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# 1 The approach to performance measurement

## 1.1 Aims of the Review

Heads of government (now the Council of Australian Governments or COAG) established the Review of Government Service Provision (the Review) to provide information on the effectiveness and efficiency of government services in Australia (see terms of reference, p. xxviii). A Steering Committee, comprising senior representatives from the central agencies of all governments, manages the Review with the assistance of a Secretariat provided by the Productivity Commission. The Review was established in 1993 to:

- provide ongoing comparisons of the performance of government services
- report on service provision reforms that governments have implemented or that are under consideration.

The Report on Government Services, now in its thirteenth edition, is a tool for government. It has been used for strategic budget and policy planning, and for policy evaluation. Information in the Report has been used to assess the resource needs and resource performance of departments. It has also been used to identify jurisdictions with whom to share information on services.

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

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

In 2002, COAG asked the Steering Committee to prepare a regular report on key indicators of Indigenous disadvantage, as part of the COAG reconciliation commitment. The first edition of this report, *Overcoming Indigenous Disadvantage: Key Indicators 2003* (the Indigenous Disadvantage Report) (SCRGSP 2003), was

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released in November 2003. The second edition of this report was released in July 2005 (SCRGSP 2005) and the third edition was released in July 2007 (SCRGSP 2007).

The 2003, 2005 and 2007 Indigenous Disadvantage Reports are included on the CD-ROM that accompanies the Report on Government Services, and can be found on the Review web page ([www.pc.gov.au/gsp](http://www.pc.gov.au/gsp)).

In contrast to the Report on Government Services with its focus on the efficiency and effectiveness of specific services, the Indigenous Disadvantage Report focuses on outcomes for Indigenous people. It does not report on individual government services. The reporting framework has two tiers: ‘headline’ indicators for the longer term outcomes sought; and a second tier of ‘strategic change indicators’ that are potentially responsive to government policies and programs in the shorter term.

## **1.2 The role of government in delivering services**

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

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

- providing ‘public goods’,<sup>1</sup> including:
  - creating a legal framework that determines the rules for ownership of property and the operation of markets (for example, enforcing property rights, checking abuses of power and upholding the rule of law) — a framework that encompasses the work of the courts, police and corrective services agencies in maintaining law and order
  - managing adverse events, including the work of emergency services (such as fire and flood control) and some aspects of the health system
- enabling higher or more equitable consumption of services that governments consider to have particular merit or that generate beneficial spillover effects for

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

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the community.<sup>2</sup> Examples of such services include education, health services, ambulance services, community services and housing.

## **How governments deliver services**

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

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

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

Government services, including the services covered in this Report, are vital to the community’s wellbeing. Improving government service provision can result in major social and economic benefits. Governments continually evaluate whether the community is receiving the appropriate mix of services and whether the services are reaching those most in need. Governments need to know whether their policies are effective, being implemented efficiently and reaching those people for whom they are intended.

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

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<sup>2</sup> In private markets, the production of services that result in positive (or beneficial) spillover effects tends to be lower than is desirable for society as a whole, because producers cannot charge for the wider benefits to society.

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Performance measurement provides one means of shifting the focus from the level of resources to the use of those resources. Performance measurement can:

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

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

- to verify good performance and identify those agencies that are ‘getting it right’
- to allow agencies to identify peer agencies that are delivering better or more cost effective services
- to generate additional incentives for agencies to address substandard performance.

Comparative data are particularly important for government services, given that limited information is available to those supplying services and those receiving them. Each jurisdiction has, for example, only one police service and one protection and support service. As a result those responsible for delivering the services do not have access to the same level of information that is available to providers in competitive markets.

Interjurisdictional comparisons also offer a level of accountability to customers or clients, who have little or no opportunity to express their preferences by ‘shopping’ elsewhere for those services.

Reporting measures of comparative performance also facilitates interjurisdictional learning, particularly where governments have adopted different policy approaches. While this Report does not extend to recommendations on how best to provide government services, the information it contains assists governments to make such assessments.

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

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

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

## 1.4 Scope

This thirteenth Report on Government Services contains performance information on 14 service areas (box 1.1).

