

CHAPTER 7: DEPARTMENTAL OUTPUT STRUCTURES AND PERFORMANCE MEASURES

Key findings of the Committee:

- 7.1** The government manages delivery of its annual budget according to an accrual output-based framework whereby departments are required to develop output statements and performance measures for inclusion in the budget papers.
- 7.2** Compared with 2007-08, there is a net decrease of 57 output measures in the 2008-09 Budget Papers made up of 178 new measures and 235 discontinued measures. There was a net decrease in the number of quantity and quality measures while there was a small overall increase in the number of timeliness measures.
- 7.3** While the Committee was pleased to note the continued net reduction in the number of quantitative measures in this year's budget, it is concerned to note that only 18 per cent of new measures introduced into the 2008-09 Budget were quality measures.
- 7.4** Seven departments achieved a net reduction in the number of performance measures in the 2008-09 Budget papers. The Department of Sustainability and Environment and the Department of Treasury and Finance both reduced the number of performance measures associated with their departmental outputs by more than ten per cent, while the number of measures increased by more than ten per cent in the Department of Planning and Community Development and the Department of Primary Industries.
- 7.5** As noted in the Committee's Report on the 2007-08 Budget Estimates, the number of measures presented in the budget papers is progressively falling. However, some quantitative measures were still used by departments which conveyed a targeted increase in output without any obvious connection to an improved service outcome.
- 7.6** Seven departments were identified where more than 10 per cent of performance targets reported in the 2008-09 Budget papers varied by more than 10 per cent from the expected outcome for 2007-08. While explanations were provided in most instances, the Committee identified a number of measures where the target had not been updated or revised to reflect changed circumstances or where the explanation did not adequately explain the variance.
- 7.7** Future budget papers should incorporate a tabular presentation of annual global movements in new and discontinued output measures, categorised according to quantity, quality and timeliness measures to enhance clarity and accountability in reporting.
- 7.8** Output performance measure targets in budget papers should be regularly reviewed and adjusted to ensure that they reflect historical performance.

7.1 Background to departmental outputs and performance measures

The government manages delivery of its annual budget according to an accrual output-based framework, whereby departments are required to develop output statements and performance measures for inclusion in the budget papers.

In recent years, the Auditor-General and the Committee have presented reports to Parliament which incorporate comment on the government output framework and the adequacy of performance measures in place in capturing key aspects of output delivery.¹²²

In his recent report *Parliamentary Appropriations: Output Measures*, the Auditor-General observed that:¹²³

“The reporting of outputs and performance measures in the annual budget papers is at the heart of the Executive Government’s Accountability to Parliament and the community. For this accountability to be effective, the output descriptions and performance measures must be relevant, appropriate and fairly representative of actual performance.”

The output framework features a purchaser/provider arrangement under which Parliament authorises the Treasurer to purchase outputs from departments based on an accrual price to be paid to departments in return for delivering outputs. Appropriations are formally applied to departments when the Treasurer is satisfied that agreed outputs have been delivered.

The government’s annual budget paper on service delivery outlines the nature of departmental outputs and their relationship, through specification of performance measures, with the service delivery obligations of departments.¹²⁴ The budget papers disclose for each performance measure the target specified for 2008-09 compared with the equivalent target for 2007-08, the expected outcome for that year and the actual outcome for 2006-07. They also identify new measures introduced for the year and any measures discontinued by departments, together with explanatory reasons.

7.2 Changes to departmental outputs and performance measures reflected in the 2008-09 Budget

During its 2008-09 Budget Estimates inquiry, the Committee sought information from departments regarding:

- the rationale for any change in performance measures presented in the budget papers for 2008-09; and
- performance measures where there is a variance of over 10 per cent between the expected outcome for 2007-08 and the target for 2008-09.

The purpose of seeking this information was to assess the nature of any changes made to performance measures in the budget papers and to determine the rationale behind departmental target setting.

¹²² Victorian Auditor General’s Office, *Parliamentary Appropriations: Output Measures*, November 2007; Victorian Auditor General’s Office, *Parliamentary control and management of appropriations*, April 2003; and Public Accounts and Estimates Committee, *Report on the review of the Auditor General’s report on Parliamentary control and management of appropriations*, September 2005.

