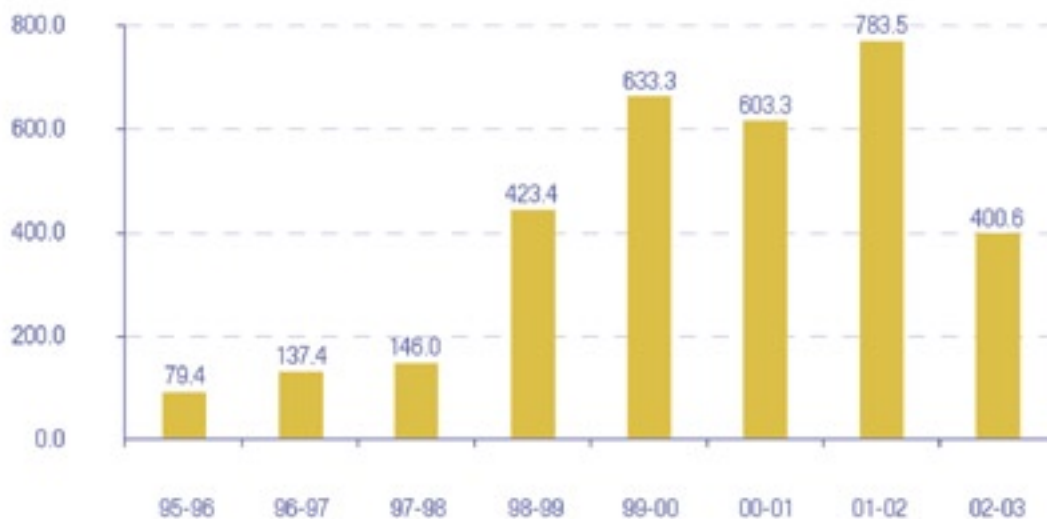
Figure 3.6A: Better practice in using best available measures

Australian Federal Police, Annual Report 2002-03, p.106

DRUG HARM INDEX

To further develop the work undertaken last year to benchmark AFP illicit drug investigations performance in relation to similar organisations around the world, the AFP Drug Harm Index was developed to provide a single measure that encapsulates the value to the Australian community of AFP/Customs drug seizures. The index represents the dollar value of harm that would have ensued had the drugs reached the community. It is based on the AFP's economic evaluation of drug investigations conducted in 2001. The index includes both domestic drug seizures and international seizures where the AFP played a significant role. It should be noted that the index will be revised as further research on harm associated with illicit drugs becomes available.

CHART 5: TOTAL VALUE OF HARM AVOIDED DUE TO AFP DRUG SEIZURES (\$ MILLION)



Note: All values are in year 2000 dollars. The index includes major drugs of importation, i.e. heroin, cocaine and amphetamine-type stimulants. Seizures made in the ACT are excluded. The figure for 2001-02 included in the previous Annual Report has been revised in light of later laboratory results.

It is estimated that in 2002-03, seizures of illicit drugs by the AFP saved the Australian community approximately \$400.6million. The impact of these seizures is similar to the impact in each year since the introduction of additional funding for illicit drug investigations under NIDS in 1998.

Why is this better practice?

Agencies' contributions to outcomes can be difficult enough to assess when their actions result in measurable change. However, where the desired outcome is to keep the circumstances or society as it is, how can the agency measure its success? One example, provided in this Figure, has been developed by the AFP. They have found a way to gauge the harm avoided by its actions on drugs. The AFP acknowledges that the measure is not perfect but, in the absence of an ideal measure, it allows stakeholders to make some quantifiable judgements about its effectiveness and to make more relevant and useful comparisons, over time and potentially across agencies, than would otherwise be possible.

Figure 3.6B: Better practice in using best available measures

Australian Federal Police, Annual Report 2002-03, p.103

CASE REFERRALS

Case referral is the first step in the investigative process. New cases for investigation are either referred from an external source (usually a Commonwealth agency) or generated internally through intelligence gathering. During the reporting period, 4,191 criminal investigations were referred to the AFP for possible investigation, compared with 4,070 matters in 2001-02. Details of these referrals can be found in [Table 4 in Appendix 1](#). Approximately 73 per cent of clients referring work to the AFP were satisfied with the AFP's acceptance of work referred. With internally generated investigations, 32 per cent resulted in the case going into a legal process, compared with 25 per cent in 2001-02.

CASE SELECTION

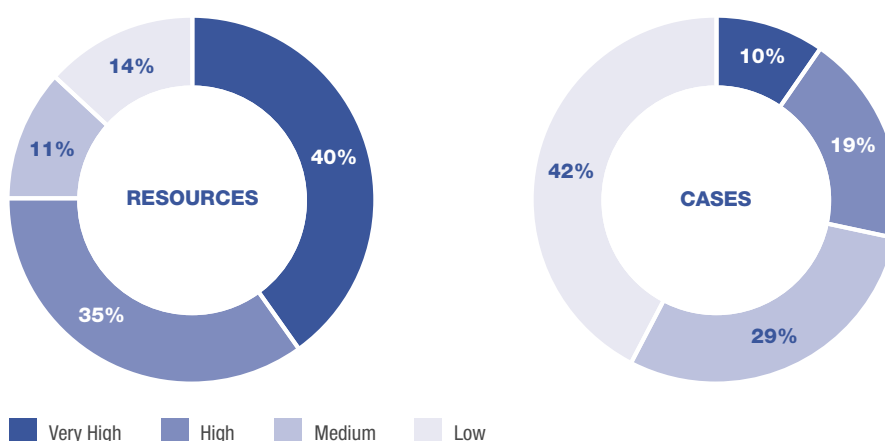
To ensure that resources are effectively applied to the highest priority work, the AFP uses the Case Categorisation and Prioritisation Model (CCPM). The CCPM provides a transparent, objective and consistent basis for evaluating and comparing operational activities from a range of perspectives and provides clients with a basis for considering matters before referral to the AFP. A measure of the importance of the matter to the client in achieving their objectives was incorporated in the CCPM in July 2002, following a period of extensive consultation with client agencies.

The decision to investigate a particular matter is made by an Operations Committee (OC) on the recommendation of an Operations Monitoring Centre (OMC). In making its recommendations to the OC, the OMC takes into consideration the target allocations (that is, the 'cocktail') for AFP investigative and financial resources against identified criminal activity (incident types) and the needs/expectations of clients. These are balanced against the AFP's assessments of the criminal environment derived through the crime management strategies. The CCPM has proved to be extremely effective in improving the quality, consistency, transparency and accountability of decision making in relation to the acceptance or rejection of matters.

The CCPM is used to categorise matters referred to the AFP for investigation as Very High, High, Medium or Low impact cases.

While low impact cases comprised 42 per cent of all criminal investigations by number, during the year they accounted for only 14 per cent of AFP resources. By contrast, Very High and High impact cases comprised 29 per cent of criminal investigations and employed 75 per cent of resources and in doing so, comfortably met the AFP's PBS target of 65 per cent of available resources being devoted to Very High and High impact cases.

CHART 4: NUMBER OF INVESTIGATIONS AND RESOURCES ALLOCATED BY CASE IMPACT



Why is this better practice?

It is sometimes difficult to encapsulate complex qualitative assessments into succinct performance information. These examples show how the AFP has managed to develop a ranking system based on an analysis of the impact of crimes as a basis for resource allocation and prioritisation in the investigations output. It shows how you can use qualitative information when quantitative information is not available or not adequate for the purpose.

All aspects of performance are addressed

Better practice reporting on performance takes account of the size and significance of the contribution to outcomes (effectiveness), the attributes of outputs and administered items (quality, quantity, cost), and how well they have been delivered (efficiency and stakeholder response). Figures 3.7A, B and C provide an example of better practice.

FaCS outlines its framework for effectiveness performance indicators in Figure 3.7A. Figure 3.7B illustrates how this framework is applied to FaCS' outcome of Stronger Families. The department goes on to demonstrate performance for a range of specific measures in each group of outputs in relation to the outcome. It includes a clear presentation of the quantity, quality, cost and effectiveness of the particular service. Figure 3.7C demonstrates the use of the framework in relation to the administered item of Family Relationships Services.

It is not enough to have a single measure of effectiveness, quality, quantity, or cost. A full understanding of performance can only be obtained with a complete set of performance measures. It should also be clear how the measures are related, for example, to explain the precise contribution of outputs to outcomes, in determining effectiveness, and the interdependence of price, quality and quantity.

A full understanding of performance can only be obtained with a complete set of performance measures.

Figure 3.7A: Better practice in addressing all aspects of performance

Family and Community Services, Annual Report 2002-03, Vol.2, p.10-11

Effectiveness

Effectiveness is the extent to which planned outcomes are achieved. Effectiveness performance indicators are grouped according to the key strategies used. This approach helps annual report users understand how the outputs, including services and payments, contribute to achieving outcomes.

