

Production and Quality of Information for Performance Budgeting: The Australian Case

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This paper aims to provide an overview of the current state of national government performance information in Australia. It identifies the main policies and institutions. It explains the sources, uses and management of performance information. Finally, it discusses the potential for improvements and possible future directions.

Australia has a relatively long record of continuous application and refinement of performance budgeting. The start of Australia's journey can be traced to a white paper on budget reform by the new government in 1984², an ironic timing for those familiar with George Orwell's novel, "1984" and its infamous Ministry of Information. Although much has changed since its initial steps on the performance budgeting path, the objectives of performance budgeting in Australia have remained largely consistent with those original goals³.

1. The Policy Framework

Performance budgeting in Australia is founded on two key pillars of measurement:

- (i) Performance is measured in terms of planned and actual outcomes and outputs; and
- (ii) Financial implications of performance are measured using international 'accrual' accounting standards⁴.

Outcomes are defined as the results, impacts or consequences of government actions. Outputs are the goods and services delivered on behalf of government to contribute to outcomes. Specific measures of performance are required to quantify agency⁵ contributions to outcomes (effectiveness indicators), and output characteristics (quantity, quality and price⁶).

Every agency within the Australian general government sector is required to identify, measure, plan and report on the basis of outcomes and outputs. The reporting on outcomes and outputs is additional to mandatory financial reporting and legal requirements for parliamentary appropriations. Changes to outcomes must be authorized by the Minister for Finance and Deregulation (Finance). Agencies are required to consult their own ministers on changes to outputs, but there is no requirement for other external authorisation of changes to outputs or performance measures.

The Australian government requires its agencies to provide budget-related reports to Parliament incorporating details of outcomes and outputs to be achieved. Agencies are required to include outcome and output information only for the budget year, not every year of the medium term financial estimates. The Australian government requires

agencies to include in those reports the indicators and targets to be used for measuring performance. The indicators and targets include effectiveness indicators and output (or output group⁷) quantity, quality and resources allocated. Resources are measured in 'accrual' terms for budgeting and reporting of results.

Agency annual reports are required to include information on performance in terms of outcomes and outputs. The reports must provide details and explanations of results in terms of the performance indicators and targets set out in the relevant budget-related reports to Parliament. Agency annual reports must be tabled in Parliament within four months of the end of the financial year.

Annual appropriations are set by outcome for amounts that agencies administer but do not control (administered items) and Parliamentary approval is required for movement between outcome appropriations for administered items. These appropriations represent approximately 8 percent of total annual government expenses at present.

Annual appropriations for other amounts are approved by Parliament as composite items for each agency. These amounts represent approximately 17 percent of total annual government expenses. Departmental outputs covered by annual appropriations are presented to Parliament in the form of notional allocations to each of the agency outcomes. In practice, departmental output appropriations can be used to contribute to any of the agency's outcomes⁸.

The 75 percent of government expenses not covered by annual appropriations are met from special appropriations that authorize expenditures according to the purposes defined in separate laws (not by outcomes). Special appropriations are not considered by Parliament as part of the annual budget bills. They are passed as stand-alone laws and remain in effect for as long as the specified conditions are met.

There is no mandatory requirement for in-year reporting of performance results by Australian government agencies. Full year performance results must be reported in agency annual reports. Performance results are not required to be audited by either internal or external auditors. Agencies are at liberty to decide their own arrangements for internal reporting of performance under the responsibilities delegated to each agency's chief executive office or departmental secretary⁹.

Parliament has the opportunity to question the government and officials about performance budgets and results in the context of appropriations debates and parliamentary committee work. The committees most likely to discuss matters relating to outcomes and outputs are Senate legislation committees responsible for scrutinizing budget and additional estimates appropriations.

The Auditor-General, an officer of the parliament empowered under the *Auditor-General Act 1997*, has the authority to undertake performance audits on agency activities. Performance audits can take account of agency performance data and reports, but there is no legal requirement for the Auditor-General to audit performance information.

The Australian government expects agencies to review and evaluate their performance on a regular basis as part of general financial responsibilities under legislation designed to ensure efficient, effective and ethical use of resources¹⁰. In addition, there is a centrally coordinated process for strategic reviews aimed at systematic examination of important areas of government activity. Strategic reviews seek to ensure that resources are used efficiently and managed effectively to achieve government policy priorities.

2. Measurement of performance

Each agency is responsible for specifying outcomes, outputs and performance measures covering all of their activities and resources¹¹. The central guidance on how agencies should construct their performance data was last revised in 2003¹². There is no formal quality control by Finance, but its officials provide advice to agencies, on request, regarding the suitability of performance measures. There is no obligation on agencies to act on central agency advice on performance measures unless directed by ministers.

Some agencies develop and refine their performance information as part of a strategic planning process. This involves a predominantly top down process for identifying core outcomes and outputs across the agency, with some discretion at the operating unit level to shape their own measures to align with higher level goals. This allows the agencies to ensure alignment with government policies and priorities and achieve a higher degree of coherence and consistency across the organisation.

