
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. XVII).

There are two functions of the Review:

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

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 instrumental in assessing the resource needs and resource performance of departments. Others have used the Report for identifying other jurisdictions with whom to share information on services.

For governments, the work of the review can be an incentive to improve performance by fostering improvements in government services through:

- helping jurisdictions identify where there is scope for improvement and from whom they may learn;
- fostering yardstick competition, by promoting greater debate about comparative performance; and
- enhancing measurement approaches and techniques in relation to aspects of performance such as unit costs and service quality.

A Steering Committee comprising senior representatives from the central agencies of Commonwealth, State and Territory governments was established to manage the

Review with the assistance of a secretariat provided by the Productivity Commission.

The Steering Committee defines performance as how well a service meets its objectives, recognising the influence of external factors. This sixth *Report on Government Services* contains performance information on 12 key service areas (see box 1.1). These government services have two features:

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

Box 1.1 Services covered in the 2000 Report

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

Publishing performance comparisons across services in a single annual report has a number of benefits, namely:

- data are drawn from a range of sources;
- a common method is used across services, which is convenient and useful for people interested in more than one service area;
- there are opportunities to share insights into approaches to performance assessment across services;

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- 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 address efficiently 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 a response to issues with links between service areas (for example, recidivism and justice services).

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

This Report examines performance of the service elements for which government is responsible and accountable. The focus of the Review is to report performance information on the effectiveness and efficiency of government expenditure, linked to the purchase or supply of specific services rather than to general government income support. Thus, the Report covers aged care (but not the aged pension), disability services (but not disability pensions) and children's services (but not family payments), although some descriptive information on income support is provided in some cases. An exception to this is the reporting of performance information on Commonwealth Rent Assistance (chapter 16).

According to survey data, many Report readers use a number of chapters of the Report. About 30 per cent of readers from line agencies use two or more chapters, and more than half of readers from central agencies use five or more chapters (SRCSSP 1998). Moreover, service agencies may improve their own reporting by applying insights gained from the Review into performance measurement of other services.

1.2 The roles of government in delivering services

Government sponsored social services have a significant effect on wealth and income equality. According to Harding (1995), for the 30 per cent of Australians with the lowest income, the benefits from government spending on health, education and public housing amount to at least one third of their final income (after housing costs are deducted). Families with children and the elderly derive the greatest benefits, primarily from education and health outlays.

Why governments deliver services

Governments deliver services for a number of reasons and all services included in this Report affect the community in some way. Some services form an important part of the nation's social welfare system (for example, public housing) and 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 and emergency services). The information provided in this Report assists governments in ensuring that resources are distributed efficiently and appropriately throughout the economy.

The services included in this Report are largely concerned with:

- providing public goods (box 1.2). This includes:
 - 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 arrangement reduces transaction costs in a society (Messick 1999), and encompasses the work of the courts in;
 - maintaining law and order, including the work of police and corrective services; 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 the consumption of particular goods and services seen by governments as having particular merits or reflecting significant spillover effects in society. Examples of these services include health, ambulance services, community services and housing.

Box 1.2 Public goods

Public goods are those where one person's consumption of the good doesn't reduce anyone else's consumption of the good. The second characteristic is that it is not possible to exclude individuals from consuming them. These goods tend not to be produced in private markets because people have an incentive to free-ride (that is, consume the good without paying for it). Therefore it may be efficient for governments to produce a public good.

How governments deliver services

Government services are delivered to the community by:

- providing the services directly (a ‘provider’ role);
- managing and funding external providers of the services through grants or the purchase of services (a ‘purchaser’ role);
- subsidising users (through vouchers or cash payments) who then purchase services from external providers;
- creating community service obligations on public and private providers;
- reducing tax obligations in particular circumstances (known as tax expenditures); or
- using a mix of these delivery methods.

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 (see box 1.3).

Box 1.3 **Cost to government and to non-government organisations**

The Report seeks, where possible, to provide information about the cost of services to government. Some argue that if non-government groups such as charities also contribute resources for the services covered by the Report, then these costs should be taken into account.

The purpose of this Report is to provide information to assist government decision making. The relevant cost information depends on the type of assessment that needs to be made to support a decision. When government directly delivers services it may wish to assess the internal management of the service; on other occasions it may wish to assess the decision to directly deliver or purchase the service, or even the decision of from whom to purchase (or part fund or subsidise) the service.

Sometimes a charitable organisation will offer to deliver a service at a lower price to government than an equivalent government provider, even though the charity uses at least as many resources as the government provider. The charitable organisation may be able to charge less because it operates the service as an adjunct to another activity, or because it has access to resources such as donations, church buildings or volunteers. If all inputs were costed at ‘normal’ market rates, a not-for-profit provider may be as costly as (and in some instances, more costly than) a government agency.