The effectiveness of the outputs within each output group is reported against a selection of the most relevant of the following indicators which are grouped according to key policy principles:

Table 1 Effectiveness performance indicators

Capacity	For communities: improved community skills, knowledge, leadership, partnerships and networks
	For families: improved family skills, knowledge and quality of relationships
	For individuals: improvement in skills and knowledge necessary for self support and improved networks
Early intervention	Early intervention in financial and personal crises that limits social and economic marginalisation
Independence	Greater independence, choice and self reliance for families, communities and individuals
Adequacy	Adequate levels of income and assistance provided for those who cannot support themselves
Affordability	Affordability of support services, such as housing and child care
Targeting	Assistance is targeted at those most in need
Take-up/coverage	Take-up of payments or services among the eligible population or coverage of those in need of assistance

Quality

Quality indicators are provided for all outputs (but not for transfer payments). These indicators are reported under the following headings:

Table 2 Quality indicator categories

Assurance	Service delivery standards
	Quality accreditation of service providers
Client rights and obligations	Protection of clients' rights
	Ensuring client obligations are met
Access and choice	Location of services, access to information and access for special needs and target groups
	Client choice
Client satisfaction	Client satisfaction with the provision of payments and services

Why is this better practice?

FaCS has developed a generic framework of effectiveness indicators and quality indicators to apply across the whole agency. Indicators are only used where they are relevant and appropriate, but the menu is constant and provides a framework for staff and report users to achieve consistency of approach and aid understanding of the key results that FaCS is aiming to achieve.

Figure 3.7B: Better practice in addressing all aspects of performance

Family and Community Services, Annual Report 2002-03, Vol.2, p.13

Outcome 1 | Stronger Families

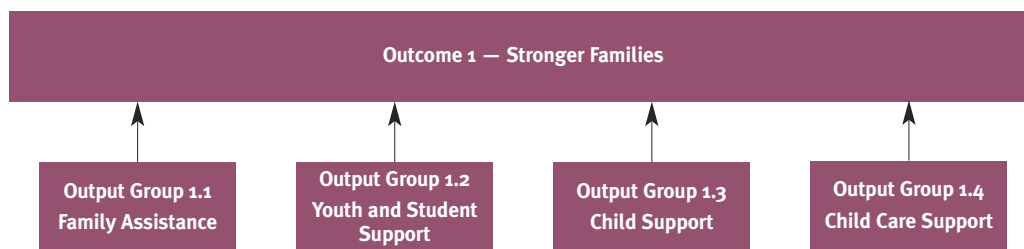
Families, young people and students, have access to financial assistance and family support services

Description

This outcome reflects the Government's commitment to support and strengthen families as the fundamental unit of society. FaCS will:

- ▶ assist families to build their capacity and their resilience through supporting and strengthening relationships
- ▶ facilitate families in selecting and receiving the help they need at times of transition or crisis
- ▶ build the community's knowledge base about the needs, priorities and aspirations of contemporary Australian families
- ▶ develop partnerships with key stakeholders to improve the efficiency of services delivered and to identify emerging problems and develop appropriate policy responses
- ▶ assist young people and their families access the skills and opportunities they need to develop independence and self reliance.

Figure 2 Outputs contributing to Outcome 1



Why is this better practice?

The FaCS annual report presents a coherent layered approach to discussing its performance. It begins by explaining the performance management framework, followed by the structure, indicators, measures and targets. It then systematically works through each of its outputs explaining the results achieved against output and effectiveness indicators, including how the results were measured, and providing cross references to other outputs and other agencies where shared outcomes and/or outputs exist.

Figure 3.7C: Better practice in addressing all relevant aspects of performance

Family and Community Services, Annual Report 2002-03, Vol.2, p.30-31

Family Relationships Services Program

Cost

Average cost per session and per client

Approximately \$180 per session and approximately \$350 per client.

Effectiveness—Capacity

Percentage of clients recording improvement in their present relationship issue

Approximately 75 per cent, based on intended client benefit ratings reported in departmental performance data for 2002–03.

Quality—Assurance

Percentage of service providers meeting Family Quality Information Strategy Tier 1 standards

At the end of 2002–03, 105 organisations funded through the program were required to meet the quality standards contained in the approval requirements. During 2002–03, a sample of 25 of those organisations have been independently assessed for compliance with the standards. Of those, 24 were fully compliant or had agreed on a strategy and date to achieve full compliance. The remaining one is finalising negotiations with FaCS.

Quantity

Number of sessions provided—Approximately 240 000

Number of clients—Approximately 130 000

Price

\$26.6 million

Why is this better practice?

This extract from the FaCS annual report shows how the attributes of effectiveness, cost, quality and quantity are clearly set out in a consistent format applied to all services. The inclusion of unit cost measures and reference to the co-financing relationship with the Attorney-General's Department are also useful features illustrated by this example. The extract does not, however, provide complete information on some of the measures used. For example, what is meant by 'positive outcomes' is not explained nor is the reference to 'Tier 1 standards' of quality. Cross-references to those measures and an explanation of their significance would be useful.

Link financial and non-financial results

A good linkage between financial and non-financial results provides the means to demonstrate efficiency and cost-effectiveness so that stakeholders can determine how well resources are used to deliver outputs and contribute to outcomes. It requires the attribution of all costs to the outcomes, outputs and administered items that they arise from, not just the direct costs.

Figures 3.8A and 3.8B show how the National Library of Australia (NLA) has presented its financial and non-financial results for outputs. Figure 3.8A summarises the cost of outputs, identifying separately the contributions of appropriations and non-appropriation revenue to each output, as required under the *Requirements*.

Figure 3.8B shows how NLA demonstrates the results for non-financial and financial performance for Output 1, including indicators that combine price/cost and quantity information, using effective tabular and chart presentations to demonstrate and explain performance against targets.

Linkages between financial and non-financial results allow stakeholders to see how well resources are used to deliver outputs and contribute to outcomes.

Figure 3.8A: Better practice in linking financial and non-financial results

National Library of Australia, Annual Report 2001-02, p.12

TOTAL RESOURCES FOR OUTCOME 1

	Budget ⁽¹⁾ 2001–2002 \$'000	Actual 2001–2002 \$'000	Variation to budget \$'000
Departmental appropriations			
Output 1.1 — The Collection	18,325	18,177	-148
Output 1.2 — Information Services	179,659	179,635	-24
Output 1.3 — Public Programs	7,523	7,586	+63
Output 1.4 — Australian Library Network Services	4,758	4,867	+109
Contributing to price of departmental outputs	210,265	210,265	0
Revenue from other sources			
Output 1.1 — The Collection	4,495	4,196	-299
Output 1.2 — Information Services	1,542	2,000	+458
Output 1.3 — Public Programs	855	1,823	+968
Output 1.4 — Australian Library Network Services	6,926	6,644	-282
Total revenue from other sources	13,818	14,663	+845
Total price of departmental outputs and resourcing	224,083	224,928	+845
<i>(Total revenue from Government and from other sources)</i>			
Average staffing level (number)	517	501	-16

(1) Note the budget is that as published in the Portfolio Additional Estimates Statements 2001–02.

Why is this better practice?

The set of information provided in Figures 3.8A and 3.8B collectively illustrate some good ways to present the relationship between financial and non-financial results. Figure 3.8A meets the standard annual reporting requirement to present financial data by output in a useful way. It does this by clearly indicating the contribution of two sources of revenue to the funding of individual outputs and highlighting the variances between budget and actual prices for each output.

Figure 3.8B provides a companion to an element of 3.8A containing both a more detailed breakdown of price for Output 1.1 and details of the non-financial performance measures and targets for Output 1.1. The inclusion of targets and graphical illustrations of differences between planned and actual achievements are effective features of the NLA report presentation.

Figure 3.8B: Better practice in linking financial and non-financial results

National Library of Australia, Annual Report 2001-02, p.31-34

MEASURE		TARGET	ACHIEVED
<i>Effectiveness</i>	<i>Appropriate & effective collecting</i> Percentage of Australian publications within the Collection Development Policy that have been collected	85%	86%
	<i>Effective access to the Collection</i> Percentage of new items catalogued on the National Bibliographic Database	100%	99%
	<i>Effective access to the Collection</i> Percentage of targeted older material catalogued on the National Bibliographic Database (equivalent to 81 000 catalogued records)	100%	100%
<i>Quality</i>	Percentage of the items checked in, catalogued or indexed within standards/timeframes	95%	96%
	Percentage of the Collection preserved within set standards and specified timeframes	95%	95%
	Percentage of the Collection maintained within set standards and specified timeframes	85%	83%
<i>Quantity</i>	Collection items stored and maintained	5 287 000	5 310 483
	Collection items acquired and/or processed	453 000	498 498
<i>Price</i>	Cost per Collection item maintained	\$0.61	\$0.59
	Cost per Collection item acquired and/or processed	\$43.20	\$39.45

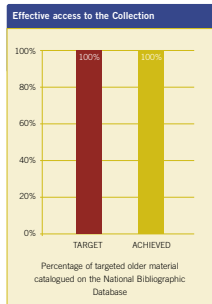
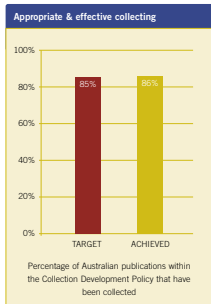
Why is this better practice?

See explanation on Figure 3.8A.

