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.

The Steering Committee for the Review defines performance as how well a service meets its objectives, recognising the influence of external factors. This fifth *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; and
- they make an important contribution to the economy and/or community.

The scope of the Report is summarised in box 1.1. This year's Report has been extended to include performance information on Commonwealth Rent Assistance in housing services.

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

- it facilitates use of a common method across services, which is convenient and useful for people interested in more than one service area;
- it generates the opportunity to share insights into approaches to performance assessment across services;

Box 1.1	**Services covered in the 2000 Report**
Education and training	– School education (chapter 2)
	– Vocational education and training (chapter 3)
Health	– Public hospitals (chapter 4)
	– General practice (chapter 5)
	– Breast cancer control and mental health (chapter 6)
Justice	– Police (chapter 7)
	– Court administration (chapter 8)
	– Corrective services (chapter 9)
Emergency services	– Emergency management (chapter 10)
Community services	– Aged care (chapter 11)
	– Services for people with a disability (chapter 12)
	– Children's services (chapter 13)
	– Protection and support services (chapter 14)
Housing	– Public housing, community housing and Commonwealth Rent Assistance[a] (chapter 15)

[a] Previous Reports provided some descriptive information for Commonwealth Rent Assistance but the 2000 Report contains the first performance data.

- it demonstrates progress in performance reporting in any one service area to reinforce what is possible and to encourage improved reporting by other services;
- it provides the capacity to address efficiently issues that arise across all service areas (for example, how to measure timeliness, how to assess other aspects of quality and how to cost superannuation); and
- 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. According to survey data, 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 the 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.

Understanding the importance of government services

All government services included in this Report have some effect on 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).

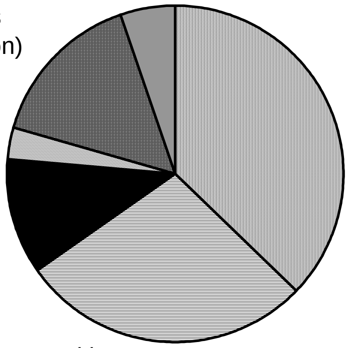
Government social services are concerned with:

- improving the equitable distribution of income or wealth by providing services (or direct income transfers). This role includes the provision of services such as education, health, public housing, nursing home and some aged care services;
- enforcing property rights, checking abuses of power and upholding the rule of law. By maintaining law and order, governments are able to reduce transaction costs in a society (Messick 1999). This role includes the work of police, the courts and corrective services; and
- managing adverse events (such as disease and flood control). The role of government is to manage and mitigate the incidents that may have an impact on life or property. This aspect of government services includes sanitation, public health and emergency services.

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

The services covered in the Report absorb a significant level of government expenditure. They accounted for approximately $55 billion in 1998-99 (figure 1.1), representing around 26 per cent of government expenditure in that year (equivalent to about 9 per cent of gross domestic product).

Figure 1.1 **Estimated government recurrent and capital expenditure on services covered by the Report, 1998-99[a, b, c]**



a 1998-99 data were not available for all services: the Report uses 1997-98 data for school education, public hospitals, general practice services, public and community housing, and 1998 data for vocational education and training. **b** Capital expenditure data were not available for all services; only recurrent expenditure data were available for public hospitals, courts, corrections, fire and ambulance services, and aged care and protection and support services. There may also be some double counting where both expenditure data (including depreciation) and capital expenditure are included. **c** These figures are not directly comparable to those reported in SCRCSSP (1998b) because some service areas have used different data sources. **d** Health expenditure only includes data for public hospitals and general practice services, 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 ($2.1 billion in 1996-97) includes expenditure on a variety of health services, including public hospitals and general practice.

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

Providing performance information across jurisdictions can 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 (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 1998 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.

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. Governments have considered a range of general policy approaches when deciding how to supply services in recent years. These approaches include:

- output based funding;
- purchaser/provider separations (for example, outsourcing, separation of functions and corporatisation);
- devolution/decentralisation;
- client funding/choice;

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, so as to deliver more efficient and effective services.

There are three main forms of benchmarking: results benchmarking (comparing performances within and between organisations using performance indicators of effectiveness and efficiency); process benchmarking (analysing activities and tasks that turn resource inputs and outputs into outcomes); and best practice standards (establishing goals and standards to which organisations can aspire).

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

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

The performance information in the *Report on Government Services* can contribute to many of the above steps in a results benchmarking cycle, including the identification of better approaches adopted by agencies' peers and thus implementation of best practice.

- alternative delivery mechanisms (for example, de-institutionalisation in community services);
- interactions between services; and
- user charging.[1]

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

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

1.3 Purchaser and provider roles of government

Governments manage and fund the service provision system (a 'purchaser' role), and may produce 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 (via rent assistance for example), who then purchase services from external providers;
- directly funding external providers (with disability services for example); or
- using a mix of these systems.

