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 services (see terms of reference, p. xvii).

The Review has two key roles:

- to provide ongoing comparisons of the performance of government services (which is the function of this Report); and
- to report on service provision reforms that governments have implemented or are considering (which is the role of other related Review projects, see section 1.7).

The Steering Committee for the Review defines performance as how well a service meets its objectives, recognising the influence of external factors. This fourth *Report on Government Services* contains performance information on 12 key service areas. These government services have a number of similar features:

- their key objectives are common across jurisdictions;
- they generally have not been subject to national comparative performance measurement in the past; and
- they make an important contribution to the economy and/or community.

The scope has been extended in this Report, to include rent assistance in housing services and general practitioners and mental health in health services (box 1.1), and to include performance information for emergency management and breast cancer control.

Box 1.1	**Services covered in the 1999 Report**
Education and training	– School education (see chapter 2)
	– Vocational education and training (see chapter 3)
Health	– Public acute care hospitals and general practitioners[b] (see chapter 4); breast cancer control[a] and mental health[b] (see chapter 5)
Justice	– Police (see chapter 6)
	– Court administration (see chapter 7)
	– Corrective services (see chapter 8)
Emergency services	– Emergency management[a] (see chapter 9)
Community services	– Aged care (see chapter 10)
	– Services for people with a disability (see chapter 11)
	– Children's services (see chapter 12)
	– Protection and support services (see chapter 13)
Housing	– Public housing, community housing and rent assistance[b] (see chapter 14)

[a] Some descriptive information was provided previously but the 1999 Report contains the first performance data. [b] New service or expanded scope for the 1999 Report.

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

- it facilitates use of a common methodology across services, which is convenient and useful for people interested in more than one service area (for example, central agency policy officers);
- it generates the opportunity to share insights into approaches to performance assessment across services;
- it demonstrates progress in performance reporting in any one service area to reinforce what is possible and encourage improved reporting by other services;
- it provides 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
- it enables a response to issues with links between service areas (for example, recidivism and justice services).

Reflecting the importance of, and increased focus on, performance measurement, a number of the services covered by the Review are now also subject to other comparative performance measurement across jurisdictions. However, some of these projects focus on users within government, and either publish the information on an irregular basis or produce it in a form less accessible to nonspecialists.

The coordinated publication of information by the Review — drawing data from a range of sources and presenting it in a consistent framework — complements these service specific projects. Many Report readers use a number of chapters; 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 into performance measurement in other services.

1.2 Why measure comparative performance?

There are a number of reasons for measuring comparative performance of government services. Such services are important to the community and absorb significant government expenditure, so governments should be accountable for the performance of their services. Reporting on a comparative basis can also facilitate ongoing performance improvements.

Importance of government services

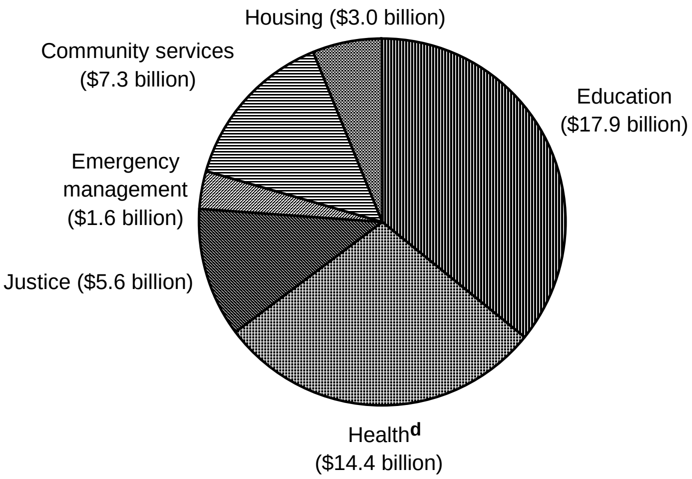
All government services included in this Report have some effect on members of the community. Some services form an important part of the nation’s safety net (for example, public housing) and some are provided to people with specific needs (for example, aged care and disability services), while other services are typically used by each person in the community at some stage during their life (for example, school education, police and emergency services).

Government health, education and public housing services have been found to make the distribution of income more equal (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.