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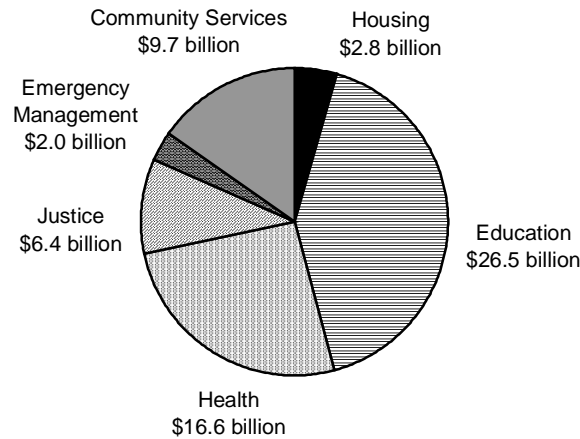
If a government delivers services directly, it is accountable for all resources used (and this Report tries to include all costs). If a government decides to purchase, part fund or subsidise services, it should aim to maximise the benefit to the community from this use of government funds. When focusing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

The Report also compares the cost to government of services delivered by non-government and government service providers; this information allows governments to assess their purchase decisions. This Report has not sought to facilitate comparisons between the internal management of government providers and non-government providers. As a result, it has not attempted 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.

Funding government services

The services covered in the Report absorb a significant level of government expenditure. They accounted for approximately \$64 billion in 1999-2000 (figure 1.1), representing around 29 per cent of government expenditure in that year (equivalent to about 10 per cent of gross domestic product).

Figure 1.1 **Estimated government recurrent and capital expenditure on services covered by the Report, 1999-2000^{a, b, c, d}**



^a 1999-2000 data were not available for all services: the Report uses 1998-99 data for school education, public hospitals, general practice services; 1998 data for vocational education and training; and 1997-98 data for mental health management and community services. ^b Capital expenditure data were not available for all services; only recurrent expenditure data were available for public hospitals, courts, corrections, fire and ambulance services, and aged care and protection and support services. There may also be some double counting where both expenditure data (including depreciation) and capital expenditure are included. ^c These figures are not directly comparable to those reported in SCRCSSP (2000) because some service areas have used different data sources. ^d Health expenditure includes data for public hospitals, general practice, some breast cancer screening services and community residential care for mental health services.

Sources: Relevant chapters.

1.3 Why measure comparative performance?

There are a number of reasons for measuring the comparative performance of government services:

- to improve accountability;
- to encourage ongoing performance improvements; and
- to encourage efficient service provision.

Helping improve performance

Comparative performance information can help jurisdictions identify potential benchmarks, strengthen incentives to improve performance, and inform governments about the effectiveness of their existing set of services (for example, the effectiveness of a mix of prevention and early detection services compared to the effectiveness of treatment services for breast cancer management).

Traditionally, much of the effort to improve the effectiveness of government services has focused on increasing the level of resources. This focus overlooks another important means of enhancing services — finding better ways to use existing resources and encouraging productivity growth. Productivity growth has had an important influence on living standards in Australia, accounting for the majority of the increase in real average income per person over the past three decades (IC 1997). Innovation (the introduction of new products or processes) can be important to productivity growth in all sectors, including government services.

Providing performance information across jurisdictions can encourage innovation (and thus performance improvement) by identifying jurisdictions from which others may learn. Those involved in producing this Report and others in the Report's primary target audience (directors and/or managers responsible for budget preparation, strategic planning and policy planning in central and line agencies) were surveyed in July 1998. The survey revealed that 61 per cent of line agency users and 80 per cent of central agency users considered the Report to be 'important' or 'very important' for identifying other jurisdictions with which to share information on services (SRCSSP 1998).

Reporting comparative performance can foster yardstick competition by promoting debate about comparative performance. Performance reporting is an important step in benchmarking (box 1.4). Reporting on comparative performance can also help governments assess whether the community is receiving the best set of services, and whether these services are being provided to those most in need, so as to achieve the best outcomes for the community. The 1998 survey of the Report's users found that over three quarters rated the information in the Report as 'important' or 'very important' for strategic and policy planning, and policy evaluation.

Comparative performance information can promote a process of learning from the diversity of experience, particularly as governments implement different policy approaches. 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, 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 provide services by government service providers (for example, devolving decision making in Victorian government schools to local school communities);

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- examining alternative delivery mechanisms (for example, deinstitutionalisation in 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).¹

Box 1.4 Benchmarking

Benchmarking service delivery is an ongoing systematic process to search for and encourage 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 activities and tasks that turn resource inputs and outputs into outcomes); and 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.

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 best work.

