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## **2 PERFORMANCE MONITORING IN AUSTRALIA**

### **2.1 Why measure government performance?**

Governments become involved in providing services for a number of reasons. Markets may fail to produce an efficient outcome where there are public benefits associated with the provision of a service. For example, while students directly benefit from receiving an education, there are also public benefits from having a literate and numerate population. As a result, governments subsidise services such as education. And there are also public good aspects of services such as law enforcement.

The market may also fail to produce an equitable outcome. For example, it may be a social objective to have a healthy population, but health services would be beyond the reach of some members of the community without government support. In response governments either produce the services themselves (as with public hospitals) or commission others to produce the service (as with private prisons).

The services which the community wants governments to provide (either directly or indirectly) are important, in terms of both their size and the roles they play in society. It is not surprising that there is pressure to ensure that the community's objectives are met in the provision of these services. In other words, there is pressure to make governments accountable — a process in which performance monitoring can play a crucial role.

#### **2.1.1 Accountability**

If government agencies are to be accountable for providing services that meet the community's objectives, there must be:

- clarity about the task for which each agency is to be responsible;
- sufficient information readily available so that an agency's performance of the task is transparent; and
- an opportunity for redress where substandard performance is identified, and a capacity for that to be corrected or sanctions imposed (IC 1996).

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Performance monitoring in this Report addresses the second of the three aspects of accountability: it provides information so that the performance of agencies in meeting their service provision objectives is readily available and transparent. The process of developing performance measures can help governments to clarify or articulate objectives (Chapter 1), but the objectives of agencies are unchallenged under the Review; determining objectives is properly left to the policy process.

The Report also has no direct role to play in redressing substandard performance — again, that is the function of the agencies and their political processes. However, by enabling ‘yardstick competition’, the Report enhances incentives for agencies to address any failings.

## **2.2 What to measure?**

There are many ways to identify how performance might be improved. Better approaches to service provision may involve changing the inputs used in providing or producing a service, the process adopted and/or the outputs generated.

In the past, the monitoring of public sector services focused on inputs and processes, often because this information was readily available or could be collected with little extra effort. Increasingly, the outputs and impacts of services are being included in the monitoring framework.

But the production of information should not be an end in itself. Rather, it should be a tool to aid in managerial decision-making and accountability. Performance monitoring should relate to measuring the efficiency and effectiveness of the service in meeting its objectives.

## **2.3 Framework for measurement**

The framework developed for this Report is based on the three Es model of economy, efficiency and effectiveness (Jackson and Palmer 1992). Descriptors provided valuable background information about each service, such as its size and client mix. Performance indicators for each area relate to both the effectiveness and efficiency of service delivery. See Box 2.1 for definitions of some of the terms used in this Report.

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### **Box 2.1: Terms used throughout the Report**

**Descriptors** are statistics included in the Report which relate to the size of the service system, its client mix and the environment within which government services are delivered. They are provided to highlight and make more transparent the differences among jurisdictions.

**Effectiveness** reflects how well the outputs of a service achieve the stated objectives of that service.

**Efficiency** relates to how well organisations use their resources to produce services.

**Unit costs** are used throughout this Report as a proxy indicator of productive efficiency.

**Inputs** are the resources (including land, labour and capital) used by a service area in providing the service.

**Process** is the way in which a service is produced or delivered.

**Outputs** are the services provided by a service area — a treated case is an output of a public acute care hospital.

**Outcomes** are the impact of the service on the status of individuals or a group. A service provider can influence an outcome but external factors can also apply. For example, a desirable outcome for a school would be to add to the ability of the students to participate in, and interact with, society throughout their lives. Similarly, a desirable outcome for a hospital would be to improve the health status of an individual receiving a hospital service.

When assessing performance, it is important that each indicator be considered as part of suite and not interpreted in isolation from other indicators that make up the performance framework. For example, it may not be appropriate to draw definitive comparisons between jurisdictions based solely on the average unit cost of providing a service. This implies a uniform standard of quality and effectiveness of service delivery across jurisdictions. Rather, measures of efficiency should be considered in the context of the size and client mix of an area, the success of the service in meeting the needs of its clients and relationships with other programs.