These government services have two important features:

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

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

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**Box 1.1 Services covered in the 2008 Report****Early childhood, education & training<sup>a</sup>**

- Children's services (chapter 3)
- School education (chapter 4)
- Vocational education and training (chapter 5)

**Justice**

- Police (chapter 6)
- Court administration (chapter 7)
- Corrective services (chapter 8)

**Emergency management**

- Fire and ambulance services (chapter 9)

**Health**

- Public hospitals (chapter 10)
- Primary and community health (chapter 11)
- Breast cancer detection and management, and specialised mental health services (chapter 12)

**Community services**

- Aged care services (chapter 13)
- Services for people with a disability (chapter 14)
- Protection and support services (chapter 15)

**Housing**

- Public and community housing, State owned and managed Indigenous housing and Commonwealth Rent Assistance (chapter 16)

<sup>a</sup> From the 2008 Report onwards, the 'Early childhood, education and training' section of the Report (previously 'Education') will include the Children's services chapter. The Children's services chapter has been moved to this section, from 'Community services', in recognition of the importance of children's services in providing early cognitive and social development, and the links between this development and educational outcomes.

The services in the Report absorb a significant level of government expenditure. While not all data here relate to the same time period, the services in this 2008 Report accounted for approximately \$121.0 billion<sup>4</sup> (figure 1.1), representing

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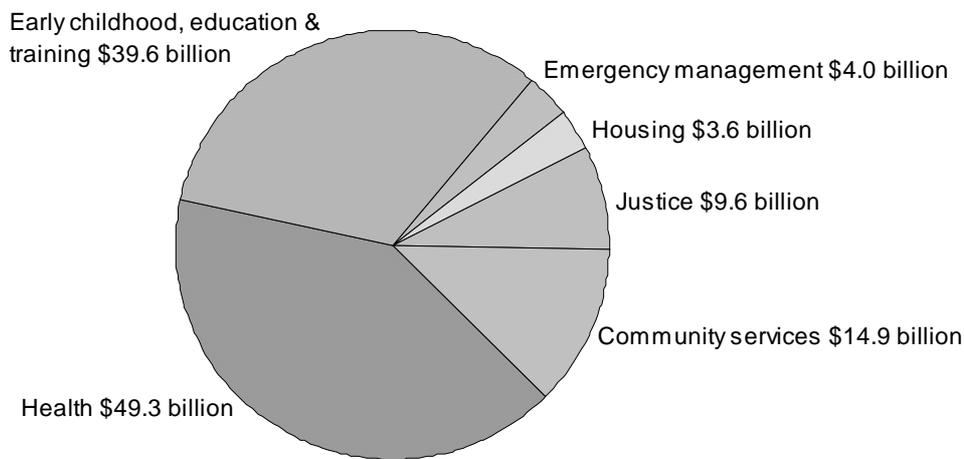
<sup>4</sup> The large increase in total expenditure from the 2007 report is partially due to the first time inclusion of Pharmaceutical Benefits Scheme, Repatriation Pharmaceutical Benefits Scheme and dental services in the health expenditure estimate.

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around 63.4 per cent of government recurrent expenditure<sup>5</sup> in 2006-07. (This is equivalent to about 12.7 per cent of gross domestic product.)

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

Figure 1.1 **Estimated government recurrent expenditure on services covered by the 2008 Report<sup>a, b, c, d, e</sup>**



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<sup>a</sup> Data for 2006-07 were not available for all services. Table 2.1 in chapter 2 indicates the latest year for which data are available for each service area. <sup>b</sup> Community services expenditure excludes juvenile justice. <sup>c</sup> The estimate for health expenditure includes only the health services discussed in the health chapters of the Report: public hospitals, primary and community health services, breast cancer screening and specialised mental health services. The estimate includes expenditures on the Pharmaceutical Benefits Scheme, Repatriation Pharmaceutical Benefits Scheme and dental services (\$7.1 billion), which have not been included in the health expenditure estimate in previous reports. <sup>d</sup> The early childhood, education and training figure does not include higher education. <sup>e</sup> Data exclude user cost of capital.

Source: Various prefaces and chapters.

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<sup>5</sup> General Government Final Consumption Expenditure, sourced from ABS *National Income, Expenditure and product, Australian National Accounts Cat. no. 5206.0*.

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### Box 1.2 **Cost to government and total cost**

The Report provides information about the cost of services to government. Governments aim to maximise the benefit to the community from the use of government funds. Some argue that the Report should also account for the costs where non-government groups such as charities, not-for-profit organisations, private providers and users of services contribute resources for the services covered by the Report. Although the contributions of these other groups are not negligible, the purpose of the Report is to provide information to assist government decision making. The information required depends on the type of decision being made. When government provides the service directly, it may wish to assess the internal management of the service. On other occasions, it may wish to assess whether to provide the service directly or to purchase, part fund or subsidise the service. Alternatively, it may wish to assess from which organisation to purchase the service.

