

**The Outcomes & Outputs Framework
Guidance Document**

November 2000

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The Outcomes & Outputs Framework

Using this guide

This web-based advice supercedes the Department of Finance and Administration's earlier guidance on the outcomes and outputs framework, including the 1998 document *Specifying Outcomes and Outputs: The Commonwealth's Accrual-based Outcomes and Outputs Framework* and *Outcomes and Outputs: Guidance for Review* (1999). It has been prepared as a web-based resource for ease of navigation and access. It is structured around the main elements of the framework - outcomes, outputs and administered items - together with the performance information aspects of the framework (see box at left). Information and guidance on the accrual accounting aspects of the Commonwealth's financial management framework can be found at the Department's web page on accruals and associated accounting issues.

This guide takes the outcomes and outputs framework, first introduced in the 1999 Federal Budget, to the next level of development. It is aimed at practitioners within Commonwealth departments and agencies who have specific questions or issues about the framework and its application. The material in the guide draws on experience to date and differs from earlier advice in several respects. In particular, there is:

- a greater emphasis on performance information, reporting and management, especially by identifying performance information with the major elements of the framework, that is, outcomes, administered items and departmental outputs;
- more detailed and specific examples from agencies' experience;
- more information on administered items, which represent about 80% of Commonwealth outlays; and
- an emphasis on the role of pricing of outputs.

This guide has been designed so readers can follow their own lines of enquiry by using the sidebar links and internal links to examples and cases. While it can be read 'cover to cover' in sequence, this is not necessary for users who have specific issues in which they are interested.

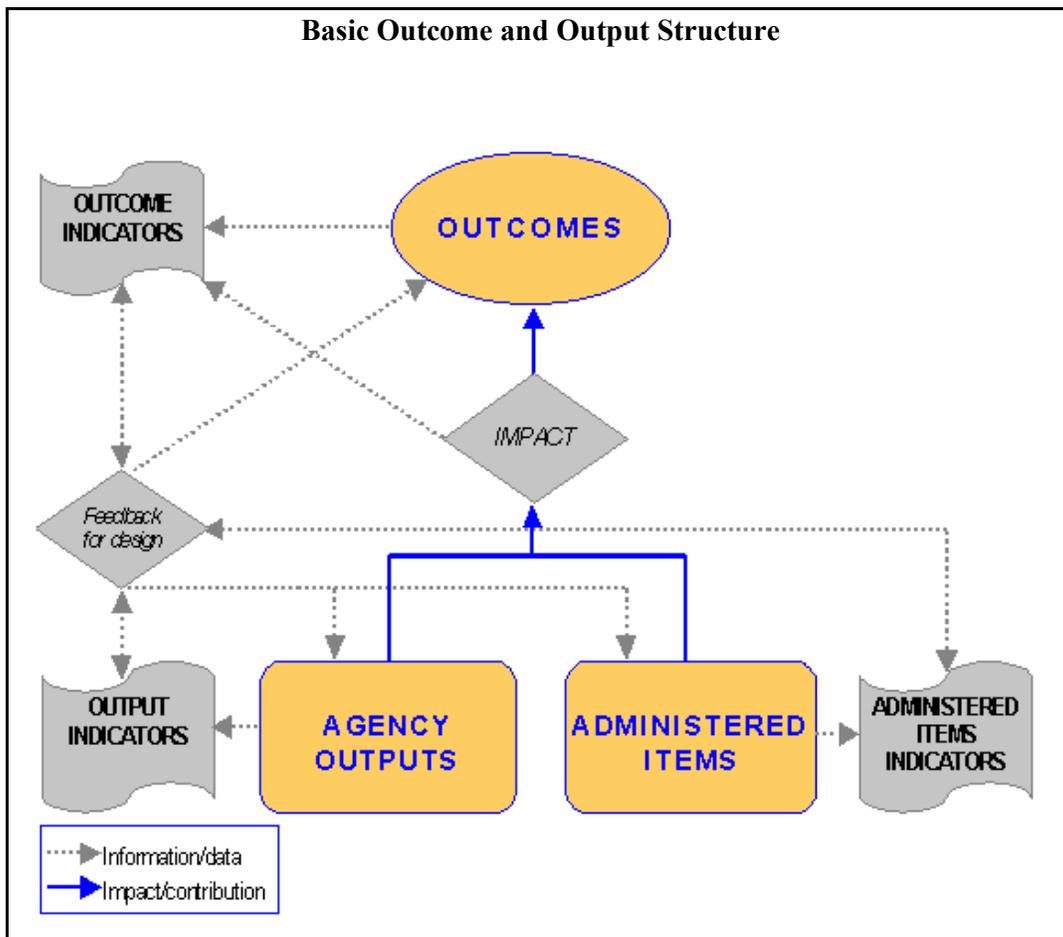
Examples have been provided to illustrate particular issues and approaches. As such, they are not necessarily 'best practice' so much as good examples of the particular characteristic in question.

Policy & purpose

The outcomes and outputs framework (see diagram) helps answer three fundamental questions:

- i. What does government want to achieve?
(outcomes)
- ii. How does it achieve this?
(outputs and administered items)

- iii. How does it know if it is succeeding?
(performance reporting)



In other words, government delivers benefits to the Australian community (outcomes) primarily through administered items and agencies' goods and services (outputs) which are delivered against specific performance benchmarks or targets (indicators).

All Commonwealth agencies are required to report on the basis of an outcomes and outputs framework. The framework is best used both as a means of structuring corporate governance and management arrangements and reporting on planned and actual performance. Within the broad parameters of the framework, agencies and their ministers have considerable scope for adopting specific structures and arrangements that suit their circumstances.

The framework has two basic objectives: to improve agencies' corporate governance and enhance public accountability. Managing through outcomes and outputs helps improve decision making and performance by focussing attention on the fundamental questions outlined above. It can also help improve the understanding and knowledge of those outside the agency who have an interest in its performance, including ministers, parliament and external accountability bodies such as the Auditor General.

Agencies apply inputs (e.g., finances, human resources, capital equipment) to the activities and processes that generate the products and services that constitute their outputs. These inputs include the funds appropriated to them from the budget or received through purchaser/provider arrangements, as well as revenue raised through other means, such as sales, levies and industry contributions.

The framework provides the context for agencies' corporate governance, management and reporting systems. There is considerable scope for customisation, whereby each agency can develop elements that are specific to its needs and operations. However, it is important that outcomes and outputs are structured in such a way as to maximise consistency between agencies. This enables comparisons and benchmarking within and across portfolios.

The framework & how it works

The outcomes and outputs framework is intended to be dynamic and flexible. It works as a decision hierarchy:

- government (through its ministers and with the assistance of relevant agencies) specifies the outcomes it is seeking to achieve in a given area;
- these outcomes are specified in terms of the impact government is aiming to have on some aspect of society (e.g., education), the economy (e.g., exports) or the national interest (e.g., defence);
- Parliament appropriates funds to allow the government to achieve these outcomes through administered items and departmental outputs;
- items such as grants, transfers and benefit payments are administered on the government's behalf by agencies, with a view to maximising their contribution to the specified outcomes;
- agencies specify and manage their outputs to maximise their contribution to the achievement of the Government's desired outcomes;
- performance indicators are developed to allow scrutiny of effectiveness (i.e., the impact of the outputs and administered items on outcomes) and efficiency (especially in terms of the application of administered items and the price, quality and quantity of outputs) and to enable the system to be further developed to improve performance and accountability for results.

Outcomes, administered items and outputs form the basis of the Commonwealth's budgetary framework and documentation. Outcome statements define the purpose of appropriations in the Budget Bills, while administered items and departmental outputs are detailed in Portfolio Budget Statements, which form part of the Budget Papers. More information is available on the Budget Documentation web page.

Structuring Outcomes & Outputs

The Commonwealth's accrual-based, outcomes and outputs framework is aimed at improving both how the work of government agencies is measured (through the application of the accrual-based budgeting and reporting) and what is measured (through specifying outcomes, administered items and outputs). This advice deals with the latter issue. DOFA's online Accounting and Policy Guidance provides specific guidance on accounting issues.

1.1 Policy & purpose

Every Commonwealth agency is required to have specified outcomes and outputs. Relevant performance information must also be identified for outcomes, outputs and administered items. Managing through outcomes and outputs helps agencies acquit their responsibilities to government, the Parliament, their clients and the wider community. Agencies, through their chief executives, are ultimately responsible for delivering the various policy results with which they have been charged. This requires a highly sophisticated management capacity, able to deal with the ambiguities and uncertainties that are inherent in public policy and its administration.

As an incremental but significant step in the evolution of the Commonwealth's management and budgeting practice, a well organised outcomes and outputs structure:

- i. provides a framework for better managing complexity;
- ii. aligns departmental outputs more expressly with the outcomes government specifies;
- iii. improves the quality of decision-making within agencies;
- iv. enhances the transparency of management decisions and activities; and
- v. provides a management and accountability system based on indicators of effectiveness and performance.

1.1.1 Managing complexity

Most government agencies are required to deliver on a multitude of objectives. They also operate in an environment where the impact of any given action or program is often difficult to distinguish from the impact of other actions or programs undertaken by the same or other agencies, or indeed from factors which are largely or entirely outside the control of government.

No resource management framework can remove all the complexities and ambiguities of public sector management. That said, the Commonwealth's outcomes and outputs approach—in conjunction with other aspects of the reform agenda, such as accrual budgeting, competitive tendering and contracting and performance management—allows departments and agencies to manage and report on their complex obligations within a relatively straight forward framework that is structured yet flexible.

The agencies' operational priorities can be greatly clarified by:

- defining the outcomes Government wishes to achieve;
- identifying administered items such as grants of benefits; and
- developing and defining the outputs.

1.1.2 Alignment of outputs with outcomes

One of the objectives of public sector management is to ensure that what agencies do fits with the Government's policy agenda. Because ministers must now expressly articulate the policy agenda in terms of the outcomes they wish to achieve, agencies have explicit and precise guidance as to the results expected of them. In consultation with their Minister(s), they can therefore set about delivering the outputs required to achieve the specified outcomes. Because appropriations are made under the specified outcomes, there is also a clearer link between appropriations and the outputs agencies deliver. Indeed, the system allows Government to act much as a purchaser would, comparing outputs across agencies or between agencies and non-government providers. This in turn clarifies what is expected of agencies and their managers.

1.1.3 Improved decision-making

An outcome and output framework places a specific discipline on agency decision-makers. It requires decisions to be aligned with specified outcomes and oriented towards producing relevant and appropriate outputs.

Under outcomes and outputs, managers:

- have a clearer idea of what is expected of them, because government specifies its requirements in terms of clearly articulated outcomes;
- are able to identify what is to be delivered to meet those requirements in a price-based performance management environment, in contrast to earlier cost-driven, inputs focussed arrangements;
- can be assessed against agreed performance indicators derived directly from the specific outcomes and outputs for which they are accountable; and
- have greater flexibility in the disposition of the resources (inputs) used to deliver the outputs agreed with government.

1.1.4 Enhanced transparency

Traditionally, Parliament and external accountability bodies such as Auditors-General have focussed on what agencies do (process) and what inputs (cash and staff) they use to do it. While this focus has its merits it fails to address why a given agency exists, how it is working towards that purpose and whether it is effective. An outcomes and outputs framework helps structure external scrutiny along these lines. Together with the fuller disclosure associated with accrual-based budgeting and reporting, Parliament receives better performance information, allowing comparisons across government and over time.

The two main vehicles for reporting on planned and actual performance against outcomes and outputs are the Budget Papers, especially the Portfolio Budget Statements, and departmental and agency annual reports. Portfolio Budget Statements

identify what the agency plans for the coming budget year, while annual reports detail the degree to which those plans are realised. Agencies can now be very explicit in their reporting to Parliament as to:

- their plans
 - what they intend to do;
 - how they intend to measure it;
 - what they believe to be an appropriate performance; and
- their results
 - effectiveness of outputs' and administered items' contributions to outcomes;
 - the quality, quantity and price of their outputs;
 - relevant performance characteristics of administered items.

Guidance on preparing these documents is available on the DOFA web site (in relation to Portfolio Budget Statements and annual reports for agencies under the Commonwealth Authorities & Companies Act 1997) and the Department of the Prime Minister & Cabinet's web site (in relation to departmental annual reports).

1.1.5 Performance indicators

The specification of outcomes and outputs necessitates appropriate performance information. Performance indicators reflect:

- the effectiveness of contributions to outcomes;
- the price, quality and quantity of outputs; and
- the desired characteristics of relevant administered items.