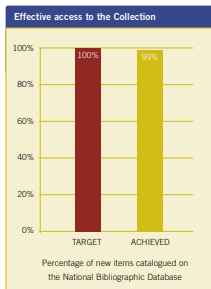
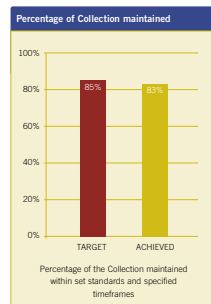
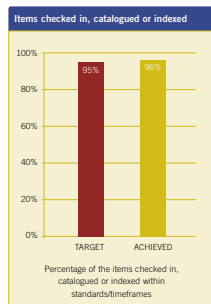
Figure 3.8B: Better practice in linking financial and non-financial results *continued*

National Library of Australia, Annual Report 2001-02, p.31-34

EFFECTIVENESS

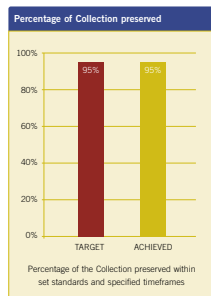


QUALITY



Comments on Performance—Effectiveness

Performance in cataloguing of new Collection items was slightly lower than target, due to minor delays in cataloguing Pictorial Collection items towards the end of the year.

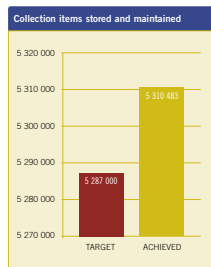


Comments on Performance—Quality

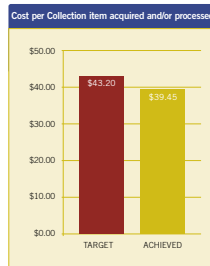
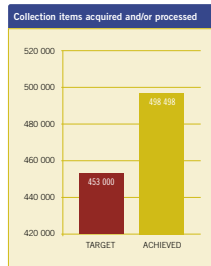
Targets for processing and preservation of Collection items were met.

The Library aims to store all Collection material in suitable environmental conditions; the target of 85 per cent reflects expectations about what could be achieved with existing air conditioning. The target was substantially met, with an average performance of 83 per cent. The Library is planning improvements to its air conditioning system to improve humidity control in some storage areas.

QUANTITY



PRICE



Comments on Performance—Quantity

The Library acquired a number of exceptional collections during the year, including several large Australian photographic collections. The target was exceeded, with 498 498 items acquired and/or processed.

Why is this better practice?

See explanation on Figure 3.8A.

Points of reference or targets are specified and explained

Readers of reports need to be able to put the results presented into context. However, the way results are presented often does not enable this to occur, leaving readers at a loss as to how to interpret results. Generic examples include: whether a 5 per cent change should be interpreted as good or bad; how the result compares with previous years or budget estimates; or how a result compares with an appropriate benchmark.

Reference points that can be explained in terms of the best available results at reasonable cost represent better practice. Target setting is encouraged, but there can be situations where it may be inappropriate to set explicit targets, for example, due to potential for misinterpretation or misuse of the information. However, in such circumstances, an agency can identify relevant reference points, (such as estimated activity, throughput levels, benchmarks or other comparators) and explain their significance. In exceptional cases, where it is not possible or desirable to identify a quantitative comparator, a qualitative measure should be applied.

Figure 3.9 shows good use of targets by the Australian Customs Service (Customs). In this illustration, Customs provides a clear reference to targets specified in its Portfolio Budget Statements (PBS) and Portfolio Additional Estimates Statements (PAES), as well as the result achieved against each quality, quantity and price target. It is also important that the agency explains the reasons for any variances and what it proposes to do about them.

The NLA provides another illustration of better practice in regard to targets. It provides clear illustrations of the agency's achievements relative to targets for its collections output, and explains how it proposes to improve the output (that is, Output 1.1 on page 34) quality through better humidity control. In all situations where reference points or targets are used, further qualitative or non-target performance information can be identified where this improves the explanation of performance

Figure 3.9: Better practice in using reference points or targets

Australian Customs Service, Annual Report 2002-03, p.82

Performance measures

Figure 8: Performance against targets set in the 2002-03 Portfolio Budget Statements - Output 1

Quality/quantity performance measures	Target*	Actual
Facilitate movement of goods		
Quality		
Proportion of electronically lodged entries where an authority to deal is transmitted within 15 minutes of receipt of entry payment and finalisation of entry details	97.00%	99.10%
Electronic cargo systems – availability to Customs clients (availability against typical work day)	Air cargo automation 99.70%	99.69%
	Sea cargo automation 99.70%	99.94%
Rates of appeal against decisions where the original decision by Customs is over-turned	**	See Appendix A
Quantity		
Number of imported air waybills reported	4 180 000	4 453 506
Number of imported sea cargo manifest lines reported	1 465 000	1 581 369
Number of export entries lodged ^	1 250 000	1 226 433
Interception of prohibited/restricted goods		
Quality		
Weight and number of drug seizures by significance of offence	**	See figure 11
Weight of drug seizures by mode of importation	**	See figure 10
Number of detections and/or seizures of other prohibited imports	**	See figure 13
Price	\$262.907 m	\$258.638m

* Targets might be performance targets, service level targets or estimates.

** Performance targets cannot be estimated through any reliable statistical or other method.

^ Measures and/or targets were changed in the Portfolio Additional Estimates Statements.

Why is this better practice?

Customs has explicitly stated all output indicators so that the quantity, quality and price of the good or service can be compared. In addition, the reader can compare actual performance against the target. Customs has highlighted areas where targets and/or the measures have been changed as well as the areas where performance targets could not be estimated.

Troubleshooting

What if the agency doesn't manage on the basis of outcomes and outputs?

In general, an alignment of an agency's organisational structure with its outcomes, outputs and programmes framework is better practice. This is because this best defines management accountabilities and responsibilities, and enables agencies to directly translate internal reporting to external reporting. Examples of departments with substantial alignment include Family and Community Services, Employment and Workplace Relations, and Finance.

Where an agency's organisational structure is not aligned with its outcomes, outputs and administered items framework, the first question to ask is whether it is the best approach to have such different reporting and managing arrangements.

If there are good reasons for retaining the difference, the next best option is to identify the linkages between the organisational groups, and the services and outcomes they are contributing to.

Some agencies develop a matrix approach to management where parts of the agency have responsibility for certain activities as well as contributing to specified outcomes. Other agencies identify individual managers with specific responsibility for managing outputs and outcomes across a range of groups.

How does the agency avoid counterproductive reference points or targets?

These can be goals for the agency, or merely estimates of activity levels that are provided for general information. This distinction is often not clear in annual reports and affects the ability of the reader to form a judgement of performance.

The purpose of reference points should be clearly explained. For example, if they are only estimated activity levels but not something the agency is trying to achieve, it should make that clear in the Portfolio Budget Statements. If they are goals or standards to be achieved, that should be made clear, as well as the implications of over or under-achievement.

4. Better Measurement and Data Management

Readers of annual reports need to be assured that the quality and reliability of information in annual reports is adequate. This chapter provides information on basic requirements to achieve good measurement and data management. It is not intended to give detailed guidance on techniques and methodology. Readers of annual reports need to be assured that the quality and reliability of information in annual reports is adequate. Maintaining the confidence of stakeholders is essential. If confidence is lost, the result is not only a waste of money and effort for the agency, but also a breach of accountability. It is also a wasted opportunity to gather information that assists managers to achieve their objectives more effectively. Even where data quality is not perfect, readers can be alerted to the level of confidence they can have in the accuracy of information, and the steps being taken by agencies to improve data quality. For example, the Department of Education, Science and Training (DEST) provides information in its annual report on how its performance information is constructed, and identifies the sources.⁹ The Australian Federal Police acknowledges in its annual report the potential to improve its performance data, and explains what it is doing to enhance the quality of information provided through its PROMIS system.¹⁰

The features of good measurement and data management practices are summarised in Figure 4.1. Pivotal amongst these are sound co-ordination and assurance arrangements and an integrated data collection and measurement framework for internal and external reporting.

Figure 4.1: Features of good measurement and data management

- ✓ Clear definition of performance indicators.
- ✓ Sound data assurance arrangements.
- ✓ Sound annual report coordination and clearance arrangements.
- ✓ Data that is used to report performance information in the annual report should be built on information used for ongoing management and decision-making.

⁹ Department of Education, Science and Training, *Annual Report 2001-02*. For example p. 25.

¹⁰ Australian Federal Police, *Annual Report 2001-02*, pp.25-26.

How to improve performance measurement and data management

Performance measurement and data management are important aspects of performance management. Especially for accountability purposes, stakeholders, including the Parliament, need to know the extent to which they can rely on the reported data that underpins the performance measures used for both ongoing management and external reporting.

Some key factors that can assist agencies to improve performance measurement and data management are listed in separate headings below.

Set and document data and measurement standards

Standards and procedures establish a minimum data quality and provide the basis for improving data quality. Agencies should set standards and procedures for the collection, storage and retrieval of data. This will ensure that data is sound and has been developed to an appropriate standard. In order to confirm that they have sound data, agencies should assess the risks associated with the collection and use of data for performance assessment purposes.

It is better practice to maintain a central repository of documentation on methodology, processes for collection of data and the management of performance data. This aids consistency and continuity of measurement and makes it less likely that systems are not unduly reliant on the corporate knowledge of specific individuals.