If a government provides services directly, then it is accountable for all resources used. In such circumstances, the Report aims to include the full costs of providing the service, including the cost of capital. This approach allows governments to compare the internal management of their services with that of their counterparts in other jurisdictions.

The Report also includes information on the cost to government of services delivered in other ways, including the purchase of services from government and non-government providers. This information can assist governments in assessing their purchase decisions.

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

This Report does not seek to facilitate comparisons between the internal management of government providers and that of non-government providers, and there would be difficulties in collecting data to make such comparisons. As a result, there is no attempt to compare the full cost of delivery by non-government organisations with the full cost of delivery by government service providers. For services delivered by non-government agencies, this Report emphasises the costs to government, along with outputs, outcomes and service quality.

The focus of this Report is on the effectiveness and efficiency of government purchase or supply of specific services, rather than on general government income support. The Report thus covers aged care but not the aged pension, disability services but not disability pensions, and children's services but not family payments (although descriptive information on income support is provided in some cases). Commonwealth Rent Assistance is reported on the basis that it is a targeted

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payment to assist in the purchase of housing services, and is not general income support (chapter 16).

## 1.5 Approach

The Report includes performance comparisons, across jurisdictions, for a range of services based on a common method. Adopting a common method has several benefits:

- a convenient and useful resource for people interested in more than one service area
- insights into approaches to performance assessment across services
- progress in performance reporting in any one service area demonstrates what is possible and encourages improved reporting by other services
- a capacity to address issues that arise across service areas (for example, how to measure timeliness and other aspects of quality).
- an opportunity to address issues that have an impact on (or are affected by) multiple service areas. An example is recidivism and the various elements of justice services: a reduction in recidivism may be achieved by an increased allocation of resources in one service area — say, corrective services — but with a potentially greater saving achieved in other service areas — say, police and the courts.

A number of the services covered by the Report are also subject to other comparative performance measurement across jurisdictions. Distinguishing features of the approach taken in the Report are:

- a focus on non-technical information, making it accessible to non-specialists
- regular publication, allowing monitoring of performance over time
- the compilation of performance reporting across a number of service areas in the one document, facilitating the sharing of insights across service areas.

### Guiding principles

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

- *A focus on outcomes* — performance indicators should focus on outcomes from the provision of government services, reflecting whether service objectives have been met.

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- *Comprehensiveness* — the performance indicator framework should be comprehensive, assessing performance against all important objectives.
  - *Comparability* — data should be comparable across jurisdictions and over time wherever possible. Comparable information is a priority of the Review and is related to progressive data availability. Where data are not yet comparable across jurisdictions, time series analysis within jurisdictions is particularly important.
  - *Progressive data availability* — the ultimate aim is comparable data for all jurisdictions but progress may differ across jurisdictions. Data are generally presented for those jurisdictions that can currently report (rather than waiting until data are available for all jurisdictions).
  - *Timeliness* — data published in the Report need to be as recent as possible to retain relevance for decision makers. In some cases, there may be a trade-off between the degree of precision of data and its timely availability, because recent data might have had fewer opportunities to undergo validation.

The approach taken in the Report is to use acceptable (albeit imperfect) indicators that are already in use in Australia or internationally. Adopting these indicators can lower the costs of, and reduce delays in, reporting performance. Although the Steering Committee values time series data as a means of evaluating developments in service delivery, performance indicators may change from one Report to the next when better or more appropriate performance indicators are developed.

While the Report does not establish best practice benchmarks, governments could use the information in the Report to identify appropriate benchmarks (box 1.3).

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### **Box 1.3      Benchmarking**

Benchmarking service delivery is a systematic process of searching for and encouraging the introduction of best practice in the use of scarce resources, so as to deliver more efficient and effective services. The three main forms of benchmarking are: (1) results benchmarking (comparing performance within and between organisations using performance indicators of effectiveness and efficiency); (2) process benchmarking (analysing systems, activities and tasks that turn inputs and outputs into outcomes); and (3) setting best practice standards (establishing goals and standards to which organisations can aspire).