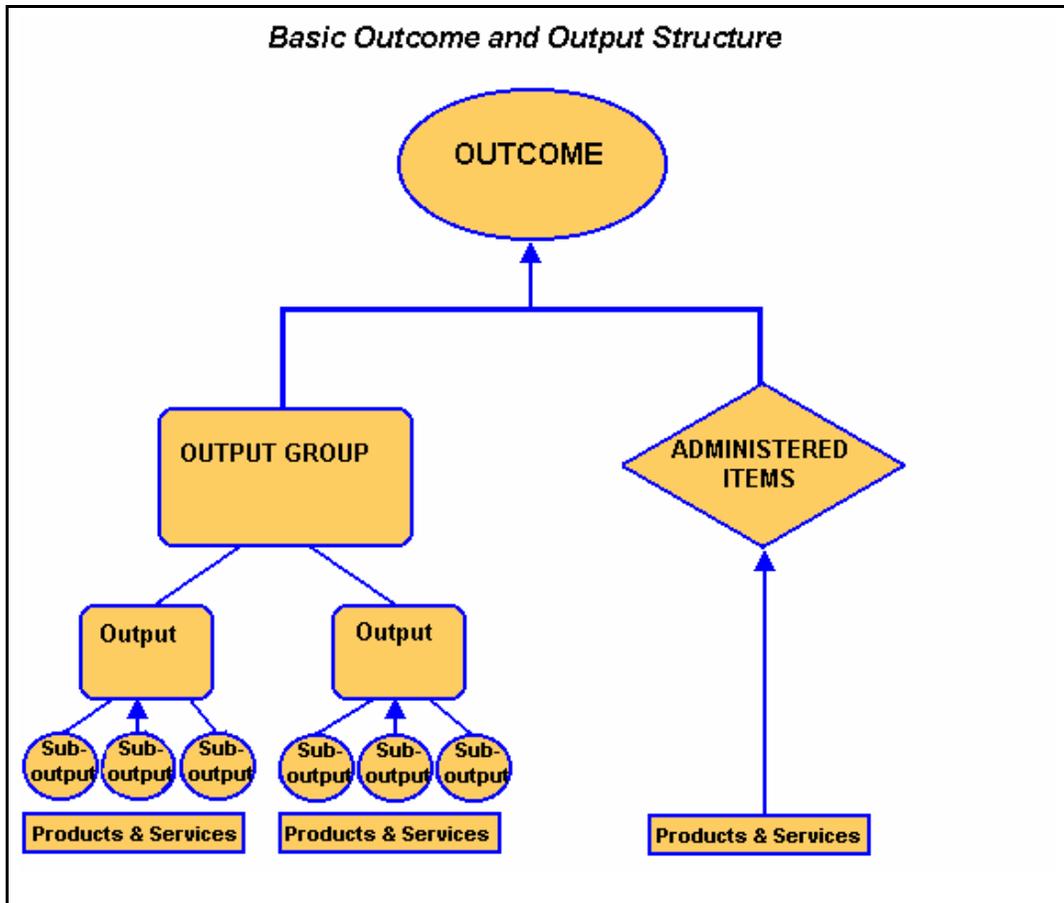
These indicators help external parties evaluate the agencies and their work. They also help agency managers in the evaluation and design process, at both a policy and an administrative level.

These indicators are becoming increasingly central to the process of government in the Commonwealth. They give ministers, agencies, Parliament and other interested parties a database of information on performance and effectiveness. This helps identify trends and weaknesses in the system not necessarily apparent in a framework focussed purely on inputs and resourcing.

Further information is available in DOFA's advice on Performance Reporting Under the Outcomes and Outputs Framework.

1.2 Design issues

While each portfolio has taken the opportunity to structure its outcomes and outputs in a manner that best reflects its own circumstances, DOFA has developed a model structure that agencies can refer to when making their own arrangements. The model depicts a standard outcomes and outputs structure. It provides for the use of output groups that can strengthen the strategic and causal connections between each level, and encourages the use of generic output descriptors, thereby enhancing the scope for comparisons and benchmarking within the agency and with other parties.



*Please note that this diagram is for illustration only and does not constrain the number of outputs within and output group, nor the number of sub-outputs.

Specifying Outcomes

An 'outcome' is the impact sought or expected by government in a given policy arena. The focus is on change and consequences: what effect can government have on the community, economy and/or national interest? Outcome statements also perform a specific legal function by describing the purposes of appropriated funds.

1.1 Policy & purpose

Outcome statements serve several purposes. They:

- define the impacts government expects from the work of the agency as well as administered items it manages;
- articulate the purpose of the relevant appropriations under the Appropriation Acts of the Commonwealth Budget;
- delineate the parameters for departmental outputs.

All departmental outputs must contribute - directly or indirectly - to the realisation of a specified outcome, including under purchaser/provider arrangements whereby the provider is delivering services to contribute to the purchaser's outcome(s). They must provide the Parliament, external accountability bodies, agency clients, interest groups and the general public with a clear statement of the broad goals of government and its agencies.

To satisfy these various objectives, outcome statements need to be finely crafted and subjected to extensive consultation within the agency and with external stakeholders. The Minister for Finance and Administration also has a formal responsibility to endorse all outcome statements. Legal advice should be obtained to ensure an outcome statement satisfies constitutional requirements (see section 1.2.2 below).

More information is available in DOFA's advice on Requirements for Outcome Specifications.

1.2 Design Issues

For legal, management and accountability reasons, outcome statements should be specific and set at levels appropriate to the government objectives they are addressing. They should also allow agencies to generate information on the effectiveness of their efforts to address outcomes, that is they should be measurable.

While outcomes are set at a similar strategic level as organisational missions or objectives (that is, in the context of business or corporate planning), they generally have a more external focus and should not have the value-laden language that is common (and appropriate) in mission or vision statements.

Examples: Outcome Statements and Mission/Vision Statements

The Department of Family and Community Services has as its mission '*Towards a fair and cohesive Australian society*'. This is more aspirational and less specific than the Department's three outcomes (*Stronger families, Stronger communities, and Economic and social participation*).

The distinction between mission statements and outcomes, however, does not hold in all instances: The Department of Defence has one outcome, and it is essentially the same as its mission: *To prevent or defeat the use of armed forces against Australia or its interests*.

Outcome statements should therefore be:

- focussed on the end result the Government is seeking, not on the means of achieving it;
- succinct;
- specific as to the area being addressed;
- able to be read in conjunction with the Portfolio Budget Statements or Portfolio Additional Estimates Statements to constitute a clear purpose for the relevant appropriation;
- stated in such a way as to allow the relevant target group(s) to be identified;
- balance the policy objectives being addressed;
- enable the formulation of sound effectiveness indicators to measure the impact of departmental outputs on the desired outcome;
- free of value-laden, generalised or aspirational language;
- amenable to extension across agency and/or portfolio boundaries, where appropriate.

1.2.1 Level of specificity

The Senate Finance and Public Administration Legislation Committee's Report, The Format of the Portfolio Budget Statements-Second Report (October 1999) pointed out that in 1999-2000, portfolios had anywhere between one and ten outcomes. The Committee also pointed to the very wide range of budgets attached to outcomes (from \$271 000 to more than \$17.5 billion). The Committee also noted with some concern the widely varying levels of specificity.

There is nothing in the framework that dictates what constitutes a desirable level of specificity; it is a matter of judgement for the portfolio minister(s) and their agencies to determine. That said, an outcome should not be so general as to lack meaning; nor should it be so specific and operational as to fail to articulate the actual impact desired by government.

Example: Appropriately Specific Outcome Statement

A hypothetical example of an excessively general outcome statement might be: *A national system of law and order*

Conversely, too specific an outcome might read: *Efficient Federal courts*

An appropriate mid-point statement might be along the lines of the Attorney-General's Department's Outcome One for 2000-01: *An equitable and accessible system of federal law and justice*

The factors to take into account when determining an appropriate outcome level include:

- the degree and nature of the Government's policy interest in the area, particularly as expressed by the portfolio minister(s). An issue which is a major component of the current Government's policy platform may need to be more expressly stated than might otherwise be the case for example, tax reform or welfare dependence;
- the breadth of the agency's policy responsibilities (e.g., the Department of the Treasury is likely to have broader outcome statements than, say, the Australian Broadcasting Authority);

- whether the agency is making use of intermediate outcome statements to provide a managerial and information link to a higher, over-arching outcome.

Example: Outcome Statement Reflecting Government Policy Interests

An efficient and equitable labour market that links people to jobs and promotes the transition from welfare to work

Department of Employment, Workplace Relations & Small Business, Outcome One, 2000-2001

Examples: Outcome Statements Reflecting Breadth of Responsibilities

Well functioning markets

Department of the Treasury, Outcome Three, 2000-01

An accessible, diverse and responsible broadcasting industry
Australian Broadcasting Authority, 2000-01

1.2.2 Legal specificity for appropriations

DOFA has obtained legal advice that outlines the general characteristics outcome statements need to exhibit for them to be considered sufficiently specific for appropriation purposes. As Parliament appropriates against agencies' outcomes, it is important that outcome statements meet criteria arising from the Australian Constitution, particularly sections 81 and 83 (which deal with the nature and purpose of appropriations from the consolidated revenue fund).

Outcome statements must meet the requirements for a legally valid appropriation under the Constitution. Factors to consider include:

- An outcome should specify the state of affairs towards which an agency's activity is directed, not the activity itself.
- Outcomes must be specific enough to determine authorisation of expenditure. However, the Appropriation Bills can be read in conjunction with the Portfolio Budget Statements and the Portfolio Additional Estimates Statements to clarify the purpose of the appropriation.
- The Appropriation Bills will include general provisions making it clear appropriations will be for department or agency services to help achieve the specified outcome.
- As far as possible, Departments and agencies should avoid defining outcomes in subjective or value laden terms.

1.2.3 Clarity & simplicity

In attempting to encompass the full range of an agency's activities within a given outcome, some outcome statements can be over specified, with various qualifications and extensions of the core issue or objective. This is a problem expressly referred to in the Senate Finance and Public Administration Committee's Report on the format of Portfolio Budget Statements. Greater attention to some of the desired characteristics described can help avoid this problem.

Example: A Clear, Simple Outcome Statement

A hypothetical outcome statement that is excessively wordy might read:

A national legal and administrative system that promotes the community's understanding and recognition of Native Title and protects the legitimate interests of

all Australians, including Aboriginal and Torres Strait Islander communities, in Native Title matters

In contrast, the National Native Title Tribunal's outcome for 2000-01 encompasses the intent of this statement, but with far greater economy:

Recognition and protection of Native Title

1.2.4 Portfolio versus agency outcomes

Some portfolios have one or more outcomes covering all the agencies within the portfolio. In 2000-01, these include Transport and Regional Services (one outcome), Agriculture, Fisheries and Forestry (one) and Health and Aged Care (nine). As a variant on the theme, the Treasury portfolio has one 'overall outcome', under which each portfolio agency has specific, differently worded outcomes against which it is appropriated (i.e., the 'overall outcome' does not appear in the Appropriation Acts).

Portfolio-wide outcomes are reasonable where there is sufficient uniformity of purpose across the portfolio. It seems unlikely, however that the relatively high aggregation of functions within Commonwealth portfolios would comfortably allow a single outcome of sufficient specificity to cover all the functions and responsibilities of all the agencies in any given portfolio. Where portfolio-wide outcomes have been used, some agencies support these with a series of intermediate outcomes that relate more closely to the work of the agency.

1.2.5 Cross-agency outcomes

Some agencies' outcomes are quite similar. It may be appropriate in these cases for those agencies (even if they are in different portfolios) to agree to a single outcome statement within which they establish their own outputs or output groups. Alternatively, it may be appropriate to establish purchaser/ provider arrangements whereby the 'lead' agency is funded for the whole outcome, subsequently purchasing outputs from the provider agency or agencies. Such developments would be subject to specific tests of the costs and benefits of such a move, especially counterbalancing short-term transition costs with potential long term efficiencies.

1.2.6 Outcome statements that facilitate effectiveness indicators

One of the more difficult aspects of specifying outcomes is ensuring that they are amenable to measurement, especially in terms of the effectiveness of the relevant administered items and/or departmental outputs in contributing to the outcome.

Almost all Commonwealth outcomes are likely to be influenced by factors that are beyond the control of the agency and/or influenced by multiple outputs across a range of portfolios. Isolating the causal relationship between the administered items and/or departmental output(s) and a particular outcome is therefore often a matter of judgement. At times, the impact of a particular output must be partly assumed or indicated through proxy or parallel effectiveness indicators. These matters are addressed in more detail under Performance Reporting Under Outcomes & Outputs.

These are excellent economic indicators of important dimensions of Australia's manufacturing, resources and service industries. They are, however, influenced by many factors other than the outputs of the Department. National and international economic trends and developments may well have a greater net impact on the specified outcome than all of the Department's outputs combined.

Other agencies and portfolios-as well as other levels of government-are also likely to generate contributions to the outcome. This means considerable care would be needed in interpreting the data generated to support the effectiveness measures. There may,

for example, be scope for estimating the net impact of the Department's programs and activities on labour productivity trends, as distinct from those of the Department of Employment, Workplace Relations & Small Business or factors such as State and Territory industrial relations policies and laws.