The services covered in the Report absorb a significant level of government expenditure, accounting for approximately $50 billion in 1997-98 (figure 1.1). This represented around 26 per cent of government expenditure in that year and was equivalent to about 9 per cent of gross domestic product.

The services also contribute to Australia's economic growth. Health and education services, for example, affect the health and education of the workforce and thus its productivity. Child care supports workforce participation. The justice sector settles commercial disputes and upholds the rule of law.

Figure 1.1 **Estimated government recurrent and capital expenditure on services covered by the Report, 1997-98[a, b, c]**



[a] 1997-98 data were not available for all services: education used 1996-97 data for school education; health used a combination of 1996-97 data (for public hospitals) and 1994-95 data (for general practice); community services used 1995-96 for child protection and supported placements; and housing used 1996-97 data for public and community housing. [b] Capital expenditure data were not available for all services. Only recurrent expenditure data were available for: public hospitals in health; police, courts and corrections in justice; fire and ambulance services in emergency services; and aged care and protection and support services in community services. [c] These figures are not directly comparable to those reported in SCRCSSP (1998b) because the scope of housing and health has increased and others have used different data sources. [d] Health expenditure only included data for public hospitals and general practice, because including expenditure on breast cancer management and mental illness management would have involved some double counting. Expenditure on breast cancer management ($93 million in 1993-94) and mental illness management ($2 billion in 1995-96) included expenditure on a variety of health services including public hospitals and general practice.

Data source: Relevant chapters.

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 current set of services (for example, the mix of prevention or early detection services relative to treatment services for breast cancer management).

Traditionally, much of the focus on improving the effectiveness of government services has related to increasing the level of resources. This focus overlooks another important means of enhancing services — that is, finding better ways of using existing resources, and encouraging productivity growth. Productivity growth has had an important influence on living standards in Australia, accounting for about two thirds of the increase in average real 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 help spread innovation (and thus facilitate performance improvement) by identifying potential jurisdictions from whom other jurisdictions may learn. People involved in producing the Report and others in the Report's primary target audience (considered to be directors and/or managers responsible for 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 whom to share information on services (table 1.1).

Table 1.1 **Importance of the Report to each activity (per cent of all central and line agency users)[a]**

	Line agencies			*Central agencies*		
	Very important	*Important*	*Not important*	*Very important*	*Important*	*Not important*
Strategic and policy planning and policy evaluation	21	57	22	17	71	11
Assessing the resource needs of the department	15	51	34	6	44	50
Assessing the resource performance of the department	26	53	21	22	28	50
Identifying other jurisdictions with whom to share information on services	15	46	39	20	60	20

a Totals may not add as a result of rounding.

Source: SRCSSP (1998).

Reporting comparative performance can foster yardstick competition by promoting greater debate about comparative performance. Performance reporting is an important step in benchmarking (box 1.2). Reporting on comparative performance can also help government 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 in the community. The recent survey of Report 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 (table 1.1).

Box 1.2 **Benchmarking**

Benchmarking service delivery is an ongoing systematic process to search for and introduce best practice in the use of scarce resources 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).

Implementation is usually undertaken in three ways: internal benchmarking (within an organisation); external benchmarking (across different organisations with similar or different businesses, products or services); and generic benchmarking (across organisations that may be producing different products or services).

Benchmarking is typically a cycle. Whatever approach or focus is undertaken, the steps usually include:

- decide why, when and what to benchmark;
- analyse current plans and performance (review objectives and identify performance indicators and own performance);
- establish benchmarking partners;
- obtain the data and analyse differences;
- identify best practices and most useful improvements;
- implement improvements in practice; and
- assess improvements and re-benchmark (MAB/MIAC 1996).

The performance information in the *Report on Government Services* primarily relates to external results benchmarking. Relevant agencies can use this information to identify and implement best practices.