The majority of agencies appear to rely on a more devolved approach to performance in which each program or service delivery unit defines indicators, measures and targets for their own activities. The main indicators across all areas contributing to an outcome are collated and reported as required. Outcomes in these agencies are used more as a classification tool than a means for reinforcing strategic goals and priorities.

There are no outcomes shared across agencies in Australia. Accountability arrangements are strongly focused on individual agencies and chief executives. Where joint activities are performed by multiple agencies, each monitors their own performance separately. Agencies are expected to acknowledge contributions by other bodies to their activities as part of annual reporting obligations.

Each agency has its own system for establishing and maintaining performance information. There is no central record of agency performance and agencies generally do not incorporate non-financial performance information into their financial systems or financial reports. A common approach is for individual program managers or functional units to be responsible for establishing and maintaining data. This is done either within a common central system with standardized reporting arrangements, or within separate operational systems, for example where data is automatically generated as part of everyday activities. The Auditor-General, through his Australian National Audit Office (ANAO), undertook an audit of performance information systems in 2003 and found that cost attribution and quality assurance was generally satisfactory for the sample of

agencies audited¹³. The methods used to allocate costs to outcomes and outputs vary across agencies. Some, like the Australian Customs Service, have sophisticated activity-based costing software while others rely on more traditional approaches with simple apportionment of overheads based on predetermined cost drivers, such as proportion of staff time devoted to specific outputs, and percentage of staff numbers or total expenses for the allocation of overheads.

Revisions to performance measures are usually made in the context of final budget preparations, or when administrative structures change. This approach simplifies reporting and accountability obligations because changes to performance measures within a year require agencies to monitor information against both new and redundant measures to ensure accurate end-of-year reconciliation of information and continuity of data sets.

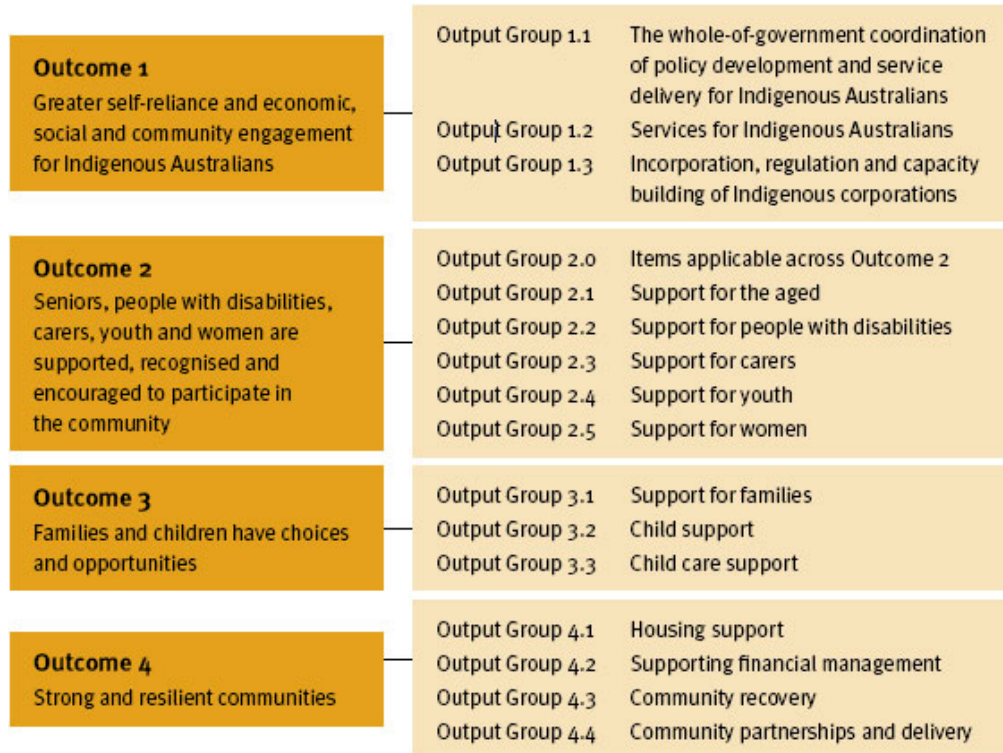
Changes to outcomes and outputs occur frequently in Australia. In fact very few of the original outcomes and output specified in the first outcome-based budget in 1999-2000 exist today. This is partly due to changes in administrative arrangements by the government, changes in legislation and refinements by agencies to better align with evolving policies and strategies. Any changes to performance measures or indicators must be reported in budget-related reporting documents and annual reports, including an explanation of the implications of changes.

The individual approach to development and measurement of performance in each agency is reflected in the diversity of arrangements across the general government sector. There are more than 500 outcomes in total across the general government sector. The number of outcomes per agency varies from one outcome per agency for most bodies (including some large departments), to 14 outcomes for the Department of Health and Ageing.