#### **2.3.1 Effectiveness**

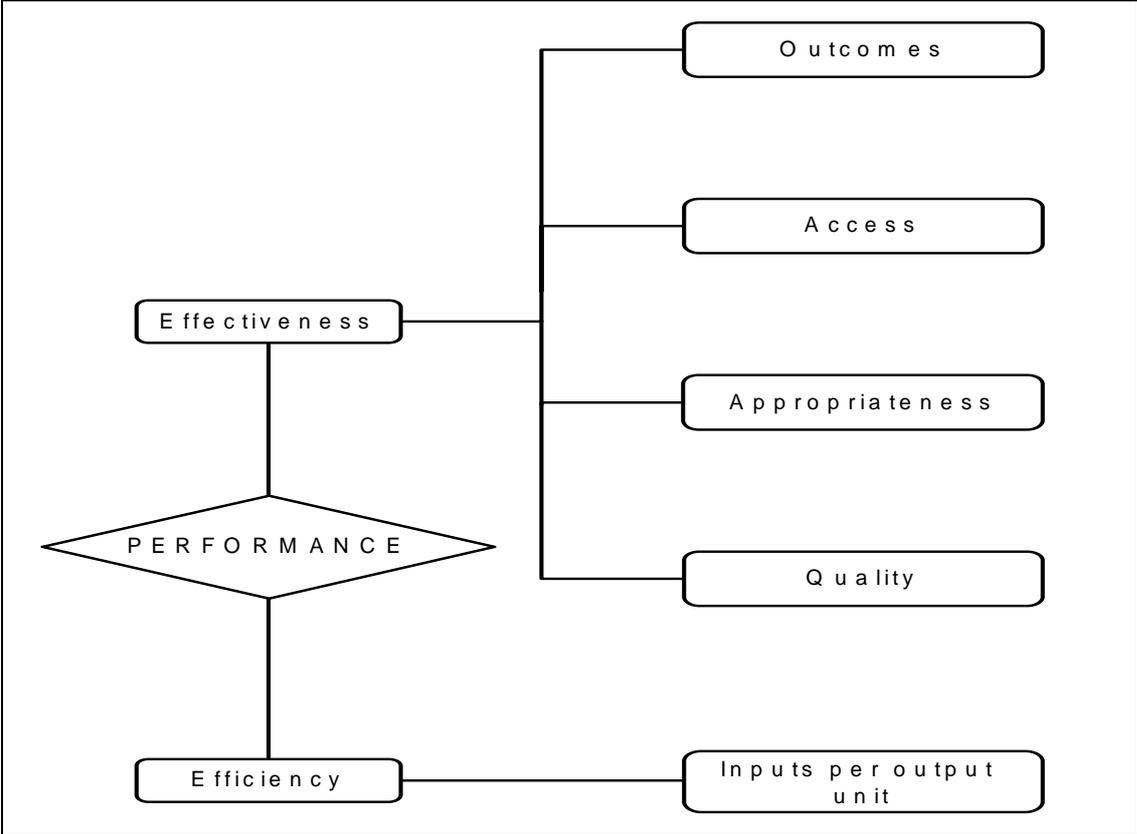
*Effectiveness* refers to the success with which an organisation or program achieves its objectives. As with efficiency, effectiveness can be measured at various levels. A service may be program effective if it reaches its target

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population and the service is delivered adequately. It may be policy effective if it fulfils its policy objectives (which tend to be longer-term and broader).

The indicators in this Report attempt to cover both measures of effectiveness and to consider three main aspects of these measures with regard to outputs — quality, access and appropriateness. The effectiveness of a service can also be considered at the higher order level of its outcomes or impacts (Figure 2.1).

Figure 2.1: The framework of performance indicators



*Outcomes*

Outcomes provide a higher level of information about the results of the service when analysed in conjunction with indicators relating to inputs and processes. Outcomes range from immediate and specific results of a service, such as achievement of a certain level of literacy, to long term major changes in the community, such as increased workforce productivity. However, as outcomes become less specific and more longer term, they become more difficult to assess because there is less consensus as to their definition and the time over which they should be assessed. It may also be difficult to attribute outcomes to a single

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service. Generally, this Report deals with immediate or specific outcomes as these tend to be easier to measure.

In the private sector, a consumer's willingness to pay is often used as a proxy of an organisation's success in meeting its objective. However, only some public service outcomes involve financial transactions, so it is difficult to assess the general public's willingness to pay. In this context, outcomes are often assessed through measures of satisfaction — that is, relying on the perceptions and preferences of interest groups (which tend to be subjective).

Outcome measures used in the Report are both qualitative and quantitative. Quantitative measures include the number of clients returning to the supported accommodation assistance program (SAAP) within 6 months, the number of clients leaving SAAP with income, and the time taken by Vocational Education and Training (VET) graduates to find employment. Outcomes for other services (such as children's services and police) require qualitative measures that determine the level of client/user satisfaction.