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 also reported at an operational level.

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

1.4 Approach to reporting performance of services

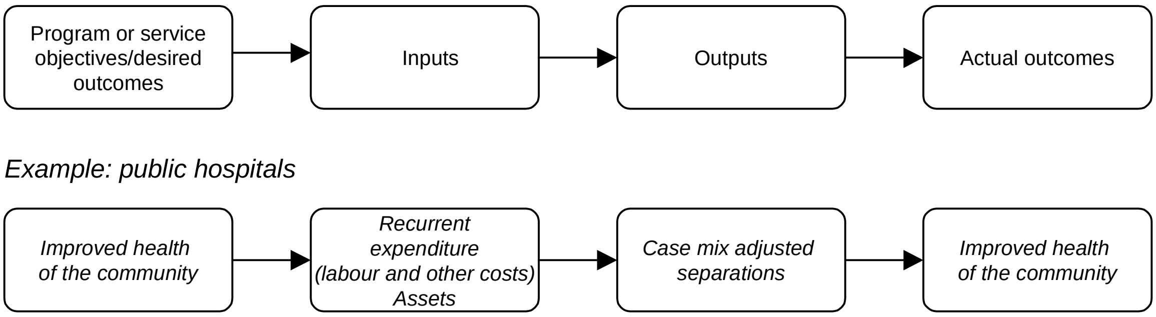
A number of the objectives (or desired outcomes) for each government-funded service are similar across jurisdictions, although the priority that jurisdictions give to each objective may differ. The Steering Committee's approach to performance reporting is to focus on the extent to which each shared objective for a service has been met.

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

- governments have a number of desired community outcomes;

- to achieve these outcomes, governments fund service providers 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).

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 the level of government inputs per unit of output.

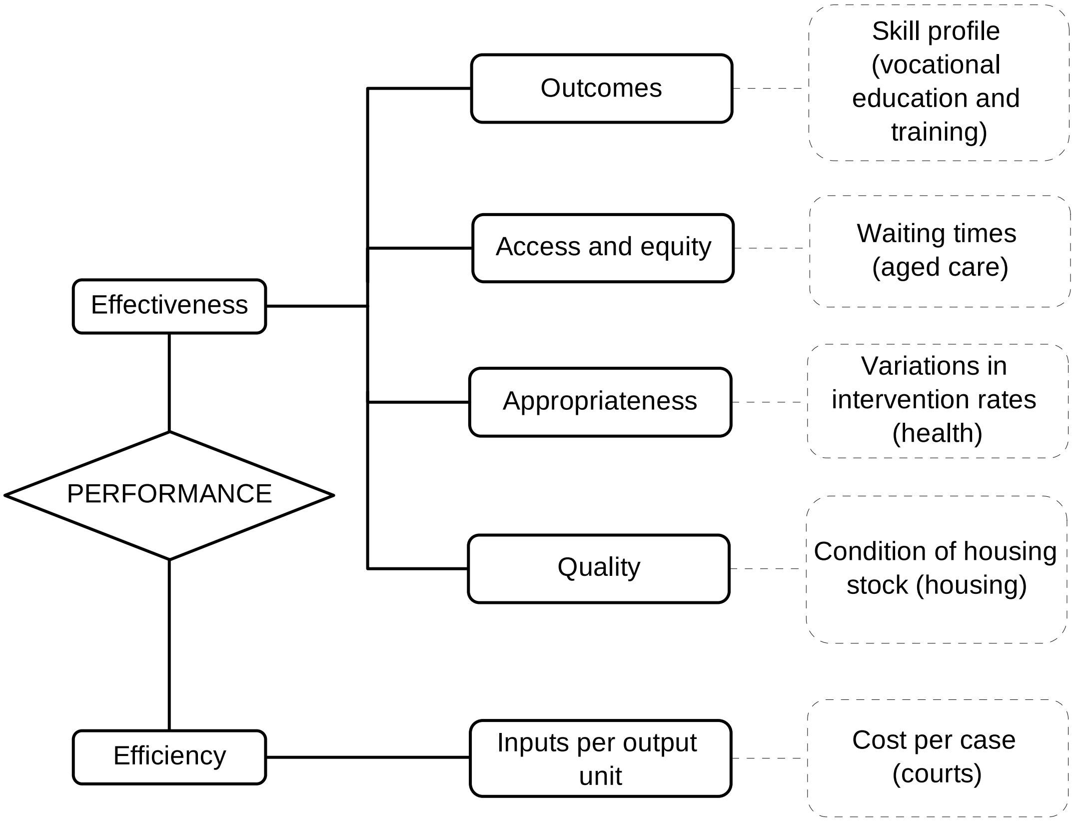
Service provision can involve a tradeoff between effectiveness and efficiency.[2] A change in service delivery may increase the level of resources per unit of output (a decrease in measured efficiency) but lead to better outcomes; for example, a standard unit of service may be less costly to produce but less effective in meeting

[2] The Review has adopted the effectiveness and efficiency terms common in the program evaluation literature.

