"Performance and Transparency: Are Australia's "Leading Edge" Systems Really Working?"

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ABSTRACT

Since the early 1990's the general and financial management of the Victorian public sector has been significantly transformed. This research constructs and explains the content, nature and quality of non-financial disclosures, including those related to performance indicators via a disclosure indicator analysis (DIA) of actual reporting practices in recent Government Budget papers. It reports the results of its application to the last three years' budget papers.

The findings highlight the 'turmoil' in the reporting of non-financial performance indicators in the Victorian Budget papers. These results indicate a significant gap between "official" expectations of the type of items required to be reported and actual budgetary reporting practices - some many years after regulation and major financial accountability reforms have taken place.

1. INTRODUCTION

The public sector in Australia, and in particular, Victoria, in the past few decades has undergone major fiscal, structural, management and financial management transformation (see, Jones, Guthrie, Steane 2001a, b). One area of major transformation has been the changing technologies by which funding, reporting and monitoring for the budget dependent sector are achieved. A recent aspect of this process of reform has been a changing central budgetary regime, and within this a shift towards the presentation of public sector budgeting information on an 'output' basis. This transition began in the mid-1990s and continues to date.

Recent international comparative studies of public sector financial management reforms (Olson *et. al.* 1998, Guthrie *et. al.* 1999) have found a wide diversity of practice in adoption of New Public Financial Management (NFPM) oriented changes, even across multiple international jurisdictions regarded as active reformers. A significant additional finding from this body of literature is the material role of accounting and other financial management techniques in implementation of management-oriented change in government. However, it is interesting to note the degree to which some prior international studies have tended to lack detailed analysis of the practical application of such techniques. The approach taken in this paper, reliant on detailed investigation of actual budget sector disclosures, contrasts with the broader approach taken by some earlier contributors to this body of literature.

Importantly, irrespective of suggestions that NPFM is not a uniform, global movement, some common elements do seem to exist at the "super-technical" level. These may be best understood as the outcome of a 'reforming spirit', intent on instilling private sector financial awareness (e.g., about financial position, accrual accounting, debt or surplus management, capital investment strategy) into public sector decision making. Jones, *et al* (2001), argue that there is no "single answer" and "off-the-shelf" global NPFM solution to cure poor financial management practice despite the official (Guthrie and Carlin 2000) advocacy in favour of this view from certain change agents, notably in central financial agencies. These studies tend to suggest that there is a considerable risk of the formation of a lacuna between what is promised in relation to the implementation of these techniques, and what is actually delivered, or capable of being delivered. It is this tension between the rhetoric associated with certain technical aspects of NPFM reform, and the underlying reality, which in large part motivates this study. In order to investigate this potential void, we construct and perform a disclosure indicator analysis (DIA), concentrating on the role and effectiveness of performance information disclosures, as part of the overall new public financial management framework.

As indicated, public budgeting in Australia has undergone significant change over the past decade. This change has been manifested in several ways, the most important of which has been the implementation of some form of accrual output based budgeting (AOBB) (Guthrie and Carlin 2000, Carlin and Guthrie 2001). The shift towards output based budgeting has also been closely associated with the employment of accrual methods in public sector budgeting as a replacement for cash based accounting models. A central part of the new budgeting regime has also been the presentation of non-financial performance information. These changes have been justified by their champions on the grounds that they will promote greater efficiency, transparency and accountability by governments (Guthrie *et al* 1999). Yet to accept such claims at face value is to ignore the political and rhetorical aspect of public sector budgeting (Wildavsky 1974, 1992, Jones 1997). Just as the adoption of accrual accounting by public sector agencies has been critiqued as the reflection of a rhetorical rather than technically neutral process (Guthrie, 1998), changes in budgeting process can be analysed critically. Indeed, it has been suggested that predictions of output budgeting's successes have not been matched in reality, again hinting at a strong rhetorical aspect to public sector budgeting changes in Australia (Guthrie and Carlin 2000).

Because recent research has identified gaps between the claimed nature and the actual practices of central public sector budgeting, we have undertaken a detailed examination of a set of budget papers to identify and examine the use of performance information within current budget papers.