Performance information that aids comparisons across jurisdictions can facilitate a process of learning from the diversity of experience, particularly as governments implement different policy approaches. In recent years, governments have considered a range of general policy approaches when deciding how to supply services. These approaches include:

- output based funding;
- purchaser/provider separations (for example, outsourcing, separation of functions and corporatisation);
- devolution/decentralisation;
- client funding/choice;
- alternative delivery mechanisms (for example, deinstitutionalisation in community services);
- interactions between services; and
- user charging.[1]

Comparisons that draw on reliable performance information can assist in developing a better understanding of the strengths and weaknesses of each approach, and of the circumstances in which each may best work.

1.3 Purchaser and provider roles of government

Government involvement in service provision encompasses managing and funding the service provision system (a 'purchaser' role), and can involve producing services (a 'provider' role).

The purchaser and provider roles are conceptually separate. Governments may not provide services that they fund, which instead are delivered by external agencies (for example, charitable or for-profit organisations).

Governments can fund externally provided services by:

- subsidising users (for example, via rent assistance), who then purchase services from external providers;
- directly funding external providers (for example, with disability services); or
- using a mix of these delivery systems (for example, in the case of prisons and hospitals).

[1] The implementation issues of output based funding and purchaser/provider separations were examined in SCRCSSP (1997a). Implementation issues of purchaser/provider separations, devolution/decentralisation, client funding/choice and user charging were examined in SCRCSSP (1998b).

Funding from government may not meet the full cost of providing a service to the community, and not-for-profit organisations or users may also contribute funding (see further discussion in box 1.3 in section 1.4).

This Report examines performance for the service elements for which government is responsible and accountable. Thus, where government is a purchaser, performance of the service provision system as a whole is reported; where government is also a service provider, performance is reported at an operational level.

The focus of the Review is on government services rather than government expenditure that is not linked to the purchase or supply of specific services (that is, income support). Thus, the Report covers aged care (but not the aged pension), disability services (but not disability pensions) and Childcare Assistance (but not family payments).

Coverage of housing services has been extended this year to include rent assistance because it is considered a form of housing service. Rent assistance provides income support recipients and low income families in the private rental market with additional financial assistance, recognising the housing costs of these clients (see chapter 14). The Steering Committee believes that rent assistance, like Childcare Assistance, is a government service because there is considered to be a direct link between actual expenditure on rent (purchase of a housing service) and receipt of rent assistance. Coverage of rent assistance as well as housing assistance provides a more complete picture of government funding of housing services.

1.4 Approach to reporting performance of services

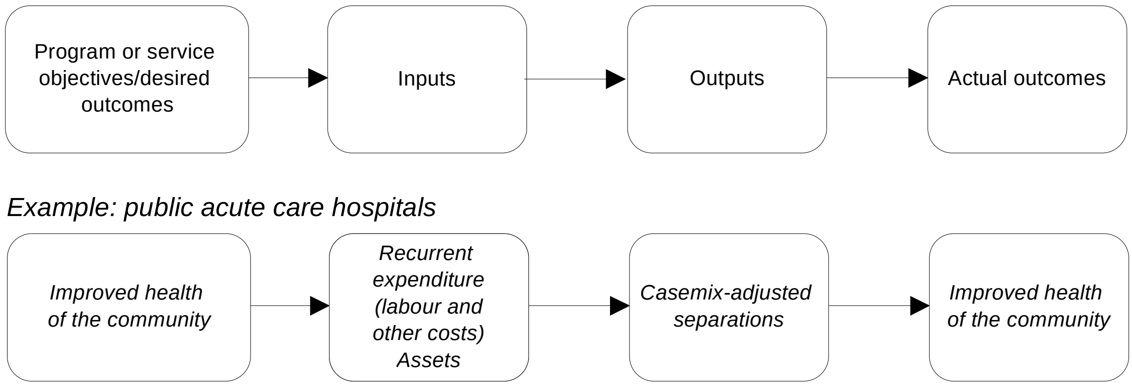
Governments typically have a number of objectives (or desired outcomes) for the services they fund. Many objectives for an individual service are similar across jurisdictions, although the priority of each objective may vary. The Steering Committee's approach to performance reporting is to focus on the extent to which each shared objective has been met.

The basic relationship between objectives, inputs, outputs and outcomes is as follows:

- governments have a number of desired community outcomes;
- to achieve these outcomes, governments fund services and products;
- service providers transform these funds/resources (inputs) into services (outputs); and

- the outputs contribute to the achievement of a government's desired outcomes (figure 1.2).