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 reporting, and comments from each jurisdiction.

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



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, the secure housing of prisoners is a prison output but also an outcome indicator (linked to the objective of containment and supervision). If there is an established link between the indicator and the objective, then the indicator has validity as a performance indicator regardless of whether it is output or outcome related.

Outcomes may be short term or longer term. Short term outcomes are usually more closely linked to the services, whereas longer 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)

Outcomes may also be intermediate or final. The issue again is the closeness of the link to the services. A police random breath testing program, for example, may achieve the intermediate outcome of fewer drunk drivers, but the final outcome of reduced road deaths will also could be affected by other factors such as the quality of cars and roads.

The approach in this Report is to:

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

The Steering Committee draws on line agency experience (accessible through service-specific working groups) and on external expertise and international experience to develop outcome approaches and indicators for specific services. The Steering Committee has released its work in each case quickly (typically on its Web page) so others can comment and draw on work to date. This approach has aided timely improvements in the indicators.

During 1999 the Steering Committee commissioned an international literature review of relevant client satisfaction survey methods for children's services (see chapter 13). The client satisfaction survey in disability services (see chapter 11) was an outcome of an international literature review (also commissioned by the Steering Committee) of relevant client satisfaction survey methods (E-Qual 1998). Improvements in outcome indicators for protection and support services (see chapter 14) have been guided by an international literature review and critical analysis of child protection and alternative placement outcome indicators (Gain and Young 1998).

Such work reflects the Steering Committee's preference for drawing on existing developments where possible. It also reflects the Steering Committee's open approach to the development of information. This approach is likely to allow more rapid implementation of improved performance indicators, reduce development costs, facilitate iterative improvements, and possibly enable comparisons with results overseas.

Access and equity

Achieving access to services is an important reason for government to fund services. The objective may be to ensure access by all in the community (for example, 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;
- physical or mental capacity;
- race or ethnicity; and
- geographic location.

In May 1997, the Prime Minister (with the support of the Premiers and Chief Ministers) requested that the Review give particular attention to the performance of mainstream services in relation to Indigenous Australians. (Table 1.3 in section 1.5 summarises the progress in this area.)

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

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

The Report often uses the proportion of each target group in the broader community as a proxy indicator of the group's need for a particular service. This simple assumption is clearly sensible for some services (for example, schools), but it should be treated with caution for other services (for example, aged care). Another option is to collect more direct indicators of need (for example, the Supported Accommodation Assistance Program collects data on the characteristics of those seeking assistance).

Where geographic location is used to identify groups with access difficulties, access is normally compared for metropolitan, rural and remote areas. These geographic classifications are based on population density and distances to large population centres (DPIE and DHSH 1994). Such comparison by location has been criticised because it is an imperfect indicator of the time and cost spent 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, locations would then be classified differently depending on the service, because each service may not be available at the same location.

Timeliness and affordability

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

Appropriateness

Appropriateness relates to how well service delivery directly meets client needs. An appropriateness indicator for the Supported Accommodation Assistance Program, for example, is the proportion of clients receiving the services they are judged to need. Appropriateness indicators also seek to identify the extent, if any, of underservicing or overservicing (Renwick and Sadkowsky 1991).

Some services have developed measurable standards of service need against which the current levels of service can be assessed. The 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.

Other services have few measurable standards of service need; for example, the appropriate number of particular medical treatments for particular populations is not known. However, data on differences in service levels can indicate where further work could identify possible underservicing or overservicing.

Quality

The Review highlights indicators of service quality because they are important to performance assessment and policy formulation. Information about quality is particularly important for performance assessment when there is a strong emphasis on increasing efficiency (as indicated by lower unit costs). Moreover, there is usually more than one way to deliver a service, and each alternative has different implications for cost and quality. Information about service quality is needed to ensure that governments fairly consider all useful delivery alternatives.

The most commonly accepted definition of quality is *fitness for the purpose*. A comprehensive assessment of this fitness 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 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 other 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 of an indicator requires trading off desirable characteristics (such as timeliness, cost and validity) against each other. The approach here is to consider the use of acceptable, albeit imperfect, quality indicators that are already in use or available in Australia or internationally. Adopting these indicators can lower development costs and, equally importantly, reduce delays in the implementation of quality indicators.