2. Background to the Changing Face of Performance Disclosures in Victoria

In the past three decades public sectors in various Australian jurisdictions[1] have arguably undergone some of the most significant and far-reaching changes in the country's entire history. These changes have involved transforming the governance, management and accounting technologies (Guthrie and Parker 1998). A "leader" in these changes during the 1990s was the Victorian government. In Victoria the transformation of the state's institutional rules and public sector administrative practices can be traced to two critical events: the election in 1992 of a conservative government under the premiership of Jeff Kennett, and landmark reports prepared by the Victorian Commission of Audit (VCA 1993a, 1993b). During the period 1992-99 the government introduced a number of changes based on the VCA recommendations which impacted on the public sector. These include the role of executive government and ministers; the role of departments, and changes to local government including radical financial management reforms. These reforms were underpinned by the use of economic theories to endorse purchaser/provider, policy/operations splits, the funding of outputs to achieve outcomes, and the introduction of contestability into the provision of services (English and Guthrie 2001, Hughes and O'Neill 2001). Victoria was not unique it pursuing these types of reforms; what was different in the Victorian case was the depth and speed with which the Victorian government pursued the transformation of the public sector (English 2001, Shamshullah 1999). Many of the reforms were borrowed or emulated from previous New Zealand public sector experiments and are largely indistinguishable from the New Zealand model, which has been operating since 1988/9 (Pallot 1998, b).

The main characteristic of the output-management model promoted in Victoria between 1992-99 was the separation of the funder, purchaser and provider roles. The

[1] Australia is a federation and includes three levels of government: federal, state and local. Victoria is one of six states and has its own parliament and executive government. Each state plays a major role in service delivery in areas such as education, health care, police and security, and social services.

implementation of this model required a number of designated steps, which were supported by well-documented Victorian Department of Treasury and Finance (VDTF) manuals (VDTF 1997 a,b,c). Key elements of this recent reform program have been the adoption of methodologies such as accrual budgetary accounting, together with outcome and output based budgeting and management systems.

Central to the output management process from a financial management perspective was the conceptualisation of linkages between funding, reporting and monitoring of defined outputs to government strategic priorities and outcomes (VDTF 1997b, p. 42). In the period under review, English and Guthrie (2001) suggest that these reforms could be depicted as taking place within two main phases, although there is, of course, some overlap between them[2]:

a) **Marketisation phase** (1992-1997) typified by the combination of managerialist ideas with economic theories emphasising individualistic self-interest, competitive markets and contracts. Unlike reform attempts undertaken prior to this period, major inroads were made into the financial management of the state and significant changes were made to the machinery of government.
b) **Strategic phase** (since mid 1997) characterised by the emphasis on 'whole-of-government strategies'. The introduction of these reforms resulted in a 'whole-of-government' perspective on strategic planning, management and financial reporting of the state's resources (VDTF 1997a). The changes included adopting accrual accounting for output budgetary purposes and output management and allocation of funds to departments based on outputs delivered in accordance with fully-costed budget targets (VDTF 1998a, p.2).

In this current model, it is the Government/Cabinet and its advisers (BERC and central agencies) who establish the outcomes and outputs to be funded. The Government as "funder" is responsible for funding service delivery. As "owner" of the State's businesses it also aims to maintain and improve the productivity of the State's asset base, via capital charging and other accounting techniques. This has resulted in a considerable strengthening of the hand of various central agencies, notably, in the Victorian context, the Department of Treasury and Finance.

In the current Victorian public administration model, portfolio Ministers and departmental secretaries act as agents for the government. It is they who purchase the specified services and "manage the purchase relationship in the most efficient and effective manner to meet government outcomes" (VDTF 1997a, p11). The Government, via the Budget Papers, specifies the broad outputs, and responsible Ministers and their

[2] The scheme adopted here is similar to what Pallot (1998b) reports for New Zealand. The earlier phases are:
Traditional phase (prior to 1982), typified by cash accounting and controls over inputs and reliance on the established budgetary, executive and Westminster parliamentary systems.
Managerialist phase (1982-1992), characterised by attempts to introduce private sector management techniques and accrual accounting for external reporting and management purposes into the Victorian public sector. This phase also involved a reliance on setting objectives, performance indicators, performance evaluations and parliamentary oversight of performance.

secretaries purchase these. Providers of these services can be either internal or external to the public sector, hence the idea of ‘contestability’.

