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# 1 The approach to performance measurement

## 1.1 Aims of the Review

Australian governments established the Review of Commonwealth/State Service Provision (the Review) to provide information on the effectiveness and efficiency of Commonwealth, State and Territory government services (see terms of reference, p. XXI).

There are two functions of the Review:

- to provide ongoing comparisons of the performance of government services (the role of this Report); and
- to report on service provision reforms that governments have implemented or that are under consideration.

A Steering Committee, comprising senior representatives from the central agencies of all governments, was established to manage the Review with the assistance of a Secretariat provided by the Productivity Commission.

Over time, the Report has become an important tool for government. It has been used for strategic budget and policy planning, and for policy evaluation. Some users have found the Report to be instrumental in assessing the resource needs and resource performance of departments. Others have used the Report to identify other jurisdictions with whom to share information on services.

The data in this Report can also provide an incentive to improve performance of government services through:

- enhancing measurement approaches and techniques in relation to aspects of performance such as unit costs and service quality;
- helping jurisdictions identify where there is scope for improvement; and
- promoting greater transparency and informed debate about comparative performance.

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## 1.2 The role of government in delivering services

All services included in this Report affect the community in significant ways. Some services form an important part of the nation's social welfare system (for example, public housing), some are provided to people with specific needs (for example, aged care and disability services), while other services are typically used by each person in the community at some stage during their life (for example, school education, police services and emergency services).

More generally, the services that governments deliver are largely concerned with:

- providing 'public goods'<sup>1</sup> including:
  - creating a legal framework that determines the rules for ownership of property and the operation of markets (for example, enforcing property rights, checking abuses of power and upholding the rule of law). This encompasses the work of the courts, police and corrective service agencies in maintaining law and order; and
  - managing adverse events, including the work of emergency services (such as fire and flood control) and some aspects of the health system; and
- enabling higher or more equitable availability and consumption of those services that governments consider to have particular merits or generating beneficial spillover effects<sup>2</sup> for the community. Examples include education, health services, ambulance services, community services and housing.

### How governments deliver services

Governments use a mix of methods to deliver services to the community, including:

- providing the services themselves (a 'provider' role);
- managing and funding external providers through grants or the purchase of services (a 'purchaser' role);
- subsidising users (through vouchers or cash payments) who then purchase services from external providers;

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<sup>1</sup> Public goods are those where one person's consumption does not reduce consumption by others, and where it is not possible to exclude individuals from access (for example, national defence). These goods tend not to be produced in private markets because people are able to consume the good without paying for it.

<sup>2</sup> In private markets, the production of services that result in spillover effects tends to be lower than is desirable for society as a whole because individuals cannot appropriate the wider benefits to society.

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- creating community service obligations on public and private providers; and/or
  - reducing tax obligations in particular circumstances (known as tax expenditures).

### **1.3 Reasons for measuring comparative performance**

Government services, including the services covered in this Report, are vital to the community's wellbeing. Improving them can result in major social and economic benefits. Governments are continually re-evaluating whether the community is receiving the appropriate service mix and whether the services are reaching those most in need. Moreover, governments need to know whether their policies are effective and whether those policies are being implemented efficiently.

Traditionally, much of the effort to improve the effectiveness of government services has focused on increasing the level of resources devoted to them. This overlooks another important means of enhancing services — that is, finding better and more cost effective ways in which to use existing resources. Productivity growth has had an important influence on living standards in Australia. During the 1990s, for example, productivity growth more than doubled, underpinning historically strong growth in average incomes (Parham 2002). Innovation (the introduction of new products or processes) can be important to productivity growth in all sectors, including government services.

Performance measurement provides one means of shifting the focus from resources (or inputs) to the efficient and effective use of resources to deliver desired outcomes of government services. Performance measurement can:

- provide governments with some indicators about their performance over time;
- make performance more transparent, allowing assessment of whether program objectives are being met;
- help clarify government objectives and responsibilities;
- inform the wider community about government service performance;
- encourage ongoing performance improvement; and
- promote analysis of the relationships between agencies and between programs, allowing governments to coordinate policy within and across agencies.

The two main reasons for reporting *comparative* performance information across jurisdictions are:

- to allow agencies to identify peer agencies that are delivering better or more cost effective services from which they can learn; and

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- to generate additional incentives for agencies to address substandard performance.

Comparative data are particularly important for government services because of the limited information available to those deciding what services to supply and to whom. Each jurisdiction has, for example, only one police service and one protection and support service. As a result, choices are always constrained for consumers of these services, and those responsible for delivering the services do not have access to the same level of information that is available to providers in markets with more providers.

Reporting comparative performance measures facilitates inter-jurisdictional learning, particularly where governments have adopted different policy approaches. While no analysis of cost effectiveness is carried out in the Report, the information contained in the Report also provides governments with the opportunity to assess the cost effectiveness of their service delivery.