The scope, precision and specificity of outcomes also vary considerably. Some agencies focus on direct impacts such as access to, and awareness of, their services. The Department of Health and Ageing's proposes that "Australians have access to cost effective medicines" as one outcome¹⁴. Others have chosen outcomes relating to broad economic or social change where they are only one of many contributing influences, such as sustainable government finances (Department of Finance and Deregulation), a sound economic environment (Department of the Treasury), cultural enrichment and international influence (Department of Immigration and Citizenship).

Figure 1 provides an illustration of the outcome and output structure for the Department of Families, Housing, Community Services and Indigenous Affairs (FAHCSIA) and Figure 2 provides an illustration of the outcome and output structure for the Civil Aviation and Safety Authority (CASA). These two figures demonstrate typical characteristics of performance information structures for many agencies. The top level outcomes are very broad, each output (or output group) relates to only one outcome. Some agencies specify 'intermediate' outcomes to clarify and strengthen the link between outputs and outcomes.

Figure 1: Outcomes and Output Groups for FAHCSIA, 2006-07



Source: FAHCSIA Annual Report, 2006-07, Canberra, October 2007

Figure 2: Outcomes and Outputs for CASA, 2006-07

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Source: CASA Annual Report, 2006-07, Canberra, October 2007

Output groups can vary in size from a few million dollars to billions of dollars. The Health and Ageing Department's 2008-09 estimate for its 'Private Health Insurance Program Management' output group is \$A2.4m. The Department of Infrastructure, Transport and Regional Services' 2008-09 estimate for its 'Infrastructure Investment' output group is \$A3,510m¹⁵.

Performance indicators, measures and targets also display a wide diversity in terms of the types of indicators and measures, the precision of focus, relationship to outcomes and outputs and ease of measurement. The ANAO's 2007 performance audit of the application of the outcomes and outputs framework¹⁶ found that while, "the large majority of surveyed agencies indicated that they had developed outcome effectiveness performance indicators", it also found that, "over a third of the surveyed agencies with administered items indicated that none of their indicators addressed effectiveness, quality or cost of their administered items".

A particular concern for the ANAO was that, "many indicators did not incorporate targets or benchmarks and other better practice characteristics" and, "the majority of surveyed agencies considered that not all their outcome and output indicators were measurable; and in some instances performance indicators were no longer relevant and meaningful".

Table 1 provides an illustration of typical performance information for effectiveness indicators and output quality and quantity. The indicators shown are essentially chosen at random for several agencies with different sizes and responsibilities. They are not necessarily best practice or worst practice. Collectively they show that for each indicator there is a target group, a defined methodology and usually a specific target or reference point.

Australian government agencies usually do not align their organizational structures to outcomes and outputs classifications. Although some agencies consider it important for cost attribution and accountability purposes to align organizational structures with results, the administrative efficiencies of allowing some units to contribute to more than one output group outweighs the benefits of greater simplicity. Modern accounting software makes it relatively easy to attribute costs across more than one classification structure for financial reporting. Performance monitoring and evaluation methodologies also permit the tracking of separate contributions to outputs and outcomes. Once identified, the individual contributions can then be separately and collectively assessed in relation to the efficiency and effectiveness of results achieved. Agencies generally have satisfactory mechanisms for cost allocation and quality assurance. Many also have internal evaluation capabilities to assess the agency's contributions to outcomes.

The Australian government has established a system of individual performance assessment as part of standard human resources management policies. Each chief executive is responsible for establishing individual performance assessment arrangements within their agency. Some agencies also provide for performance related payments to individuals, though arrangements vary considerably from one agency to another. Despite the existence of individual performance assessment arrangements in all agencies, it is

uncommon for them to link organizational performance indicators to individual performance and vice-versa.

Table 1: Examples of Performance Information in Portfolio Budget Statements, Australia, 2008-09

Indicator Type	Indicator/measurement	Target
Effectiveness	Public confidence in the safety of air travel, measured by a survey of the public every three years. (CASA)	No target specified.
	Proportion of visitors and users who indicated the Museum's exhibitions and public programs have contributed a new or different awareness or perspective on Australia's history or culture. Measured by visitor surveys. (Australian National Museum)	75% (81% of visitors in 2006-07 stated that they had learned something new about Australia from the exhibits).
	Reduced community harm caused by the misuse of licit drugs and use of illicit drugs, measured by statistics on the numbers of Australians using tobacco and alcohol at harmful levels and using illicit drugs. (Department of Health and Ageing)	Reduction in the numbers of individuals being harmed (directly) according to the statistics.
Output quality	Accurate and timely approval, payment and acquittal of grants in accordance with legislation and guidelines, measured by compliance standards. (Department of Education, Science and Training)	Target: 90% (Achieved 97% compliance in 2006-07)
	Time taken to resolve a person's immigration status, measured by the duration for resolving immigration applications. (Department of Immigration and Citizenship)	Reduction in the time taken to resolve a person's immigration status during program year.
	Scientific research undertaken is practical, economic and nationally significant, measured by the number of peer reviewed papers and conference papers and the number of scientists active in Antarctic and Southern Ocean science. (Department of Environment and the Arts)	300 papers in 2008 100 scientists active in 2008-09
Output quantity	Number of unaccompanied humanitarian minors (UHMs) assisted by the program. (Department of Immigration and Citizenship).	600 UHMs assisted
	Number of indigenous heritage areas protected. (Department of Environment and the Arts)	300 conservation projects
	Number of illegal foreign fishers apprehended and processed. (Australian Customs Service)	Forecast 1,425

Source: Commonwealth of Australia, *Portfolio Budget Statements 2008-09* (various), Canberra, May 2008

Information on the cost of developing and managing performance data is not collected for Australian government agencies. It seems that this function is seen as part of standard administrative overheads along with other legal and regulatory compliance requirements. The ANAO publishes information on the cost of its performance audit work, which is discussed in Section 5.