Example: Outcome Statement & Effectiveness Indicators

A stronger, sustainable and internationally competitive Australian industry, comprising manufacturing, resources and service sectors

Department of Industry, Science & Resources Outcome One for 2000-01

The Department's five effectiveness indicators for achievement of this outcome (as specified in its Portfolio Budget Statement for 2000-2001) include:

Production: Changes in Australia's per capita gross domestic product relative to its major international trading partners and trading competitors, at purchasing power parities;

Exports: Trend in exports from the manufacturing, resources and services sectors; and

Productivity: Trends in labour productivity and multi-factor productivity in the manufacturing, resources and service sectors.

1.2.7 Commonwealth Authorities & Companies Act bodies

Agencies operating under the Commonwealth Authorities and Companies Act 1997 will generally be subject to the outcomes and outputs framework, with two main variations from departments and agencies subject to the Financial Management Act 1997:

- where a CAC Act body does not receive Budget appropriations (as is often the case), their outcome specifications are not subject to the same detailed legal scrutiny as appropriation funded bodies (in particular, their outcome statements are not necessarily subject to endorsement by the Minister for Finance and Administration; see Legal specificity above); and
- CAC Act bodies may not normally make a distinction in their accounts between departmental and administered items, although where they are responsible for assets, liabilities, revenues or expenditures that are by their nature similar to administered items, these should be separately identified in such documentation as Portfolio Budget Statements.

1.3 Examples & cases

Examples of various aspects of outcome statements have been provided throughout this advice but the Commonwealth's approach to resource management is dynamic, and various portfolios and agencies have made significant changes to the way they specify their outcomes. Various factors have given rise to these changes. The Australian Federal Police and the Department of Employment, Workplace Relations and Small Business are two recent cases.

Example: Developing Improved Outcome Specifications

In the 1999-2000 Budget the Australian Federal Police (AFP) an agency within the Attorney-General's portfolio, had five outcomes. As with several other agencies, the AFP outcomes were derived largely from the organisation's previous program structure:

1. *Criminal activity is deterred in areas impacting on the Commonwealth Government's interests.*
2. *Those individuals and interests identified by the Commonwealth Government or the AFP as being at risk are kept safe and secure as a result of AFP protective services.*
3. *Policing activity creates a safer and more secure environment in the ACT, Jervis Bay and Australia's external territories.*
4. *The Commonwealth Government contributes effectively to international law enforcement interests.*
5. *Community confidence in the honesty, effectiveness and accountability of the AFP is high.*

This is a high number of specific, activity-based outcomes for a relatively small agency (total appropriation for the 1999-2000 Budget was under \$350 m). Following a review of the AFP's outcomes and outputs structures, and in coordination with an overall reorganisation, it was decided to streamline and refine the AFP's outcome structure to two statements:

1. *The investigation and prevention of crime against the Commonwealth, and the protection of Commonwealth interests in Australia and overseas.*
2. *Policing activity creates a safe and secure environment in the ACT.*

These outcomes more closely reflect the essence of the Government's objectives for the AFP. The first focuses specifically on the Commonwealth's role in criminal and protective matters, while the latter reflects the fact that the AFP provides community policing services to the ACT Government for an agreed fee, rather than out of an appropriation from the Commonwealth.

Example: Revising an Outcome Statement to Better Reflect Priorities

In the 1999-2000 Budget the Department of Employment, Workplace Relations and Small Business (DEWRSB) had four outcomes, one of which read:

Improved performance of the labour market

While a reasonable outcome statement in its own right, it became clear that this lacked specificity in terms of the Government's policy orientation in relation to labour markets. The outcome was therefore amended to:

An efficient and equitable labour market that links people to jobs and promotes the transition from welfare to work

This is more specific: it qualifies what is meant by "an efficient and equitable labour market". At a level of practice, too, it clearly articulates the priorities the Government wishes to emphasise in this policy area and is likely to assist Departmental managers align their decision-making and delivery mechanisms more closely to the Government's agenda than might otherwise have occurred.

Administered items

Administered items are those resources administered by the agency on behalf of the Government (such as transfer payments to the States, grants and benefits) to contribute to a specified outcome. They are identified separately from departmental items (that is, departmental outputs) because they involve different accountability requirements.

1.1 Policy & purpose

Around 80 per cent of the Commonwealth Budget is made up of administered items; departmental outputs make up the balance. Administered items therefore represent a major component of the Commonwealth's efforts to achieve policy outcomes.

While many of the characteristics and performance aspects of administered items are determined by factors over which agencies typically have little or no direct control (such as legislation, government policy or agreements with other governments), those aspects of administered items that are important for policy efficacy and/or public accountability must be identified and reported on, especially in Portfolio Budget Statements and Annual Reports. Administered items are also included in assessments of the effectiveness of government actions in achieving specified outcomes.

1.2 Design issues

Departmental and administered items are specific accounting terms. The distinction arises from the differing accountabilities involved. 'Departmental items' (or departmental outputs) are those assets, liabilities, revenues and expenses applied to the production of an agency's outputs, while 'administered items' are those resources administered by the agency on behalf of the Government to contribute to the specified outcome (e.g., most grants and benefits).

Definition of Departmental & Administered Items

The following is an extract from DOFA's web based Accounting and Budgeting Information service.

"Departmental items are those assets, liabilities, revenues and expenses controlled by agencies or authorities and used in producing their outputs. These include, for example, the revenues earned (from appropriations or independent sources) in payment for their outputs, and the cost of employees, suppliers, and depreciation of assets used in producing those outputs.

"Administered items are those assets, liabilities, revenues and expenses controlled by the Government and managed or overseen by agencies or authorities on behalf of the Government. These largely comprise the following:

- a. expenses from subsidies, grants and benefit payments;
- b. revenues from taxes, fees, fines and excise;
- c. liabilities relating to public debt and employee superannuation; and
- d. assets relating to tax receivables, loans to other governments and investments in controlled entities."

Items funded through special appropriations (that is, appropriations made through legislation other than the annual appropriation bills) will normally be administered

items, although this is not always or necessarily the case. For more information, see DOFA's advice on Development of Budget and Other Documentation.

Outputs that would otherwise be departmental items but are delivered via contractual arrangements are not administered items, as the agency retains ultimate control over the nature and delivery of the relevant goods or services. In contrast, transfers to state or territory governments and most grants are categorised as administered items. Benefit and pension payments also fall into the administered category.

Both departmental and administered items must fall within the ambit of a specified outcome.

The specification and performance reporting of administered items are largely determined by the relevant legislation or associated arrangements. The performance management regime for administered items therefore differs from that for departmental items (or outputs), in that administered items are not necessarily subject to the same performance indicators as outputs (quantity, quality and price). Where possible, however, the price, quality and quantity of administered items should be reported in appropriate documentation such as Portfolio Budget Statements and annual reports.

Generally, the nature of performance data pertaining to administered items will be determined by the terms of the policy or legislation on which the item is based—for example, the number of grant recipients, total appropriations made for the item or number of public hospital beds per 1000 of population. Such data is collected and reported to help in the development of public policy. In the case of public hospital funding, for example, this information helps the Commonwealth Government and Parliament assess options for improving the targeting of funding and services in this area.

Indicators of effectiveness (that is, measures indicating administered items' contributions to the specified outcomes) should be attached to the relevant outcome. They generally reflect the combined contributions of the output(s) and administered item(s) targeting that outcome.

Performance reporting and indicators for administered items are addressed in more detail in the DOFA advice on these matters.

1.3 Examples & cases

The three major agencies managing administered items in the Commonwealth are the Department of Family and Community Services, the Department of Health and Aged Care and the Department of Education, Training and Youth Affairs. Each have sought to highlight the main characteristics and performance dimensions of the large and complex items with which they are entrusted to administer.

Family and Community Services

The Department of Family and Community Services (FACS) is responsible for managing some \$60 billion in administered items. The Department has developed a structured approach to managing and reporting on administered items where each is subject to specific performance indicators. These include effectiveness measures as well as quality and quantity indicators. Under 'Grants to Family Relationship Support

Organisations', for example, the Department has identified the following indicators in its 2000-2001 Portfolio Budget Statement:

Cost - average cost per session and per customer by service delivery type (estimate \$175 per session and \$350 per customer).

Effectiveness - capacity (proportion of customers with positive outcomes);
take-up/coverage (number of service requests not accepted);
targeting (proportion of services delivered to areas of identified high need).

Quality - assurance (proportion of service providers meeting Family Quality Information Strategy Tier 1 standards).

Quantity - number of sessions provided and number of customers.

For the most part, the Department has not identified targets for these performance indicators. The use of targets is expected to increase as data on current performance is gathered and analysed.

Health and Aged Care

The Department of Health and Aged Care (HAC) is responsible for managing \$25 billion in administered items. It also reports on its administered items against specific performance indicators. Most items are reported against quality and quantity indicators with some also having efficiency and cost indicators. Under 'Access to high quality and cost-effective medicines for all Australians', for example, the Department has identified the following indicators in its 2000-2001 Portfolio Budget Statement:

Quantity - number of Pharmaceutical Benefits Schedule prescriptions supplied (estimate 144.6 million or 7.5 per capita).

Quality - percentage of PBS benefits paid for pharmaceuticals listed following evidence based assessment of comparative effectiveness and cost.

Efficiency - total cost of price increases to PBS drugs approved by the Pharmaceutical Benefits Pricing Authority compared with a \$19m increase in 1998-99 and increases in previous year; pharmacist remuneration as a proportion of general and concessional outlays.

Cost - overall cost of item (\$3,885.592m).

For many of the performance indicators the Department has identified a benchmark against which it will be assessed. These are mostly based on previous years' performances.

Specifying Outputs

Outputs are the 'engine room' of the outcomes and outputs framework. They are the actual deliverables - goods and services - agencies produce to generate the desired outcomes specified by government. Users of these goods and services can include members of the general public, industries or sectors, ministers, members of parliament, other agencies or even, in some instances, interests (e.g., the national interest). A client, in other words, can be anyone outside the agency who benefits from the work of the agency.

1.1 Policy & purpose

Outputs are not part of the legislative requirements for appropriation bills (whereas outcomes are), but they are identified in related budget documentation. Together with administered items, they:

- are detailed in the Portfolio Budget and Additional Estimates Statements to expand on the outcomes for which Parliament appropriates funds;
- generate a high level of scrutiny from Parliament, ministers and external accountability and coordination agencies;
- represent the tangible presence of the agency amongst its clients, customers and stakeholders; and
- generate the impacts on outcomes that give rise to crucial effectiveness indicators.

It is important that agencies develop their outputs and output groups with considerable care, especially consulting with major stakeholders, such as client groups, related agencies, the relevant Senate Legislation Committee and DOFA. Approval of all outputs and associated performance and effectiveness measures should be carried out through the established processes, as approved by the relevant Minister.

DOFA has prepared advice on the Requirements for Output Specifications. In summary, outputs should:

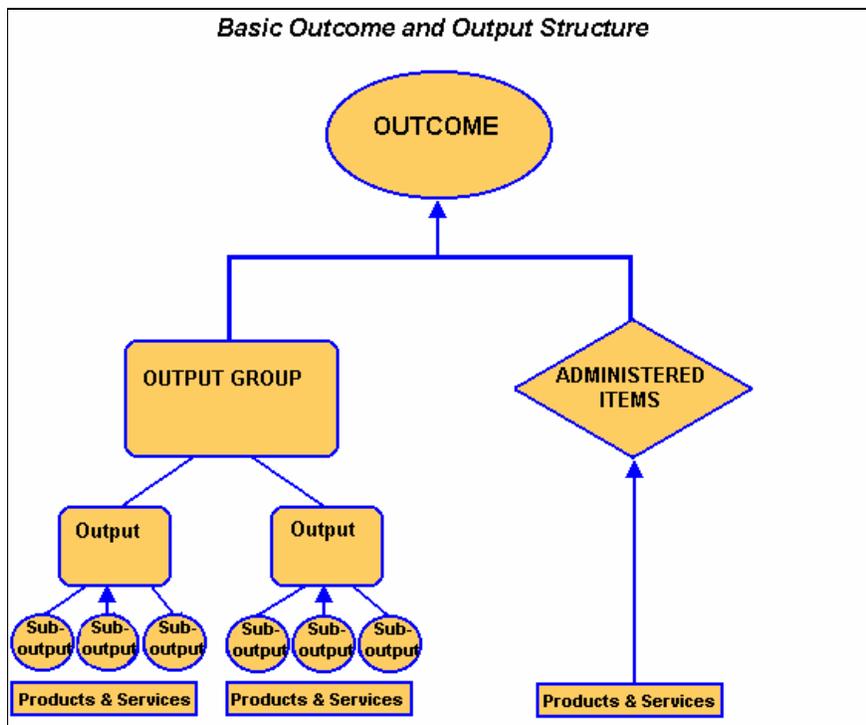
- describe a good or service provided to individuals or organisations external to the agency;
- be effective in terms of their contribution to the specified outcome;
- be expressed in terms of what it is (nouns or noun phrases) rather than how it is performed (verbs);
- be within the control of the agency, whether through direct delivery or contractual arrangements with third parties;
- identify what government is paying for, including being measurable in terms of price, quantity and quality

- be amenable to comparison between actual or potential suppliers (especially through price analysis);
- collectively cover all of the agency's activities, including overheads or shared resources allocated across outputs or output groups; and
- specified so that the agency's organisational structure and management systems can be mapped to its outputs (in practice this may be achieved over time).