At present it is too early to review and evaluate the actual application of OABB and OBM in the Victorian public sector. However, at least one Parliamentary Committee (VPAEC 1998) has expressed some concern that the current reform direction is ignoring public sector and parliamentary accountability. This is a theme that the VPAEC (1997, p.7) has been expressing for some time:

> “Accountability is a contract between two parties. In the case of government, the contract is between the public and the government: the public gives government responsibility to govern and manage public resources, and the government is accountable to the public through the Parliament for its performance. It is a concept fundamental to our democratic system. It clearly establishes the right of the people both to know what government intends to do, and how well it has met its goals.”

That this concern has been raised, despite the growing quantity of financial, non-financial and performance related disclosures provided by a variety of communications mechanisms, speaks volumes. In particular, it raises questions about the quality of disclosures being provided - quality, rather than quantity, being the dominant hallmark of effective accountability processes.

3. Performance Indicators and Budget Papers

A central feature of the official position relating to public financial management has been that departmental performance and accountability ought to be viewed in output terms (as expressed in accrual financial statements and performance indicators) rather than in input terms. This shift has in turn privileged the role of accounting, which has moved from a subordinate service role to a dominate, agenda-setting role (Parker and Guthrie 1993). In particular, these ‘new’ accounting technologies are said to offer the possibility of according greater decision-making authority and flexibility to managers, while also helping to ensure that management action is in accordance with the broader social and economic objectives of government (VDTF 1997a,b,c).

Vitally, advocates of these new public financial management techniques argue that they are causally related to subsequent public sector performance improvement. Meaningful performance improvement, it is argued, stems from the adoption of a reflexive output / outcome based approach to management and budgeting, an approach which by its very nature necessitates the production of increased volumes of performance based data. This data is in turn responded to by managers in a circular process of continuous improvement, leading to efficiency and effectiveness improvements.

Consequently, a central feature of the official rhetoric relating to this transformation has been that output performance indicators hold the key to the provision of greater government accountability and better decision making about resource allocation, planning and management practices. Associated with this aspect of the rhetorical NPFM campaign has been a growing emphasis on the production and dissemination of a growing inventory of non-financial and other performance related metrics and information in fora traditionally reserved for narrower, highly financially focused content.

One such forum is the annual budget paper series published in jurisdictions such as Victoria (and most jurisdictions with broadly similar governmental and governance arrangements). Indeed, annual budget papers are generally regarded as a primary vehicle by which budget dependent agencies can communicate accountability information to the parliament and by which they can be held to account in the following year of operations. This accountability process incorporates financial and non-financial as well as performance information.

The suggestion that disclosures relating to performance indicators form a vital component of accountability regimes for a range of entities and entity types is not novel. If a narrow conception of accountability, in which information is disclosed only in order to report (Normanton 1971) is rejected, then it follows that a part of the role of accountability disclosures is also to explain (Patton 1992). There seems little reason to believe that the narrow view substantially guides the theoretical underpinnings of accountability regulatory regimes in Australia (MAB 1993). Rather, if a decision usefulness perspective is applied, the inclusion of data and information surplus to basic financial disclosures can be seen to be of great significance to interested stakeholders. Indeed, it may be that the value of financial disclosures is lessened in the absence of supporting non-financial disclosures (Barton 1999).

The debate therefore, is not as to whether financial disclosures ought to be accompanied by non-financial disclosures, including those relating to performance indicators, but rather the content, nature and quality of those non-financial disclosures. Empirical studies have highlighted the demand from report users for qualitative and quantitative non-financial information to accompany financial disclosures (Van Daniker and Kwiatkowski 1986). Of key contextual importance, however, is the recognition that whereas the structure, form and content of financial disclosures is regulated according to a relatively prescriptive model (Micallef 1997), no such prescription generally exists in relation to non-financial disclosures. These therefore tend to show considerable diversity (Hyndman and Anderson 1995). Ideally however, in the context of the public sector, performance indicators should assist users of reports in understanding the inputs, outputs, outcomes and policies relating to a particular period of time (Stewart 1984).