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

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

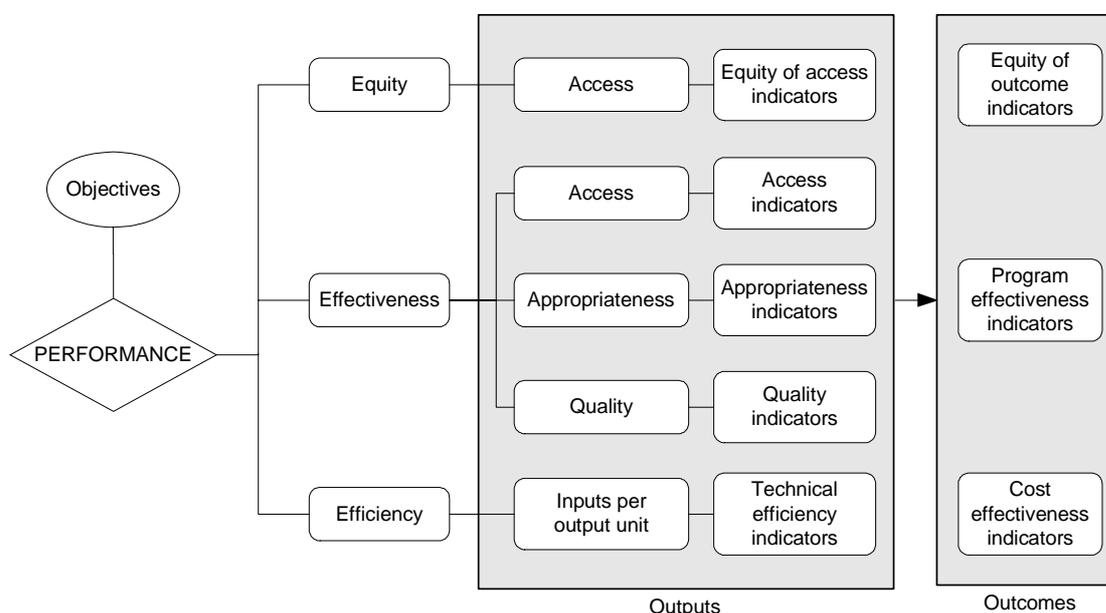
The performance information in the Report can contribute to many of the above steps in a results benchmarking cycle, and thus help governments to implement best practice.

## **The performance indicator framework**

The Steering Committee revised the general framework for performance indicators in 2002 and this framework has now been implemented in all chapters. The revised approach reflects governments' adoption of accrual accounting and depicts the Review's focus on outcomes, consistent with demand by governments for outcome oriented performance information. The framework also emphasises the importance of equity and draws out the distinction between equity and access.

The Report's general performance framework is set out in figure 1.2.

**Figure 1.2 A general framework and examples of performance indicators**



*The service process*

The general framework reflects the service process through which service providers transform inputs into outputs and outcomes in order to achieve desired objectives.

For each service, governments have a number of objectives that relate to desired outcomes for the community. To achieve these objectives, governments provide services and/or fund service providers. Service providers transform funds/resources (inputs) into services (outputs). The rate at which resources are used to make this transformation is known as ‘technical efficiency’.

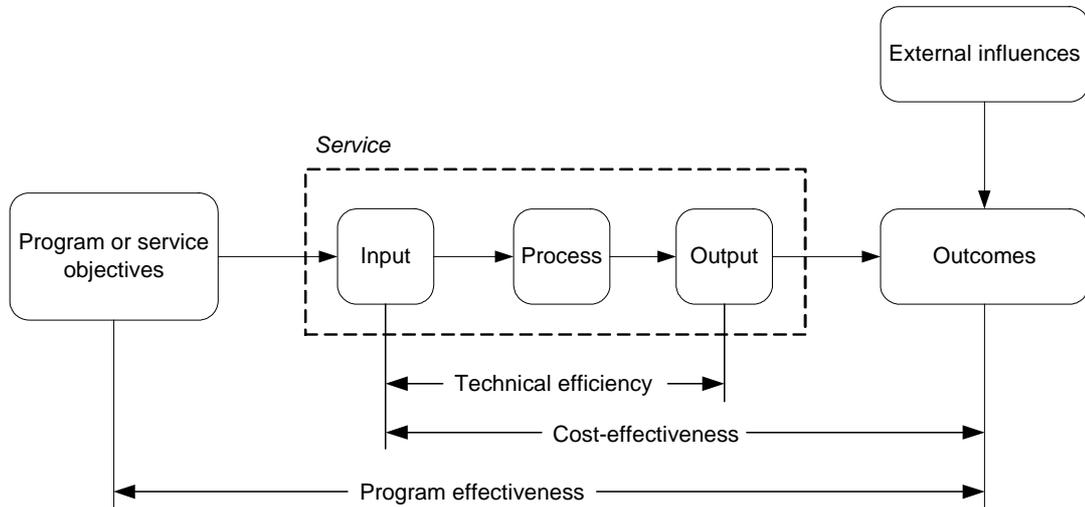
The impact of these outputs on individuals, groups and the community are the outcomes of the service. The rate at which resources are used to generate outcomes is referred to as ‘cost effectiveness’ in this Report. Often, outcomes are also influenced by factors external to the service. Outputs too may be affected by external factors, but to a lesser extent. The glossary to the Report provides further definitions. Figure 1.3 distinguishes between program efficiency and program effectiveness, and notes the influence of factors external to a service.