1.2 Design issues

Many output design issues relate to specific agencies' needs and operations. These cannot be dealt with in a document such as this. Agencies are encouraged to seek specific assistance from DOFA in these instances. The following commentary addresses some issues that have arisen across the Commonwealth outcomes and outputs system in the course of the first year of the framework.

In general, DOFA encourages agencies to use a business specific output group structure supported by more generic outputs. An example of such an arrangement has been prepared as a guide.



1.2.1 Output groups

About half the agencies that published outputs in the Portfolio Budget Statements for the 1999-2000 used output groups in one form or another. While agencies are still required to report at the output level, grouping outputs can allow aggregated reporting at a business or program level.

Output groups tend to reflect the more business-specific aspects of an agency's operations, while outputs within output groups tend to be more generic in nature. This structure allows the agency to describe its particular products or services while also enabling comparisons of outputs across agencies. In particular, large program areas of departments can use this aggregation process to facilitate scrutiny of programs while managing and generating performance data at the level of the more generic outputs.

The Department of Education, Training and Youth Affairs (DETYA) has structured its output groups around administered items that target similar client groups and address similar community needs. This allows reporting to be focused on the administered items, in which Parliament and other external bodies are typically most interested. Within this framework, DETYA's departmental outputs are specified in generic terms to enhance comparisons and benchmarking.

Business-Specific Output Groups & Generic Outputs

In 2000-01 the Department of Education, Training & Youth Affairs (DETYA) had three outcomes. The first of these was '*School systems provide their students with high quality foundation skills and learning outcomes*'. Under that outcome there are three output groups—1.1 *Infrastructure funding for the schools system* 1.2 *Assistance for school students with special needs* and 1.3 *Enhance the quality of teaching and learning*—Under each of these output groups there are four generic outputs:

1. *Administration;*
2. *Policy Advising;*
3. *Ministerial & Parliamentary Services;* and
4. *Research, Analysis & Evaluation.*

In addition, output group 1.2 includes a fifth generic output, *Service delivery*.

By defining generic outputs under specific output groups, DETYA is more likely to be able to manage across outputs in a consistent manner. It also enhances the scope for benchmarking and price comparisons within the Department and with benchmarking partners.

It is important to note that a generic labeling of outputs within output groups implies that the processes and activities carried out within that output are similarly generic. As part of its guidelines for conducting agency pricing reviews, DOFA has developed standard process maps for such generic outputs as policy development, program management, research and evaluation. Further assistance on this can be obtained through the relevant Agency Advice Unit in the Department or via the Performance Leading Practice web site.

1.2.2 Causal relationship with the outcome

Because of the complexity of some policy areas, it can sometimes be difficult to establish a clear, unambiguous and direct causal link between an agency's outputs and the specified outcome. This is particularly so in areas where the main policy mechanisms are indirect, such as:

- regulation (e.g., corporation laws);
- fiscal or other policy settings (e.g., Commonwealth Budget surplus/deficit); or

- coordinating efforts with other levels of government, foreign or international bodies (e.g., the Antarctic Treaty).

In other cases, the Commonwealth may be delivering or overseeing the delivery of specific programs, but its participation is a relatively small factor in a much larger system (such as international trade). Even where the agency is a major player in its field of activity, it can sometimes be difficult to quantify its contributions to an outcome. For example, the Australian Broadcasting Authority's outcome is 'An accessible, diverse and responsible broadcasting industry'. The Authority has considerable legislative powers to act in support of this outcome, yet there are many factors largely outside its control (such as technological developments) that may undermine or enhance the qualities the Government is seeking to engender in the broadcasting industry.

Agencies are required to maximise the contribution of their outputs to the specified outcomes. Where there are extraneous factors impinging on the capacity of the agency to contribute to the specified outcome, these should be identified in relevant documentation, such as Portfolio Budget Statements and annual reports. Such identification need not be overstated. Terms such as 'contribution', 'participate', 'assist' and 'guide' all imply the agency cannot, and does not, claim total responsibility for the outcome. While these qualifiers may not be appropriate or necessary in the output statements themselves, associated material can certainly contain them. Performance information, too, could be used to reflect the proportionate contribution of the agency's outputs.

1.2.3 Level of specificity

As with outcomes, it can be difficult to strike a consistent level of specificity when designing outputs. Across the Commonwealth, there is considerable variation in the level of specificity on outputs. In 2000-2001, the number of outputs per agency ranges from one to 58, with an average of about seven. This is not of itself a concern, although it may raise questions as to the scope for genuine comparisons of performance between outputs and agencies.

- The factors to take into account when determining an appropriate output level are similar to those for outcomes, including:
 - the degree and nature of government's policy interest in the area;
 - the breadth of the agency's responsibilities (for example, the Department of the Family and Community Services is likely to have broader outputs than, say, the Australian War Memorial);
 - whether the agency is making use of output groups to aggregate related outputs; and
 - the specific nature of the products or services being delivered under the output, including:
 - how well defined is the client or target group?

- how uniform and tangible are the products or services delivered under the output?
- is there a well-defined market or commonly recognised description or standard for the product or service?

One means of testing the appropriateness of an output's description is to view existing or alternate specifications from the point of view of Ministers and Parliament. The level of specificity that best meets the needs of these stakeholders is generally likely to be the most appropriate.

1.2.4 Outputs, sub-outputs, activities & processes

In some cases, it may be appropriate to identify sub-outputs where these are component goods or services of an output. These would not normally be identified in external reporting documentation, especially if output groups are also used. The test of an output—that it is a good or service delivered to someone outside the agency—remains pertinent at the sub-output level. If this does not appear to be the case, it may be more appropriate to describe work at this level as 'activities' or 'processes', in which case they are essential matters for internal control and management.

Example: Outputs & Processes

In 2000-01, the Department of Family & Community Services (FACS) has a series of program-related output groups under its three outcomes. Each output group is made up of a set of still more specific outputs.

For example, under Outcome One (*Stronger families*), there is an output group entitled *Youth and student support* (Output Group 1.2). The Departmental outputs that fall within this group consist of:

- *Services for young people and students including:*
- *Youth Homelessness Early Intervention Programme;*
- *Income support for young people and for students;* and
- Policy advice, research and service management related to providing services for young people and students.

In order to track performance for each of these output groups, and their associated outputs, FACS have identified four generic processes to be mapped and tracked:

1. *Policy advice*
2. *Research & analysis*
3. *Service delivery*

Program management

This structure facilitates gathering information on price, quantity and quality across outputs within the Agency and helps in benchmarking ventures with partners outside the portfolio.

1.2.5 Outputs that contribute to more than one outcome

While outputs should be specified so that they contribute to an outcome, there are some circumstances where an output may influence a second outcome as well.

An agency focussed on industry policy may, for example, have an outcome aimed at enhancing community knowledge and understanding matters affecting industry, and another aimed at supporting industry to compete. Clearly, the industry-oriented

output(s) will contribute considerably to the knowledge and understanding outcome. This is a significant issue where performance information tends to measure the impact on both outcomes, even though it is *meant* to measure only one. Austrade's approach illustrates the issue.

Outputs Contributing to Different Outcomes

Austrade has four outcomes for 2000-01. The fourth of these is *Contribution to Australia's export trade performance by providing financial and other assistance to eligible organisations*. This outcome is supported by a single output: *Export finance assistance*. The quality of Austrade's delivery of this output clearly has direct implications for the Commission's Outcome One: *Public understanding of Australia's trade and investment direction, government export programs and promotion of Australia's image internationally*.

Should Austrade's performance in the export finance area fail to meet the needs and expectations of the firms and industries it is meant to assist, the resulting poor publicity could entirely negate efforts undertaken to improve the public understanding of Australia's trade and investment direction.

A well performing export financing program would, however, greatly reinforce the messages generated under Outcome One.

1.2.6 Organisational structures & information systems

Outputs will come to be a major defining force in shaping agencies' organisational structures and information systems. For reporting and financial control purposes it will make increasing sense for organisations to reflect their output structures as much as possible. It will also help identify managerial responsibility in the hierarchy of government outcomes, output groups, outputs, sub-outputs, processes and activities. Departments and agencies are establishing financial and costing systems to provide information on the basis of outputs, thereby enabling information to be aggregated as managerial attention moves up the framework.

1.2.7 Policy advice as an output

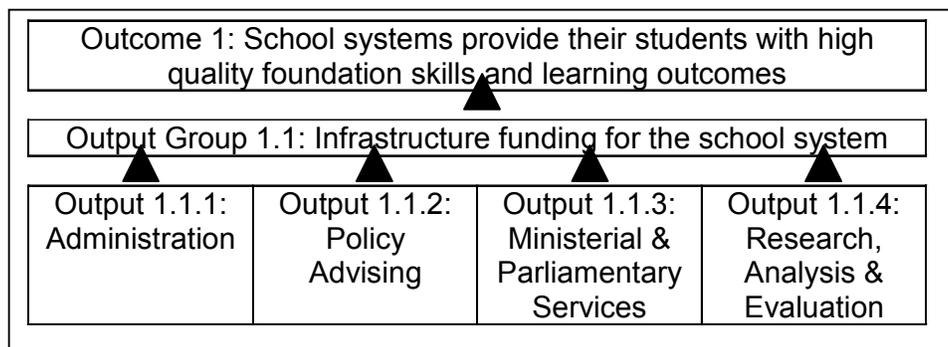
Policy advice constitutes an important and near-universal class of departmental outputs. In general, policy advice is defined as a departmental output where it is a service delivered to a client outside the department or agency, including the minister. Where policy development work is carried out for internal clients (e.g., the departmental executive) it is classed as an internal activity enabling the delivery of other outputs and is therefore an overhead item. Further information on policy advice as an output is available in discussion paper prepared by DOFA, located in the Annex at the end of this document.

1.3 Examples & cases

Departments and agencies have approached organising their outputs in different ways. The Department of Education, Training and Youth Affairs provides an example of a 'standard' output and output group structure, whereas the Department of Foreign Affairs and Trade and the Department of Family and Community Services have each taken somewhat different paths. The following examples are for illustration only and DOFA does not advocate one approach more than another.

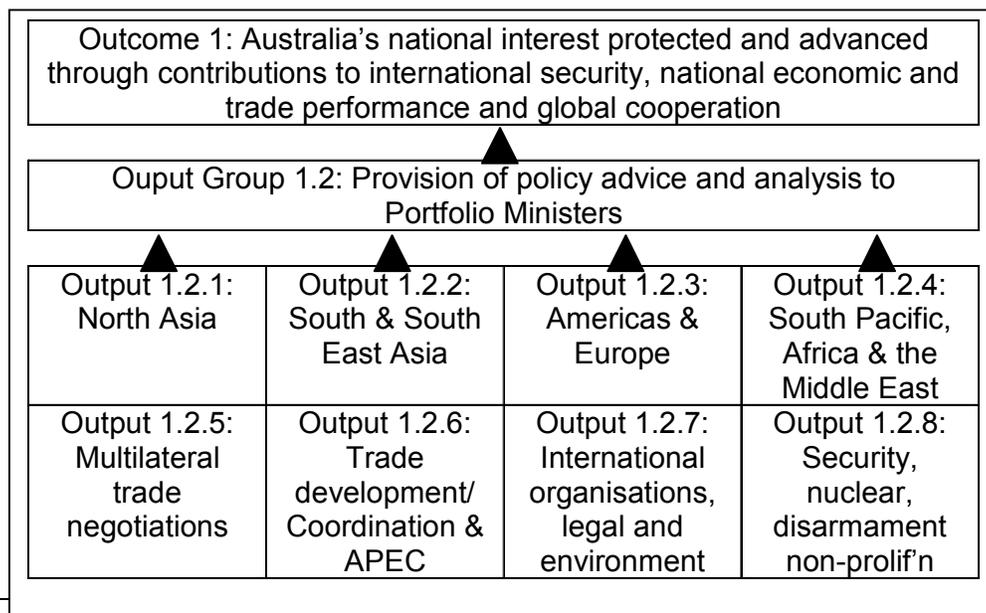
Case Study: 'Standard' Output & Output Group Structure

The Department of Education, Training & Youth Affairs (DETYA) has a 'standard' output and output group structure. Under each of the Department's three outcomes there are three to four output groups, each made of a set of generic outputs. The following is an example of the Department's structure:



Case Study: Generic Output Group with Business-Specific Outputs

In contrast with DETYA, the Department of Foreign Affairs & Trade (DFAT) has structured some of its outputs with a generic output group underpinned by business-specific outputs. DFAT has three outcomes, of which the first is supported by five output groups. The example below shows a generic output group with business-specific outputs structure:



Other output groups supporting this DFAT outcome are not structured in this way: both the group and output levels are business-specific in nature.