Some agencies, like Customs as noted in Figure 4.2, have developed internal standards and quality assurance arrangements that are centrally managed. Other agencies incorporate controls and guidance into their information systems that are used by people within the agency.

Also included in Figure 4.2 are the Statistical Principles that Customs has developed to specify the level of quality that is expected from all data collected throughout the agency. These standards represent better practice and provide everyone in the agency with an understanding of what is considered quality data. These standards impact on the quality of data for both the annual report and internal reporting.

The Australian Bureau of Statistics (ABS) has recently released a National Statistical Service Handbook which provides guidance on: planning and undertaking statistical collections; extracting data from administrative systems; managing statistical data; turning administrative data and survey data into statistics; and analysing data. Amongst other things, the handbook points out the importance of carefully documenting concepts, definitions and classifications, noting any differences from standards or from those used to produce related data. The use of a comprehensive set of statistical and methodological standards, allows for an integrated picture of performance. It improves the usefulness, reliability, and comprehensiveness of the data, as well as reducing the duplication of data collection. Further information on this handbook can be found at the following website <www.nss.gov.au>.

It is better practice to maintain a central repository of documentation on methodology, processes for collection of data and the management of performance data.

Figure 4.2: Better practice in coordination, quality assurance and clearance

Australian Customs Service

Customs has fully integrated and documented its data collection systems, managed by the Statistics Section, a central unit. Customs has explicit standards for data and robust quality control arrangements, which includes the checking of data before being included in reports.

The Statistics Section coordinates and checks the quality of all data before release. In addition, all proposed tables and charts for the annual report are provided to the Statistics Section with a sign-off by National Managers.

Customs has developed a set of Statistical Principles and an associated Statistical Framework. The Statistical Principles are intended to make sure the statistics, collected by all areas of Customs, can be used meaningfully and managed as a corporate asset. The Customs Executive Group has endorsed these Statistical Principles.

Customs' Statistical Principles

Relationship to corporate objectives

Statistics should be used to serve a purpose in the management process. They should be linked to the corporate plan and reflect the results the agency is trying to achieve.

Accuracy and reliability of statistics

No statistic should be assumed to be 100% accurate or reliable. Statistics collected and used should be of a sufficient degree of accuracy and reliability to meet their intended purposes.

Common definition of terms

There should be a common and unique set of definitions and usage of key terms across the agency to ensure commonality and lack of ambiguity in interpretation. This includes the definition of the relationship between different terms, and the classification of any term into sub-types.

Breakdown by region and time

All key statistics should be available (at least on request) in any required breakdown by location or time. Time collection should normally be monthly enabling quarterly and yearly presentation. Breakdown by location should be at least to regional level (states and territories).

Accessibility of statistics

Data should be as accessible as possible, to producers and other potential users, including ready availability for further analysis and compilation.

Tip

Simplify and integrate information systems as much as possible to avoid opportunities for error and increase efficiency in handling of information.

Whatever approach is used, it is important that people know the requirements, that guidance and advice is readily accessible and that all copies of the requirements are updated as improvements are made.

Establish adequate backup arrangements for data and systems

The performance data needs to be managed to reduce the cost of breakdown, loss of information and loss of corporate knowledge through departure of key staff, just like other systems within an agency. It is better practice to establish arrangements for managing systems, personnel and data risks for performance data, as part of the agency's wider risk and knowledge management and systems assurance arrangements.

Provide mechanisms for quality assurance and continuous improvement in performance information and reporting

Agencies need to establish mechanisms for quality assurance and ongoing improvement to give them confidence in the information produced by their systems. Figure 4.3 contains the broad attributes of good quality assurance and improvement mechanisms.

Figure 4.3: Better practice in quality assurance and improvement mechanisms

- ✓ A risk assessment has been conducted on the collection and use of data, identifying the areas at highest risk of being incomplete/inaccurate and treatments for such data.
- ✓ There is a clear audit trail between the source datasets and reported performance results.
- ✓ Data integrity checks are undertaken on a regular basis. This can be as simple as experienced managers looking at the data extracted on a regular basis and comparing the data to that collected in the same period last year or in the previous day's report. Check to see that the results are within expectations.
- ✓ There is a structure of sign-offs from managers on the accuracy of the data collected and reported at different levels. This is especially important where performance indicators are derived from highly aggregated data.
- ✓ There are different levels of user access within data collection systems, so that changes and amendments to data are controlled and limited.
- ✓ External reporting requirements are integrated with internal and everyday management reporting requirements, so that data that are used to monitor performance on a regular basis are the same data used to report results in the annual report.

It is important that people responsible are trained and skilled from the point of data collection to delivery of the final report.

Source: ANAO

Adequate guidance and training for people collecting, storing and using information

The quality of information is dependent on it being managed carefully and completely. It is vital that people handling the information understand and act in accordance with specified standards and procedures. A training program can be designed internally or using one of the many professional consultancy firms available with expertise in this area. It is important that people responsible are trained and skilled from the point of data collection to delivery of the final report.

Performance indicators that are supported by clear measurement methodologies

Having sound data is not an end in itself. The data needs to underpin performance assessment and be used not only for the annual report but also for ongoing management and decision-making. Performance indicators, both financial and non-financial, need to measure what they purport to measure, be well defined, supported by clearly identified measurement methodologies and have targets/reference points that are researched and realistically set.

At the highest level, this will involve: well-specified and defined outcomes, outputs and administered items; the associated performance indicators of effectiveness (outcomes), quality, quantity and price (departmental outputs); and quality, quantity and cost (administered items). More information on the specification of outcomes is provided in the outcomes principles at Appendix 2. It is important that at the time outcome statements are defined, thought is given to how performance against them will be measured and reported. Only through such a process will the practicality of the statements, and the availability of reliable sources of performance indicator data, be tested. This naturally also applies to intermediate outcomes.

In general, the most reliable and credible sources of performance indicator data are independent of the agency for which an outcome statement is framed. For example, ABS has well-documented data, often providing trend information which is useful at all levels, but particularly for the longer timeframes associated with outcomes. International organisations such as the OECD can also provide international comparators and trends. Several portfolios can also call on information from authorities within their portfolio. Examples include the Australian Institute of Criminology, Australian Institute of Family Studies, Australian Institute of Health and Welfare, and Australian National Training Authority. In all cases, acknowledgement of these sources in Portfolio Budget Statements and annual reports adds to the credibility of the data being reported.

Budgets and costing methodology

It is important that all agency performance information, both financial and non-financial, is of a sufficient quality to be relied on by managers and stakeholders in making judgements about agency efficiency and effectiveness. Accordingly, arrangements should be in place to provide assurance that financial performance information is accurate. These include costing methodologies, which are frequently used to trace costs to outputs and outcomes. Costing methodologies should be approved and supported by appropriate documentation and assumptions. A better practice costing model includes:

- methodologies that appropriately trace full costs (including overhead costs) to outcomes and outputs;
- documentation of approaches to achieve integrity of cost information;
- an adequate quality assurance framework; and
- an organisational structure that is aligned to the outcome and output structure to simplify the attribution of costs.

The comparison of budgeted and actual expenditure is an essential technique of sound financial management and accountability.

The comparison of budgeted and actual expenditure is an essential technique of sound financial management and accountability. Budget processes should be sound and material variations between budgeted and actual financial performance should be explained.

In any report, sound features of the budgeting process will include:

- budgets that are allocated against outputs and outcomes using an appropriate methodology;
- non-financial performance indicators and targets are included in budget documentation;
- actual costs that are tracked and linked to non-financial performance indicators; and
- consistent and coordinated close-off for all systems, that is, a time set as a deadline for establishing end results.

Troubleshooting

What if my agency IT and information systems are not easily adapted to managing performance information?

Some agencies have IT systems built to meet their operational responsibilities in which performance information is a relatively minor consideration. Others have legacy systems that are too expensive to replace and it is necessary to do the best with what is available.

Incorporating performance information arrangements into those and similar situations requires a balance of judgement on the cost, timeliness, quality and efficiency of obtaining the performance information needed for effective accountability. The assessment needs to be done on a case by case basis and could involve: an acceptance that existing systems can provide reasonable information, though not the best possible; and purchase of dedicated performance systems which stand alone or interface with other agency systems to some extent.

In agencies that are considering replacement or upgrade of existing systems, performance information needs should be taken into consideration in evaluating the business case.

5. Better Information in Annual Reports

Good performance reporting involves the use of accurate, consistent and complementary information, which presents a balanced and coherent snapshot of an agency's achievements within a strategic context.

Even where agencies have good performance reporting frameworks and information management systems, the way in which they present the agency's performance in annual reports affects perceptions of the quality of their accountability.

This chapter provides suggestions on how to present performance information in ways that are coherent, informative and interesting for the various stakeholders who read agency annual reports, particularly the Parliament.

Key features of good performance reporting are summarised in Figure 5.1. In essence, good performance reporting involves the use of accurate, consistent and complementary information which presents a balanced and coherent snapshot of an agency's achievements within a strategic context. This involves explaining how well the agency performed during the relevant period in meeting its objectives, not just stating what it did. This explanation should be supported by information on trends, evaluation results, targets and other points of reference, and comparison of results against plans. Results should be presented in plain language and an easy to read format, preferably supported by charts and diagrams.