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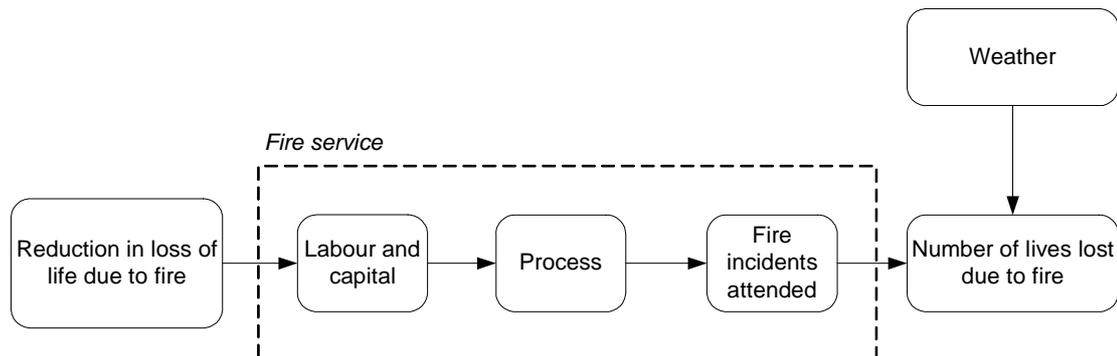
Figure 1.3 **Service process**

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**Example: general model**



**Example: fire services**



*Objectives*

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

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### *Distinguishing outcomes and outputs*

Outcome indicators provide information on the impact of a service on the status of an individual or a group, and on the success of the service area in achieving its objectives. Outputs, on the other hand, are the services delivered.

Outcomes may be short term (intermediate) or longer term (final). A short term police random breath testing ‘blitz’, for example, may achieve the intermediate outcome of fewer drunk drivers and lead to a short term reduction in road deaths. The longer term outcome of a permanent reduction in road deaths is more likely to reflect external factors such as the design quality of cars and capital investment in improved roads or additional permanent random breath testing units.

The approach in the Report is to:

- use both short term (or intermediate) and long term (or final) outcome indicators as appropriate
- make clear that government provided services are often only one contributing factor and, where possible, point to data on other factors, including different geographic and demographic characteristics across jurisdictions. (Appendix A contains detailed statistics and short profiles on each State and Territory, which may assist in interpreting the performance indicators presented in the Report.)

While the aim of the Review is to focus on outcomes, they are often difficult to measure. The Report therefore includes measures of outputs, with an understanding that there is a correlation between those outputs and desired outcomes, and that the measures of outputs are proxies for measures of outcomes.

The indicator framework groups output indicators according to the desired characteristics of a service — for example, accessibility, appropriateness or quality — where outputs with these characteristics are linked to achieving desired outcomes (figure 1.2). By contrast, outcome indicators are not grouped according to desired characteristics. Outcomes depend on a number of the characteristics of a service as well as being subject to external factors.

### *Equity, effectiveness and efficiency*

There are inherent trade-offs in allocating resources and dangers in analysing only some aspects of a service. A unit of service may have a high cost but be more effective than a lower cost service, and therefore be more cost effective. Since its inception, the Report has taken a comprehensive view of performance reporting, and frameworks incorporate indicators across all relevant dimensions.

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In the past, the Report framework gave equal prominence to effectiveness and efficiency as the two overarching dimensions of performance. Equity was treated as a sub-dimension of effectiveness. Performance literature, on the other hand, often refers to equity as a third element of performance, separate from effectiveness and efficiency. The principal reason for this separation is that effectiveness indicators are generally absolute measures of performance, whereas equity indicators relate to the gap in service delivery outputs and outcomes between special needs groups and the general population. The Review’s framework now reflects this approach.

Accentuating equity highlights the potential for trade-offs across all three performance dimensions — equity, effectiveness and efficiency. Improving outcomes for a group with special needs, for example, may necessitate an increase in the average cost per unit of service.