¹²³ Victorian Auditor General’s Office, *Parliamentary Appropriations: Output Measures*, November 2007, p.v

¹²⁴ Department of Treasury and Finance, *Budget Paper No. 3 Service Delivery*, May 2008, pp.65-273

The departmental responses are presented in the Committee's *Report on the 2008-09 Budget Estimates – Part One*.

7.2.1 Overall changes to output measures in the 2008-09 Budget

The Committee's analysis of the 2008-09 Budget papers identified 178 new performance measures of which over 50 per cent were quantity measures.¹²⁵ The budget papers also identified 235 discontinued measures of which 53 per cent were quantity measures.¹²⁶ This represents a net reduction of 57 measures. Table 7.1 summarises this position.

¹²⁵ Department of Treasury and Finance, Budget Paper No. 3 Service Delivery, May 2008, pp.65-273
¹²⁶ *ibid.* pp.431-462

Table 7.1: New and discontinued output measures presented in the 2008-09 and 2007-08 Budgets

	Item in 2008-09 Budget				Item in 2007-08 Budget			
	Total	Quantity measures	Quality measures	Timeliness measures	Total	Quantity measures	Quality measures	Timeliness measures
<i>New output measures</i>								
Number of new measures	178	92	32	54	217	115	48	54
Proportion of total	100	52	18	30	100	53	22	25
<i>Discontinued output measures</i>								
Number of discontinued measures	235	122	58	55	353	183	79	91
Proportion of total	100	52	25	23	100	52	22	26
Net movement in number of measures	-57	-30	-26	-1	-136	-68	-31	-37
Total Number of Measures(a)	1,178	601	324	253	1,235	630	356	249

Note: The measures identified in the table above do not include the cost of delivery of the outputs.

Source: Department of Treasury and Finance, Budget Paper No. 3 Service Delivery, May 2008, pp. 65-273 and pp. 431-462.

Table 7.2: Comparison of Output Performance Measures Adopted by Departments

Department	Total performance measures in 2008-09 Budget (Number)	Total performance measures in 2007-08 budget (Number)	Change in the number of measures from 07-08 to 08-09 (Number)	Change in the number of measures from 07-08 to 08-09 (per cent)
Department of Education and Early Childhood Development	80	83	-3	-3.6
Department of Human Services	219	237	-18	-7.6
Department of Infrastructure	170	187	-17	-9.1
Department of Innovation, Industry and Regional Development	92	91	1	1.1
Department of Justice	92	100	-8	-8.0
Department of Premier and Cabinet	86	88	-2	-2.3
Department for Planning and Community Development	167	133	34	25.6
Department of Primary Industries	59	51	8	15.7
Department of Sustainability and Environment	80	120	-40	-33.3
Department of Treasury and Finance	88	100	-12	-12.0
Parliamentary Departments	45	45	0	0.0
Total (all Departments) ^(a)	1,178	1,235	-57	-4.6

Note: The measures identified in the table above do not include the cost of delivery of the outputs.

Source: Department of Treasury and Finance, Budget Paper 3 – Service Delivery, May 2008, pp. 65-273
 Department of Treasury and Finance, Budget Paper 3 – Service Delivery, May 2007, pp. 51-261

Two departments (Department of Planning and Community Development and Department of Primary Industries) increased the number of performance measures by a significant amount from 2007-08 to 2008-09. Departments explained to the Committee that the new measures have been developed to replace deleted measures and to reflect the re-direction of resources in line with current policy directions as well and changes brought about by the machinery of government.¹²⁸

Seven of the remaining nine departments achieved a net reduction in the number of performance measures in the 2008-09 Budget papers. The Department of Sustainability and Environment (DSE) and DTF both reduced the number of performance measures associated with their departmental outputs by more than ten per cent.

¹²⁸ Department of Planning and Community Development, Response to PAEC estimates questionnaire, pp.2-9 and Department of Primary Industries, Response to PAEC estimates questionnaire, p.2.