3. Reporting of performance

Performance information is reported within agencies in regular management reports and published annually as part of each agency's annual report. The ANAO's 2007 report found that the majority of agencies included financial information by outcomes and outputs in internal reports to management within the year. Agencies also report on a variety of performance measures to management. This is provided in the form of simple tabulation of key performance indicators, or more sophisticated performance 'dashboards', 'balanced scorecards', 'triple bottom line' or 'sustainability' reports.

External performance reporting by agencies occurs through Portfolio Budget Statements (in May) for planned performance and in annual reports for actual results (in October of the subsequent year). The information is expected to be comparable between the plans and results. While every agency publishes performance information according to the required schedule, the ANAO has found that there are some serious deficiencies in the completeness and quality of published information¹⁷. Few agencies provided information on effectiveness indicators and targets, particularly for administered items, and the information was invariably incomplete for the sample of reports studied by the ANAO.

Analysis of variances between plans and results is generally weak in published performance reporting and there is no formal follow-up in relation to under-achievement of planned targets. Particular concerns expressed by the ANAO in its 2003 report were the difficulty of assessing the significance of specific results and lack of clarity about whether deviation from plans constituted satisfactory or unsatisfactory performance.

There is no requirement for reporting of in-year performance information to a central agency. There is no central data base for all agency performance information and there is no systematic monitoring of performance results compared with budget plans by Finance.

4. Use of performance information

The main uses of performance information are for: internal management and accountability in agencies; external reporting; audit and evaluation; budget planning and preparation; and performance scrutiny by Parliament.

There is little published information on the use of performance information in Australia, with one significant exception. The ANAO's 2007 audit included a survey of 44 agencies (out of approximately 200 in total). The survey sought answers to specific questions about the use of performance information by agencies. The results are summarized in Table 1. The majority of agencies responding to the ANAO survey stated that they used outcomes and outputs information to some extent in decision-making, particularly cost information. Output information was used more extensively than outcome information.

Interestingly, almost all surveyed agencies indicated that agency performance was assessed using measures or indicators that were different to published indicators. The nature of internal performance reporting varies considerably, as explained in Section 3.

The content of internal performance reporting varies with the nature and level of interest by agency management and ministers in specific aspects of performance. It also reflects their preferred format for viewing information.

Table 1: The ANAO’s assessment of agency use of published performance information

Type of decision	Extent information is used in agency decision-making	Percentage of surveyed agencies using the information for these areas of decision-making			
		Cost information		Performance information	
		Outcomes	Outputs	Outcomes	Outputs
		%	%	%	%
Agency Priorities	Extensively	47	46	41	43
	Sometimes	24	35	38	38
	Rarely	17	14	12	12
	Never	12	5	9	7
Budget Planning	Extensively	52	51	43	44
	Sometimes	22	35	33	32
	Rarely	14	9	14	17
	Never	12	5	10	7
Resource Allocations	Extensively	52	49	41	43
	Sometimes	19	32	38	36
	Rarely	17	14	12	14
	Never	12	5	9	7

Source: ANAO, Application of the Outcomes and Outputs Framework, Audit Report No.23 2006-07, 6 February 2007, p.73

Budget instructions since the establishment of outcome-based budgeting have required agencies to classify their new policy proposals by outcomes. Agencies are expected to justify incremental changes to their annual budgets in terms of how they will contribute to specified outcomes and government policy priorities.

There is no formal, published information on the extent to which past or projected performance information is used in budget planning and preparation, however it is common practice for spending agencies and central departments to use any relevant information available in presenting the cases for and against specific new spending or saving proposals. This includes financial and non-financial performance data produced by agencies as well as agency-specific evaluation and audit material and data from external reviews and analysis where it is considered central to the cases being argued. If the information is credible and relevant, then it is ‘fair game’.

Specific performance data can be a valuable tool for budget calculations, particularly costing of new policy proposals. In some cases, performance information is crucial to the ongoing funding models used to estimate budgets and forward estimates. For example the quantity and quality of services to be provided to a target population can be a core component of agency-based estimates for certain demand driven programs.