Case Study: Business-Specific Output Groups & Outputs with Generic Activities

A third variation on the structuring of output groups and outputs is provided by the Department of Family & Community Services (FACS). That Department has three very generalised outcomes (*Stronger families, Stronger communities and Economic and social participation*). Supporting each of these is a series of output groups which are specified at a fairly high level. Under outcome one, for example, there are three output groups: *Family Assistance, Youth & Student Support* and *Child Support*. Each output group is made up of a further series of program-related Departmental outputs. Under output group two, for example, there are three outputs:

1. *Youth Homelessness Early Intervention Programme;*
2. *Income support for young people and for students; and*
3. *Policy advice, research and service management related to providing services for young people.*

Each of these business-related outputs, however, is made up of a number of more generic 'activities' (the mix depending on the specific nature of the output), including:

- Policy advice;
- Research & analysis;
- Service delivery; and
- Program management.*

This structure facilitates information gathering on price, quantity and quality across outputs within the agency and helps in benchmarking ventures with partners outside the portfolio.

* NB: The Department of Education, Training and Youth Affairs treats these elements as outputs.

Performance Reporting Under Outcomes & Outputs

This advice on performance reporting under the outcomes and outputs framework has been prepared as an interim measure pending the publication of departmental and agency annual reports for 1999-2000, when the advice will be updated, including the addition of further examples and cases.

1. Policy & purpose

All Commonwealth agencies are required to publish performance information in key accountability documents such as Portfolio Budget Statements and annual reports. This information should cover the major components of the outcomes and outputs framework as follows:

Outcomes:

Require indicators of effectiveness in terms of the contributions of relevant departmental outputs and administered items to the achievement of the outcome;

Outputs:

Require indicators of the price, quantity and quality of the output; and

Administered

Items:

Require indicators relating to the achievement of the objectives of the grants, transfers or benefit payments (for example), as indicated in associated legislation, policy statements or inter-governmental agreements.

The following discussion outlines the purpose of performance information under the outcomes and outputs framework, linking it to other common performance management approaches such as business planning and the balanced scorecard approach.

1.1 Purpose of performance information

Performance information is evidence about performance that is collected and used systematically. It can be collected at many levels depending on the purpose and on the structure of each agency.

Internal purposes include providing timely feedback on the performance of outputs and administered items so that action can be taken during the year to ensure that the expectations of the government and agency can be met. Measures aligned with performance agreements can also be used to provide feedback to staff on their contribution to the management of outputs and administered items. Alignment may not always be possible or desirable, and there may be good reasons why an agency's administrative or financial control structure does not follow outputs or outcome streams, including the fact that the cost of making such changes may outweigh the advantages.

Externally, the purpose of performance information is to assist stakeholders and management to draw well-informed conclusions about performance in published

documentation, and provide a sound contribution towards decision-making. In this context, a top-level strategic overview is essential. External reporting is generally less frequent and less detailed than that for internal purposes. It focuses on foreshadowing performance for a particular year through Portfolio Budget Statements, and within eighteen months, reporting of actual performance for that year through annual reports. Candour in disclosure and action on performance information will add to credibility.

This process should be carried out in a transparent way, so that those to whom agencies and governments are accountable can make informed judgements about how well they are meeting stated objectives. Agencies are therefore required to identify and report on planned performance in their budget documentation (Portfolio Budget Statements and Additional Estimates Statements) and actual performance in their annual reports. Guidance on these documents is available on the Department of Finance and Administration (in relation to PBS/PAES requirements for all agencies and annual reporting for Commonwealth Authorities and Companies Act bodies) and Department of Prime Minister and Cabinet (in relation to requirements for departmental annual reports) web sites.

2. Design issues

This section addresses the design issues in developing performance information under the outcomes and outputs framework.

2.1 Performance information & behaviours

Poorly designed or specified performance indicators can result in unintended consequences if the behaviours they encourage are not carefully considered. There is a risk that managers may feel obliged to generate output that is tailored to an artificial or inappropriate target (for example, a specific number of ministerial briefs) or change the nature of their work to make the numbers 'right' (for example, breaking up or amalgamating supplier contracts). It is therefore important to keep this possibility in mind when designing performance indicators. It is also important to stress the inter-relationship of the indicators: meeting a quantity target at the expense of price or quality expectations is not appropriate or desirable.

2.2 Balance & clarity

Performance information will be useful where it is pitched to provide a comprehensive and balanced coverage of a particular outcome, output or administered item. This can be achieved with a concise basket of performance indicators which can be understood, are well-defined, and are cost-effective to collect, store and manage.

2.3 Targets

For both internal and external purposes, performance information should provide perspective. It is most effective where current performance can be compared qualitatively or quantitatively against specific benchmarks, targets or activity levels. In a context of continuous improvement, it is desirable that these be of a stretching nature (i.e. demanding significant but achievable improvement) where this is acceptable. The extent of "stretch" should be identified explicitly. Activity levels should be realistic.

2.4 Outcomes

Outcomes performance information relates to the specific impact that an agency's outputs and administered items have had on the community. Outcomes are often long-term in nature, and performance information in this area must focus on effectiveness. It needs to achieve a balance between addressing progress against milestones, intermediate targets and ultimate long-term impacts. According to the circumstances, outcome reporting can be complemented by identifying the results of performance audits, reviews or evaluations. Ultimately, the community, Parliamentarians and the Government are most interested in the achievement of outcomes, and this is the level at which funds are appropriated. This is also the level at which the community views the activities of the government.

2.5 Outputs

In addition to reporting on effectiveness in achieving outcomes, output performance information relates to the *quality, quantity and price* of agency products and services. The aim here is to demonstrate that an agency has addressed the government's purchase requirements in a way that demonstrates overall value for the community. For internal performance management, it is useful to identify the impact of strategies which have been adopted during the year to achieve or improve performance, and to recognise continuous improvement.

2.6 Administered items

In addition to reporting on effectiveness in achieving outcomes, administered items performance information will address the quality, quantity and price associated with third party outputs (such as from States, Territories and non-Government organisations). It will also address transfer payments which meet the Government's requirements. These are most often specified in legislation, inter-governmental agreements, other contractual arrangements, or other expressions of Government policy.

2.7 Stability versus improvement

The outcomes and outputs framework took effect in 1999-2000 and agency outcomes, output and performance information structures can be expected to evolve with experience to meet contemporary needs. While performance information for any purpose is most effective where trends can be compared over time, this needs to be carefully balanced against changes that reflect the availability of more relevant or more reliable information. Performance information should be regularly assessed for appropriateness through systematic review and evaluation of departmental outputs and administered items and, where necessary, review and evaluation of the Government outcomes they support.

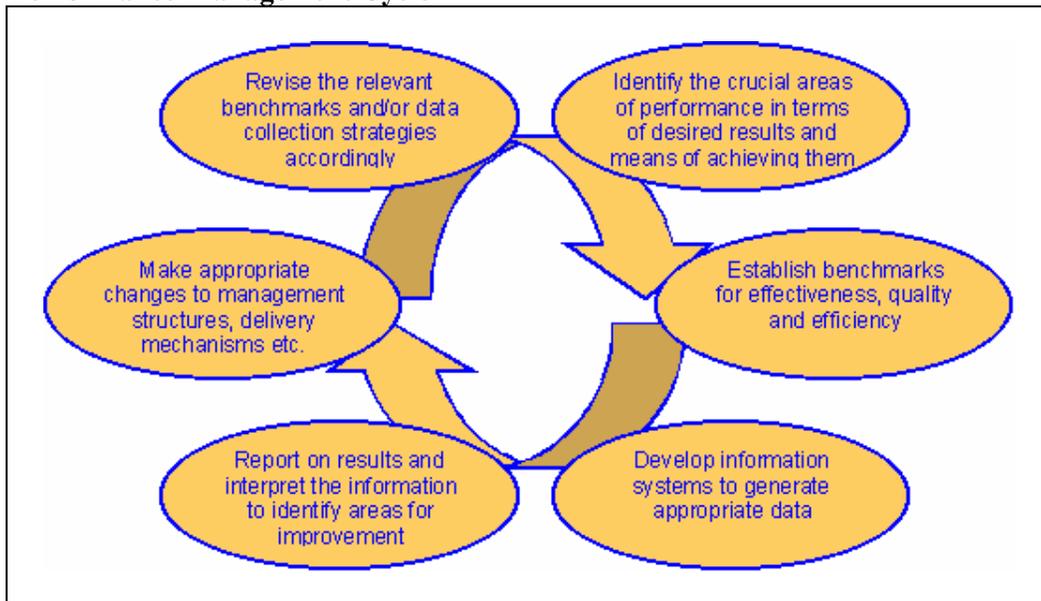
2.8 The performance management cycle

The outcomes and outputs framework provides the basis for agencies to develop robust performance management systems that allow them to continuously improve the way they do business. This gives rise to a cycle of improvement, depicted in the diagram below. The performance management cycle has six stages:

- identify the crucial areas of performance;
- establish benchmarks for achieving the specified outcomes as effectively and efficiently as possible;
- develop information systems to generate the appropriate data;
- report on results and interpret the information to identify areas for improvement;

- make appropriate changes to management and operations; and
- revise the relevant benchmarks accordingly (taking into account the need for continuity of indicators over time).

Performance Management Cycle



The performance management cycle interconnects with the wider framework of the Performance Improvement Cycle (PIC), promulgated by the Department of Finance and Administration in March 1998. The PIC is a case-by-case approach to management review and improvement. It aims to encourage managers to actively question the relevance of particular activities and the need to continue with a given set of responsibilities or modes of operating. The PIC has four stages:

Phase One: Review Government Activity;

- : Should the Commonwealth be involved in the activity?
- : Should the activity be devolved to another level of government, privatised or discontinued?

Phase Two: Testing Cost and Effectiveness;

- : What is the most efficient way for the Commonwealth to be involved in the activity - competitive tendering and contracting, benchmarking, partnering re-engineering, contracting with another agency etc?

Phase Three: Implement Improvements;

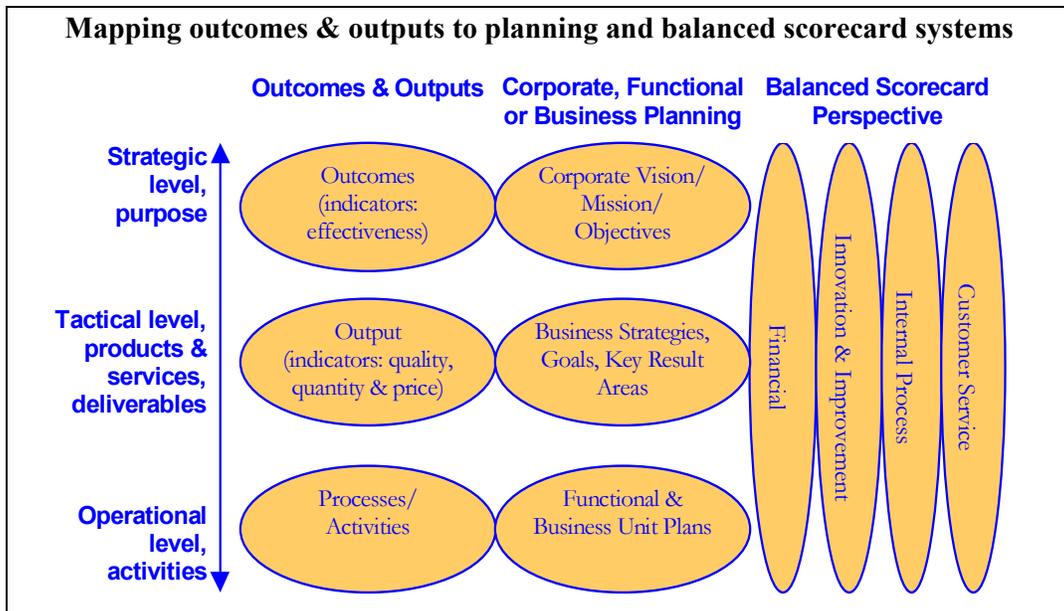
: How will improvements be implemented most efficiently?