### *Equity*

The term ‘equity’ has a number of interpretations, which are discussed in box 1.4. Equity in the context of this Report reflects equity of access, whereby all Australians are expected to have adequate access to services. Equity indicators measure how well a service is meeting the needs of certain groups in society with special needs.

#### **Box 1.4 Equity**

Equity is an important concept in economic literature, with two elements:

- horizontal equity — the equal treatment of equals
- vertical equity — the unequal but equitable (‘fair’) treatment of unequals.

In the context of this Report, *horizontal* equity is exhibited when services are equally accessible to everyone in the community with a similar level of need.

Service delivery exhibits *vertical* equity when it accounts for the special needs of certain groups in the community and adjusts aspects of service delivery to suit these needs. This approach may be needed where geographic, cultural or other reasons mean some members of the community have difficulty accessing a standard service.

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

- language or literacy proficiency
- gender
- age

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- physical or mental capacity
  - race or ethnicity
  - 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. Improvements to reporting for this group are discussed in chapter 2. As previously mentioned, the Overcoming Indigenous Disadvantage report focuses on outcomes for Indigenous Australians in a range of ‘strategic’ areas, and complements the Report on Government Services, which will continue to include indicators on the delivery of services to Indigenous Australians.

Identifying those service recipients who belong to groups with special needs or access difficulties poses challenges, particularly when relying on client self-identification. If members of such groups are required to identify themselves, then the accuracy of the data will partly depend on how a group perceives the advantages (or disadvantages) of identification and also whether such perceptions change over time. Varying definitions of these groups in data collections over time and across jurisdictions and service areas also create comparability problems.

The Report often uses the proportion of each target group in the broader community as a point of comparison when examining service delivery to special needs groups. This approach is sensible for some services which are provided on a virtually universal basis (for example, schools), but must be treated with caution for other services, where service provision is based on the level of need, which may vary between groups (for example, services for people with a disability). Another option is to collect a more accurate profile of need (for example, the Supported Accommodation Assistance Program’s collection of data on the characteristics of those seeking assistance).

Where geographic location is used to identify groups with special needs, data are usually disaggregated according to either the metropolitan, rural and remote area classification system or the Australian Bureau of Statistics’ (ABS 2007b) Australian Standard Geographical Classification of remoteness areas. These classifications are generally based on population density and/or the distance that residents need to travel to access services. The geographic classification system used in each chapter is outlined in chapter 2.

Such classifications are imperfect indicators of the time and cost of reaching a service. Further, they do not consider the client’s capacity to bear the cost of receiving the service (Griffith 1998). To improve the model, service centre locations

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would need to be reclassified according to the services they provide and the client's cost of accessing the service. Moreover, for some services, classification systems based on distance or population are not useful indicators of access to services — for example, ambulances can sometimes respond more quickly in rural areas than in metropolitan areas because there is less traffic.

### *Effectiveness*

Effectiveness indicators measure how well the outputs of a service achieve the stated objectives of that service. The reporting framework groups effectiveness indicators according to output characteristics that are considered important to the service. For most chapters, these characteristics include access, appropriateness and/or quality.

### *Access*

Access indicators measure how easily the community can obtain a service. In this Report, access has two main dimensions, undue delay (timeliness) and undue cost (affordability). Timeliness indicators in this Report include waiting times (for example, in public hospitals and for aged care services). Affordability indicators in this Report 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 services meet client needs. An appropriateness indicator for the Supported Accommodation and Assistance Program, for example, is the proportion of clients receiving the services that they are judged to need. Appropriateness indicators also seek to identify the extent of any underservicing or overservicing (Renwick and Sadkowsky 1991).

Some services have developed measurable standards of service need against which the current levels of service can be assessed. The 'overcrowding' measure in housing, for example, measures the appropriateness of the size of the dwelling relative to the size of the tenant household. Other services have few measurable standards of service need; for example, the appropriate number of medical treatments available for particular populations is not known. However, data on differences in service levels can indicate where further work could identify possible underservicing or overservicing.

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## *Quality*

Quality indicators reflect the extent to which a service is suited to its purpose and conforms to specifications. Information about quality is particularly important for performance assessment when there is a strong emphasis on increasing efficiency (as indicated by lower unit costs). There is usually more than one way in which to deliver a service, and each alternative has different implications for both cost and quality. Information about quality is needed to ensure governments consider all relevant aspects of service performance.

The Steering Committee's approach is to identify and report on *aspects* of quality, particularly actual or implied competence. Actual competence can be measured by the frequency of positive (or negative) events resulting from the actions of the service (for example, deaths resulting from health system errors such as an incorrect dose of drugs). Implied competence can be measured by proxy indicators, such as the extent to which aspects of a service (such as inputs, processes and outputs) conform to specifications — for example, the level of accreditation of public hospitals and aged care facilities.