### *Access*

An important issue for government services is the extent to which clients are able to access the service. The ease of access can be defined with reference to waiting periods to enter the service (for example, hospitals, public housing, courts administration); the affordability of the services (for example, public housing, aged care, children's services); or physical accessibility (for example, geographic location or ramps for wheelchairs).

The accessibility of services for particular target groups is also an important issue in some areas. Existing indicators which seek to address this issue are based on the representation of the target group in the client base compared with their representation in the total population. The shortcoming of these indicators is that they seldom account for variations in target groups' demand for these services compared with the demand by the rest of the community.

### *Appropriateness*

The appropriateness of a program or service may be interpreted in a number of ways; it may refer to whether the program fulfils its objectives, or the way in which the program fulfils its objectives. For example, appropriateness indicators for aged care include assessing the intensity and suitability of care provided and the adequacy of targeting. For hospitals, separations per 1000 population are an indicator of appropriateness.

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## *Quality*

The quality of a service can be assessed by whether it conforms to specifications, and whether it is 'fit for the purpose' for which it was intended (Walsh 1991). However, judging the quality of services according to these criteria is difficult for many human services which may be intangible or for which there may be no market transactions.

Despite this difficulty, there are methods for measuring quality. The degree of user satisfaction with a service is one approach. This is used in several areas of the Report, including public housing, VET, hospitals and police. Other approaches include identifying the incidence of service failure (for example, the number of serious sustained and notifiable outbreaks of disease per 1000 children in child care and preschool services). Other indicators such as accreditation and the quality of inputs are also used, but they are further removed from the impact which the service has on clients.

### **2.3.2 Efficiency**

*Efficiency* is generally used to describe how well organisations use their resources in producing services. It is best understood as the relationship between optimal performance and actual performance. Optimal performance thus involves using the best combination of inputs in the best way.

The focus of this Report and the 1995 Report is efficiency in terms of the simple relationship between inputs and outputs. This may be measured in terms of quantity of output (that is, the most outputs for a given set of inputs) or by cost (that is, the least cost or inputs associated with producing a given level of output). Over the longer term, it is hoped that indicators will be developed to assess the efficiency of the mix of outputs.

The main proxy indicator of the relationship between inputs and outputs used in the Report is the cost per unit of service (or unit cost). The unit of output chosen for calculation generally differs across service areas. For instance, efficiency may be measured by an episode of service in hospitals, a client served in corrective services, or an hour of service delivery for children's services.

Where appropriate and feasible, the Steering Committee has developed separate unit cost and physical productivity measures of the two main factors of production: labour and capital (for example, the offender:staff ratio and the value of assets per prisoner for corrective services). In some instances, the Steering Committee has also developed separate measures for recurrent and administrative expenditure.

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Average unit cost can incorporate all the factors of production but it is limited in relating to only a single output. Given that most organisations produce a variety of outputs, a more informative measure of efficiency would be one that measures relationships between various mixes of inputs and outputs. In response to this need, the Steering Committee is investigating other more sophisticated tools, particularly data envelopment analysis (DEA).

DEA is a linear programming based technique that is capable of handling multi-input, multi-output production processes, as often exist in government service provision. Furthermore, prices for inputs and outputs are not required to assess efficiency, and the impact of the operating environment on performance can be also be considered in the analysis.

DEA can be used to identify the best performing entities in a group of organisations which use similar inputs to produce similar outputs, like a group of hospitals or police stations. The efficiency of each service provider is then determined relative to the observed best practice in terms of potential to reduce inputs while maintaining output, or in terms of potential to increase outputs without increasing the level of inputs. Specific targets for improving performance and relevant benchmark partners can also be identified to assist service providers in improving their relative performance.

## **2.4 Issues in developing, interpreting and analysing performance measures**

The indicators developed for the Report are sometimes a first pass at performance indicators and often the quality, consistency, comparability and completeness of data are not what would be wished for in the longer term. The Steering Committee recognises this shortcoming and, for this reason, has presented contextual information in the Report to enable meaningful comparisons across jurisdictions.

However, it is important to understand the limitations of the indicators when using them. There are a number of general factors that need to be considered.

### **2.4.1 Attributes of a good indicator**

Indicators developed to assess performance should be simple, well-defined and easily understood, and should incorporate all aspects of the organisation's activities. An incomplete or ambiguous indicator may lead management to make an incorrect decision concerning the level or means of service delivery.

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However monitoring should be limited to the key activities which are central to an organisation's tasks. Otherwise, goal displacement — where the matters being measured become the agency's preoccupation — may occur.

#### **2.4.2 Features of services**

There are aspects of services which make it difficult to develop performance indicators which accurately assess the final impact of the resources allocated to it.