Governments have considered a range of general policy approaches when deciding how to deliver services in recent years. These approaches include:

- moving from historical or input based funding to output based funding (for example, casemix funding in public hospitals in Victoria);
- separating the purchaser and provider roles for government organisations (for example, the separation of functions and corporatisation);
- outsourcing the provider roles (for example, competitive tendering for correctional services in Queensland);
- devolving and decentralising decision making on how to deliver services by government service providers (for example, devolving decision making in Victorian government schools to local school communities);
- examining alternative delivery mechanisms (for example, deinstitutionalising community services and offering direct consumer funding and choice in disability services in WA);
- examining interactions between services; and
- implementing user charging (for example, pricing court reporting services for Commonwealth courts).<sup>3</sup>

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<sup>3</sup> The implementation issues associated with these types of reform are examined in SCRCSSP (1997b) and SCRCSSP (1998).

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Comparisons that draw on reliable performance information can help governments better understand the strengths and weaknesses of each approach, and the circumstances in which each may work best.

## 1.4 Scope

This eighth Report on Government Services contains performance information on 14 key service areas (box 1.1). These government services have two important features:

- their key objectives are common or similar across jurisdictions; and
- they make an important contribution to the community and/or economy.

**Box 1.1 Services covered in the 2003 Report**

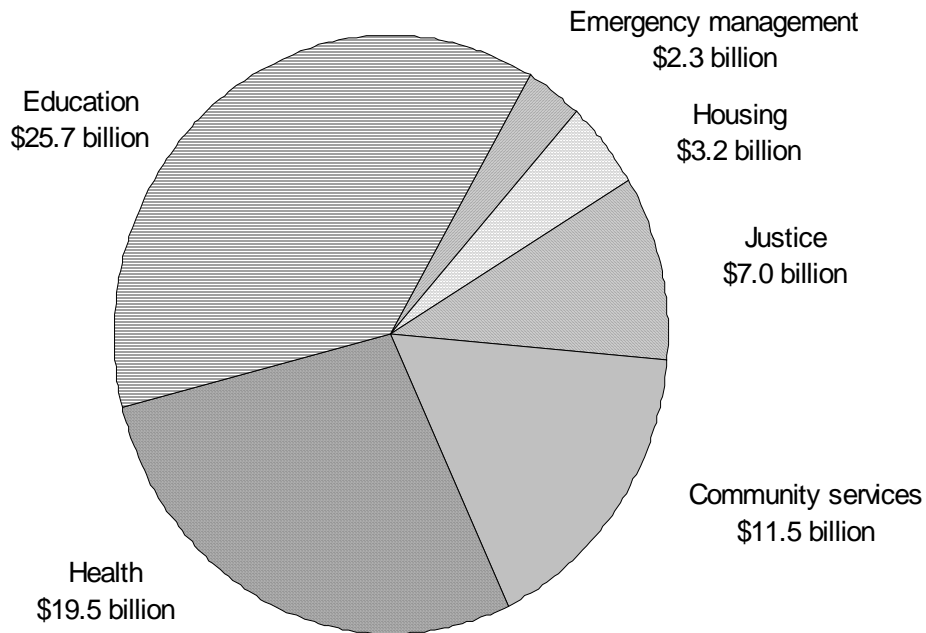
<b>Education and training</b>	— School education (chapter 3) — Vocational education and training (chapter 4)
<b>Justice</b>	— Police (chapter 5) — Court administration (chapter 6) — Corrective services (chapter 7)
<b>Emergency services</b>	— Emergency management (chapter 8)
<b>Health</b>	— Public hospitals (chapter 9) — General practice (chapter 10) — Breast cancer control and mental health (chapter 11)
<b>Community services</b>	— Aged care (chapter 12) — Services for people with a disability (chapter 13) — Children’s services (chapter 14) — Protection and support services (chapter 15)
<b>Housing</b>	— Public and community housing, and Commonwealth Rent Assistance (chapter 16)

The services covered in the Report absorb a significant level of government expenditure. They accounted for approximately \$69.2 billion in 2001-02 (figure 1.1), representing around 24.4 per cent of total government expenditure and 53.8 per cent of government recurrent expenditure in that year (equivalent to about 9.7 per cent of gross domestic product).

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Figure 1.1 **Estimated government recurrent expenditure on services covered by the 2003 Report<sup>a, b, c</sup>**

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<sup>a</sup> Data for 2001-02 were not available for all services. The Report uses 1999-2000 data for breast cancer screening; 2000-01 data for school education, public hospitals and specialised mental health services; and 2001 data for vocational education and training. <sup>b</sup> The estimate for health expenditure relates only to the health services discussed in the health chapters of the Report, that is: public hospitals, general practice, public health expenditure on breast cancer screening and specialised mental health services. <sup>c</sup> Community services expenditure excludes juvenile justice.