The Department of Sustainability and Environment transferred a number of measures associated with two major outputs, *Planning, Urban Design* and *Housing Affordability and Heritage Protection* to the Department of Planning and Community Development as part of the machinery of government changes announced in August 2007. DSE also conducted a review of its performance measures which resulted in the cessation of some measures and the introduction of others.¹²⁹ This resulted in the Department achieving the largest reduction (33.3 per cent) in the number of measures of any department in the 2008-09 Budget.

DTF explained that they consolidated six existing outputs into three new outputs with the result that many of the performance measures associated with these outputs were consolidated or, where appropriate, replaced with updated measures that reflect the new outputs.

The Committee also identified in its Report on the 2007-08 Budget Estimates – Part 3, a need for DTF to incorporate within future budget papers, a tabular presentation of annual global movements in new and discontinued output measures, categorised according to quantity, quality and timeliness measures.¹³⁰ The department responded to the Committee that:¹³¹

“The Department of Treasury and Finance considers that sufficient information is already provided in the budget papers.

All performance measures that are new for each budget are published in Budget Paper No. 3, Chapter 3. The new performance measures are explained in the individual footnotes at the end of each section. Footnotes also explain key variances in data from previous budgets and any amendments to performance measure titles.

Appendix C of Budget Paper No. 3 is a list of all discontinued outputs and performance measures. Appendix C also includes footnotes explaining the reasons for discontinuing each measure.”

While the Committee acknowledges that the information outlined by DTF is available in the budget papers, it still considers that a tabular presentation of global movements in new and discontinued performance measures categorised according to quantity, quality and timeliness measures would enhance clarity and accountability of reporting in budget papers. The extensive use of footnotes as evidenced in Appendix C of Budget Paper No. 3 to convey information vital to parliament does not enhance clarity, nor encourage accountable reporting.

Recommendation 10:

The Department of Treasury and Finance incorporate within future budget papers a tabular presentation of annual global movements in new and discontinued output measures, categorised according to quantity, quality and timeliness measures to enhance clarity and accountability in reporting.

¹²⁹ Department of Treasury and Finance, Budget Paper No. 3 Service Delivery, May 2008, p.228

¹³⁰ Public Accounts and Estimates Committee, 2007-08 Budget Estimates Report – Part 3, September 2007, p.119

¹³¹ Government Response to the Recommendations of the Public Accounts and Estimates Committee’s 73rd Report on the 2007-08 Budget Estimates, p.20

7.2.2 Performance targets for major departmental outputs

Departmental output statements presented in the budget papers detail the goods and services that government departments intend to deliver in the forthcoming year and how they will contribute to the government's desired outcomes as outlined in Growing Victoria Together. The output statements list quantity, quality, timeliness and cost performance measures for each output and these are then used to assess each department's performance in service delivery.¹³²

The Committee's Report on the 2006-07 Financial and Performance Outcomes identified a significant number of performance measures whereby the actual result varied from the target by more than 10 per cent. It also identified that some departments had not adjusted performance measures in accordance with actual performance, creating instances of significant ongoing recorded over or under-performance. The Committee indicated that it would like to see departments improve the accuracy of estimating processes and the level of adherence in principle to targets.

As part of the Committee's ongoing focus on improving accountability, this section of the report examines the target setting practices of the government and parliamentary departments in the 2008-09 Budget papers.

Table 7.3 examines the relationship between the expected outcomes from 2007-08 and the targets set for 2008-09.

Table 7.3: Comparison of 2008-09 targets with the expected outcomes for 2007-08

	Total performance measures in 2008-09 Budget (number)	Variance of 10% or over between the expected outcome for 2007-08 and the target for 2008-09	
		(number)	(per cent)
Department of Education and Early Childhood Development	80	1	1.3
Department of Human Services	219	19	8.7
Department of Infrastructure	170	27	15.9
Department of Innovation, Industry and Regional Development	92	20	21.7
Department of Justice	92	10	10.9
Department of Premier and Cabinet	86	11	12.8
Department for Planning and Community Development	167	18	10.8
Department of Primary Industries	59	5	8.5
Department of Sustainability and Environment	80	10	12.5
Department of Treasury and Finance	88	9	10.3
Parliamentary Departments	45	2	4.4

Note: The measures identified in the table above do not include the cost of delivery of the outputs.