The reporting framework includes quality as one aspect of effectiveness, and distinguishes it from access and appropriateness (figure 1.2). This distinction is somewhat artificial because these other aspects of service provision also contribute to a meaningful picture of quality.

## *Efficiency*

The concept of efficiency has a number of dimensions. Overall economic efficiency requires satisfaction of technical, allocative and dynamic efficiency:

- technical efficiency requires that goods and services be produced at the lowest possible cost
- allocative efficiency requires the production of the set of goods and services that consumers value most, from a given set of resources
- dynamic efficiency means that, over time, consumers are offered new and better products, and existing products at lower cost.

This Report focuses on technical (or productive) efficiency. Technical efficiency indicators measure how well services use their resources (inputs) to produce outputs for the purpose of achieving desired outcomes. Government funding per unit of output delivered is typically used as an indicator of technical efficiency — for example, recurrent funding per annual curriculum hour for vocational education and training.

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Comparisons of the unit cost of a service are a more meaningful input to public policy when they use the full cost to government, accounting for all resources consumed in providing the service. Problems can occur when some costs of providing services are not included or are treated inconsistently (for example, superannuation, overheads or the user cost of capital). The Steering Committee approach, where full cost information is not available in the short term, is that:

- data should be calculated consistently across jurisdictions
- data treatment should be fully transparent.

Where there are shortcomings in the data, other indicators of efficiency are used (including partial productivity ratios such as staff level per student in government schools and administrative costs as a proportion of total expenditure in services for people with a disability).

The Commonwealth Grants Commission, when calculating relativities between states and territories to distribute Australian Government general purpose grants, accounts for both a jurisdiction's ability to raise revenue, and influences beyond a jurisdiction's control (called 'disabilities') that affect the jurisdiction's cost of providing services and capacity to raise revenue. In relation to various service areas, the assessment may include a variety of factors that measure disabilities such as the size of the jurisdiction, the dispersed nature of the population and the sociodemographic distribution of the population (CGC 2006). This Report does not make cost adjustments based on any of these factors, but Appendix A provides short statistical profiles of each State and Territory, which may assist readers to interpret the performance indicators presented in each chapter.

## **Variation to the general framework**

In two areas of the report, the framework has been adapted to align more closely with the specific objectives and functions of the relevant services.

### *Health*

In the 2004 report, the Steering Committee sought to align the general review framework with the National Health Performance Framework as far as possible, for application to government health services. The performance framework for health services in this report thus reflects both the general Review framework and the National Health Performance Framework (see the Health preface). It differs from the general review framework in two respects. First, it includes four subdimensions of quality — safety, responsiveness, capability and continuity — and, second, it includes an extra dimension of effectiveness — sustainability:

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- *safety*: the avoidance, or reduction to acceptable levels, of actual or potential harm from health care services, management or environments, and the prevention or minimisation of adverse events associated with health care delivery
  - *responsiveness*: the provision of services that are client oriented and respectful of clients' dignity, autonomy, confidentiality, amenity, choices, and social and cultural needs
  - *capability*: the capacity of an organisation, program or individual to provide health care services based on appropriate skills and knowledge
  - *continuity*: the provision of uninterrupted, timely, coordinated healthcare, interventions and actions across programs, practitioners and organisations
  - *sustainability*: the capacity to provide infrastructure (such as workforce, facilities and equipment), be innovative and respond to emerging needs (NHPC 2001).

### *Emergency management*

The emergency management framework uses the widely accepted 'comprehensive approach' (prevention/mitigation, preparedness, response and recovery) to classify the key functions common to emergency service organisations in managing emergency events. Outputs in the emergency event frameworks are grouped accordingly.

- *Prevention and mitigation* — measures taken in advance of an emergency aimed at decreasing or eliminating its impact on the community and the environment.
- *Preparedness* — measures to ensure, if an emergency occurs, that communities, resources and services are capable of responding to, and coping with, the effects.
- *Response* — strategies and services to control, limit or modify the emergency to reduce its consequences.
- *Recovery (ESOs)* — strategies and services to return agencies to a state of preparedness after emergency situations.
- *Recovery (community)* — strategies and services to support affected individuals and communities in their reconstruction of physical infrastructure and their restoration of emotional, social, economic and physical wellbeing.