Figure 1.2 **Service process**



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

Shelter SA (1998), a peak housing organisation in South Australia, emphasises the importance of focusing on objectives in performance measurement:

> Clearly, while performance measures are a powerful tool, they must be treated with caution. Performance measures should:
>
> - measure the most important aspects/strategic objectives of the business
> - comprise data which actually measures those aspects
> - claim to measure only what they actually do measure. (p. 3)

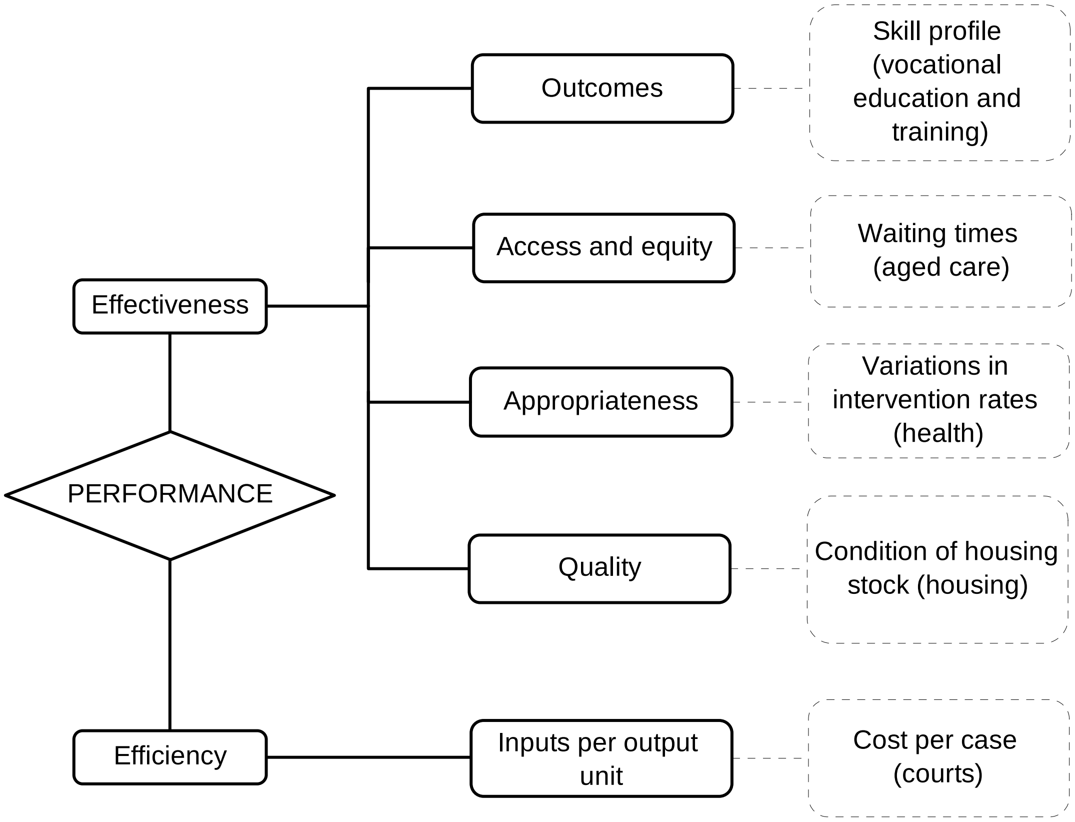
The Steering Committee has developed a general framework for performance indicators (figure 1.3). Within the framework, performance is assessed in terms of effectiveness and efficiency. Effectiveness relates to how well a service achieves its desired outcomes, and efficiency relates to how well governments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

Effectiveness indicators in this Report cover:

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

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

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



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

Adding to performance information, each chapter also includes descriptive information about services and the context of their delivery, a discussion of future directions in performance indicators, and comments from each jurisdiction.