Source: Departmental Responses to the PAEC budget estimates 2008-09 questionnaire and the 2008-09 Budget Paper No.3, pp.65-272.

¹³² Department of Treasury and Finance, Budget Paper No. 3 Service Delivery, May 2008, p.63

Committee analysis identified seven departments where more than 10 per cent of performance targets reported in the 2008-09 Budget papers varied by more than 10 per cent from the expected outcome for 2007-08.

The Department of Innovation, Industry and Region Development (21.7 per cent) had the largest percentage of target variations, while the Department of Education and Early Childhood Development (1.3 per cent) had the lowest percentage. Individual departmental results were reported in Committee's *Report on the 2008-09 Budget Estimates – Part 1*, Appendix 3.

Table 7.4 examines the extent to which the variations from target were above or below the expected result for 2007-08.

Table 7.4: 2008-09 Target variations from the expected outcomes for 2007-08

Department	2008-09 target 10% above 2007-08 expected outcome	2008-09 target 10% below 2007-08 expected outcome
Department of Education and Early Childhood Development	0	1
Department of Human Services	14	5
Department of Infrastructure	21	6
Department of Innovation, Industry and Regional Development	9	11
Department of Justice	3	7
Department of Premier and Cabinet	2	9
Department for Planning and Community Development	3	15
Department of Primary Industries	5	0
Department of Sustainability and Environment	4	6
Department of Treasury and Finance	4	5
Parliamentary Departments	0	2
Total	65	67

Note: The measures identified in the table above do not include the cost of delivery of the outputs.

Source: Departmental Responses to the PAEC budget estimates 2008-09 questionnaire and the 2008-09 Budget Paper No.3, pp.65-272.

In both the Department of Human Services and the Department of Infrastructure, the majority of variations consisted of targets being much higher than the expected outcome. Departments indicated to the Committee that where targets were set significantly higher than the expected outcome for the previous year, this was a result of a combination of factors including, the introduction of new initiatives or funding, anticipated performance improvements or efficiencies generated within the department.

In both the Department of Premier and Cabinet and the Department of Planning and Community Development, the majority of variations consisted of targets being much lower than the expected outcome. Where targets were set significantly lower than the expected outcome for the previous year, departments predominately indicated that this was a result of exceptional circumstances in 2007-08 which resulted in the target being exceeded on that occasion.

Despite these explanations, the Committee identified instances across a number of departments where the target had not been updated or revised to reflect changed circumstances. For example, the Department of Premier and Cabinet performance measure ‘number of briefs’, under the *Strategic Policy Advice* output, has a target of 3,050 briefs. Yet the expected outcome for 2007-08 was 6,000 and the actual for the previous two years exceeded 7,000, a fact acknowledged by the department:¹³³

“The number of briefs is significantly higher than target, reflecting the ongoing high demand for advice.”

In addition to this, the Committee was disappointed in the variable nature and quality of the explanations provided by departments. In a number of instances, department explanations amounted to little more than restating the nature of the performance measure. This echoes the recommendation by the Auditor-General that:¹³⁴

“...Departments provide more detailed explanations of significant and material variations between actual output performance and published targets in the notes to Budget Paper No.3, Service Delivery”

The Committee recommends that:

Recommendation 11: **Output performance measure targets in budget papers be regularly reviewed and adjusted to ensure that they at least reflect historical performance.**

Recommendation 12: **Departments act on the Auditor-General’s recommendation to provide more detailed explanations of significant and material variations between actual output performance and published targets in the notes to Budget Paper No.3, Service Delivery.**

¹³³ Department of Premier and Cabinet, Response to PAEC estimates questionnaire, p.2

¹³⁴ Victorian Auditor General’s Office, Parliamentary Appropriations: Output Measures, November 2007, p.3