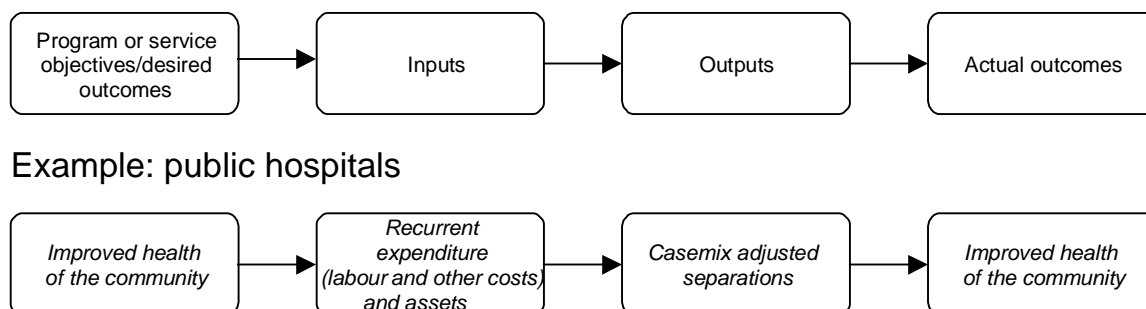
¹ The implementation issues associated with these types of reforms are examined in SCRCSSP (1997) and SCRCSSP (1998).

1.3 Approach to reporting performance of services

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.

The basic relationship between objectives, inputs, outputs and outcomes is as follows. Governments have a number of objectives/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 the achievement of a government's actual outcomes (figure 1.2).

Figure 1.2 **Service process**



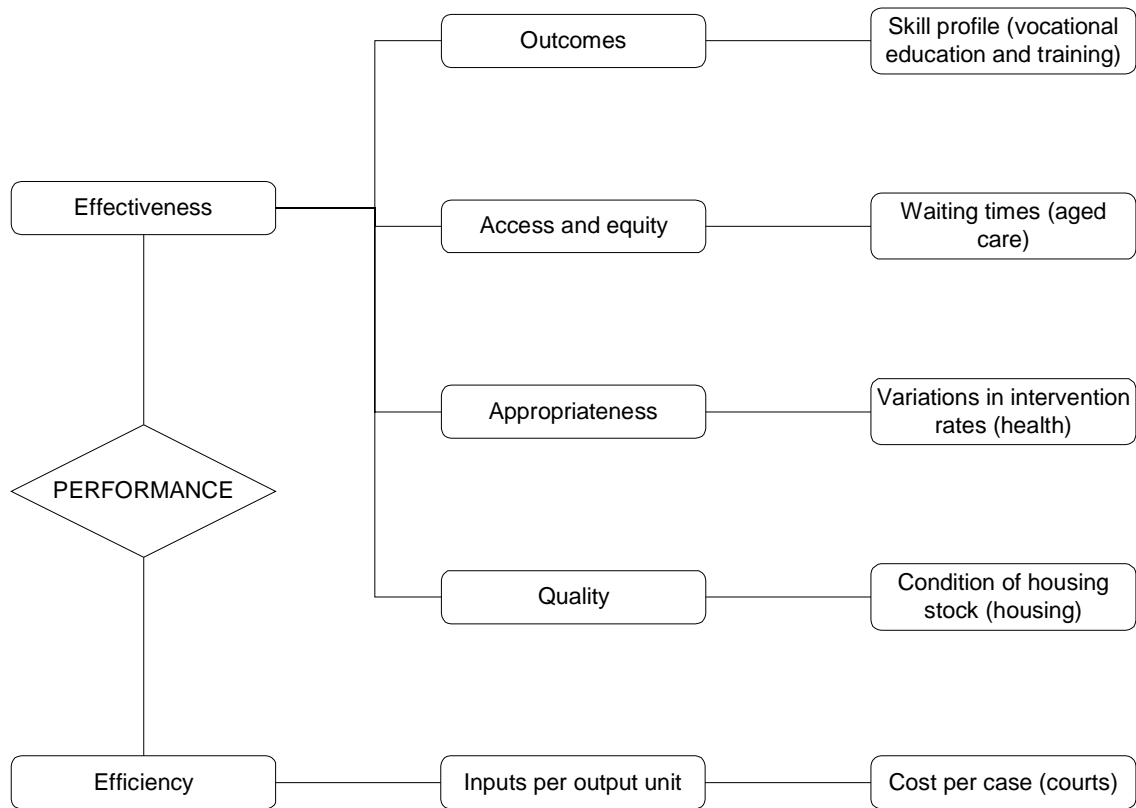
Source: Adapted from Commonwealth Department of Finance (1994).

The Steering Committee has developed a general framework for performance indicators (figure 1.3).² Within the framework, performance is assessed in terms of effectiveness and efficiency. Effectiveness relates to how well a service achieves its desired outcomes and efficiency relates to how well governments use their resources to produce units of services. Effectiveness indicators in this Report cover:

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

² The performance indicator framework for schools, used for the first time this year, is a departure from the general framework.