Efficiency

Efficiency relates to how well organisations use their resources to produce units of services. This Report mostly focuses on achieving better value for the broader community from the use of government resources, so government funding per unit of service is typically used as the efficiency indicator — for example, recurrent funding per annual curriculum hour for vocational education and training. However, such an efficiency indicator should not be interpreted as encompassing a service's full cost to society (box 1.3).

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

Comparisons of unit cost of a service are a more meaningful input to public policy when they use the full cost to government, accurately accounting for all resources consumed in providing the service. Problems can occur when some costs of providing services are overlooked or treated inconsistently (for example, superannuation or overheads). The Steering Committee believes 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 seeks, where possible, to provide information about the cost of services to government. Some argue that if non-government groups such as charities also contribute resources for the services covered by the Report, then these costs should be taken into account.

The purpose of this Report is to provide information to assist government decision making. The relevant cost information depends on the type of assessment that needs to be made to support a decision. When government directly delivers services it may wish to assess the internal management of the service; on other occasions it may wish to assess the decision to deliver directly or purchase the service, or even the choice of 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 used by the government provider. The charitable organisation may be able to charge less because it operates the service as an adjunct to another activity, or because it has access to resources such as donations, church buildings or volunteers. If all inputs were costed at 'normal' market rates, a not-for-profit provider may be as costly — in some instances, more costly — than a government agency.

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

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

Consequently, for services delivered by non-government agencies, this Report emphasises the costs to government, along with outputs, outcomes and service quality.

1.5 Developments in performance measurement

Developments in 1999

This is the fifth *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 1999 occurred in:

- *the quality and comparability of the data* — the quality of financial data has improved for emergency management, corrective services, vocational education and training, public acute care hospitals and services for people with a disability; the quality of effectiveness data has improved for general practice and breast cancer management;
- *new indicators* — reporting for police has been separated into four service delivery areas with ten new indicators (and reporting for many of these); new outcome, quality and efficiency indicators have been developed for child protection and supported placements (with some reporting); four new indicators have been developed for aged care (with reporting); there are two new performance indicators for general practice, four for breast cancer management and one in mental health services;
- *the refinement of existing indicators* — one indicator was further developed for court administration; a client and carer views survey was undertaken for services for people with a disability (with reporting); a pilot client views survey was undertaken for community housing (with reporting for two participating jurisdictions); the scope of the employer views survey has been expanded for vocational education and training; two indicators were redefined and a consultancy investigating the feasibility of undertaking a client views survey was undertaken for children's services;
- *reporting on existing indicators* — client views survey results for the Family Court of Australia, WA and NSW have been reported in court administration; first-time performance reporting has been included for Commonwealth Rent Assistance; data on preschools providing nonstandard hours of care have been included for children's services; there has been improved reporting of four indicators for acute care hospitals and ten indicators for general practice; there are new data on year 12 completion rates by target group for school education; and

- *contextual information* — there is a summary of State based assessments of learning outcomes by year, subject area and target group for school education; there is policy information on specialist courts, Indigenous access to the court system and technological access to court services for court administration; and there is information on accreditation in centre based long day care, and services by management type for children's services.

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

As mentioned earlier, it is the objective of the Review to account for the full cost to government for the funding or delivery of services. Reporting of full costs improves the comparability of efficiency measures across jurisdictions and services. Where it is not yet possible to account for the full range of costs, the Review seeks to report costs on a comparable basis. The Steering Committee has identified three priority areas for improving the comparability of costs across several services:

- including superannuation on an accrual basis;
- accounting for differences in the treatment of payroll tax; and
- including the full range of capital costs (both the user cost of capital and the depreciation of non-current physical assets).

The treatment of *superannuation* is a significant issue when measuring the unit cost for many services because it often makes up a major component of overall costs and can be treated differently across services and jurisdictions. The Review researched the current treatment of superannuation costs and developed approaches to improve its treatment (SCRCSSP 1998c). The Review is helping services to improve the consistency of treatment of superannuation in cost estimates. The extent to which individual agencies consistently report actuarial estimates of superannuation costs depends on the implementation of accrual accounting systems by jurisdictions.

Payroll tax makes up a small but significant part of the reported cost of many government funded and delivered services. It is particularly significant for services with a high proportion of labour costs, and can be around 5 per cent of total service costs. Consequently differences in the treatment of payroll tax can affect the comparability of unit costs across jurisdictions and services. Differences occur in payroll tax exemptions, marginal tax rates and tax-free thresholds, and clawback arrangements. Accounting for the effect of payroll tax on unit costs is important for improving the comparability of the unit costs of private and public service providers.

A Steering Committee paper (SCRCSSP 1999b) recommended two approaches to improve the comparability of cost data. The first is to include a hypothetical payroll tax amount in cost estimates for exempt services. This approach is to be used when the majority of services are taxable, and it is most appropriate where private sector providers are also subject to payroll tax. This is the recommended strategy for reporting on vocational education and training, corrective services, emergency management, and public and community housing services.