The Report's framework of indicators for some services has been used or proposed for use in other reviews. Victoria's Department of Education, for example, adopted the framework for school education in 1997 (at the same time, the Victorian Auditor General's Office [1997] recommended that Victoria's Department of Education consider reporting against the performance indicators here to assess performance of the government school system). Further, the New Zealand Department of Corrections intends to adopt the Steering Committee's framework and data collection to report performance of corrective services in New Zealand. A benchmarking study between Australia and New Zealand is also using data on performance indicators for corrective services.

Outcomes

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

Some indicators could be described as outcome or output indicators. In corrective services, for example, escapes from prison 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 or longer term. Short term outcomes are usually more closely linked to the services, whereas long term outcomes can be more affected by other factors — for example, in child protection:

> 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 and long term outcome indicators; and
- explain that the service is only one contributing factor and, where possible, point to data on other possible factors (for example, see appendix A).

The Steering Committee draws on line agency experience (accessible through service Working Groups), and on external expertise and international experience to develop outcome approaches and indicators for specific services. During 1998 the Steering Committee developed a proposal for a client satisfaction survey in disability services (see chapter 11) after commissioning an international literature review of relevant client satisfaction survey methods (E-Qual 1998). Future outcome indicators for protection and support services (see chapter 13) will be guided by an international literature review and critical analysis of child protection and alternative placement outcome indicators (Gain and Young 1998).

This work reflects the Steering Committee's approach of drawing on existing developments where possible. This approach is likely to allow more rapid implementation, reduce development costs, and possibly enable comparisons overseas.

Access and equity

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

Access has two main dimensions: preventing discrimination and preventing 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
- 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. The 1999 Report includes first-time information on module load completion rates for indigenous students in vocational education and training; the number of indigenous households who receive public housing and data on the number of indigenous households on public housing waiting lists; and data on the number of indigenous police staff and deaths of indigenous people in police custody.

Information on access by groups with special difficulties can be useful for two reasons. If government aims to provide access to all groups, then information on access by groups with special difficulties may help determine whether special strategies are needed to address access barriers. 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 DHSH 1994). Such comparison by location has been criticised because it is an imperfect indicator of the time and cost for reaching the point of service. Further, it does not consider the client's capacity to bear the cost of receiving the service (Griffith 1998). However, a classification based on these criteria would need to be service specific because the location of the point of service varies across services.

Timeliness and affordability

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

Appropriateness

Appropriateness relates to how well service provision directly relates to client needs. For example, it is considered appropriate (and thus higher quality care) in supported placements to place indigenous children with indigenous care givers if possible. 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 appropriate sized house, for example, for a couple with two or three children is considered to be three bedrooms; if the houses provided are larger or smaller, then they are considered to be overcrowded or underused — that is, inappropriate.

Other services have few measurable standards of service need; for example, the appropriate number of particular treatments for particular populations are not known (for example, in health care). 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.

The most commonly accepted definition of quality is *fitness for the purpose*. A comprehensive assessment of this requires a range of indicators. Ideally, such indicators directly capture the quality 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. What is the level of accreditation of public acute care hospitals and facilities for aged care, for example?

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 aspects of service provision — except *efficiency* (unit costs), *quantity of outputs* (throughput) and *access* (targeting) — 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. Selection 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.

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 government resources, so government funding per unit of service is typically used as the efficiency indicator — for example, recurrent funding per hour of service for children's services. However, such an efficiency indicator should not be interpreted as a service's full cost to society (box 1.3). Other indicators of efficiency include partial productivity ratios such as staff level per student in government schools and assets per offender 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, 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's believes that data, where full cost information is not available in the short term, should at least be calculated consistently across jurisdictions. Further, treatment should be fully transparent.

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

The *Report on Government Services* provides 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 also 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, or even the choice from whom to purchase (or part fund or subsidise).

Sometimes a charitable organisation will offer to deliver a service at a lower price to government than the cost of 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 has access to such resources as donations, church buildings or volunteers. If all inputs were costed at 'normal' market rates, a not-for-profit provider may be as costly — in some instances, more costly — than a government agency.

If the government delivers services directly, it is accountable for all resources used (and this Report tries to ensure all costs are included). If governments decide to purchase, part fund or subsidise services, they 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 compares 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 delivered services and that of non-government providers. As a result, it has not attempted comparisons of 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.