Source: relevant chapters.

Funding from government may not meet the full cost of delivering a service to the community, and not-for-profit organisations or users may also contribute funding and other resources. The scope of the Report, however, is confined to the cost to government, for reasons explained in box 1.2.

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**Box 1.2 Cost to government and to non-government organisations**

The Report seeks to provide information about the cost of services to government. Some argue that the Report should also account for the costs of where non-government groups such as charities, not-for-profit organisations and private providers contribute resources for the services covered by the Report.

The purpose of the Report is to provide information to assist government decision making. The information required depends on the type of assessment needed to be made to support a decision. When government provides the service directly it may wish to assess the internal management of the service. On other occasions it may wish to assess whether to provide the service directly or to purchase, part fund or subsidise the service. Alternatively, it may wish to assess from which organisation to purchase the service.

If a government provides services directly, it is accountable for all resources used so the Report includes the full costs. When focusing on government decision making in the role of direct service provider, the Report aims to compare the full cost to government of service delivery, including the cost of capital (where possible) in each State and Territory. This approach allows governments to compare the internal management of their services with that of their counterparts in other jurisdictions. If a government decides to purchase, part fund or subsidise services, then it should aim to maximise the benefit to the community from this use of government funds.

The Report also compares the cost to government of services delivered by non-government and government service providers; this information can allow governments to assess their purchase decisions. This Report has not sought to facilitate comparisons between the internal management of government providers and that of non-government providers, and there would be difficulties in collecting data to make such comparisons. As a result, there is no attempt to compare the full cost of delivery by non-government organisations with the full cost of delivery by government service providers. Consequently, for services delivered by non-government agencies, this Report emphasises the costs to government, along with outputs, outcomes and service quality.

Sometimes, a private organisation will offer to deliver a service at a lower price to government than that offered by an equivalent government provider, even though it may use at least as many resources as used by the government provider. This can typically arise for not-for-profit organisations such as charities, which may be able to charge less because they operate the service as an adjunct to another activity or because they have access to resources that are not costed at market rates (such as donations, church buildings and volunteers).

This Report examines the performance of the service elements for which government is responsible and accountable. The focus is on reporting performance information on the effectiveness and efficiency of government expenditure, linked to the purchase or supply of specific services rather than to general government

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income support. The Report, therefore, covers aged care but not the aged pension; disability services but not disability pensions; and children's services but not family payments (although descriptive information on income support is provided in some cases). An exception is the reporting of performance information on Commonwealth Rent Assistance (chapter 16).

## 1.5 Approach

The Report includes performance comparisons, based on a common method, across jurisdictions, for a range of services. This approach has the following benefits, namely:

- the use of a common method across services leads to a data set that is a convenient and useful resource for people interested in more than one service area;
- there are opportunities to share insights into approaches to performance assessment across services;
- progress in performance reporting in any one service area is demonstrated to reinforce what is possible and to encourage improved reporting by other services;
- there is the capacity to efficiently address issues that arise across all service areas (for example, how to measure timeliness, how to assess other aspects of quality, and how to cost superannuation); and
- there is an opportunity to assess the full breadth of consequences to service areas of issues that have an impact on (or are affected by) multiple service areas. An example is recidivism and the various elements of justice services: a reduction in recidivism may be achieved by increased allocation of resources in one service area — say corrective services — but with a potentially greater saving achieved in other service areas — say police and the courts).

A number of the services covered by the Report are also subject to other comparative performance measurement across jurisdictions. Advantages of the approach taken in the Report are that there is a focus on non-technical information, making it accessible to non-specialists, and that the Report is produced on a regular basis, allowing monitoring of performance over time.

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## Guiding principles

The aim of the Report is to provide objective government performance information to facilitate informed policy judgments and sound outcomes. The following guiding principles apply:

- a focus on outcomes — that is, performance indicators should focus on outcomes from the provision of government services, reflecting whether service objectives have been met;
- comprehensiveness — that is, the performance indicator framework should be as comprehensive as possible, assessing performance against all important objectives;
- comparability — that is, data should be comparable across jurisdictions wherever possible. Reporting comparable information has a higher priority than using a better indicator that allows no comparison. Where data are not yet comparable across jurisdictions, time series analysis is particularly important. Time series comparisons have been made where possible to add another dimension to performance reporting; and
- progressive data availability — that is, while the ultimate aim is comparable data for all jurisdictions, progress may differ across jurisdictions, so data are generally presented for those jurisdictions that can currently report (rather than waiting until the data are available for all jurisdictions).

While the Report does not establish best practice benchmarks, the information in the Report could be used to help jurisdictions identify appropriate benchmarks (box 1.3).