The Parliament’s use of performance information is primarily through its scrutiny of annual budget estimates and appropriations. This function is mainly performed by Senate committees, usually in June and November each year. There is little evidence that Senate estimates committees take a significant interest in planned or actual performance by

agencies. Questioning in committee hearings tends to have more of a political orientation. Where agency activities come under scrutiny, it is often more about processes, procedures or the size of expenditure items that are at issue rather than questions of performance. It is possible that committees would focus more on performance information if they saw it as being more credible, reliable and relevant to their needs. Previous committees have complained about the quality and relevance of information on several occasions in their reports on portfolio budget statements and budget estimates¹⁸. The main complaints by committees have concerned the quality of outcome information, the lack of detail on outcomes for the budget and forward estimate periods, and the scarcity of targets and reference points to put individual performance indicators into context. If those concerns are addressed by agencies, there could be more Parliamentary attention to performance information in future budget estimates inquiries.

In addition to review of budget appropriations, the Parliament has opportunities to draw on agency performance information in its committee work, including ongoing activities and specific inquiries. The Parliament has shown a strong interest in the quality of information produced by the government, illustrated by the 2007 Senate Committee on Finance and Public Administration report on transparency and accountability of Commonwealth funding and estimates¹⁹ and the Joint Committee of Public Administration and Audit's 2002 review of accrual budget documentation²⁰. Those reports raised concerns about the broad and sometimes vague formulation of outcomes and the lack of detail on individual outcome and agency appropriation items.

The Senate committee's 2007 report proposed that governments should provide more detailed information on a program basis for the medium term expenditure estimates to assist Parliament in understanding the purpose of expenditure at a more detailed and practical level than broad outcome statements currently offer. The report also pleaded for greater consistency of performance measurement across agencies and for systematic evaluation of results against targets being built into budget processes.

In view of the weaknesses in quality of agency performance information identified by Parliament and the Auditor-General, it is not surprising that usage of the performance data is low. It is not clear why some agencies are better at producing, reporting and using performance information than others, however, the variation across government is striking. Even within the ANAO's sample of three agencies for detailed audit in its 2007 report, the differences are considerable.

Without an external monitoring and quality control function in Australia, the quality of performance information is largely dependent on agency management to ensure that the information meets reasonable standards. If the chief executive does not give priority to the production and use of performance information, the agency will do the minimum necessary to meet its external budgeting and reporting obligations.

5. Performance budgeting and the Auditor-General

The Auditor-General has broad legal authority to conduct a performance audit of an agency in the general government sector at any time. The Auditor-General may also conduct a performance audit of a fully owned government company or its subsidiaries if requested by the Finance minister or the Parliament's Joint Committee of Public Accounts and Audit. The definition of a performance audit in the Auditor-General Act 1997 is also very broad being, 'a review or examination of any aspect of the operations of a body or person'. The Auditor-General has adopted 'accepted auditing practice standards' for performance audits, ensuring they are independent, objective and systematic examinations to form an opinion on the economy, efficiency and effectiveness of operations management and internal procedures. The audits also identify whether improvements can be made to management practices. All performance audits are tabled in Parliament. The Auditor-General also prepares better practice guides to highlight ways that public administration can be improved across government.

According to the ANAO's 2006-07 annual report, the selection of audit topics is based on two major considerations: where an audit can be expected to add the greatest value in improved accountability, economy, efficiency or administrative effectiveness; and to ensure appropriate coverage of agency operations within available audit resources. In 2006-07, 51 ANAO performance audit reports, containing 192 recommendations, and four better practice guides were tabled in Parliament. The average time taken to complete a performance audit report was 12.3 months, with a range from 5 to 24 months. The total cost of performance audit services was \$A21.6m for 2006-07, with an average cost per report of \$A170,000.

Since 1999-2000, the year that outcome-based budgets were established by the Australian government, the ANAO has published three performance audits on the outcomes framework and two better practice guides, in addition to assessment of performance information in many specific audits.

The Auditor-General also raises matters of importance on performance in his regular report to Parliament and in submissions to Parliamentary committee inquiries. The ANAO also provides encouragement and support to agency audit committees, which have an important complementary function at the agency level.

The Auditor-General plays a significant role in highlighting areas for improvement in agency performance through its regular audit work program and providing advice to government on opportunities to enhance the value of performance information more generally. Although the ANAO does not audit performance measures and indicators individually, it plays an important role in seeking to ensure performance information meets the requirements set out in government policies for the benefit of the Parliament and other stakeholders.

6. Potential for improvement

The quality of outcome information

Australia has taken performance budgeting to a higher level than many other countries with the strong emphasis on outcomes as a core element of its framework. This is an admirable, and arguably essential, endeavour for a fully effective performance budgeting framework. Others jurisdictions have found that, without a strong emphasis on outcomes, the focus of management and accountability can be confined to a search for efficiency without an eye for why activities and outputs are undertaken and how well they are achieving their intended purpose and policy goals. Emphasis on outcomes is an important component of the culture of public administration as it engenders a commitment to ensuring beneficial consequences of policies, not just efficient implementation.

None of the major stakeholders in performance management in Australia have suggested that a focus on outcomes is inappropriate. On the contrary, they have universally focused on proposing how the outcomes orientation can be strengthened by improving the quality of outcomes information and the detail underpinning outcome performance, for example by expanding information on programs and targets.