The second approach involves deducting the payroll tax amount from the costs of those government services that are taxable. This approach is to be used where the majority of services are tax exempt, and it is most appropriate where private sector providers are either exempt from payroll tax or fall below the payroll tax-free threshold, or where there are no private providers. This is the recommended strategy for reporting on schools, health services, police, court administration, aged care services, disability services, children's services, and protection and support services. (Individual chapters note whether these two approaches were able to be implemented for this Report.)

Capital costs in an accrual sense comprise two distinct cost elements — depreciation and the user cost of capital. The focus is on the capital used in a particular year rather than the cash expenditure incurred in its purchase (for example, the purchase costs of a new building). Depreciation is defined as the annual consumption of non-current physical assets used in providing government services. The user cost of capital is the opportunity cost of funds tied up in the capital used to deliver services (for example, houses in public housing).

It is important to fully incorporate capital costs, wherever possible, in cost comparisons. Capital costs are often a significant component of the cost of services, and they are currently treated inconsistently (costed in full for contracted elements of service delivery but effectively costed at zero for services traditionally delivered by budget sector agencies).

The comparability of unit costs is improved when depreciation costs are reported on an accrual basis. Community housing is still reporting under a cash accounting regime, while others are in transition, with data that is partly on a cash basis and partly accrual. Where services report recurrent expenditure under cash accounting, unit costs tend to be underestimated. To improve the comparability of unit costs across services and jurisdictions, the Steering Committee decided that the user cost of capital rate should be applied to all non-current physical assets and working capital, less the costs of government capital charges and interest on borrowings. The user cost of capital rate would be based on a weighted average of rates nominated by jurisdictions (currently 8 per cent).

Other costing issues include the apportionment of costs that are shared across services, and the treatment of revenues. In most services, the available data allow reporting of net costs to government, but in some areas it has not been possible to account for revenues (notably, unit cost data for public hospitals). Moreover, for some services, it may be appropriate to examine both the gross cost (to assess the efficiency of government providers) and net costs (to assess the efficiency of government decisions to purchase from their own agencies effectively).

Table 1.1 provides an overview of the current status of some key elements that affect the comparability of costs in the Report.

Table 1.1 **Progress of unit cost comparability in the Report**

	For the majority of jurisdictions[a]				
	What is the accounting regime?[b]	*Is depreciation included?*	*Is the user cost of capital included?*	*Is super included on an accrual basis?*	*Is payroll tax treated in a consistent manner?*
School education	Transition	***x***	***x***	***x***	✓
Vocational education and training	Accrual	✓	✓	✓	✓
Public hospitals	Accrual	***x***	***x***	✓	✓
General practice[c]	Accrual	..	..	..	..
Health management	Accrual	***x***	***x***	na	na
Police services	Accrual	✓	✓	✓	✓
Court administration	Accrual	✓	✓	✓	✓
Corrective services	Accrual	✓	✓	✓	✓
Fire services	Accrual	✓	***x***	na	na
Ambulance services	Accrual	✓	***x***	na	na
Aged care[d]	..	..	..	..	..
Disability services	Transition	***x***	***x***	***x***	***x***
Children's services	Transition	***x***	***x***	na	na
Child protection	na	na	***x***	na	***x***
Supported placements[d]	..	..	..	..	..
Supported accomm. and assistance[d]	..	..	..	..	..
Public housing	Accrual	✓	✓	na	✓
Community housing	Cash	***x***	***x***	na	na
Commonwealth Rent Assistance[c]	Accrual	..	..	..	..

[a] ✓ Majority of jurisdictions have included this item or reported it separately, or included superannuation on an accrual basis. ***x*** Majority of jurisdictions have not included or reported this item, or not included superannuation on an accrual basis. [b] **Accrual:** majority of jurisdictions reported in accrual terms for this year. **Cash:** majority of jurisdictions reported in cash terms for this year. **Transition:** majority of did not report on either a pure cash or accrual basis. [c] Costs comprise mostly Commonwealth transfer payments to private service providers or households. [d] Costs comprise mostly Commonwealth or State/Territory transfer payments to service providers or households. **na** Not available. .. Not applicable.

Sources: Relevant chapters.

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, the four broad headings are still relevant. The dollar loss from fires could be considered a dimension of overall outcome for fire services, for example. Where the general framework is not adopted, indicators have been judged as to whether they 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 the maintenance of quality in purchaser/provider and contracting arrangements).

Progress on reporting on performance in relation to Indigenous Australians

In May 1997, the Prime Minister (with the support of all Premiers and Chief Ministers) asked the Review to give particular attention to the performance of mainstream services in meeting the needs of Indigenous Australians. Improving reporting of Aboriginal and Torres Strait Islander peoples' access to mainstream services is a priority for all areas of the Review. This is also an important priority for a number of ministerial councils and their related performance reporting activities. The Ministerial Council for Aboriginal and Torres Strait Islander Affairs endorsed the approach of using the Review to encourage better reporting in this area.