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### Box 1.3 **Benchmarking**

Benchmarking service delivery is a systematic process of searching for and encouraging the introduction of best practice in the use of scarce resources, so as to deliver more efficient and effective services. There are three main forms of benchmarking: results benchmarking (comparing performances within and between organisations using performance indicators of effectiveness and efficiency); process benchmarking (analysing systems, activities and tasks that turn resource inputs and outputs into outcomes); and setting best practice standards (establishing goals and standards to which organisations can aspire).

Benchmarking typically involves a number of steps. Whatever the chosen approach or focus, the steps usually include:

- deciding why, when, and what to benchmark;
- analysing plans and performance (reviewing objectives and identifying performance indicators and own performance);
- establishing benchmarking partners;
- obtaining the data and analysing differences;
- identifying best practices and the most useful improvements;
- implementing improvements in practice; and
- assessing improvements and re-benchmarking (MAB/MIAC 1996).

The performance information in the *Report on Government Services* can contribute to many of the above steps in a results benchmarking cycle, including by identifying better approaches adopted by agencies' peers and thus implementing best practice.

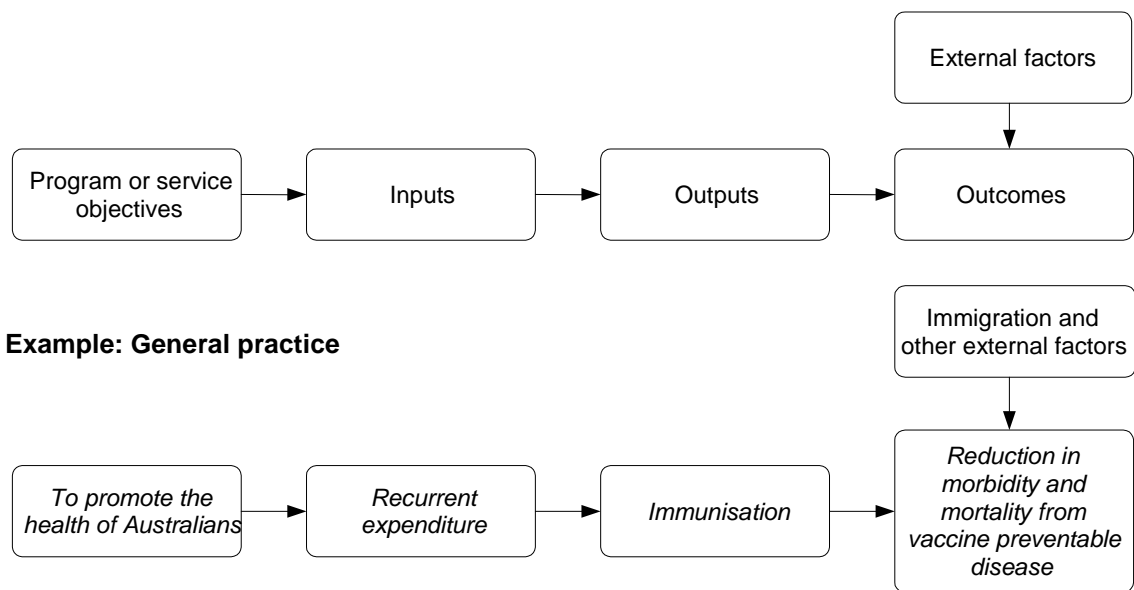
## **The service process**

The basic relationship between objectives, inputs, outputs and outcomes is set out in figure 1.2. Governments have a number of objectives or desired outcomes for the community. To achieve these objectives or desired outcomes, governments fund service providers and products and/or provide services. Service providers transform these funds/resources (inputs) into services (outputs), and the outputs contribute to a government's outcomes.

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Figure 1.2 **Service process**

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## The general framework

A number of the objectives (or desired outcomes) for each government funded service are similar across jurisdictions, although the priority that jurisdictions give to each objective may differ. The Steering Committee's approach to performance reporting is to focus on the extent to which each *shared* objective for a service has been met. Objectives for each service area are outlined and performance indicators consistent with those objectives are reported.

The Steering Committee has developed a general framework for performance indicators (figure 1.3).<sup>4</sup> Within the framework, performance is assessed in terms of effectiveness and efficiency. *Effectiveness* is a reflection of how well the outputs of a service achieve the stated objectives. *Efficiency* is a reflection of how well governments use their resources to produce units of services.

Service provision can sometimes involve a tradeoff between elements of effectiveness and efficiency. A change in service delivery may increase the level of resources per unit of output (a decrease in measured efficiency) but lead to better outcomes (an increase in effectiveness). In addition, a standard unit of service may be more costly to produce, for example but more effective in meeting each client's specific needs and, therefore, more cost effective. Performance assessment should thus consider both efficiency and effectiveness indicators.