If performance is below expectations, good performance reporting entails being open about the extent of, and reasons for, the result. It also includes explaining what the agency plans to do in response, to the extent that the situation is within their control.

Figure 5.1: Features of good annual performance reports

- ✓ Present achievements and analysis of performance.
- ✓ Assess performance against targets or other points of reference.
- ✓ Present trends in performance.
- ✓ Demonstrate that evaluations are conducted and used appropriately.
- ✓ Provide a coherent picture of performance that:
 - links to commitments in the agency's Portfolio Budget Statements;
 - demonstrates consistency between years; and
 - addresses all matters of the *Requirements*.

Tips and techniques for better annual performance reporting

Good reporting is essentially reporting that meets the needs and desires of users. For Australian Government agencies, this means, at a minimum, meeting official reporting guidelines for accountability to the Parliament. Agencies should also take account of comments and requests by stakeholders, such as the JCPAA, on the form and content of reports.

This section discusses nine features of better annual reporting that have been specifically identified by Parliamentary committees or have emerged from the ANAO's 2003 audit of *Annual Performance Reporting*.¹¹

Present a balanced, coherent picture of performance

Government agencies are complex and sophisticated organisations with a myriad of competing demands and constraints. The challenge for agencies in annual reports is to distil the results of their endeavours into a concise, coherent and readable form. Better practice in this regard involves careful planning and design of a report, focusing on what is important, what is necessary, and what is interesting to readers.

To assist business units within an agency to contribute to the development of a consistent annual report, which adheres to all mandated requirements and better practice, many agencies have developed specific guidelines and templates for managers to follow in the beginning stages of report preparation. The most advanced examples of these include glossaries of agreed terms, practical examples of how to present performance and lessons learnt from the development of the previous year's annual report.

Put performance in context

Performance can only be fully appreciated if it is seen in the context of the relevant legislation, policies, plans, strategies, trends, targets and other reference points relating to the agency. Figures or statements, on their own, can only be used to explain what happened, not why it happened or why it was done in a particular way. Statements about performance need to be related to the environment in which the agency operates, and the significance of its results in terms of an appropriate reference point. Reporting against targets and/or providing trend data are effective tools to demonstrate results in relation to expectations and past performance.

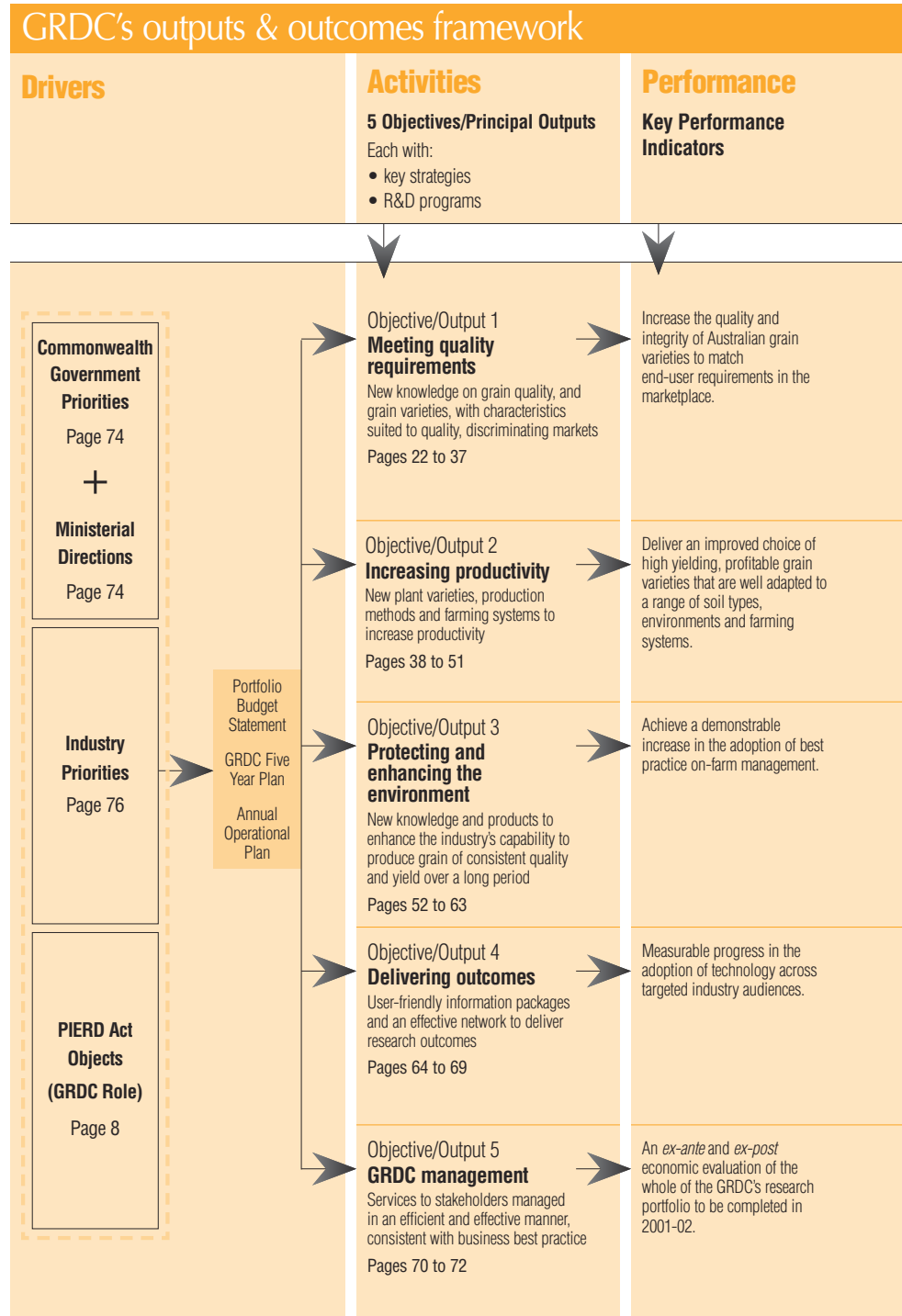
Figures 5.2A and B show how the GRDC succinctly illustrates the relationship between its government and industry priorities, legislation, plans, outputs, targets, key performance indicators, results, vision, outcomes and future directions. In this way, readers can see where each aspect of the performance framework, and the relevant results, fits into the bigger policy and industry picture and longer term directions.

Better practice involves careful planning and design of a report, focusing on what is important, what is necessary, and what is interesting to readers.

¹¹ ANAO, *Annual Performance Reporting*, Audit Report No. 11, 2003-04.

Figure 5.2A Better practice in presenting a coherent picture of performance in context