Table 1.2 First reporting of at least one comparable indicator[a, b]

Framework service	First coverage of service	When at least one national comparable indicator was first reported[c]					
		Overall outcomes	*Access and equity*	*Appro-priateness*	*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 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	2000	2000	2000	2000
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	2000	2000	na	2000	na	na
Fire services	1998	1999	na	na	na	2000	na
Ambulance services	1998	na	na	na	na	2000	na
General practice	1999	1999	1999	2000	2000	na	2000
Mental health services	1999	1999	na	1999	2000	na	1999
Commonwealth Rent Assistance	1999	2000	2000	2000	2000	2000	2000

a In the *Report on Government Services*. **b** 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. **c** Refers to year in which Report was published, not year of data. **na** Not available.

Sources: SCRCSSP (1995, 1997b, 1998b, 1999c).

More complete and consistent information on the access of Indigenous people to mainstream services can help improve policy by:

- contributing to assessments of progress towards the objective of ensuring that Indigenous Australians receive no less a provision of services than that for other Australians;
- influencing the development of improvements in programs and the allocation of resources; and

- underpinning a more whole-of-government approach to developing clear and agreed outcomes, methods for joint planning and compatible monitoring processes (AADWA 1999).

The Ministerial Council has endorsed strategies which will enable the development of improved reporting in coordination with the Review process. Aboriginal affairs departments in all jurisdictions will work to actively identify potential indicators and, where possible, existing data sources. Each of the Review's relevant service-specific working groups will consider during 2000 the feasibility of reporting and implementation, with the aim of hastening improvements in reporting for the 2001 Report.

The Australian Bureau of Statistics has put in place an ongoing program to develop and improve Indigenous data flowing from Commonwealth and State and Territory administrative systems. The bureau is working with other agencies to ensure that Indigenous identifiers are included in relevant systems and that the ensuing statistics are of adequate quality. Initial priority is being given to the improvement of births and deaths statistics in all States and Territories. Other priorities include hospitals, community services, education, housing and law and justice statistics. The Australian Bureau of Statistics is also working with other agencies to develop and support National Indigenous Information Plans, Indigenous performance indicators and Indigenous task forces on a number of topics. The Health Ministers' Advisory Council, for example, approved a list of proposed indicators in March 1998 and the process of evaluating and refining the indicators is expected to be finalised by 2000, after which reporting will commence.

The Australian Bureau of Statistics is also working towards improving the quality of Indigenous data from the 2001 Census. In parallel, it is expanding its Household Survey Program to collect more regular Indigenous statistics, including regular Indigenous general social surveys, Indigenous sample supplementation in regular health surveys, and annual Indigenous labour force estimates. The Review will draw on these initiatives in future Reports.

This important task is complicated by the administrative nature of many data collections that do not distinguish between Indigenous and non-Indigenous clients. The level of self identification of Indigenous persons appears to vary across jurisdictions, while the form of questions used to identify Indigenous status still differs but is becoming more consistent based on the Australian Bureau of Statistics' recommendations.

There are data on services to Indigenous clients, although the extent of reporting varies across both services and jurisdictions. Table 1.3 provides a stocktake, indicating which services and jurisdictions have at least partial data included in this

Report. The table also shows whether the data available are descriptive, whether they relate to performance directly and, if so, whether similar data are available for all jurisdictions. It does not signify the quality of that data.

Table 1.3 **Data in this Report on services to Indigenous clients[a]**

	Similar data available for all jurisdictions[b]	*Additional State-specific data*							
Framework service		*NSW*	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*
School education	D	P	P	P	P[f]	**	**	**	**
Vocational education and training[c]	DP	**	**	**	**	**	**	**	**
Public hospitals	P[f]	P[f]	P[f]	P[f]	P[f]	P[f]	na	P[f]	P[f]
Breast cancer management	P[f]	**	**	**	**	**	**	**	**
General practice	na	na	na	na	na	na	na	na	na
Mental health services	na	na	na	na	na	na	na	na	na
Police services	P	**	**	P	P	P	P	P	P
Court administration	na	na	na	na	na	na	na	na	na
Corrective services	D[f]P	**	**	**	**	**	**	**	**
Fire services	na	na	na	na	D	na	na	na	D
Ambulance services	na	na	na	na	na	na	na	na	na
Aged care services[d]	DP	**	**	**	**	**	**	**	**
Services for people with a disability[e]	DP	**	**	**	P[f]	**	**	**	**
Children's services	DP	**	**	**	**	**	**	**	**
Child protection	D	**	**	**	**	**	**	**	**
Supported placements	na	DP	na	DP	DP	DP	DP	DP	D
Supported accommodation and assistance	DP	**	**	**	**	**	**	**	**
Public housing	na	D	D	D	D	D	D	D	D
Community housing	na	D[f]	na	D[f]	na	na	D[f]	D[f]	D[f]
Commonwealth Rent Assistance	D[f]P[f]	**	**	**	**	**	**	**	**