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<sup>4</sup> The performance indicator framework for schools, used for the first time in the 2001 Report, is a departure from the general framework.

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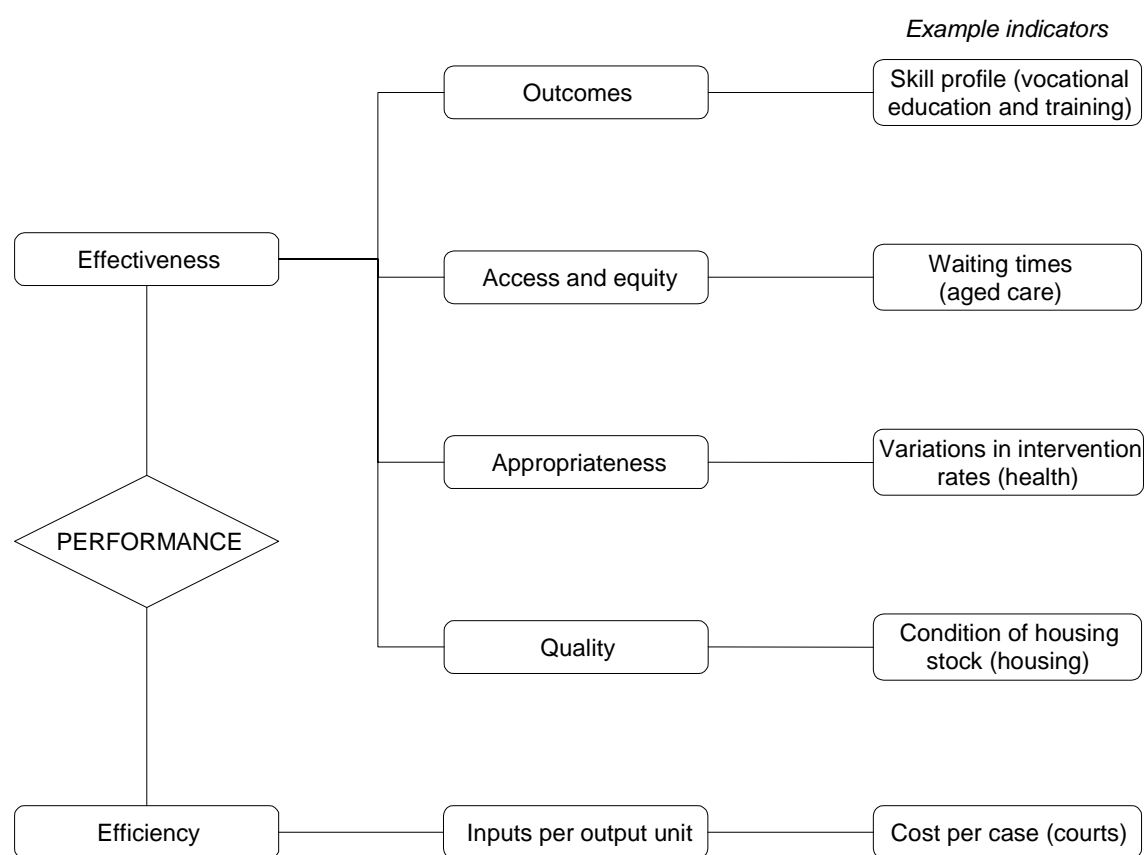
Effectiveness indicators in this Report include indicators of:

- outcomes;
- access and equity;
- appropriateness; and
- quality.

The indicator of efficiency generally used is the level of government inputs per unit of output.

Each chapter of the Report includes descriptive information about services and the context of their delivery, recent policy developments, a discussion of future directions in performance reporting, and comments from each jurisdiction.

**Figure 1.3 A general framework and examples of performance indicators**



During 2002, the Steering Committee reviewed the general framework of performance indicators and agreed on a number of changes. To allow time for subsequent changes to the frameworks for each service area, the revised framework will be introduced for the 2004 Report. The revised framework is designed to

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highlight the distinction between outputs and outcomes, and give greater emphasis to equity.

## **Outcomes**

The actual outcomes of a service area should align with the objectives of the service area. Appropriate outcome indicators provide information on the impact of a service on the status of an individual or a group, and on the success of the service area in achieving its objectives, although other factors may affect actual outcomes for an individual or group. Outputs are the services delivered by the service area.

Outcomes may be short term (intermediate) or longer term (final). Short term outcomes are usually more closely linked to the operations of the service provider, whereas longer term outcomes are more affected by capital investment and external factors. A police random breath testing program, for example, (set up relatively quickly via a reallocation of resources) may achieve the intermediate outcome of fewer drunk drivers and lead to a short term reduction in road deaths, but the final outcome of reduced road deaths will reflect external factors such as the design quality of cars and capital investment in improved roads or additional ‘booze’ buses.