1.5 Developments in performance measurement

Developments in 1998

This is the fourth *Report on Government Services* produced by the Review. Reporting is an iterative process and each year the Steering Committee endeavours to build on developments in previous years. Developments in 1998 occurred in:

- *the scope of some services* — rent assistance is now within the scope of the housing chapter, and mental health and general practitioners have been included in the health section;
- *the quality and comparability of the data* — data and definitions have been refined to enhance quality or comparability in vocational education and training, health, courts, corrective services, aged care, children's services and housing; also additional cost data are presented in vocational education and training and corrective services;
- *new indicators* — new access indicators have been developed for children's services (and reporting for those indicators), and a consultancy was undertaken to further develop outcome indicators for child protection and supported placements;
- *developing existing indicators* — a consultancy was undertaken to help obtain client satisfaction information from people with disabilities;
- *reporting on existing indicators* — first-time performance reporting has been included for emergency management and breast screening in health, and reporting also now covers new appropriateness indicators for public acute care hospitals; data on the number of indigenous police staff and deaths of indigenous people in police custody; geographic indicators for courts; an independent assessment of public housing stock condition and equity value in public housing; and data on housing choice, client satisfaction and the cost of stock production in community housing; and
- *contextual information* — there is significantly more information on the policy environment in the health and housing chapters, and descriptive statistics are included to provide contextual information (see appendix A) for interpreting performance indicators (section 1.6).

The effort to improve reporting has benefits for other public policy initiatives. The focus on identifying and monitoring outputs and outcomes, for example, aligns with moves across government to output based funding. These types of performance indicators are also routinely identified in service charters.

Full costing of services

To improve the accuracy and comparability of unit cost comparisons across jurisdictions in the Report, the Steering Committee has focused efforts on two key areas: superannuation and the user cost of capital.

The *treatment of superannuation* is a significant issue when measuring the unit cost for many services. It often makes up a major component of overall costs, can be treated differently across services and across jurisdictions, and may not be transparent in those differences. The Review researched the current treatment of superannuation costs across jurisdictions and developed approaches to improve the treatment (SCRCSSP 1998c). It concluded that:

- the correct treatment of superannuation (when calculating the cost of a service) includes the full accrued cost for government overall, thus recognising the full cost to government of resources used in providing a service;
- the best estimate of accrued cost is an actuarial calculation for each employee; and
- if non-actuarial estimation methods are used, differences in treatment and incorporated costs should be transparent to minimise the risk of misinterpretation and to allow users to assess the effect of such differences.

The *user cost of capital* for government services is the cost of the funds tied up in the capital used to deliver services (for example, houses in public housing). The user cost of capital makes explicit the opportunity cost (the return forgone by using the funds to deliver services rather than investing them elsewhere or using them to retire debt) of this capital by incorporating that opportunity cost in the full cost of services.

When comparing costs so as to monitor government services, it is important to fully incorporate the cost of capital because:

- it is often a significant component of the cost of services; and
- it is currently treated inconsistently (costed in full for contracted elements of service delivery but effectively costed at zero for most budget sector elements).

The user cost of capital is essentially a weighted average of the interest on borrowed funds and the interest forgone on internally generated funds.

The Steering Committee, in consultation with the Heads of Treasuries Accounting and Reporting Advisory Committee, developed an approach to include the cost of capital in unit cost data.

- Each jurisdiction (Treasury) advises the Secretariat of the rate to be applied for their jurisdiction; where a jurisdiction is yet to provide a rate, the average of the rates provided by other jurisdictions is used as an interim rate.
- Each Working Group applies the relevant rate to asset valuations to determine the user cost of capital for its services.

In this Report, a user cost of capital has been reported for vocational education and training, health, public housing and corrective services.

Progress on reporting indicators

To simplify comparisons across service areas, effectiveness indicators in each service area can be generally grouped under the four broad headings: overall outcomes, access and equity, appropriateness and quality (table 1.2).

Some service areas have not explicitly adopted these four broad effectiveness headings in their frameworks. Emergency management, for example, has adopted the PPRR (prevention and mitigation, preparedness, response and recovery) framework. However, indicators in these four areas are still relevant. Response times for fire services could be considered a dimension of quality, for example. Where the general framework is not adopted, a judgment has been made as to which indicators may fit under the general framework's broad headings.