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## 1.6 Using the data in this Report

### Data comparability

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

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

These issues do not always lead to material differences, and even where the differences are significant, relatively simple adjustments may resolve them in many cases. For example, payroll tax exemption has a material influence on the comparability of unit cost indicators, and cost data are adjusted in most chapters to account for payroll tax (SCRCSSP 1999).

### Validation

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

### Timeliness and accuracy

Timeliness of data is an important consideration for policy makers. Sometimes there is a trade-off between the precision of data and its timely availability — data that are provided in a timely fashion might have had fewer opportunities to undergo rigorous validation.

The Steering Committee manages this trade-off between timeliness and precision by publishing available data with appropriate qualifications. The ongoing nature of the Report provides an opportunity for the data to be improved over time. Publication increases scrutiny of the data and encourages timely improvements in data quality.

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

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

The differing environments in which service agencies operate affect the outcomes achievable and achieved by the agencies. Any comparison of performance across jurisdictions needs to consider the potential impact of differences in clients, geography, available inputs and input prices. Relatively high unit costs, for example, may result from inefficient performance, or from a high proportion of special needs clients, geographic dispersal, or a combination of these and other factors. Similarly, a poor result for an effectiveness indicator may have more to do with client characteristics than service performance.

The Report provides information on some of the differences that might affect service delivery, to assist readers to interpret performance indicator results. This information takes the form of profiles of each service area, footnotes to tables and figures, and a statistical appendix (appendix A). The statistical appendix provides a range of general descriptive information for each jurisdiction, including the age profile, spatial distribution, income levels and education levels of the population, the tenure of dwellings and cultural heritage (such as Indigenous and ethnic status).

This Report does not attempt to adjust reported results for differences that may affect service delivery. Users of the Report will often be better placed to make the necessary judgments, perhaps with the benefit of additional information about the circumstances or priorities of specific jurisdictions.

## **1.7 Related performance measurement exercises**

### **Techniques for measuring efficiency**

The approach to developing the efficiency indicators used in the Report is primarily that of unit cost (although some chapters contain other measures of efficiency). Data envelopment analysis (DEA) is another measurement technique that may be suited to assessing efficiency in the delivery of government services. DEA calculates the efficiency of a member of a group, relative to observed best practice (not actual best

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practice) within that group. The approach operates by identifying best performers in terms of input use and output production, typically using linear programming. Other service providers are allocated a single efficiency score based on their performance relative to that of the best performers.

### **‘Measures of Australia’s Progress’**

In April 2006, the ABS published the third issue of *Measures of Australia’s Progress* (ABS 2006). The ABS publishes a summary of the headline indicators on its website annually. The next full issue of *Measures of Australia’s Progress* is planned for 2008.

The publication presents indicators across three domains of progress — economic, social and environmental. Each indicator signals recent progress, typically denoting developments over the past 10 years to help Australians address the question, ‘Has life in our country got better, especially during the past decade?’. The framework includes both headline and supplementary indicators, and focuses on outcomes rather than inputs or processes. The publication includes special articles that relate to, rather than measure, progress — for example, a feature essay on Life satisfaction and measures of progress.

### **Performance monitoring in other countries**

Performance reporting is undertaken in other countries using various approaches (see previous Reports).

#### *OECD*

The OECD Factbook provides more than 100 indicators over a wide range of areas: economy, agriculture, education, energy, environment, foreign aid, health and quality of life, industry, information and communications, population/labour force, trade and investment, taxation, public expenditure and research and development. Data are provided for all OECD member countries with area totals, and for selected non-member economies. The information is outcome focused, and is not linked to specific service delivery agencies (OECD 2007).

#### *United Kingdom*

In the United Kingdom, key performance data on public service delivery is available on a single Treasury website. This reporting allows the public to assess

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how the United Kingdom Government is delivering across all areas of government. Reporting includes public service agreements which measure agency performance by setting out the aim of the department or program, the supporting objectives and the key outcome-based targets that are to be achieved during a specified period (HM Treasury 2007).

### *New Zealand*

The New Zealand Ministry of Social Development produces an annual *Social Report*, which provides information on the health and well-being of New Zealand society. Indicators are used to measure levels of wellbeing, to monitor trends over time, and to make comparisons with other countries. A web site provides data for social report indicators by regional council and territorial authority areas. The Social Report covers nine ‘domains’ — unlike the Blue Book, these domains do not directly reflect specific service areas (although there is sometimes a broad connection). A limited number of high level indicators are presented for each domain, but there is no attempt to comprehensively address the full range of objectives of any specific government service (Ministry of Social Development 2007).

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