Grains Research and Development Corporation, Annual Report 2001-02, pp.14-15

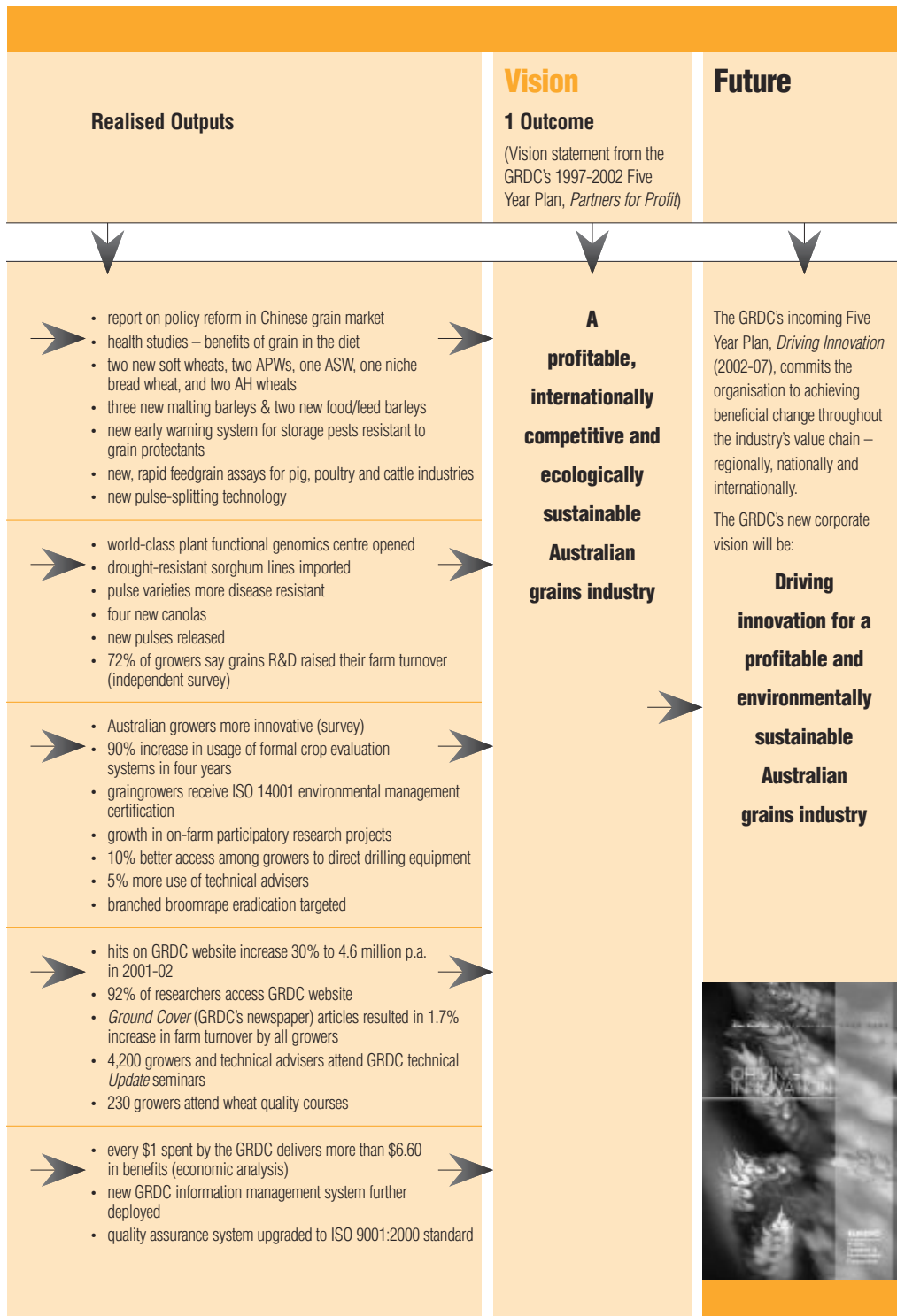


Why is this better practice?

The GRDC has consolidated in one diagram information on the legal and policy drivers for action, the outcomes to be achieved, the outputs and future directions of the agency. The diagram also provides page references to other parts of the report containing more information on each element identified.

Figure 5.2B Better practice in presenting a coherent picture of performance in context

Grains Research and Development Corporation, Annual Report 2001-02, pp.14-15



Why is this better practice?

As a result, the GRDC has managed to include all the key elements of its performance framework, show how they are linked, and provide a summary guide to the results achieved and where to obtain further details.

Make use of evaluation and review results, as well as output and effectiveness measures

Evaluation addresses questions of whether the 'right things' are being done by an agency, as well as whether they are being 'done right'.

Annual performance monitoring measures are only part of the performance story and generally cannot capture adequately qualitative results, particularly in regard to outcome effectiveness. This is an area of weakness in many agencies' annual reports. By undertaking evaluations, and making good use of the findings to explain performance in annual reports, agencies can fill a critical gap in current performance information.

Evaluation addresses questions of whether the 'right things' are being done by an agency, as well as whether they are being 'done right'. Finance and ANAO have encouraged the use of evaluation for almost two decades. Guidance developed by Finance provides a valuable source of advice on how to incorporate evaluation into a performance management regime.¹²

Figure 5.3 is an example of an agency that has used evaluation to improve measurement and reporting of its performance. Figure 5.3 explains how the Australian Maritime Safety Authority (AMSA) used an evaluation by the Commonwealth Scientific and Industrial Research Organisation (CSIRO) to improve its efficiency and effectiveness in ship inspections, as a means to achieve better safety and environmental outcomes, through better targeting of high risk vessels.

Figure 5.3: Better practice in reporting review and evaluation results
Australian Maritime Safety Authority, Annual Report 2001-02, p.27-28

Targeting of Ship Inspections

AMSA continues to refine its ship inspection risk management process to improve targeting at higher risk ships. It has been allocating a ranking to all ships arriving at Australian ports that are eligible for inspection to identify higher risk vessels.

About 5,500 of the 20,000 port arrivals each year are eligible for inspection and AMSA inspects some 3,000 of these. This risk ranking is used by AMSA to assist decisions as to which ships should be inspected to determine whether they meet international safety and environment protection standards.

The initial data analysis by AMSA that produced the basis for these risk rankings was refined and extended during 2001-2002 by the Commonwealth Scientific and Industrial Research Organisation (CSIRO).

This risk ranking of ships prompted AMSA to relocate two marine surveyors over the past year to ensure better coverage of higher risk ships at remote ports. AMSA has also undertaken some initial analysis of the incidence of deficiencies and detentions of ships due to specific categories of deficiencies and how those deficiency types typically occur over the life of a ship.

Why is this better practice?

In this example, AMSA explains how it targets ship safety through a risk management approach to inspection; and how an independent evaluation helped to improve the quality of the risk ranking and so the performance of ship inspections. Notable features of this example are that: the significance of the area reviewed is outlined; the approach adopted for the review is explained; the results achieved from the review are clear; and the actions taken in response to those results are all presented within the section of the report dealing with that aspect of performance (that is, in relation to regulation of ship safety).

¹² Department of Finance, *Doing Evaluations: A Practical Guide*, 1994 and Performance Management Principles. (available at <www.finance.gov.au>).

Use plain language, relevant diagrams and a clear format to illustrate and add emphasis

Within the bounds of style and content requirements¹³, agencies can use headings, cross-referencing, colour contrasts, photographs, charts, tables and innovative designs to highlight performance. For example, the 2001-02 annual reports for the National Library of Australia, the Grains Research and Development Corporation, the Australian Fisheries Management Authority and the Australian Maritime Safety Authority, to name a few, provide a range of interesting and captivating ways to highlight key elements of their performance. Also, when agencies use illustrative diagrams and pictures, they should be tied in effectively to the text of the report.

Don't report activities unless they are vital to explaining how well the agency performed

It is a common weakness in many annual reports that agencies report on what they did (their activities) rather than what they achieved (the services delivered and impacts made). This does not help stakeholders determine whether the agency has provided good value for money or whether it has made a worthwhile contribution to the Government's policies and objectives.

Better practice performance reporting involves agencies going beyond what they did to explain what happened next. For example, the products they delivered, who to, what happened after the products were delivered, and the changes as a result of the agency's actions. Figure 5.4 provides an illustration of good reporting of achievements by the GRDC.

It is a common weakness in many annual reports that agencies report on what they did rather than what they achieved.

Figure 5.4: Better practice in reporting achievements
Grains Research and Development Corporation, Annual Report 2001-02, p.23

PLANNED OUTPUTS	ACTUAL OUTPUTS
Key Strategies from the Portfolio Budget Statements for 2001-02	
Researching trends in world grain production	<ul style="list-style-type: none"> ■ new reports on global trends in the seed industry ■ report on policy reform in China's grain market ■ studies into health and nutritional benefits of grains in the Australian diet
Determining the quality parameters for Australia's grains and providing grain cultivars to meet market requirements	<ul style="list-style-type: none"> ■ release of two new soft wheats, two new Australian Prime Wheats, two Australian Hard wheats, one Australian Standard White wheat and one niche bread wheat. ■ release of three new malting barley varieties and two new food/ feed barley varieties
Optimising grain storage, treatment and harvest strategies to meet market requirements, in a safe and environmentally sound manner	<ul style="list-style-type: none"> ■ new insect resistance early-warning system, and the world's first database to identify insect storage pests with chemical resistance
Encouraging collaborative research between industry sectors in the value chain	<ul style="list-style-type: none"> ■ commercialisation commencing for a revolutionary grain aeration strategy ■ new, rapid feedgrain assays developed for the pig, poultry and cattle industries

Why is this better practice?

The GRDC uses the diagram to summarise succinctly the specific achievements against the plans and strategies reported in the agency's Portfolio Budget Statements.

¹³ These production standards are set out in the *Commonwealth Printing Standards for Documents* which is available at, <www.aph.gov.au/house/committee/publ/printing_standards.htm>

Report shortcomings in a balanced way and explain what will be done to address them

The credibility of reports is improved when readers believe that the report provides a balanced and open representation of agency performance, warts and all. The performance management principles, developed by Finance and promulgated by the Minister for Finance and Administration following consultation with other portfolio ministers, noted that ‘candour in disclosure and action on performance information will add to credibility’¹⁴ (these principles are replicated in Appendix 3).

It is a natural concern that reporting of shortcomings may expose an agency to closer scrutiny, and questions may arise as to the reasons for shortcomings. However, by including considered references to the matters in context, and reporting the remedial measures taken where necessary, the agency is likely to avoid the unwelcome attention that would follow the subsequent revelation of shortcomings, which had not been fairly and openly reported in the annual report. Figure 5.5 is an example of how the Fisheries Research and Development Corporation (FRDC) have reported shortcomings in its 2001-02 Annual Report.