The approach in this Report is:

- to use both short term (or intermediate) and long term (or final) outcome indicators where possible; and
- to make clear that the service is only one contributing factor and, where possible, point to data on other factors. (Appendix A contains detailed statistics and short profiles on each State and Territory, which may assist in interpreting the performance indicators presented in this Report.)

## **Access and equity**

Enabling appropriate access to key services is an important reason for governments to fund services. The objective may be to ensure service access by everyone in the community (for example, access to school education and police services) or by a target group (for example, access to housing services for those having difficulties accessing housing in the private sector).

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Access has three main dimensions, addressing discrimination, undue delay and undue cost. This Report focuses on:

- service provision to those who may have special difficulties accessing services;
- service timeliness; and
- affordability.

### *Groups with special difficulties*

A number of criteria can be used to classify those groups who may have special difficulties in accessing government services. These include:

- language or literacy proficiency;
- gender;
- age;
- physical or mental capacity;
- race or ethnicity; and
- geographic location.

In addition to reporting access indicators for those with special difficulties in accessing individual service areas, the Report has devoted a chapter to examining the effectiveness and efficiency of the specific services for people with a disability (chapter 13).

In May 1997, the Prime Minister (with the support of the Premiers and Chief Ministers) requested that the Review give particular attention to the performance of mainstream services in relation to Indigenous Australians. Improvements to reporting for this group are discussed in chapter 2.

In April 2002, the Council of Australian Governments (COAG) asked the Steering Committee to prepare a regular report on key indicators of Indigenous disadvantage as part of the COAG reconciliation commitment. This will be a new report, separate from the *Report on Government Services* and focusing on outcomes for Indigenous people. The *Report on Government Services* will continue to contain key indicators on the delivery of services in relation to Indigenous Australians.

Identifying service recipients as members of groups with special access difficulties poses challenges, particularly when relying on client self identification. If members of such groups are required to identify themselves, then the accuracy of the data will partly depend on how a group perceives the advantages (or disadvantages) of identification and also whether such perceptions change over time. Varying

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definitions of these groups in data collections across jurisdictions and service areas may also create comparability problems.

The Report often uses the proportion of each target group in the broader community as a proxy indicator of the group's need for a particular service. This simple assumption is clearly sensible for some services (for example, schools), but must be treated with caution for other services (for example, aged care). Another option is to collect a more accurate profile of need (for example, the Supported Accommodation Assistance Program's collection of data on the characteristics of those seeking assistance).

Where geographic location is used to identify groups with access difficulties, access is normally compared for metropolitan, rural and remote areas. These classifications have been based on population density and distances to large population centres (DPIE and DSHS 1994). Such comparison by location has been criticised because it is an imperfect indicator of the time and cost of reaching the point of service. Further, it does not consider the client's capacity to bear the cost of receiving the service (Griffith 1998). To improve the model, service centre locations would need to be reclassified according to the services they provide and the client's cost of receiving the service. Many service areas in the Report are therefore moving to the Accessibility/Remoteness Index of Australia (ARIA) or ARIA Plus (see chapter 2).

### *Timeliness and affordability*

Timeliness and affordability can also be important access issues for those in the community who rely on publicly funded services. Timeliness indicators used to measure access in this Report include waiting times (for example, in public hospitals and for aged care services). Affordability indicators relate to the proportion of income spent on particular services (for example, out-of-pocket expenses in children's services).

## **Appropriateness**

Appropriateness indicators measure how well the services and their delivery meet client needs. An appropriateness indicator for the Supported Accommodation and Assistance Program, for example, is the proportion of clients receiving the services they are judged to need. Appropriateness indicators also seek to identify the extent of any underservicing or overservicing (Renwick and Sadkowsky 1991).

Some services have developed measurable standards of service need against which the current levels of service can be assessed. The 'overcrowding' measure in housing, for example, measures the appropriateness of the size of the dwelling

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relative to the size of the tenant household. Other services have few measurable standards of service need; for example, the appropriate number of medical treatments available for particular populations is not known. However, data on differences in service levels can indicate where further work could identify possible underservicing or overservicing.

## **Quality**

The Review includes indicators of service quality because they are important to performance assessment and policy formulation. Information about quality is particularly important for performance assessment when there is a strong emphasis on increasing efficiency (as indicated by lower unit costs). Moreover, there is usually more than one way in which to deliver a service, and each alternative has different implications for cost and quality. Information about service quality is needed to ensure governments fairly consider all useful delivery alternatives.

One definition of quality is fitness for purpose. A comprehensive assessment of fitness for purpose requires a range of indicators. Ideally, such indicators should also directly capture the achievement of outcomes. Assessment may also involve seeking the views of clients and other stakeholders.