Figure 1.3 A general framework and examples of performance indicators



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

Service provision can involve a tradeoff between effectiveness and efficiency.³ 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. For example, a standard unit of service may be more costly to produce but more effective in meeting each client’s specific needs. Thus, performance assessment should consider both efficiency and effectiveness indicators.

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.

³ The Review has adopted the effectiveness and efficiency terms common to the program evaluation literature.

Outcomes

Outcomes refer to the consequences of a service. They should reflect the objectives of a service, so it is important to measure performance relative to objectives. Outputs are the services delivered by or on behalf of government for clients.

Some indicators could be described as both outcome and output indicators. In corrective services, for example, the secure housing of prisoners is a prison output but also an outcome indicator (linked to the objective of containment and supervision). If there is an established link between the indicator and the objective, then the indicator has validity as a performance indicator regardless of whether it is output or outcome related.

Outcomes may be short term (intermediate) or longer term (final). Short term outcomes are usually more closely linked to the services, whereas longer term outcomes can be affected by other factors — for example, a police random breath testing program may achieve the intermediate outcome of fewer drunk drivers, but the final outcome of reduced road deaths will also be affected by other factors such as the quality of cars and roads. Another example is in child protection where:

Long term outcome measures ... are vital for showing what happens in children's lives, but they have considerable weaknesses as a stand-alone measure of the effectiveness of child welfare services since many factors help shape the circumstances of a child's life. (Gain and Young 1998, p. 3).

The approach in this Report is to:

- use both short term (or intermediate) and long term (or final) outcome indicators; and
- explain that the service is only one contributing factor and, where possible, point to data on other possible factors (for example, 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

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

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

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

Groups with special difficulties

A number of criteria can be used to classify those 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 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. Chapter 2 provides more detail on the progress in this area.

Information on access by groups with special difficulties can be useful for two reasons. First, information on the extent to which people from groups with special difficulties are able to access services can help determine whether special strategies are needed to address access barriers. Second, if government has already implemented such strategies, then their effectiveness can be assessed.

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

should be treated with caution for other services (for example, aged care). Another option is to collect more direct indicators of need (for example, the Supported Accommodation Assistance Program collects 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 geographic classifications are 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.

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 service delivery directly meets client needs. An appropriateness indicator for the Supported Accommodation 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, if any, of 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 relative to the size of the tenant household.

Other services have few measurable standards of service need; for example, the appropriate number of particular medical treatments 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 highlights 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 to deliver a service, and each alternative has different implications for cost and quality. Information about service quality is needed to ensure that governments fairly consider all useful delivery alternatives.

One definition of quality is fitness for the purpose. A comprehensive assessment of fitness for purpose requires a range of indicators. Ideally, such indicators directly capture the achievement of outcomes — that is, whether the service achieves the objectives of government. Assessment may also involve seeking the views of clients and others with a legitimate interest in service quality.

Data generated for quality control can often be a useful source of information about likely outcomes. Information about the incidence of complaints or adverse outcomes (such as the number of escapes from prison), for example, is often used as an indicator of outcome quality.

Another test of fitness for purpose is the extent to which aspects of the service delivery process — such as inputs, processes and outputs — conform to specifications; for example, the level of accreditation of public hospitals and facilities for aged care.

The framework of indicators for this Report treats quality as one aspect of effectiveness and distinguishes it from outcomes, access and appropriateness (figure 1.3). However, this distinction is somewhat artificial because other aspects of service provision — except efficiency (unit costs), quantity of outputs (throughput) and access (targeting) — also have the potential to contribute to a meaningful picture of quality.

No perfect indicator of service quality exists; each has its own strengths and weaknesses. Selecting an indicator requires trading off desirable characteristics (such as timeliness, cost and validity) against each other. The approach here is to consider the use of acceptable (albeit imperfect) quality indicators that are already in use or available in Australia or internationally. Adopting these indicators can lower development costs and, equally importantly, reduce delays in the implementation of quality indicators.

Although the Steering Committee values time series data as a means of evaluating developments in service delivery, performance indicators will sometimes change

from one Report to another when better or more appropriate ones are developed (for example, indicators for housing in this Report).

Efficiency

Efficiency relates to how well organisations use their resources to produce units of services. This Report mostly focuses on achieving 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. However, such an efficiency indicator should not be interpreted as encompassing a service's full cost to society.

Where possible, full unit costs are used as the indicator of efficiency. However, where there are shortcomings in the data, other indicators of efficiency (including partial productivity ratios such as staff level per student in government schools and assets per prisoner in corrective services) are used.

Comparisons of unit cost of a service are a more meaningful input to public policy when they use the full cost to government, accurately 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 or overheads). The Steering Committee believes that, where full cost information is not available in the short term, data should at least be calculated consistently across jurisdictions. Further, treatment should be fully transparent.