There is no doubt that Australia's commitment to outcomes has been a challenge to date, and there is substantial room for improvement, as incisively demonstrated by the ANAO. Australia has the benefit of considerable experience and a comprehensive performance management framework to build from, unlike most other countries. It also has several recent reports from Parliament and the ANAO, and the Government's own 'Operation Sunlight'²¹ policy, containing many practical recommendations to draw on for inspiration and action.

The main areas where improvements are needed within the current policy framework are information on outcomes and government contributions to them. This includes outcomes attributed to individual agencies as well as broader outcomes covering multiple agencies or the government as a whole. The incorporation of outcomes into budget planning and annual appropriations demands a higher level of accountability to the Parliament on what the government is trying to achieve with outcomes and how well it uses money authorized by the Parliament to achieve them.

Parliament and the ANAO have criticized the high level goals exhibited by many outcome statements. This has made a large amount of outcome information obscure, ambiguous and difficult to relate to agency or government actions. It also limits the usefulness of outcome information for analysis and decision-making because of the difficulty in drawing reasonable conclusions about the significance and size of agency influences on the outcomes selected.

At a minimum, the Australian government needs to be clear about what it means by outcomes, how they should be measured and reported. The quality and relevance of information is the foundation for the entire system of performance management and

accountability. Without appropriate and timely information, users cannot be expected to value what is produced or apply to their needs.

A practical approach would be to identify what changes (outcomes) are important and can be clearly linked to government actions. This needs to be underpinned by clear and precise performance measures, linking resources to outputs and outcomes – as is intended by the framework, but not rigorously applied in practice, according to the ANAO. It should also look at options for improving the consistency of measurement and reporting standards across agencies. Some differences between outcome and outputs types are necessary. For example, different indicators and measurements are needed for policy advice, processing grants and transfers, regulatory and prevention, and direct service provision. Outcomes relating to the direct and immediate impact of government actions will require different measures to results arising as a consequence of those impacts and, again, from the final, wider effects achieved in the medium to long term. Nonetheless, a high degree of standardization should be possible within individual types of output and outcome, even allowing for different sectors and circumstances.

Measuring the contribution to outcomes

The call for the Australian government to provide more information on programs is a curious development. Australia stepped away from program reporting when it moved to outcome-based budgeting. Although there is no official explanation for that strategy, it seems to have been founded on a perceived weakness of program budgeting in Australia which had been characterized by over-emphasis on activity and lack of data on tangible achievements²². It is understandable that users are seeking better information on how governments will achieve their intended outcomes, as well as the result themselves. However, it is not clear that more information on groups of activities undertaken by government will satisfy the interests in better reporting on policy effectiveness that has prompted some to call for program reporting.

A more productive approach than seeking to re-establish program structures underneath outcomes might be to give priority to the call made in the 2007 Senate committee report for increased emphasis on evaluation of performance results against plans. Greater attention to monitoring and evaluation of results could have the dual benefit of providing better information on what happened and why, as well as prompting a more critical analysis of the quality of performance plans and greater rigor in preparing future plans.

Australia had a strong policy on comprehensive program evaluation before the introduction of outcome-based budgeting, which withered after the removal of the Finance's central coordination and direction. Australia has since introduced a more targeted, strategic evaluation and review initiative²³. It would make sense to extend that initiative to agencies, maintaining the strategic, targeted approach rather than returning to the previous comprehensive model which had become somewhat mechanistic and inefficient prior to its demise.

The Australian government has established a challenging policy agency agenda for economic development, environmental responsibility and social inclusion. It has shown

an interest in moving to ‘triple bottom line’ reporting for agencies²⁴. Indeed, a growing cadre of agencies has begun producing sustainability reports, often based on Global Reporting Initiative guidelines²⁵, on a voluntary basis.

Quality of performance information across agencies

Australia appears to have achieved greatest benefits from performance budgeting at the agency level. Agencies collect and use performance information for internal decision-making and to improve efficiency and effectiveness in operations and programs. There appears to be a culture in which outcomes or impacts are important and where outputs, or service level achievements, are priorities for managers.

It is of some concern that agencies use performance information other than published indicators to assess their performance. This suggests that they do not value the published information and that it is an unnecessary cost they are forced to bear for external accountability purposes. However, before seeking wholesale reform of external performance reporting, it would be prudent to examine the reasons for differences between internal and external performance information. There could be many reasons for this, not all of which bode ill for performance budgeting in Australia. For instance, it could reflect differences in the type of information required by internal management to the needs of external users. It could also reflect a degree of political and commercial caution aimed at minimizing the potential for criticism or misuse of information. Looked at in another way, the fact that agencies are prepared to collect and use information which is not necessary to meet accountability obligations can be seen more positively, as an indicator that it is valuable and necessary for good management regardless of formal requirements. Nonetheless, as the ANAO suggests, there would be benefit in closer alignment between internal and external performance information.