Data generated for quality control can often be a useful source of information about success in achieving outcomes. The extent to which aspects of the service delivery process (such as inputs, processes and outputs) conform to specifications are a test of success at delivering quality outcomes — for example, the level of accreditation of public hospitals and facilities for aged care. Assuming the specifications define an acceptable level of service, then a service conforming to the specifications is fit for the purpose for which it was designed.

The framework of indicators for this Report treats quality as one aspect of effectiveness and distinguishes it from access and appropriateness (figure 1.3). This distinction is somewhat artificial because these other aspects of service provision also contribute to a meaningful picture of quality. No perfect indicator of service quality exists; each indicator has its own strengths and weaknesses. Selecting an indicator thus requires some trade off among desirable characteristics (such as timeliness, cost and validity).

Where possible, the approach taken in the Report is to make use of acceptable (albeit imperfect) quality indicators that are already in use or available in Australia or internationally. Adopting these indicators can lower the costs of, and reduce delays in, reporting performance. Note, however, that although the Steering Committee values time series data as a means of evaluating developments in service

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delivery, performance indicators may change from one Report to the next when better or more appropriate performance indicators are developed.

## **Efficiency**

Efficiency relates to how well organisations use their resources to produce units of services. This Report mostly focuses on the achievement of better value for the broader community from the use of government resources, so government funding per unit of service is typically used as the efficiency indicator — for example, recurrent funding per annual curriculum hour for vocational education and training. Such an indicator may not, however, encompass a service's full cost to society.

Where possible, full unit costs are used as the indicator of efficiency. Where there are shortcomings in the data, other indicators of efficiency are used (including partial productivity ratios such as staff level per student in government schools and staff per prisoner in corrective services). Comparisons of unit cost of a service are a more meaningful input to public policy when they use the full cost to government, accounting for all resources consumed in providing the service. Problems can occur when some costs of providing services are overlooked or treated inconsistently (for example, superannuation, overheads or user cost of capital). The Steering Committee believes, where full cost information is not available in the short term, that data should at least be calculated consistently across jurisdictions. Further, data treatment should be fully transparent.

## **1.6 Using the data in this Report**

### **Data comparability**

For each service area, the performance indicator framework shows which data are provided on a comparable basis and which are not strictly comparable. Where data are not strictly comparable appropriate qualifying commentary are provided in the text or footnotes. Data may not be strictly comparable if:

- definitions or counting rules differ or are so broad that they result in different interpretations (for example, depreciation rules);
- the scope of measurement varies (for example, the waiting time for elective surgery); and
- benchmarks differ (for example, literacy standards).
- the sample size is too small for statistical reliability.

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These differences may result in biased estimates, but it is not always clear whether biases are necessarily material. Even where the differences are significant, relatively simple adjustments may resolve them in many cases: For example, payroll tax exemption has a material influence on the comparability of unit cost indicators, but the payroll tax amount can be readily calculated from payroll data. Differences in the marginal tax rates of payroll tax systems, conversely, are unlikely to have a material impact on unit costs.

## **Validation**

Data contained in this Report vary in the extent to which they have been reviewed or validated. At a minimum, all data have been signed off by the contributor and subject to peer review by the working group for each service. Some data are verified and supplied by data collection agencies such as the Australian Bureau of Statistics and the Australian Institute of Health and Welfare.

## **Timeliness and accuracy**

Timeliness of data is an important consideration for policy decision making. Sometimes, however, there is a tradeoff between the accuracy of data and its timely availability; in particular, data that are provided in a timely fashion might have had fewer opportunities to undergo rigorous processes of validation.

The Review's process of iterative data collection is intended to manage this tradeoff between timeliness and accuracy. The Review publishes data that jurisdictions have provided, with appropriate qualifications. This provides an opportunity for the Review to improve the data, particularly its comparability, over time. This approach has increased scrutiny of the data and led to timely improvements in data quality.

Improving the timeliness and accuracy of the data requires a high level of cooperation between the Steering Committee and participating agencies from all jurisdictions. Users of the Report are also an important source of feedback on issues relating to the improvement of performance reporting. The Steering Committee welcomes feedback, which can be forwarded to the Secretariat (see the contact details inside the front cover of the Report).

## **Effects of factors beyond the control of agencies**

The differing environments in which service agencies operate affects both the outcomes achievable and those achieved by the agencies. There may be significant differences in clients, available inputs, prices and geography, and any comparison

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of performance across jurisdictions needs to consider these differences. Relatively high unit costs, for example, may result from geographic dispersal, a high proportion of special needs clients, inefficient performance or a combination of these and other factors. Similarly, a low (or poor) result for an effectiveness indicator may have more to do with client characteristics than service performance. The provision of information that allows effective interpretation is sometimes more important than whether a simple performance measure result is high or low.