[a] D means descriptive data are reported (for example, number of clients or total expenditure); P means performance indicators are reported. [b] Refers to where data on an indicator or descriptor are available for every State or Territory but are not necessarily perfectly comparable. [c] Subject to different average module completion durations and competencies achieved by students across jurisdictions. [d] Persons listing their Indigenous status as unknown have been distributed pro rata. [e] Relies on 'snapshot day' data, which may not be a typical of an average day. [f] New for 2000 Report. **na** Not available, meaning no relevant information on Indigenous persons' access to services is available in this area. ** No State-specific data are available for this service in addition to descriptive data or indicators for every State or Territory.

Sources: Relevant chapters.

1.6 Interpreting performance indicators

The Report aims to present performance indicators that allow users to assess performance. Many government objectives 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 also account for other important issues. 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, the Report includes a descriptive statistics appendix (see appendix A). 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 which will help users to compare jurisdictional performances.

The Steering Committee does not adjust results provided by jurisdictions for differences that may affect service delivery. Rather, it leaves this task to users who can better make the necessary judgments, maybe having additional information about their jurisdiction's circumstances or priorities. The Commonwealth Grants Commission adopts a different approach, but this reflects its different role (box 1.4).

When comparing performance information across jurisdictions, users also need to consider the effect of differences and variations in the quality of 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 WA. 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 social issues (box 1.5) and 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 using the individual service-focused measurement frameworks to assess the performance of these interactions. The Steering Committee has made some progress in this matter in the justice sector where 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. Overall, consistent approaches to common issues of performance reporting will help.

Box 1.4 **Adjusting results for external factors — the Commonwealth Grants Commission approach**

The Commonwealth Grants Commission (like the Review) collects and publishes data on actual expenditure across a range of government services. The terms of reference of both lead to some expenditure being excluded. The Grants Commission excludes, for example, expenditure associated with some specific purpose payments, while the Review does not cover some government services.

However, the Grants Commission also publishes data adjusted to account for differences (or 'disabilities') outside the control of the States that influence either their relative demand for services or their unit cost of providing them. It adjusts levels of expenditure for things such as:

- input costs (mainly, the cost of labour);
- scale of operations (at both central offices and service delivery sites);
- geographic dispersion of the population; and
- differences in the client mix (the proportion of clients of various ages, or from an Indigenous or non-English speaking background).

This approach reflects the Grants Commission's role of recommending the distribution of general revenue assistance to States and Territories. This role requires it to determine adjustments to the Australian average expenditure that would allow each State to provide the same level of service if it achieved the same level of efficiency. It uses the best available information on disabilities to make these adjustments, but recognises the data are 'often incomplete or fragmentary, broad-brush or impressionistic, or indicative rather than precisely relevant'. As a result, it notes there is frequently a considerable role for informed judgment about the extent of disability that each State faces in providing services (p. 10).

In contrast, the role of the Review allows it to leave others to judge the extent to which variation in results reflects factors outside a State's control or differences in performance. The Review seeks to provide the best set of information available (which is still inevitably incomplete) which can be combined with local knowledge about circumstances and policy priorities. The data can then be adjusted in ways appropriate to each decision, be it an assessment of policies, agencies or budget settings.

Neither the Review nor the Grants Commission make judgments about appropriate levels of expenditure or services, or about the efficiency of services. However, readers can use data from both sources to inform judgments about policy choices.

Source: Commonwealth Grants Commission (1999).

Box 1.5 **Issues that cross traditional service boundaries**

Many social issues can be dealt with effectively only through coordinated approaches, because they transcend traditional service boundaries. Examples of such issues include:

- illicit drug use (influenced by education, health, justice, ambulance and community services);
- homelessness (influenced by housing, mental health, child protection and community services);
- juvenile delinquency (influenced by child protection, education and justice services); and
- social isolation (influenced by housing and community services).

Governments need to make choices about the mix of services from various areas to best address these policy challenges. Moreover, they need to better understand how decisions in one area can affect another. The challenge in performance reporting is to develop strategies that help assess each component's contribution, as well as providing the framework to assess the merits of various policy mixes.

The Review aims to provide a more comprehensive set of performance information than has been available in the past. However, 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, when the closure of schools forces 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.