The focus for improvement at the agency level is more about widening the application of good practice than concern with practices across the board. The ANAO found a diverse range of standards in its audit survey on outcomes and outputs. Some agencies are operating at a high standard, but none are meeting best practice standards. Many agencies are operating below the minimum standards for performance information identified in formal obligations and policy guidelines. The Australian government would do well to focus on lifting the quality of weaker agencies and encouraging higher achievers to do better, both for their own benefit and as role models for others.

The foundations for improvement at agency level lie within the agencies themselves and with Finance. Agencies with chief executives who do not consider performance management to be a priority can do little without external pressure to improve. It is necessary for more external pressure to be imposed on chief executives, and this would be most effectively exercised by the government. Agencies also need the capacity and skills to reach high standards. Pressure from the government needs to be backed up with support so that agencies are able to improve when they see the need to do it. The ANAO has suggested that Finance should play a stronger role in supporting agencies to develop necessary capabilities and to facilitate dissemination and adoption of better practices.

Expansion of constructive engagement by the Parliament

The Auditor-General and the Parliament will need to maintain their vigilance in calling the government and agencies to account on performance and the quality of performance information. The Auditor-General has already shown his determination to maintain an emphasis on improving the quality of performance information and willingness to offer practical advice to agencies. While continuing to follow his previous approach, he could expand the field of view to consider how well agencies meet the needs of performance information users, both internal and external, and suggest how agencies could better meet those needs. This could be done within the bounds of examining existing government policy without venturing into the area of policy change.

Parliament has shown an interest in performance information to assist it in exercising its scrutiny and accountability roles. It has also shown a willingness to recognize the complexity of performance information in the public sector and a readiness to offer practical suggestions on areas for improvement. Despite those positive gestures, it remains unclear why Parliament does not use better the performance information already available to it. Governments and agencies will continue to be cautious about responding to Parliamentary recommendations while the apparent inconsistency remains regarding calls for better information on the one hand, and underutilization of existing information on the other.

7. Possible future developments

It would be easy to get the impression from the paper so far that there is serious cause for concern about performance budgeting in Australia. The paper has focused heavily on problems, weaknesses and scope for improvement but has barely touched on the positive aspects and reasons for optimism. Readers could interpret the prognosis for Australian performance budgeting to be dire: significant problems have been identified but nothing is being done to address them. That would be quite wrong, however, as the health of the Australia performance budgeting framework is strong overall.

While not seeking to dilute the seriousness of the challenges facing Australia in improving its performance budgeting arrangements, it is important to recognize that Australia has achieved considerable benefit from developments to date: in terms of policy rigour, improvements in efficiency and effectiveness, comprehensive management systems and a culture where officials focus on results as a matter of course.

The Australian government has recently taken some significant steps to improve the performance budgeting framework and has plans to go further over the next few years. One major step taken by the previous government, and continued by the new government, was the establishment of strategic review arrangements. This mechanism complements and builds on agency performance budgeting information by looking more deeply at performance in key areas of activity and expenditure. The reviews seek to improve effectiveness as a top priority rather than simply providing justification for expenditure cuts (although the new government has also undertaken an expenditure cutting exercise in tandem with strategic reviews).

The Australian government has also committed to greater transparency and accountability of expenditure through its 'Operation Sunlight' policy which aims to improve the quality of outcome information and examine options for better reporting on programs, amongst other initiatives.

Finance has embarked on a comprehensive review of agency outcomes, aimed at improving the quality and relevance of outcomes and strengthening the logical links between activities/programs, outputs and outcomes. It is not clear whether the review will be backed up with better support to agencies from the centre, or more resources to develop their own capabilities, but it is a good start.

It is likely that the main benefits of improved performance information will continue to be at the individual agency level. Data at that level can be more precise and focused on operational and practical matters that are more manageable for engineering improvements in program efficiency and effectiveness. The conditions necessary for useful performance information for annual budgeting or parliamentary accountability are much more challenging, requiring high standards of technical quality and consistency, particularly in relation to cost allocation.

A more challenging task is to ensure universal commitment amongst key stakeholders to limit themselves to sensible dialogue and balanced interpretation of information. International experience suggests that performance data can have a powerful influence on behaviour and motivation, both for positive and negative purposes²⁶.

Agencies will be reluctant to invest in improving the quality of external performance information without a clear and urgent desire for the information by governments and a willingness by all users to handle it constructively. This is a classic 'stalemate' situation which requires government leadership and drive to achieve change if performance information is to play a more central role in public management across agencies. The government should be clear about what information must be produced, for what purposes and how it will be used. Governments and the Parliament will have to follow through and utilise the information they receive for constructive policy development and accountability.

Parliament can do little to directly force change in performance information, even if it genuinely has sufficient desire and noble intent. The scope for Parliament to impose a requirement for better information is very limited in Australia and could only be exercised effectively in dealing with crisis situations, which are unlikely to arise solely as a consequence of weak performance information. Even so, the activities of Parliamentary committees and the work of the Auditor-General offer a vital source of information for all stakeholders on the quality and health of government performance and systems.