The outputs of a service provider may be complex and/or multiple. For example, an output may be jointly produced by a number of units or areas of government. In this instance, it is difficult to develop performance indicators that are controllable, that is not significantly influenced by factors other than the management decisions of a particular unit or organisation.

The impacts of services may not be immediate, accruing over a number of years. In this instance, it is important to specify indicators that also focus on long term impacts. Otherwise, management may underinvest in new modes of service delivery, staff development or other initiatives, which will have benefits in the future.

Organisations often encounter problems in identifying the cost of producing and delivering services. For example, organisations providing more than one service may find it difficult to apportion fixed costs to particular services. Organisations may also experience problems apportioning costs over time. These problems have implications for developing unit cost indicators that accurately reflect organisational efficiency. However, the introduction of systems such as management accounting and accrual accounting will greatly assist in the measurement of unit costs.

There are some other aspects of government service delivery which introduce further complexity. For example, performance indicators need to capture the direct *and* indirect benefits (or positive externalities) associated with the provision of some services, such as health and education.

Moreover, there are many users of performance monitoring information, all with an interest in the performance of the public sector. The large number of stakeholders, including taxpayers, employers, staff, consumers and the government, results in numerous lines of accountability (Box 2.2). Given the diversity of users of performance information, it is difficult to develop a set of indicators that covers all their needs.

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**Box 2.2: Accountable to whom?**

A feature of performance monitoring in the public sector is the numerous lines of accountability. At the highest level, governments are accountable to taxpayers regarding the allocation and use of resources. Governments, in turn, employ service providers who are charged with the task of producing desired outputs. At this level, a department or agency is often accountable to a minister for producing the outputs that contribute to the final outcomes. Departments and agencies are also responsible for ensuring that the needs of staff are met in a manner that enables them to produce the services required at a satisfactory level and standard.

A further line of accountability is that between the provider and the client of the service, given the lack of choice often associated with government services. In the past, performance monitoring in the public sector has focused on the needs of government and managers for information. However, the role of consumers in performance evaluation is more often being considered. The information requirements for assessing performance for all these groups vary significantly. For example, governments require broad, system wide indicators which allow them to determine if the allocation of resources is correct and if delivery mechanisms are appropriate.

Service providers also require information on the efficiency and effectiveness of delivery mechanisms but at a more disaggregated level. This type of 'diagnostic' individual assessment can inform service provider managers about what is required to ensure that the desired outputs or outcomes are produced. By contrast, service clients require a detailed assessment of daily performance.

For this Report, the Steering Committee has been careful to ensure that the information gathered is relevant to assessing the performance at a system wide level. It is not intended that this information should replace other types of important performance assessment that provide accountability at other levels. In fact, the Steering Committee has been keen to ensure that data already collected is built on where possible.

**2.4.3 Interpreting the information**

As discussed earlier, it is important that all indicators be considered as part of a suite and not interpreted in isolation when drawing conclusions about the performance of a given sector. Similarly, the performance of a given sector should be seen in the context of a much broader framework by recognising the links among sectors. For example, children's services and crisis services work together to ensure the safety of children and families. A descriptor for one sector may be an outcome for another. For example, in the justice system the

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number of offenders sentenced is both a descriptor of the size of the corrective services sector and an outcome of the judicial system.

In addition, there are often issues of comparison and interpretation. For example, there may be problems associated with the method of data collection (resulting in measurement or sampling errors), or management may manipulate the data to case itself in a favourable light. Moreover, comparing two organisations within the public sector may be misleading where their performances vary for reasons unrelated to efficiency or effectiveness.

First, organisations may be pursuing different objectives and this may be important when assessing the performance of services designed to respond to local preferences. By encouraging national comparison of managerial performances, performance monitoring systems can stifle local initiative and encourage uniformity (even when this is inefficient).

Second, the areas being compared may have different needs. Therefore, even if the objectives are identical, the resources needed to achieve those objectives may vary considerably among organisations.

Third, organisations may face different costs. Similar service outlets have been separately identified where possible to reduce the influence of some of these factors (for example, the costs of metropolitan schools have been separately identified from the costs of schools in non-metropolitan areas). Contextual information has also been provided to make these differences more transparent.

Finally, the definitions of terms may vary among jurisdictions. For example, there are different definitions of student learning outcomes in the education sector. To overcome these problems, the Steering Committee is developing a survey to assess national learning standards.

It is also important to be aware of other changes which may affect indicators. For example, when examining labour costs across jurisdictions and over time, it is important to recognise that the number of pay periods may vary, affecting expenditure levels and therefore unit cost measures.