Data quality

The aim of the Review is to provide ongoing comparisons of the performance of government services. Ideally, all data would be uniformly high quality, allowing robust comparisons across jurisdictions. However, initially this is not always possible. The Review's approach to performance reporting is iterative, publishing imperfect data for those jurisdictions that can currently report, with qualifications. This forms the basis of further work to improve the data quality and comparability over time. This approach has increased scrutiny of the data and led to more timely improvements in its quality.

Improving the quality (including the comparability) of the data — a task that will involve significant time and effort over a number of years in some cases — requires a high level of cooperation among jurisdictions, and between the Review and participating agencies. Much of the work of the Review involves collecting specific information on which to base useful qualifications about existing data. (Section 1.5 highlights the improvements in the quality and comparability of data this year.)

Some people have raised concerns about the risks of some imperfect or incomplete data being misused in decision making. Minimising this risk is a major focus during the preparation of this Report and in seminars with users around the country, and specific examples of inadvertent data misuse are rare.

For each service area, the performance indicator framework shows which data are provided on a comparable basis and which are not strictly comparable. Qualifications for data that are not strictly comparable are also noted within the text. Data may not be strictly comparable if:

- definitions or counting rules differ, or are so broad that they result in different interpretations (for example, with depreciation rules);
- the scope varies (for example, the waiting time for elective surgery); and
- benchmarks differ (for example, literacy standards).

These differences may result in biased estimates. However, it is often not clear that biases (if any) will necessarily be materially large. Even where they are significant, in many cases the differences may be able to be resolved by relatively simple adjustments. Jurisdictions levy payroll tax of 5–7 per cent on wages and salaries, for example, but the tax rate differences are likely to be outweighed by other factors affecting comparisons (see the above discussion on adjusting data).

Imperfect data can be useful for improving the transparency and accountability of services, providing more timely information, and acting as a catalyst for data improvement. Further, for policy making the best estimates (with the necessary qualifications) may often be better than the alternative of no data and just anecdotes. Moreover, in a time of rapid change, timely but 95 per cent accurate information may be more valuable than more precise information that is 2 years old.

The data contained in this Report vary in the extent to which they have been reviewed or validated; at a minimum, all data have been subject to peer review by the working group for each service (box 1.6).

Users of the Report are 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 the Report).

Box 1.6 **Reviewing data quality**

This Report largely relies on administrative data. The performance information based on this data is reviewed in two ways:

- *peer review by service area working groups* — the Review process includes annual revisions to most data collection manuals, and several circulations of chapters (including all jurisdictions' results); and
- *external review by data collection agencies* — this approach is used for most data on school education (reviewed by the Secretariat to the Ministerial Council on Education, Employment, Training and Youth Affairs and the Australian Bureau of Statistics); most data on vocational education and training (reviewed by the National Centre for Vocational Education Research); some data for court administration, police and corrections (reviewed by the Australian Bureau of Statistics); and most housing data, most effectiveness data for services for people with a disability, protection and support, and some health data (reviewed by the Australian Institute of Health and Welfare).

The Review's processes do not involve formal auditing of data, but some data supplied to the Review are also reported for annual reports, budget papers and annual reporting of joint Commonwealth and State programs. This information may be audited by the relevant Auditor General.

1.7 Related Review projects

The Steering Committee has also undertaken research into other issues relevant to the performance of government services. This year research was undertaken to compare and contrast police agencies' approaches to collecting information on resource allocation via activity measurement systems. (Although the paper [SCRCSSP 1999a] focused on police, it also drew lessons for other areas of government that are considering activity measurement in output costing and internal management.) Other related research included an examination of payroll tax (SCRCSSP 1999b) and superannuation (SCRCSSP 1998c) in the costing of government services.

Previous research has involved case studies of issues and options in the implementation of government service reforms. The Steering Committee has published a case study report (SCRCSSP 1997a) that covers:

- purchasing community services in SA;
- using output based funding of public acute hospital care in Victoria; and
- implementing competitive tendering and contracting for Queensland prisons;

and one (SCRCSSP 1998a) that covers:

- 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.

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).

The Steering Committee will continue to focus on research that is related to performance measurement and thus better linked to efforts to improve reporting for individual services.

1.8 Summary

The Review of Commonwealth/State Service Provision has been conducted for over six 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 five 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* — that is, performance indicators should focus on the outcomes of government services, reflecting whether service objectives have been met;
- *comparability* — that is, 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

comparison. Data for many services have been published in each of the five Reports so time series comparisons have been made where possible to add another dimension to performance comparisons; and

- *comprehensiveness* — that is, the performance indicator framework should be as comprehensive as possible, assessing performance against all important objectives.
- *progressive data availability* — the ultimate aim is comparable data for all jurisdictions. However, progress differs across jurisdictions. So data are presented for those jurisdictions that can currently report, rather than waiting until data are available for all jurisdictions.