The information presented does not assess the quality of the indicator (including its comprehensiveness). Table 1.2 merely indicates the first year when at least one indicator under each broad heading has been reported on a comparable basis. For school education, for example, data on learning outcomes for middle primary school and junior secondary school in mathematics and science were reported in 1997. However, the Steering Committee does not regard these data as satisfying reporting requirements for outcome indicators, because the data are from an irregular international exercise.

Table 1.2 illustrates differences in current reporting across services. Many services face similar reporting challenges despite some recent improvements (partly driven by the need to measure outputs and to demonstrate maintenance of quality in purchaser/provider and contracting arrangements).

Table 1.2 First reporting of at least one comparable indicator (in the *Report on Government Services*)[a]

		When at least one national comparable indicator was first reported[b]					
Framework services	*First coverage of service*	*Overall outcomes*	*Access and equity*	*Appropri-ateness*	*Quality*	*Client views*	*Efficiency*
School education	1995	1995	na	na	na	na	1995
Vocational education and training	1995	1995	1995	1995	1995	1995	1997
Public acute care hospitals	1995	na	1995	1995	1995	na	1995
Police services	1995	1995	1999	na	1995	1997	1997
Court administration	1995	na	1995	na	1995	na	1995
Corrective services	1995	1995	1998	na	1995	na	1995
Child protection	1995	na	na	na	na	na	na
Supported placements	1995	na	na	na	1997	na	na
Supported accommodation and assistance	1995	1998	na	1999	1998	na	na
Public housing	1995	1995	1995	1995	1997	1997	1997
Aged care services	1997	na	1999	na	na	na	na
Services for people with a disability	1997	1997	1997	1997	2000	2000	na
Children's services	1997	na	1997	na	na	na	na
Community housing	1997	na	na	na	na	na	na
Breast cancer management	1998	na	na	na	na	na	na
Fire services	1998	1999	na	na	na	na	na
Ambulance services	1998	na	na	na	na	na	na
General practice and primary care	1999	1999	1999	na	na	na	na
Mental health services	1999	1999	na	1999	na	na	1999
Rent assistance	1999	na	na	na	na	na	na

a Not all frameworks in this Report necessarily follow the general framework set out in figure 1.3. However, all service types should be reporting on indicators that cover these general areas. Where this framework is not followed, an estimate has been made as to whether any indicators have been reported in these areas. **b** Refers to year in which Report was published, not year of data. **na** Not available.

Source: SCRCSSP (1995, 1997b, 1998b).

Feedback on the Report on Government Services

The recent survey found that most of the Report's target audience use the Report, and that most users rate it as objective, credible, timely and relevant (table 1.3). The survey found that 70 per cent of the Report's target audience currently use the Report (70 per cent in central agencies and 72 per cent in line agencies).

However, there is considerable scope for improvement. The majority of users typically rated the information as adequate (rather than very good) in terms of credibility, relevance, objectivity and timeliness.

Table 1.3 **Rating of information in the *Report on Government Services 1998* (per cent of users)[a]**

	Central agency users			*Line agency users*		
In terms of:	*Very good*	*Adequate*	*Poor*	*Very good*	*Adequate*	*Poor*
Credibility	36	56	8	29	59	12
Relevance	51	47	3	34	58	8
Objectivity	48	52	0	33	58	9
Timeliness	22	74	4	23	69	8

a Totals may not add as a result of rounding.

Source: SRCSSP (1998).

Many users rated the Report highly in terms of effectiveness and efficiency indicators. The Report's discussion and information on effectiveness and efficiency were rated as very useful by over 30 per cent of users, and as useful by a further 60 per cent. The proportions of central agency users who rated effectiveness and efficiency indicators as very useful or useful (92 per cent and 95 per cent respectively) were higher than the proportions of line agency users (84 per cent and 86 per cent respectively).

1.6 Interpreting performance indicators

The Report aims to present performance indicators that allow users to assess performance. Many objectives of government involve tradeoffs, such as choosing whether to improve the average level of service or better target services to those most in need. The Steering Committee cannot know each government's priorities, tradeoffs or targets, which may change over time. Presenting performance indicators as a suite encourages users to assess performance on all indicators collectively, rather than by individual indicator. Moreover, each user is left to judge the appropriate tradeoffs between objectives.