Phase Four: Review and Evaluation;

: How well did the improvement strategy work and is it still relevant to the current environment? (Repeat phases one and two)

2.9 Performance information under outcomes & outputs, business planning and the balanced scorecard

The outcomes and outputs framework 'maps' across two other common corporate management tools - corporate planning and balanced scorecard - in the fashion outlined below. Each approach is concerned with aligning strategy and operations so that they are consistent with the overall purpose of the organisation. The outcomes and outputs approach has a strong focus on performance measurement, especially in terms of the effectiveness of outcomes. Corporate planning helps organisations identify their key result areas and ensure that their strengths, weaknesses, opportunities and threats are clearly identified and dealt with in the organisation's strategies. The balanced scorecard provides a matrix to check the consistency of performance information from all levels in the organisation within the four (or sometimes five) perspectives of customers, internal processes, innovation and financial performance.



3. Outcome information

Indicators of outcome performance focus on the effectiveness of government activity in contributing to specified outcomes. There are two types: those that relate to the *overall* outcome; and those that relate to the *effectiveness* of government's contribution to that overall result, principally through its administered items and its agencies' outputs. In general, indicators of effectiveness will form a subset of indicators of the overall outcome.

3.1 Information on overall outcome result

Most outcome statements will implicitly include some suggestion of the indicators of their overall achievement. It is desirable to specify at least one or two such indicators for each outcome as a means of reporting on the general trends in the area targeted by the outcome.

Example: Indicators of Overall Outcome Result

The Department of Industry, Science & Resources (DISR) has five effectiveness indicators for the contribution of its outputs to the Department's outcome two (*Enhanced economic and social benefits through a strengthened national system of science and innovation*):

Research & Development:

- Trends in business expenditure on research and development
- Trends in international science and technology collaboration and the uptake of new and leading edge technologies
- Trends in the IR&D Board programs

Intellectual Property:

- Trend in number of patents granted for Australian inventions, both in Australia and overseas

Science:

- Trends in worldwide citations of Australian research in the peer-reviewed scientific literature

Information access:

Increased industry and community access to scientific information

This information is useful in describing the broad environment in which the agency is operating and in developing and communicating policy options. Such indicators, however, should not purport to necessarily represent the agency's contribution to the outcome. That information should be contained in the effectiveness indicators discussed below.

3.2 Information on effectiveness

'Effectiveness' refers to the extent to which outputs and/or administered items make positive contributions to the specified outcome. Effectiveness, then, is a function of the output(s) and administered item(s) being both appropriate *and* well performing. While it is possible to have an effective output or administered item that is highly inefficient, in practice it is rare for an output that is of a high per unit cost and low quality (for example) to also be effective in realising the desired outcome.

Effectiveness indicators will generally be derived from some characteristic of the outcome and they should be designed to identify as clearly as possible the causal relationship between the output(s) and/or administered item(s) and the outcome. These indicators require very careful design and specification. They cannot be as easily characterised as output or administered item indicators and there are few 'generic' indicators of the effectiveness of government outputs and administered items. For long term planning and policy purposes, however, it is important that the best available effectiveness indicators are identified and reported against. It is therefore up to agencies-in close consultation with their ministers and stakeholders-to identify realistic, useful and relevant effectiveness indicators to help those interested

in the agency and/or the administered items it manages to better understand their value in terms of specific policy outcomes.

Effectiveness indicators will generally be judged by four criteria:

- (i) the degree to which they reflect the terms of the specified outcome;
- (ii) the degree to which they relate to the appropriateness of the specified output(s) or administered item(s) in contributing to the specified outcome;
- (iii) the degree to which they encompass contributions to the outcome by all relevant outputs and/or administered items; and
- (iv) the degree to which they account for factors outside the direct or indirect influence or control of the agency and/or government policy mechanisms (i.e., in relation to administered items).

None of these criteria is an absolute. There are few (if any) effectiveness indicators which will always entirely reveal the appropriateness of the output or administered item as well as measure *all* its contributions-and *only* its contributions-to the outcome. The intention, however, is to come as close as possible to this ideal.

Effectiveness Indicators

The Department of Finance & Administration (DOFA) developed a set of relatively specific effectiveness indicators for its outcome one in 2000-01 (*Sustainable government finances*). These are divided into two classes of indicator which are expanded upon with appropriate narrative:

Indicators of achievement of outcome:

- The primary objective of the Government's medium-term fiscal objective is to achieve underlying budget balance on average, over the economic cycle. Consistent with this objective, the fiscal strategy incorporates the following associated fiscal targets:
- Maintaining fiscal surpluses over the forward estimates period while economic growth prospects remain sound;
- No increase in the overall tax burden from its 1996-97 level; and
- Improving the Commonwealth's net assets position over the medium to longer term.

Indicator of contribution of outputs to outcome:

- *Utility of budget documentation and briefings for budget decision making assessed by customers as excellent or above average.*

This is a combination of generalised, strategically oriented indicators with a more immediate indicator of intermediate characteristics of the outputs' contributions to the outcome. It allows the reader to make appropriate distinctions between the role and capacity of the Department in delivering against the specified outcome and broader factors such as general economic and fiscal policy settings.

3.3 Effectiveness information & outcome and output structures

The process of designing indicators of effectiveness can be a useful tool for checking the appropriateness of the overall framework of a given outcome and the outputs and administered items design to achieve it. If, for example, an output is not well specified, it may well prove difficult to identify robust and reliable indicators of its contribution to the outcome. Similarly, if the outcome is too general or couched in inappropriate language, then it may not be possible to establish effectiveness criteria that demonstrate the link between an administered item (even if it is well specified in its own terms) and the outcome.

The design process for outcomes, outputs and effectiveness indicators (and efficiency indicators, inputs, activities and processes, for that matter) should therefore be iterative, with opportunities to cross-check the fit and alignment of each element of the structure with the others. This maximises the opportunity for an optimal system to be established.

Within the limits imposed by available resources and time, as well as various extraneous factors, agencies are responsible for establishing an outcome and output structure (including relevant performance indicators) that is as close to optimal as possible. Once a structure has been established, however, there is a need to counterbalance the potential gains in refining it with the risk of diminishing year-on-year comparisons of performance and results.

3.4 Attach effectiveness indicators to outcomes

Effectiveness indicators should reflect the terms of the outcome as much as possible. It is therefore more appropriate in reporting documentation for these indicators to be attached to the outcome rather than its various outputs or administered items. This allows for the combined effects of the outputs and administered items to be measured and reported.

In practice, some effectiveness indicators will arise from a specific output or administered item. This may occur where there is a clear one-to-one causal relationship between the outcome and the output or where the optimal means of identifying the achievement of the outcome is through reporting on the separate effects of the various outputs and/or administered items.

Under a slightly different scenario, while one output or administered item may make an appropriately effective contribution to one aspect of an outcome, it may conceivably detract from the realisation of another aspect of the same outcome. This can happen, for example, where the outcome is aimed at striking a balance between competing objectives (for example, economic growth and environmental sustainability). In these cases it is also best to report on effectiveness at the outcome level to account for the differing influences of the relevant outputs and/or administered items.

3.5 Coverage of outcome indicators & accounting for extraneous factors

Most government agencies operate in environments that are complex systems of interconnected factors. Some of these the agency can influence, some it cannot. Even within an agency's scope of operations, there can be competing goals or objectives. As a consequence, many outputs and administered items are necessarily constrained by:

- the intrinsic limitations of the agency in terms of its regulatory or policy scope and its resourcing; and/or
- the need to balance different objectives.

Under these circumstances, it is important that the effectiveness indicators in combination reflect the different interests. As far as possible, they should also take account of factors that are beyond the direct or indirect control or influence of the agency, whether these are factors arising from the work of other levels of government, other agencies within the Commonwealth or the wider national or global economy. Where it is not possible to 'quarantine' the indicators in this way, the narrative surrounding them should make clear that the agency is aware of the imperfect match between the indicators and the relationship between the outputs and the outcome.

3.6 Effectiveness is *not* the same as quality

It is a common misconception that the quality aspects of an output's performance are the same as its effectiveness. This is not the case: effectiveness relates to the degree and nature of the output's contribution to the specified outcome, while the output's quality dimensions relate to its immediate characteristics and performance against specifications. Even where the quality measure includes a factor such as client satisfaction, it is generally not the case that the satisfaction of clients' needs is the sole purpose of the outcome. Satisfying clients may be a necessary condition for success in a business advisory function, but it is not a sufficient cause of, say, a more competitive business sector. Indeed, it is possible for an output to perform to a very high level-including in terms of its quality aspects-while its impact on the outcome is negligible or even detrimental. This circumstance will most often arise when the output is not an appropriate or optimal response to the demands of the specified outcome.

3.7 How many outcome indicators?

As a general rule, the effectiveness indicators should cover the disparate aspects specified in the outcome. For example, if the outcome identifies efficient as well as fair results for the target group, then it would be desirable to specify at least one indicator for each of these qualities. Some outcomes, however, operate at such a high level and imply such a wide range of actual or potential interests to be addressed (for example, the Treasury portfolio has responsibilities that cover the entire national economy), that it may be necessary to concentrate effectiveness information on those aspects that are most pertinent from an accountability and policy point of view. In general, less than two effectiveness indicators for an outcome is unlikely to provide interested parties with enough data to make judgements about the contributions of the departmental outputs and/or the administered items. More than six, however, is likely to confuse the issue by including data that is of diminished relevance to the outcome and/or the outputs and administered items.

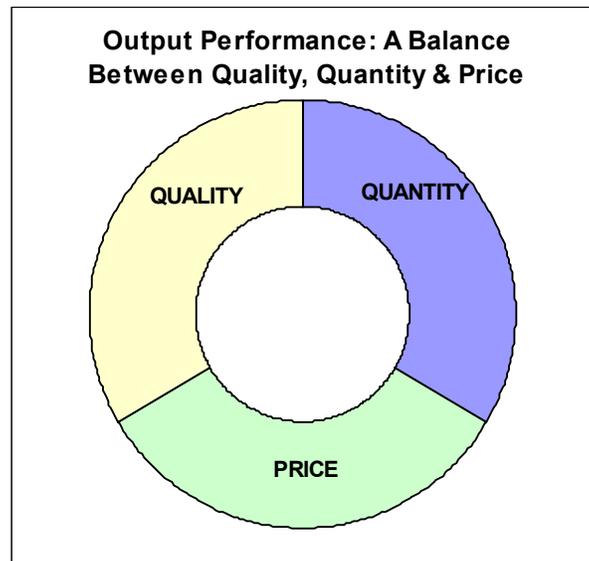
3.8 Independent data collection

Wherever possible, data for effectiveness indicators should come from public or at least independent sources. It may be necessary from time to time to commission specific research or analysis of statistical or other data to generate the required measures. It is important for probity and public confidence reasons that the agency not

be solely responsible for gathering, maintaining and interpreting the data used in assessing the effectiveness of its own outputs.

4. Output information

Output indicators provide information on the productivity of a given output in terms of the *combined* and *interdependent* effects of its price, quantity and quality. Each of these factors has an impact on the other such that there is, at a theoretical level, an optimal point where adding or subtracting from any one item will result in a net decline in performance. This point of equilibrium, however, is extremely elusive in practice.



The following sections discuss price, quantity and quality separately, but their mutual dependence should always be borne in mind when designing, measuring and especially interpreting performance information.

4.1 Quality

As mentioned above, quality indicators are *not* the same as effectiveness indicators. This is a common misconception. The former relate to the specific, immediate characteristics of an output that are not encompassed by price or quantity, while the latter are concerned with the degree and nature of the output's contribution to the specified outcome. This reflects the fact that the immediate characteristics of an output (its quality, price and quantity) is not the same as its *impact* on the specified outcome (its effectiveness). While a well performing output (i.e., in quality terms) is generally a necessary component in achieving the desired outcome, it is rarely a sufficient cause. It is possible, for example, that the output is not the optimal choice for maximising the agency's contribution to the outcome, or that extraneous factors nullify or distort the output's capacity to contribute to the outcome.

The qualitative aspects of an output are often the most elusive to define, measure and interpret. They generally relate to both tangible, objective criteria (e.g., timeliness, coverage, accuracy, conformity to specifications) and less tangible, interpretive data

(such as client satisfaction, peer review or public perception/profile). These aspects will often also have the greatest relevance to those immediately affected by the output and, to a lesser extent, to accountability bodies such as parliamentary committees. It is therefore important that quality indicators:

- measure those aspects of the output that are most pertinent to clients, customers or stakeholders;
- include both tangible, objective indicators as well as subjective, qualitative information; and
- are kept to a minimum number, as it is possible to overload both the user of the information and the agency's capacity to gather and interpret relevant data.

Generally speaking, then, an output would need to have at least two and perhaps up to four or five indicators of quality. Less than two would probably not encompass both the objective and subjective information required, while more than around five would usually either confuse the issue or generate costs in data collection and interpretation that would outweigh the benefits.