The Report does not attempt to adjust results provided by jurisdictions for differences that may affect service delivery, however, it does provide information on environmental differences to assist readers to interpret performance indicator results. Users of the report will often be better placed to make the necessary judgments, perhaps with the benefit of additional information about their jurisdiction's circumstances or priorities. The Commonwealth Grants Commission adopts a different approach reflecting its different role (SCRCSSP 2000).

The Report provides information on environmental differences to assist readers interpret performance indicator results. This information takes the form of profiles of each service area, footnotes to tables and figures and a statistical appendix (appendix A). The statistical appendix provides a range of general descriptive information for each jurisdiction, including the age profile, spatial distribution, income levels and education levels of the population, the tenure of dwellings and cultural heritage (such as Indigenous and ethnic status). The information for each jurisdiction has two parts: a description of the main distinguishing characteristics and a set of source tables.

## **1.7 Other approaches and exercises**

### **Techniques for measuring efficiency**

The approach to developing the efficiency indicators used in the Report is primarily that of unit cost (although some chapters contain other measures of efficiency). Data envelopment analysis (DEA) is another measurement technique that appears to be suited to assessing efficiency in the delivery of government services. Typically using linear programming, DEA calculates the efficiency of an organisation within a group relative to observed best practice (not actual best practice) within that group. The approach operates by identifying best performers in terms of input use and output production. Other service providers are allocated a single efficiency score based on their performance relative to these best performers.

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Data envelopment analysis is capable of handling the multi-input, multi-output production processes that often exist in government service provision. Moreover, this technique, unlike other more sophisticated tools, does not require outputs to be priced — an advantage that has obvious application to government services. Like any efficiency measurement tool, however, outputs (and units of measure) still need to be identified for estimation purposes.

Such analysis requires accurate data on all relevant input and output levels. Service providers that do not have a typical relationship between their inputs and outputs can have a significant impact on the results. In addition, a fairly large sample of service providers is required. This approach has been used to measure the performance of a range of service providers internationally, and its applicability in the Australian context has been examined.

The Steering Committee published a report in 1997, *Data Envelopment Analysis — A Technique for Measuring the Efficiency of Government Service Delivery* (SCRCCSP 1997a), that explains DEA's conceptual underpinnings, how to interpret the output from DEA models and the technique's strengths and weaknesses. Also, through the use of case studies on hospitals, dental services, police, motor registries and corrective services, the report provides a practical guide to developing and refining a DEA model and interpreting the results. The report is directed at those responsible for providing government services and those accountable for the delivery of these services in a cost effective manner. It aims to encourage people to think about how more detailed and rigorous analysis of performance can assist in improving the efficiency with which resources are used to provide essential services to the community.

The World Health Organisation (WHO) report *The World Health Report 2000 — Health Systems: Improving Performance* uses another efficiency measurement technique. This report outlines an approach to performance measurement by identifying two important aspects needed to judge performance: (1) attainment — that is, achievement of the objectives of good health, responsiveness and fair financial contribution — and (2) performance — that is, the comparison between what has been achieved (attainment) and the best that could be achieved with the same resources (potential attainment). The WHO derived a frontier corresponding to the most that could be expected of a health system (a level of attainment that a country may achieve but that no country surpasses), using information from many countries. Performance is measured on how far actual attainment lies from this frontier (WHO 2000).

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## **‘Measuring Australia’s progress’**

The ABS published *Measuring Australia’s Progress* for the first time in April 2002. The publication presents data on measures (or indicators) that relate to progress in three general areas; economic, social and environmental. The approach adopted is to present a suite of headline and supplementary indicators of key aspects of progress, and to discuss the links between them. The aim is to help Australians address the question: ‘Has life in our country got better, especially over the past decade?’, allowing readers to draw their own conclusions about overall progress. The Steering Committee has drawn on aspects of this approach in its review of Indigenous disadvantage (ABS 2002).

## **Performance monitoring in other countries**

Performance reporting exercises are undertaken in other countries using various approaches. In the United Kingdom, agency performance is measured against the achievement of targets set out in public service agreements. These agreements set out the aim of the department or program, the supporting objectives and the related performance targets that are to be achieved during a specified period. There has been a shift in the emphasis of targets towards an outcome focus (The Comptroller and Auditor-General 2001).

In the United States, the *Government Performance and Results Act 1993* requires agencies to develop multi-year strategic plans, annual performance plans and annual performance reports. Performance measures are targets set by the departments (US General Accounting Office 2000).

In Canada, performance information is organised around 200 key results commitments that federal departments and agencies have made. These commitments state what departments intend to achieve with the resources they have been allocated. Each department produces an annual performance report and the Treasury Board of Canada Secretariat produces an annual report, *Managing for Results*, which provides an overview. Performance frameworks and the types of indicator used vary across departments (Treasury Board of Canada 2000).

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