*The credibility
of reports is
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representation
of agency
performance,
warts and all.*

¹⁴ Department of Finance, Performance Management Principles, see Finance website <<http://www.finance.gov.au/>>

Figure 5.5: Better practice reporting of shortcomings
Fisheries Research and Development Corporation, Annual Report 2001-02, p.29

TABLE 1: THE DIRECTORS' BROAD ASSESSMENT OF THE FRDC'S PERFORMANCE, 2001-02

Key role	Weakness	Strength	Current status
Planning	<ul style="list-style-type: none"> ▶ Stakeholder R&D plans often focus on outputs rather than outcomes and lack performance indicators for measuring achievement of outcomes ▶ R&D plans are often not well translated into projects ▶ Determination of R&D priorities is often compromised by competing needs of involved parties and driven by the capacity of research providers ▶ R&D providers are often left to develop priorities in the absence of end-user input 	<ul style="list-style-type: none"> ▶ Commonwealth Government has provided clear guidance for the way in which its contribution to the FRDC should be invested ▶ FRDC R&D plan is being recognised as a key national planning document and a valuable resource for the fishing industry ▶ R&D strategies are in place for most key fisheries and fisheries management jurisdictions 	<ul style="list-style-type: none"> ▶ FRDC initiatives are contributing to an appreciation of the need to plan for the long-term future ▶ FRDC is working well with partners to achieve a more outcome-focused planning regime for fisheries ▶ FRDC is the major national driver of the "whole-of-supply-chain" approach to fisheries R&D
Investing	<ul style="list-style-type: none"> ▶ Voluntary levies result in too sharp a focus on investment in R&D (= inputs) rather than benefits (= outcomes) ▶ Voluntary nature of levies makes it difficult for FRDC to develop long-term investment strategies ▶ Shortfalls against the 0.25% levy diminish the funds available to fisheries R&D ▶ Aquaculture sector requires disproportionate funds in its development phase — and in many cases there is no mechanism for this sector to contribute to the FRDC ▶ About 40% of fisheries R&D is not managed by the FRDC or recorded on national databases, resulting in duplication and loss of efficiency 	<ul style="list-style-type: none"> ▶ Voluntary nature of levies ensures FRDC puts high priority on accountability and good governance ▶ FRDC is regarded as the leading agency for ensuring that Australia's investment in fisheries R&D is maximised ▶ FRDC is increasingly influencing the way in which other funding sources are applied to fisheries R&D ▶ FRDC Board is seen as independent and non-partisan ▶ FRDC Board has rigorous evaluation procedures 	<ul style="list-style-type: none"> ▶ FRDC leadership in fisheries R&D is widely recognised ▶ FRDC's management procedures and systems are effective, efficient, open and accountable ▶ FRDC's revenue base has risen, despite constraints and despite sectors with higher GVP contributing a higher percentage than smaller sectors
Managing	<ul style="list-style-type: none"> ▶ Monitoring R&D progress depends mainly on milestone reporting, resulting in a lack of real-time information ▶ Conduct of R&D projects is often constrained by institutional work practices of research providers ▶ Good indicators or framework for measuring adoption of results are lacking ▶ Communication and extension is still often an afterthought ▶ Slippage in R&D results in poor timeliness of delivery of R&D 	<ul style="list-style-type: none"> ▶ FRDC has effective working relationships with research providers ▶ FRDC project management system, Fishbase, has developed as a key tool for managing R&D ▶ Quality certification results in continual improvement of project management 	<ul style="list-style-type: none"> ▶ Audits and recently introduced costed milestones are strengthening management of R&D, which has been handicapped by dependency on the management and accounting practices of research providers ▶ Communication, extension and intellectual property management improvements are increasing the effectiveness of R&D

Why is this better practice?

This diagram provides an overview of how an agency assesses its performance against a set of characteristics that influence its performance. As a result, the agency was able to demonstrate the rationale behind its operational strategy, both in terms of the current level of performance, as well as future directions. It also provides a useful benchmark for assessing future performance within the context of the FRDC's strategic framework.

Consult stakeholders about what information they want on performance

The primary purpose of the Annual Report is accountability, in particular to the Parliament. The *Requirements* approved by the JCPAA, provide the basis for determining the content of agencies' annual reports and the type of information that the Parliament is interested in and the way it should be presented.

In addition to following the *Requirements*, and guidance from Finance and NOIE, an agency should consult its stakeholders about the type of information that interests them, and the ways they would like it presented. This can be done through direct consultation with stakeholders, or by having regard to written commentaries and suggestions from the stakeholders. However, the needs of other stakeholders should be balanced with the *Requirements* set by Parliament.

The SFPALC and JCPAA have provided several reports that offer detailed suggestions on how performance information could be improved in annual reports and Portfolio Budget Statements. References and further guidance are provided in Appendix 1.

Some departments already undertake surveys, or conduct focus groups, with their client groups and other stakeholders to seek their views. For example, the Secretary of DEST states in his overview for the 2001-02 annual report that 'the department has committed itself to being 'Open for Business' with its many stakeholders'¹⁵. This involves seeking stakeholder feedback on departmental commitments.

Consider the medium as well as the message

Agencies are required to provide a written annual report to the Parliament on their performance. However, there are also other mediums that agencies can use to inform their stakeholders about their performance, such as the Internet, which can supplement and complement the written annual report.

NOIE provides guidance for on-line reporting and agency practice in linking a wide range of supplementary information on operations and achievements to the annual report information on their websites. Providing information on the internet offers many potential benefits, in addition to simply providing another source of the printed annual reports. For example, it can be:

- accessible across the country, and the rest of the world;
- published more quickly and cheaply than printed reports in many instances, and provide information in a more timely way and more frequently updated if appropriate;
- more easily linked to other sources of information, including video, audio, discussion groups and other organisations as well as static text; and
- more compact and portable than printed documents.

The potential of the on-line medium for performance reporting has not been fully utilised by many agencies, though promising practices are being developed and used more often. For example, the Department of Employment and Workplace Relations uses video interviews and reports to supplement information. In the 2001-02 annual report, it provided a video interview outlining the conclusions and actions to be taken on the Productivity Commission draft report on the Job Network. The 2002-03 DEWR annual report contains similar links and supplements and can be viewed at: <http://www.annualreport.dewrsb.gov.au/AnnualReport/2003/home/>.

¹⁵ Department of Education, Science and Training, *Annual Report 2001-02*, p.5.

Learning from others

A good way to learn about better performance reporting is to look at reports of other agencies, particularly those which have received recognition from their stakeholders for the quality or value of their information. In addition, there are annual report awards run by the Institute of Public Administration Australia¹⁶ and the Australasian Reporting Awards Inc.¹⁷, which provide information on what is generally accepted as better practice reporting. This includes performance reporting, amongst other considerations.

Another source of useful information can be found in the reports from the legislation committees of the Senate, which review the annual reports of relevant departments and agencies each year. More information can be found at the Australian Parliament House website referred to in Appendix 1.

A good way to learn about better performance reporting is to look at reports of other agencies.

Figure 5.6: IPAA Annual Report Award winners 2001-02

Winners:

- Australian Tax Office
- Australian Customs Service
- Grains R&D Corporation
- National Library of Australia
- National Museum of Australia

Runners Up:

- Finance & Administration
- APS Commission
- Australian Federal Police
- Migration Review Tribunal
- Native Title Tribunal
- Australian Fisheries Management Authority
- Land & Water Australia
- Fisheries R&D Corporation
- Centrelink

Tip

NB: Awards relate to all aspects of annual reports, not just performance reporting.

¹⁶ Further information on IPAA Annual Report Awards can be obtained from their website at <www.act.ipaa.org.au>.

¹⁷ Further information on the ARA Annual Report Awards can be obtained from their website at <www.arawards.com.au>.

Troubleshooting

How to deal with confidentiality constraints on reporting

Some agencies are unable to provide a full report on their performance due to sensitivity of the information on their achievements and methods, for example in security, law enforcement and defence agencies. It is important that agencies in these circumstances explain the reason for incomplete performance reporting and make every effort to provide a fair and balanced picture of their achievements.

Similarly, in some agencies, such as those with regulatory or safety responsibilities, a result in which adverse events or impacts are avoided can represent good performance. It is also important to report on the significance of 'nothing happening', especially where this is an indicator of good performance.

Reconciling annual performance information and the outcomes of evaluations

One major difference between performance monitoring and evaluation is that, with evaluation, the time taken to plan, undertake and report evaluations can be much longer. Therefore, it may not be possible to report on evaluations in annual reports on the same timescale as for annual performance indicators. Indeed, sometimes evaluations commenced in one period are not completed until the following period. This means that the information is often out of date when it is reported. There is little that can be done to avoid such problems, other than attempting to take account of reporting times when planning evaluations. While it is important to report any relevant conclusions or consequential changes arising from evaluations, it is more important that evaluations contribute to improvements in management and decision-making. Where the latter occurs, the significance of the evaluations should be acknowledged in the annual report, explaining the resulting changes.

How to report on results that are not achieved within the same reporting period as the services are delivered

The outcomes that ensue from outputs and administered items can take time to achieve. One option for dealing with this is to report milestones or interim results on an annual basis, while acknowledging that these results represent only a partial outcome or relate to more than one annual report period.

For example, AFMA uses information from independent fisheries surveys, assessments and statistics from sources such as the Bureau of Rural Sciences and the Australian Bureau of Agricultural and Resource Economics, to supplement its own performance information. This can also be a means of evaluating its performance. The lag between collection and reporting of these data, and the difference in timing of the annual report cycle, mean that AFMA cannot provide this information in its annual report in the year that the information refers to. Nonetheless, AFMA includes summaries of the biological and economic information relating to other relevant periods in its annual report, (noting explicitly that it relates to a different period than that covered by the annual report), in recognition of the fact that the information provides a useful indicator of AFMA's performance over a broader timeframe.¹⁸

¹⁸ Australian Fisheries Management Authority, *Annual Report 2001-02*, p.25.