Example: Indicators of Output Quality (Administrative Functions)

Centrelink has in place a series of key result areas or goals (roughly analogous to areas of performance focus) for addressing its single agency output: *Efficient delivery of Commonwealth services to eligible customers*. Each KRA is determined by one or more performance outcomes:

Key Result Outcomes

Area Performance

Client Partnerships:

- Client agency satisfaction: derived from perception of value for money in using Centrelink's services
- Business Partnership Agreements: the extent to which Centrelink meets its performance agreements with client agencies

Customer and Community:

- Customer satisfaction with services
- Customer satisfaction with specific service delivery channels including call centres, customer service centres and international services
- Extent to which Centrelink meets its customer service charter

Centrelink People:

- Centrelink people have the skills to do their job and are committed to delivering services to our customers (measured by survey)

Cost Efficiency:

- Operating result with nil variance from monthly target
- Cost planning effectiveness - salary and admin are expended within 5% of monthly plan

Innovation:

- Business improvement - the extent of the return on investment from business improvement projects

Example: Indicators of Output Quality (Policy Functions)

The Department of Finance & Administration (DOFA) has as its output 1.1.2 for 2000-01 *Whole-of-Government budgetary advice*. The quality indicators used for that output are:

- 90% of briefings and Ministerial replies rated excellent or above by the Minister;
- 90% of Ministerial letters with turnaround within 2 working days;
- 90% of Parliamentary responses to questions on notice are prepared within the timeframe agreed with Parliament;
- 90% of economic reports are delivered within the timeframes agreed and are rated excellent or above average.

These indicators place a clear emphasis on timeliness and ministerial satisfaction; two performance criteria important to the Department and its Ministers. As such, they constitute an appropriate and targeted set of measures for this output. Over time, and perhaps with shifts in Ministerial expectations or needs, these criteria may evolve and change.

4.2 Quantity

In many circumstances, the measurement of quantity is a straightforward matter. This is especially so where the activity in question is a reasonably homogeneous administrative or service function. Examples might include the processing of veterans' benefit claims (where the unit of measurement is the number of claims) or the administration of a grants scheme (where the unit of measurement is the number of grant applications).

Public sector organisations, however, often generate outputs that are not so homogeneous. Policy development and advice is perhaps the most ubiquitous example, but there are others, including: research and development; capabilities or reserves of various types (for example, defence); foreign relations and diplomacy; and regulation. These cases are often analogous to private sector arrangements whereby a client might be paying for a capacity (for example, fast-turnaround legal advice to a specific standard of expertise) rather than one off (for example, drafting a contract) or serial activities where demand is known in advance (for example, processing monthly accounts).

Where there is a relative lack of homogeneity, it is important to select a quantity indicator that will make the most sense when read in conjunction with the price and quality indicators. To build on the example of policy development and advice, a minister may not see the number of policy briefs prepared as being an appropriate metric against which to cast information about the quality or price of an agency's policy advice outputs. This is particularly so if the number of briefs is used as a performance target. More important, and more relevant to the attendant quality and price indicators, would be information about the capacity of the agency's policy areas. This might be measured in terms of officer hours applied to policy work, for example.

Examples: Indicators of Output Quantity (Administrative Functions)

Department of Health & Aged Care

For an output group of 'program management (including financial management and reporting)' under its *Population Health and Safety* outcome, HAC has an estimate of 400-500 grants and contracts administered.

Department of Veterans' Affairs

For its output 2.2 (Provide counselling, education, community development rehabilitation and referral), DVA has a quantity indicator of 12,200 clients in receipt of counseling services.

Department of Transport & Regional Services

For 2000-01, DTRS has as a quantity indicator for its maritime safety reporting activity (under output 4.2, 'Safety and security education and information') of 'Findings published in up to 15'.

Examples: Indicators of Output Quantity (Policy Functions)

Austrade

Austrade, in addition to a quality measure (satisfaction), nominates tangible 'product' counts for the quantity measure of its output 'Advice and guidance to Federal Government and coordination of Commonwealth export activities', including:

- Number of briefs (including submissions and ministerials);
- Number of appearances before parliamentary committees and IDC; and
- Number of ministerial or parliamentary visits coordinated.

Human resource indicators for policy outputs

An alternative to counting the number of briefs etc generated for ministers and government is to identify the *capacity* maintained for policy work. The quantity indicator would therefore be staff hours available for and/or dedicated to policy-related work.

4.3 Price

Price refers to the market value of a good or product. While it is influenced by the cost of production, distribution and supply (i.e., inputs), it is also determined by demand and alternative supply. Price is therefore the point of balance between the cost of production, the price of alternatives and the amount the customer/government is willing to pay.

The price of an output, therefore, is the amount agreed between an agency and government for that output (or output group). This is a fundamental shift from previous cost-oriented concepts of program funding and allocations. It means, in particular, that relevant information about the quantity, quality and impact of the outputs needs to be shared between the agency and the government. Implicit in this is the fact that the government does not need to know the intricate details of the agency's internal processes and activities for pricing purposes (although other issues such as public probity may well mean that government will need such information to ensure the agency fulfill its fiduciary and public interest responsibilities).

Further information on costing, pricing and accounting practices can be found at DOFA's web based service Accounting and Budgeting Information.

4.4 Demand is *not* the same as performance

There is a tendency for some agencies to designate as 'performance indicators' factors that are actually measures of *demand* (for example, number of client phone calls

received or number of ministerial briefs called for) rather than *performance*. This is most common in the area of quantity indicators (for example, client queries, number of ministerial briefings). The relationship between these factors and agency performance can sometimes be marginal at best. While demand data is often of considerable interest in itself, it is not necessarily an indication of agency performance, especially when read in conjunction with quality indicators. Having a 100% client satisfaction rating, for example, is of diminished relevance if that rating is only among the 50% of clients whose phone calls are actually answered.

4.5 Cross-output indicators

Some agencies find that some indicators derive from factors that cut across outputs. This happens particularly where the outputs are oriented towards the same outcome. On occasion this may be the result of poor specification of the output, or poor design of the data collection arrangements. Sometimes, however, it may be unavoidable for indicators of performance to cut across outputs. Customer satisfaction measures, for example, often reflect customers' perceptions of the performance of the agency as a whole, rather than individual programs or outputs. Designing customer feedback mechanisms that make the appropriate distinctions between specific outputs may be costly and time consuming either for the agency or for the customer. Under these circumstances, it is reasonable to retain such indicators but to identify their cross-output character in explanations of the indicators or results. Where possible, some apportionment of the respective contributions of the outputs to the performance indicator result should be provided, even if in general terms (for example, by noting that a percentage of responses were from customers who had made no use of a particular output, while another percentage might have used only that particular output).

Example: Cross-Output Performance Indicator

Austrade has quality indicators across most of its outputs for 2000-01 that derive from client satisfaction surveys. In some cases it is not cost effective (either for Austrade or the clients) to delineate the surveys along output lines. As a result, client satisfaction ratings can cover more than one output (e.g., customers may be assessing Austrade's overall performance in their experience of, say, output 2.1 *Export and outward investment services* and output 4.1 *Export finance assistance*). It may be possible to cross tabulate some of the survey responses to isolate those that are more likely to relate to one output rather than another, but not always.

This does not make client satisfaction ratings invalid as indicators of output performance, provided Austrade continues to cross check other forms of client feedback with any conclusions drawn on an output from a survey.

4.6 Extraneous factors

It is often not possible to account for all of the extraneous, non-agency factors that might contribute to (or detract from) an efficient output. It is important, however, to design efficiency indicators that are as unaffected by such factors as possible. If this is not possible, it is important to explain and quantify their impact. This can be done in brief narratives in Portfolio Budget Statements and annual reports.

Example: Performance Indicators Affected by Extraneous Factors

A common difficulty faced by agencies is that many activities are often subject to highly variable demand factors. These can influence price and quality as well as quantity indicators. Policy functions, for example, can be placed under considerable pressure as the result of unforeseen developments; a recent example was the need to develop a rapid response to developments in East Timor. Under these circumstances, it would be appropriate to report on variances to the planned output performance by referring to major shifts in demand.

4.7 How many output indicators?

It can be as misleading to have too many efficiency indicators as too few, especially if the selected indicators are of marginal relevance, validity or utility. In general, efficiency indicators used for external reporting purposes should be a subset of those generated for internal management purposes. One indicator each for quantity and price should normally be sufficient, while quality measures often require at least two indicators (covering subjective information such as client satisfaction and more objective information such as performance to specifications). More than four quality indicators for an output may confuse or frustrate the reader while adding little to their level of understanding of the output.

4.8 Management information systems for output indicators

Generating information for performance measurement is not cost-free. It is therefore important to consider management information factors when designing indicators. Where possible, the information used should emerge as a natural byproduct of the agency's normal functions and information needs. Many agencies, however, have found that robust and reliable data for output management calls for enhancement of their information and accounting systems, especially in using such tools as activity based costing (ABC) and benchmarking. Much of the information used in output performance indicators must be aggregated up from the level of activities and processes, and allocating overhead and shared resource costs may demand sophisticated mapping of activities and processes.

Examples: Information Systems Aligned with Output Structures

Department of Family & Community Services

The Department of Family & Community Services (FACS) has established a financial and management reporting system built on activity based management and principles. The system is structured so that it reflects the output groups, outputs and activities across the Department. The main unit of analysis is activities, of which there are four generic descriptors covering activities within business-specific outputs. The system allows FACS to track and report on the costs and performance of its outputs and it will eventually facilitate greater use of benchmarking and cross-output comparisons of performance.

Department of Defence

The Department of Defence is also pursuing an activity-based costing approach. That Department's efforts are necessarily on a very large scale, with some 10,000 activities across the organisation's five outputs (for 2000-01). The expectation is that, with the implementation of new financial and personnel management systems, Defence will be well equipped to analyse its outputs for performance and project management purposes.

4.9 Pricing Reviews

Over time, agencies' output pricing and performance will be reviewed to ensure that the government is receiving optimal value for money. It is important that in designing outputs, agencies are cognisant of the strategic and managerial need to specify outputs with a view to optimise pricing benchmarks and comparisons. The objective of pricing outputs is to allow the government and its agencies to strike an agreed understanding on the performance criteria for departmental outputs in terms of quality, quantity and price.

As discussed above, management information systems, accounting practices and financial systems are all significantly affected by an agency's output structures. Outputs should not be specified in such a way as to be beyond the current or anticipated capacity of the agency's systems to manage the requisite financial and performance information.

Further information and guidance on pricing reviews can be found at DOFA's Pricing Review website.

4.10 Allocation of overheads and shared resources

Overheads and other shared resources are allocated across departmental outputs. The criteria by which this distribution takes place vary from case to case. It is important, however, that where such costs are distributed other than on the basis of direct cost drivers (for example, rates of actual computer usage), the criteria used should relate as closely to 'true' cost drivers as possible (for example, staff numbers for personnel functions, number of telephone, fax and data connections for telecommunications).

5. Administered items information

Performance information for administered items generally arise from the specific circumstances and characteristics of the items themselves. It is often implicit in the relevant legislation or policy documentation what the key performance characteristics should be. A further source of such information would be the terms and conditions attached to grants and the performance criteria stipulated in inter-governmental agreements relating to transfers to the state and territory governments.

Where possible and appropriate, indicators of quantity, quality and price (i.e., as for departmental outputs) should be identified. The test of appropriateness should be whether the proposed performance information regime will serve to enhance management decision-making, policy development and public accountability.

6. Examples & cases

Commonwealth agencies have taken various approaches to performance reporting under the outcomes and outputs framework. Austrade and Health and Aged Care are two examples.

Austrade had a wide range of performance indicators for its outputs in 2000-01. These include: number of hotline callers, number of on-line users, number of participants in organised events, number of new companies assisted into exporting, and the number of international trade exhibitions involving Austrade.

In comparison, the Department of Health & Aged Care has nominated a large number of targets for its outputs. Example from 2000-01 include a high level of satisfaction of the Minister with the relevance, timeliness and quality of policy advice and ministerial

briefs. This will be measured through agreed timeframes met for responses to ministerial correspondence and briefs and reduction in the number and proportion of Ministerial correspondence requiring rewrites.

Process for Changing Outcome Structures and Related Performance Information

To change an existing outcome structure, agencies must:

- obtain legal advice to confirm that the new outcomes form "valid appropriations" under Sections 81 and 83 of the Constitution;
- obtain approval from their Minister; and
- obtain endorsement from the Minister for Finance and Administration.

Changes to outcomes should only be undertaken if there will be a material improvement in the specification and such improvements are not outweighed by the need for year-on-year consistency.

The Department of Finance and Administration (DOFA) has advice on specifying outcomes on its web site. Agencies can consult the checklist below, which outlines the requirements for outcome specifications.

Once an agency's Minister has approved proposed changes to outcome structures, the Minister should write to the Minister for Finance and Administration seeking endorsement of the change. Early discussion with DOFA would facilitate this process.

Where agencies have formed a new outcome, funding would be appropriated in Appropriation Bill 2/4 for the first appropriation. Subsequently, once Parliament has recognised the appropriation, funding would be appropriated in Bill 1/3. Where the revised outcome is only a renaming of an existing Administered appropriation, the funding would continue to be appropriated in Bill 1/3. For more information, see DOFA's advice on Budget Documentation.