Civil society interest, and advances demonstrated by other jurisdictions to improve transparency and the quality of governance, could encourage improvements in the quality of performance information. However, governments and agencies would need to be

convinced that it was in their interests to accede to such demands. The risks of information being used against an entity, or misused for partisan or political purposes, will continue to make information providers wary of publishing more than is necessary for a basic level of community confidence in their actions.

8. Conclusion

Australia provides a good case study for others in the field of public sector performance management. It has a long history of incremental refinement, based on sound and sustained policy objectives. It has displayed determination to focus on the highly challenging, but crucially important, outcomes. It has demonstrated a willingness to be self-critical and to learn from experience. Australia is also a good case study because it shows how difficult it is to design and implement performance budgeting effectively, and how elusive are the rewards for effort.

The refinements that Australia is proposing to make to its framework offer the prospect of further improvements in the quality and usefulness of its performance information. The nascent emergence of sustainability or 'triple-bottom-line' reporting illustrates Australia's continued preparedness to experiment and push the boundaries of public sector performance management. It is therefore likely that Australia will remain for the foreseeable future a valuable source of lessons from which all jurisdictions can benefit.

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² There was an earlier Royal Commission on public administration in 1976 which observed that increasing expenditure led to increasing concerns with the efficacy and efficiency of public expenditure, but there was no significant policy change related to performance-based budgeting until 1984.

³ For further information on the development of Australia's approach to performance based budgeting, see OECD, *Performance Budgeting in OECD Countries*, September 2007, Chapter 6.

⁴ The Australian government adopts Australian Accounting Standards which are the Australian equivalents of international financial reporting standards as determined by the independent Australian Accounting Standards Board.

⁵ 'Agency' is the term used to identify individual accountable entities in the Australian government.

⁶ Price is equivalent to cost as there is no profit margin.

⁷ An output group is a collection of related outputs that contribute to the same outcome. It is a classification used by many agencies to consolidate and simplify reporting.

⁸ The High Court of Australia confirmed that departmental appropriations are not confined to individual outcomes in its reasons for the judgement on *Combet V Commonwealth* in 2005.

⁹ The laws which set out the responsibilities of agency chief executives are the *Financial Management and Accountability Act 1997* and the *Commonwealth Authorities and Companies Act 1997*.

¹⁰ The relevant laws are those identified in endnote 9.

¹¹ Subject to consultation with their policy minister for outcomes, outputs and performance measures, and to approval by the Minister for Finance and Deregulation for outcomes.

¹² The guidance is only available in the internet at:

http://www.finance.gov.au/budgetgroup/Commonwealth_Budget_-_Overview/the_outcomes_outputs_frameworko.html

¹³ ANAO, *Annual Performance Reporting*, No. 11 of 2003-04, Canberra, 4 November 2003, p.41.

¹⁴ Australian Government, *Portfolio Budget Statement 2008-09: Health and Ageing Portfolio*, Budget related paper no.1.10, Canberra, May 2008.

¹⁵ Australian Government, *Portfolio Budget Statements 2008-09*, (various), Canberra, May 2008.

¹⁶ Australian National Audit Office, *Application of the Outcomes and Outputs Framework*, Audit Report No.23 2006-07, Canberra, 6 February 2007, p.25.

¹⁷ ANAO reports No.23 2006-07 and No.11 2003-04 provide details of deficiencies in annual report coverage of performance information.

¹⁸ For example, Senate estimates committee reports on the content of portfolio budget statements.

¹⁹ Parliament of Australia, Senate Standing Committee on Finance and Public Administration, *Transparency and accountability of Commonwealth public funding and expenditure*, Canberra, March 2007.

²⁰ Parliament of Australia, Joint Committee of Public Accounts and Audit, *Review of Accrual Budget Documentation*, Report No.388, Canberra, June 2002.

²¹ Operation Sunlight was launched by the current government on 22 October 2005 when it was in Opposition. The Minister for Finance and Deregulation, Mr Tanner, reiterated the government's commitment to the policy – most recently in a press release on 13 May 2008, available at: http://www.financeminister.gov.au/media/2008/mr_162008.html

²² For a discussion of the limitations of Australia's program budgeting arrangements, see Parliament of the Commonwealth of Australia, *Not Dollars Alone: Review of the Financial Management Improvement Program*, September 1990, www.aph.gov.au, Canberra, and MAB/MIAC, *Review of the Financial Management Improvement Program*, AGPS, Canberra, 1992.

²³ For more discussion of the new strategic review initiative in Australia, see: OECD, *Performance Budgeting in OECD Countries*, Paris, 2007.

²⁴ See Lindsay Tanner, 'Operation Sunlight', 22 October 2005. See endnote 21 for a reference to the latest press release on Operation Sunlight and changes being made to reporting under the policy.

²⁵ Information on the Global Reporting Initiative can be found at its website: www.globalreporting.org

²⁶ Beryl Radin provides a fascinating discussion of the use and abuse of performance information in her recent book, *Challenging the Performance Movement*. Georgetown University Press, Washington DC, 2006