The use of reported information to assess performance must account for other important issues too.

The broader environment in which a service operates affects the performance of each service in each jurisdiction. There may be significant differences in clients, available inputs, prices and geography, and any comparison of performance across jurisdictions needs to consider these differences.

To help identify and account for environmental differences, this Report includes a first-time descriptive statistics appendix (appendix A). It will help address requests for more information about the differences that exist between jurisdictions. This appendix provides a range of general descriptive information for each jurisdiction, including age profile, population distribution, income levels, education levels, tenure of dwellings, and cultural heritage (such as aboriginality and ethnicity). It has two parts: a description of the main distinguishing characteristics of each jurisdiction, and a set of source tables that will help users to compare jurisdictional performance.

When comparing performance information across jurisdictions, users also need to consider the effect of different and varying quality data collection methods and systems. Data on the use of disability services, for example, related to a snapshot day for some jurisdictions, but to a 12 month period for Western Australia. Definitions of terms may also vary, such as the definitions of notification in child protection. Notes to tables or figures highlight differences in data collection methods or definitions.

One particularly important aspect of government services is how they collectively address community needs that require integrated services. All services in the Report have some form of interaction with other services (for example, police and courts). There are challenges in assessing the performance of these interactions using the current individual service focused measurement frameworks. The Steering Committee has made some progress in this matter in the justice sector; performance indicators for the sector as a whole are presented (see Justice preface). However, similar approaches for other groups of services are likely to prove more difficult and will be addressed opportunistically.

The Review aims to provide a more comprehensive set of performance information than has been available in the past. But, given the complex nature of government services and the cost of collecting information, some important but secondary aspects of government services may not be reported. Reforms in government services, for example, may impose unmeasured costs on clients of those services (for example, closure of schools forcing students to travel further to school). This highlights the importance of using performance indicators as part of a broader set of tools when assessing policy choices.

1.7 Related Review projects

The Steering Committee has also undertaken research into other issues relevant to the performance of government services.

Such research has involved case studies of issues and options in the implementation of government service reforms. The Steering Committee has published two case study reports that cover:

- purchasing community services in SA;
- using output based funding of public acute hospital care in Victoria;
- implementing competitive tendering and contracting for Queensland prisons (SCRCSSP 1997a);
- devolving decision making in Victorian Government schools;
- using competitive tendering for NSW public hospital services;
- offering consumer funding and choice in WA disability services; and
- pricing court reporting services in Commonwealth courts (SCRCSSP 1998a).

The Steering Committee has also developed checklists on some common issues in implementing these reforms, such as:

- timing program implementation;
- decentralising decision making;
- measuring and assessing performance;
- measuring quality;
- directly linking funding to performance; and
- charging users (SCRCSSP 1998a).

Other related research includes an examination of superannuation in the costing of government services (SCRCSSP 1998c). In 1999, the Steering Committee will focus on research that is more related to performance measurement and thus better linked to improving reporting for individual services.

1.8 Conclusion

The Review of Commonwealth/State Service Provision has been running for over five years. Measuring each dimension of performance and collecting those data are not straightforward tasks. The Steering Committee's approach to performance reporting has been iterative, making incremental and manageable improvements over each of the four Reports published.

The aim of the Review is to provide objective government performance information to facilitate well informed judgments and sound public policy action. The Steering Committee relies on guiding principles to achieve this aim, including:

- *an outcomes focus* — performance indicators should focus on the outcomes achieved from government services, reflecting whether the objectives of that service have been met;
- *comparability* — data should be comparable across jurisdictions wherever possible. Reporting comparable data across jurisdictions has a higher priority than using a better indicator that allows no comparison. Where data are not yet comparable, time series analysis is particularly important for yardstick competition. Data for many services have been published in each of the four Reports; thus, time series comparisons have been made where possible to add another dimension to performance comparisons; and
- *completeness* — the performance indicator framework should be as complete as possible, assessing performance against all important objectives.