Performance Information

Guidance on managing performance information, performance monitoring, evaluation and reporting is available through DOFA's guidance on the Outcomes and Outputs Framework. Generally, performance information for outcomes will be in the form of effectiveness indicators. Before considering a change to performance information for outcomes, agencies may wish to consult with stakeholders, including DOFA.

Where agencies decide to change their performance information, they should provide clear links in external reports to previous performance information.

Timing

In most cases, changes to outcomes structures should be implemented through Appropriation Bill 1/3 to ensure consistency in budgeting and reporting throughout the financial year. These changes need to be agreed before the pre-Budget estimates' update to ensure that they are reflected in the Appropriation Bills. The Portfolio Budget Statements should also reflect the new structure. Agencies should contact the relevant officer within the DOFA Agency Advice Unit to ensure that their outcome

structure is updated in the Discretionary Grants Central Register and in AIMS prior to the pre-Budget estimates' update.

If new policy is being proposed for the coming Budget, the outcomes should be agreed prior to Portfolio Budget Submissions being lodged, in order to give ministers the most up-to-date structure in which to consider Budget proposals.

Changes to agencies' outcomes structures outside of the Budget Bills can only be implemented:

- through the Additional Estimates Bills if there has been a substantive change in agency business since the Budget; or
- outside of the Appropriation cycle if changes in the Administrative Arrangement Orders require the development of new outcomes and the Parliamentary approval for the appropriation is still valid (that is, the purpose of the appropriation remains the same).

Performance information for outcomes should only be changed at the start of a financial year and reported through the Portfolio Budget Statements, noting the two exceptions listed above.

Requirements for outcome specifications

Consistent with the accrual budgeting framework requirements, outcome specifications should meet the following requirements:

- a. Outcome statements should meet the requirements for a legally valid appropriation. DOFA has received the following general advice in this area. Notwithstanding the following, agencies should obtain specific legal advice relating to their proposed changes.
- b. An outcome should specify the state of affairs towards which an agency's activity is directed, not the activity itself;
- c. Although outcomes need to be expressed with sufficient specificity to be able to determine whether any expenditure is authorised by it, the Appropriation Bills can be read in conjunction with the Portfolio Budget Statements and Additional Estimates Statements as a means of providing clarification of the purpose of the appropriation.
- d. It is not necessary to include the concepts of "contributing to" or "helping achieve" a specified outcome (or similar concepts) as the Appropriation Bills will include general provisions that make it clear that appropriations will be for department or agency services to help achieve the specified outcome; and
- e. As far as possible, Departments and agencies should avoid defining outcomes in subjective or value laden terms. Using such terms increases the risk that the appropriation will be found to be invalid, or that particular expenditures will be challenged as being outside the appropriation.

- f. The outcome description should clearly reflect the Government's objectives and priorities.
- g. The outcome should be described in terms of the impact on the Australian community.
- h. Where an outcome is focussed on target groups these groups should be able to be clearly identified.
- i. It should be possible to monitor and assess the achievement of an outcome.
- j. It should be possible to clearly identify a causal link between the action of government, through the outputs of the relevant agency, and the outcome sought.

Process for Changing Outputs Structures and Related Performance Information

Outputs are defined by agencies to allow them to measure and to price agency business. Agencies are responsible and accountable for the delivery of outputs and should seek agreement to proposed changes to outputs through the clearance procedures agreed by the relevant portfolio minister. Although agencies do not need to seek endorsement from the Minister for Finance and Administration, they might wish to consult with relevant stakeholders including DOFA.

Changes to outputs should only be undertaken if there will be a material improvement in the specification and such improvements are not outweighed by the need for year-on-year consistency.

Before considering a change to outputs, agencies may wish to consult the checklist below, which outlines the requirements for output specifications.

Performance Information

Under the new outcomes and outputs framework, performance management strategies, including ongoing monitoring and evaluation, should make it possible to assess the extent to which outcomes have been achieved. Agencies are responsible for their own performance management.

Guidance on managing performance information, performance monitoring, evaluation and reporting is available through DOFA's guidance on the Outcomes and Outputs Framework. Performance information for outputs will be in the form of efficiency indicators, such as quality, quantity and price. Before considering a change to performance information for outputs, agencies may wish to consult with stakeholders, including DOFA.

Where agencies decide to change their performance information, they should provide clear links in external reports to previous performance information.

Timing

Changes to outputs and related performance indicators need to be made in time to be incorporated into Portfolio Budget Statements (i.e. by March). Such changes would normally be formulated as part of business planning processes, which should be occurring well in advance of the Budget.

Agencies should only change their output specification outside of the Portfolio Budget Statements if they have experienced substantive changes in agency business, such as those resulting from changes to Administrative Arrangements Orders. In this situation, agencies will have to include performance indicators in their Annual Report that were not previously reported in their Portfolio Budget Statements.

Requirements for output specifications

Consistent with the accrual budgeting framework requirements, output specifications should meet the following requirements:

1. The output specification should describe a good or service which is provided to individuals or organisations external to the agency.
2. The output must be identifiable and described clearly.
3. The output should be described in terms of what the service or product is, not what function it performs (that is, stated as a noun or noun phrase, not as a verb or action word).
4. The output must contribute to the achievement of planned outcomes.
5. The agency must have control (either direct or indirect) over the delivery of the output (including outsourced activities).
6. The output specification and associated performance information should help the Government understand what it is paying for and what will be provided in terms of:
 - the price per unit of the output;
 - the quantity of the output units to be delivered;
 - levels of quality to be assured in delivery, including where appropriate the timing, frequency or location of the delivery of the products or services;
 - the contribution of the output to achievement of the planned outcome.
7. The output specification and associated information should provide a meaningful basis for relevant performance comparisons between actual and potential providers of the output.
8. All activities undertaken by an agency should be covered by the agency's outputs, either directly as a component of an output, or as overheads or shared resources contributing to the production of its outputs.

APPENDIX

The case of policy advice

One output that agencies often have difficulty with is that of policy advice. This discussion paper addresses this output as an example of some of the issues discussed in the main body of the guide.

Policy advice as an output

As a general observation, in most circumstances policy advice constitutes an output. The definition of an output is a good or service delivered to someone outside the agency. The minister (or other recipients of policy advice) is outside the agency and therefore is a client of this particular service.

There may be circumstances, however, where an agency sees its policy advice function as essentially an input. This view was expressed by at least one agency before the Senate Legislation Committee on Finance & Public Administration's Inquiry into the Format of the Portfolio Budget Statements.

Such circumstances are, however, the exception. There is a risk that some agencies may conclude that policy advice is an input based in part on an erroneous analogy having been drawn between outputs and (under the Commonwealth's previous resource management framework) programs. Under Program Management and Budgeting, it was certainly true that programs were what agencies delivered to the community, and policy development (including advice to ministers) was an input to these.

However, outputs are not analogous to programs. Whereas programs implicitly encapsulated both the government's intended consequences (outcomes) and the ways in which they were to be realised (outputs), the outcomes and outputs framework explicitly separates the two, making the agency (and not the agency together with the minister) the operative unit in the structure. Further, by characterising policy advice as an input, agencies seem to imply that their ministers' work (decision making) is also an input to the outputs for which the minister is responsible for purchasing on behalf of the Government. There is clearly scope for confusion of roles in such an arrangement.

To resolve confusion, agencies should apply the 'first rule' of defining outputs: that an output is a product of service delivered to someone outside the agency. Policy advice that is given to an outside party (including the minister) is therefore an output. Where the recipient is within the agency (e.g., the CEO), it is an enabling input.

Examples: Policy Advice as an Output

The Department of Foreign Affairs and Trade (DFAT) has as its first outcome for 2000-01 Australia's national interests protected and advanced through contributions to international security, national economic and trade performance and global cooperation. Under this outcome there are five outputs, including 1.2: Provision of

policy advice and analysis to Portfolio Ministers. Under this generically stated output group, there are eight business-specific sub-outputs, including geographic areas such as North Asia and operational designations such as Multilateral trade negotiations.

In contrast, the Department of Education, Training & Youth Affairs (DETYA) has established a generic output that applies across all its business-specific output groups: Policy advising.

Clearly, in managing and evaluating these outputs, care must be taken to take into account the varying factors that drive the price and performance of policy work. The purpose of designating policy advice as an output is to recognise its major role as an agency output. There is sufficient scope in the outcomes and outputs framework to distinguish non-standard variations from output to output.

Output indicators for policy advice

In many agencies' experience, identifying valid and robust indicators of the quality, quantity and price of policy advice outputs is particularly problematic. This is due to the nature of policy work, in that it often does not follow a predictable, replicable path or process and the criteria for success may well change quite significantly from case to case. Despite these limitations, many core issues of good management in policy development lend themselves to measurement and assessment.

Quality of policy advice

The quality of policy advice can be viewed from at least three particular perspectives:

- that of the minister (or other decision maker relying on the advice);
- that of peers (professionals who work in or understand the policy environment in question); or
- that of the intrinsic characteristics of the policy work (as assessed against benchmarks or standards such as timeliness, accuracy, consultation, practicality etc).

Each of these perspectives is legitimate and it is open to the agency to determine where the emphasis should lie in its particular circumstances.

DOFA has identified the following quality standards that might be relevant, depending on the specifics of the agency's operations.

Quality Standards for Policy Advice

QUALITY STANDARD MEANING FOR MANAGERS

PURPOSE

- aim of the advice is clearly set and addresses any question set

LOGIC

- assumptions upon which the advice is based are stated clearly

- argument is supported by evidence

ACCURACY

- evidence used is accurate and reliable
- all material facts are included

OPTIONS

- an adequate range of options is presented
- benefits, costs and consequences of each option to both the Government and the community are identified

RESPONSIVENESS

- advice is aware of current realities
- advice anticipates developments

CONSULTATION

- evidence of appropriate consultation with other government agencies and affected interests

PRESENTATION and CONCISENESS

- format meets with specified presentation standards
- advice is presented in a clear and concise manner

PRACTICALITY and RELEVANCE

- recommendations take account of anticipated problems of implementation, feasibility, timing and whole-of-government policy consistency

TIMELINESS

- advice complied with deadlines or response times specified by the Government

Source: Department of Finance, Measuring Output Using the Example of Policy Advice, July 1998.

In most instances, quality indicators for policy advice would consist of a subset of these standards, plus a measure of overall ministerial satisfaction. It is generally not appropriate to include as a performance indicator for policy advice whether the recommended course is followed by the decision-maker (although consistent failure to recommend acceptable options would be of considerable concern).

It may be desirable to distinguish between types of policy activity, based on such issues as level of complexity, political sensitivity and nature of specialist skills needed. Agencies should take care, however, that making such distinctions does not over-burden their management information systems when generating relevant performance and financial information. One approach might be to only make such

distinctions when policy advice outputs are under specific scrutiny-during output pricing reviews or performance audits, for example.

Quantity of policy advice

Quantity is also problematic in the area of policy advice. It is particularly important not to mistake demand for performance in this area. For example, while it may be interesting to know how many ministerial briefs are expected to be prepared, this is more often an estimate of demand rather than a measure of the 'resource' that is being used. Ministers primarily rely on departments and agencies to ensure they have adequate policy capacity to meet their policy analysis, research and development needs. It is therefore this capacity that is the 'quantity' being delivered through the policy advice output, not a given number of pieces of advice or policy projects. An agency's policy functions would therefore normally best be counted in terms of staff hours available to meet ministerial and governmental demand.

Pricing policy advice

Pricing policy advice requires benchmarked standards for the types of policy advice provided and a comparative basis for the price of that advice. It may, for example, be appropriate to distinguish between day to day decision support for ministers in the form of ad hoc briefings, question time briefs and ministerial replies and policy development projects of a more structured, time-bound nature. It is also important to use benchmark partner's whose policy development responsibilities are reasonably similar. For this reason, pricing is a process that must be done on a case-by-case basis. The output price review team in DOFA can provide assistance and advice on approaches to this task.

Effectiveness of policy advice

Effectiveness indicators are typically attached to outcomes rather than outputs. Insofar as they measure the contributions of agency outputs to specified outcomes, however, it is important to keep effectiveness issues in mind when specifying policy advice outputs. In the context of the outcomes and outputs framework, the effectiveness of policy advice consists of more than its acceptability to the minister (although this is certainly a valid indicator of the quality of the advice). Effectiveness is defined as the net contribution of the outputs and administered items to the realisation of the specified outcome. Indicators of effectiveness will therefore generally be expressed in terms derived from the nature of the outcome. This means that policy advice that is clearly oriented towards maximising the chances of realising the government's desired outcome is likely to make a positive contribution to the effectiveness indicators attached to that outcome. Where there is a failure to realise targeted effectiveness outcomes it may be necessary to review the nature of relevant policy advice processes and projects to determine if they contributed to this result.