Appendices

Appendix 1

References and further guidance

References

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Sources of Better Practice Examples

(Please note: use of a segment of an annual report in an example of better practice does not necessarily mean that the whole contents of the report is considered to represent good practice by the ANAO and Finance.)

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Australian Federal Police, *Annual Report 2001-02*.

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Department of Communications, Information Technology and the Arts, *Annual Report 2001-02*.

Department of Employment and Workplace Relations, *Annual Report 2002-03*.

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Useful Websites

Australia

- www.anao.gov.au Information on, and examples of, better practice performance management and reporting. This site also has links to other Auditor General sites in Australia and internationally, which also have useful information on performance reporting, including the references included above.
- www.finance.gov.au Guidelines on performance information and specification, outcomes principles, linking performance and budgets.
- http://www.noie.gov.au/projects/egovernment/Better_Information/electronic_formats.html
NOIE guidance on web publishing.
- http://www.pmc.gov.au/docs/govt_index.cfm#Requirements
Requirements for annual reporting by government departments, executive agencies and FMA bodies.
- <http://www.aph.gov.au/house/committee/jpaa/>
Joint Committee of Public Accounts and Audit site includes information and reports relating to performance issues.
- http://www.aph.gov.au/Senate/committee/fapa_ctte/index.htm
Senate Finance and Public Administration Legislation Committee provides commentary on performance in Portfolio Budget Statements and annual reports. It has also produced reports on performance reporting, referred to above.
- <http://www.cpaaustralia.com.au> Contains a section dedicated to the public sector. This includes some useful articles on financial and performance reporting and measurement.

International (does not include links available on the ANAO website)

- www.globalreporting.org A framework of principles for sustainability reporting.
- <http://server.admin.state.mn.us/mm/index.html>
Minnesota Milestones homepage. Provides information on progress against 70 indicators of state wellbeing and performance.
- <http://www.finance.gov.ab.ca/measuring/index.html>
Government of Alberta, Canada, performance measures for the Province using indicators from three outcome and sustainability perspectives: Prosperity, People, Preservation.
- <http://www.audit-commission.gov.uk/>
Contains a wealth of information and guidance on performance measurement, reporting and benchmarking, particularly in the areas of local government, health, criminal justice, housing and cross-cutting measures and targets.

Networks and contacts

(PLEASE NOTE: This is not a comprehensive list of associations and networks related to performance reporting. ANAO and Finance do not endorse or promote any of the networks or organisations, but provides this list for information.)

Annual Report Coordinators Network

The network, organised by NOIE, is a forum to share information and issues about Commonwealth Government annual reports. Registration is free and enables people involved in the annual reporting process to share expertise and knowledge through information exchange between contacts made through the network.

For more information or to register, contact Access to Government Information.

Institute of Public Administration Australia

IPAA has a national executive and divisions in all states and territories of Australia, in addition to international affiliations. The ACT Division conducts annual report awards competitions every year for Commonwealth Government FMA Act, CAC Act, ACT Government agencies and on-line annual reports. The ACT awards have been running annually for over 20 years. IPAA also provides publications, forums, conferences, workshops and seminars relating to performance, annual reporting and related matters. More information is available on: <<http://www.act.ipaa.org.au/>>

Canberra Evaluation Forum

Formerly run by the Department of Finance, the CEF is now hosted by IPAA and meets every third Thursday of the month at the Lobby Restaurant in Canberra. It provides seminars and discussions on practical evaluation and performance management issues, delivered by practitioners. Canberra Evaluation Forum email: canbevalforum@hotmail.com

Australasian Evaluation Society

The AES promotes good practice in evaluation and performance measurement in Australia and New Zealand. There are divisions of the AES in all Australian states and territories and New Zealand providing events and publications on evaluation and performance issues. For more information, browse their internet site on <<http://www.aes.asn.au/>>

Appendix 2

The outcomes principles were developed to direct agencies in the appropriate specification of new or revised outcomes statements. The principles complement the 'Specifying Outcomes' guidance provided on the Finance website.

Outcome Statements legally form the purpose, and therefore the limits, for appropriations made by the Parliament. They present the Government's priorities and/or objectives for each agency, and they provide the basis for the performance management framework. The outcomes principles are outlined below.

Outcomes Principles

Outcome statements represent the Government's expression of achievable, end-results for (or impacts on) the community. They must:

- be concise and written in plain English, focused on the end-result the Government is seeking, not the means;
- be capable of forming the basis of a valid appropriation for the purposes of section 81 and 83 of the Constitution:
 - this means that it must be capable of operating as a statement of the purposes of the expenditure;
 - it must be capable of being given some objective meaning; and
 - the outcome statement as a whole must cover all expenditure contemplated by the agency.
- be sufficient in number for an agency to enable the Government, Parliament and the community to identify the main elements of the agency's role and intended impacts:
 - in particular, the outcome statements should not be overly broad and must reflect logical groupings of the suite of programmes (usually administered items) and the departmental outputs that are delivered in support of each outcome; and
 - the number of outcome statements and level of detail should also reflect the degree and nature of the Government's policy interest in the area, and take account of the materiality of the expenditures involved.
- be measurable. While a long-term focus is appropriate, identifying intermediate outcomes will assist the assessment of progress. Intermediate outcomes will cover shorter-term impacts or stages along the path to longer-term outcomes:
 - intermediate outcomes are also desirable in unusual cases where, notwithstanding the above advice, there remain only one or a small number of highly aggregated outcomes for larger agencies.
- be accompanied at the time of proposal by the performance information and associated targets, benchmarks or forecast activity levels that will be used to report progress against those outcomes to the responsible Minister:
 - in cases where it is not possible or desirable to identify a quantitative comparator, a qualitative measure should be applied. In all situations, further qualitative or non-targeted performance information can be identified where this adds perspective; and
 - where there are a number of other influences on the achievement of outcomes, such as other levels of government or community and international interactions, agencies must explain these as part of performance forecasting and reporting.

Appendix 3

Performance Management Principles

Purpose

These performance management principles are intended as a guide to Commonwealth departments and agencies on performance reporting and its uses for both external and internal purposes.

- External reporting focuses on foreshadowing performance for a particular year through Portfolio Budget Statements, and within eighteen months, reporting of actual performance for that year through annual reports.
- Internal reporting is more frequent for management purposes, including monitoring performance of outputs and administered items within year. Where an agency's measures are aligned with employees' performance agreements, the performance measures can be used to provide feedback to staff on their contribution to the management of outputs and administered items¹⁹.

Performance information must be structured in ways which show how an agency's outputs and administered items contribute to the achievement of the outcomes sought by the Government.

- Its purpose is to assist stakeholders and management to draw well-informed conclusions about performance in published and internal documentation, and to contribute to sound decision-making. Candour in disclosure and action on performance information will add to credibility.

Balance and clarity

Performance information will be useful where it is pitched to provide a comprehensive and balanced coverage of a particular outcome, output or administered item through a concise basket of performance indicators which can be understood, are well-defined, and are cost-effective to collect, store and manage.

- Performance information is most effective and meaningful where it is integrated with internal management processes and accountabilities within an agency, and can be utilised to meet external requirements.

Strategic focus of published information

Published performance information provides a top-level strategic overview. It is a core set of information which meets external accountability needs but also acts as an early warning to management of areas requiring attention.

- Published performance information should be supported by more detailed internal management information enabling diagnosis and continuous improvement.

Targets

Performance information is most effective if current performance can be compared qualitatively or quantitatively against specific benchmarks, targets or activity levels, where appropriate.

- In a context of continuous improvement, it is desirable that targets be of a stretching nature where possible, with the extent of "stretch" identified explicitly. Activity levels should be realistic.

¹⁹ This alignment between agency and employee is also advocated in: *Performance Management in the APS: A Strategic Framework*, Management Advisory Committee, Commonwealth of Australia, 2001.

Outcomes

Outcomes performance information relates to the specific impact that an agency's outputs and administered items have had on the community relative to those planned by the Government. Outcomes are often long-term in nature, and performance information in this area must focus on effectiveness.

- Outcomes performance information needs to achieve a balance between addressing progress against milestones and ultimate long-term impacts.
- Outcomes performance information may be enhanced by inclusion of the results of performance audits, reviews or evaluations.

Outputs

In addition to reporting on effectiveness in achieving outcomes, output performance information relates to the quality, quantity and price of agency outputs (i.e. goods and services produced by an agency).

- The aim is to demonstrate that an agency has addressed the government's purchase requirements in an efficient way, demonstrating overall value for the community.

Administered items

In addition to reporting on effectiveness in achieving outcomes, administered items performance information addresses the quality, quantity and cost associated with third party outputs (such as from States, Territories and non-government organisations) and transfer payments.

- Administered items performance information will derive from legislation, inter-governmental agreements, other contractual arrangements, or other expressions of government policy which establish the third party outputs and transfer payments.

Continuous improvement of performance information

Performance reporting is most effective where trends can be compared over time.

- However, the reporting of agency outcomes and outputs, and performance information structures, can be expected to evolve with experience, changing needs, and the availability of more relevant or more reliable information.
- Performance information should be regularly assessed for appropriateness, including through systematic review and evaluation of agency outputs and administered items and, where necessary, of the Government outcomes they support.

NOTES