Annual reports issued by public sector agencies have been the focus of considerable attention and research (Cameron and Guthrie 1993, Guthrie 1993, McCrae and Aiken 1994). This reflects the assumed importance of agency annual reports as a component of the overall accountability framework (JCPA 1989, VPAEC 1999a). Increasingly, however, the suggestion has arisen in the literature that public sector agency reports are not as widely used or sought after as is conventionally assumed to be the case (Gaffney 1986, Engstrom 1988, Hay 1994, Mack *et al* 2001). On the other hand, Budget papers are produced with a clear constituency in mind (Carlin and Guthrie 2001, Guthrie and Carlin 2000), a phenomenon which has continued over an extended period.

Wanna, *et al,* (2000, p.1) state that “Budgets are indispensable to executive government; and accountable budgetary processes are a key mechanism of stable, democratic societies.” Although the delivery of accountability to parliament has been the key role performed by budget papers, the format of those budget papers has changed significantly in Australia since the mid 1990s. This wave of change was brought about by the introduction of accrual and output based forms of budgeting in Australian jurisdictions.

Previous studies have questioned the introduction of accrual accounting generally, (Guthrie 1998) and specifically as it relates to the budget process (Carlin and Guthrie, 2001, Guthrie and Carlin 2000). In attempting to evaluate the various public management initiatives now being implemented across Australia, New Zealand and the globe, in most cases it is too soon to answer the questions "what works, what doesn't, to what extent, in which contexts, and why? (Jones *et al* 2001). However, in relatively mature examples of NPFM-oriented reform (e.g., several Australia states and New Zealand), adjustments and considerable steering is evident.

It can be said that any significant experimentation with new forms of performance indicators will lead to discontinuities and issues of monitoring. If this is so, it must be asked: When does a system settle down? How long does one have to wait to get it right? Can this aspect of NPFM ever be seen to be able to deliver the claimed benefits? These are all difficult questions to answer. In the Victorian case, is a decade of performance information enough for practice to be ‘settled’?

Other jurisdictions are experiencing similar disjunction and problems with these practices. The Victorian experience is therefore instructive, as Victoria has been considered to be a leader in the adoption of Accrual output based budgets and output based management in Australia.

Carlin and Guthrie (2001) examined recent efforts in the Australian and New Zealand public sectors to implement accrual output-based budgeting. While agreeing with the need for public sector accounting reform, the authors used two detailed case studies – that of Queensland and New Zealand - to show that the current reforms have not yet achieved the results expected due to weaknesses in implementation. The gap between rhetoric and reality is apparent, for example, in that *de facto* there is little real difference in reporting between cash-based and accrual budgets in these two cases, leading these authors to question the degree to which management practices can change if reporting for decision making is unaltered. We posit that such a rhetoric – reality gap may also be a systemic feature of the manner in which performance based information is reported in annual budget paper series.

This is a factor of significance, since alongside the change to accrual output based budgeting came calls for the inclusion of greater quantities of performance related information. The function of this information is “officially” to better assist users in determining whether or not claimed efficiencies relating to management improvement programs had been achieved, and to allow more accurate gauging of the efficiency and effectiveness of publicly funded endeavours (VPAEC 2000, VPAEC 2001). This has culminated in a situation where, in contemporary budget papers, the quantity of non-financial and performance indicator disclosures outweighs the quantity of financial disclosures. For instance, an indication of this trend is presented in Table 1 below, which documents the growth in the relative level of disclosure of performance indicator data, compared to disclosures of traditional financial data in Victorian budget estimates papers from 1998 to 2001[3].

Table 1 – Performance Indicator to Financial Information Ratio, Victorian Budget Estimates, 1998 vs 2001

Department	Performance Indicator to Financial Information page ratio 2001/02	Performance Indicator to Financial Information page ratio 1998/99
Education	3.33:1	2:1
Human Services	5.66:1	2.11:1
Infrastructure	4.57:1	2:1
Justice	5:1	2.87:1
Natural Resources and Environment	5.66:1	3.66:1
Premier and Cabinet	2.5:1	2.25:1
State and Regional Development	3.71:1	3:1

The simple fact that a range of performance indicator data has been disclosed in Budget papers does not mean that the disclosures have resulted in an enhanced comprehension capability on the part of budget paper users. Given the primary parliamentary accountability role fulfilled by the production of annual Budget paper series (VPAEC 1999), an important research question centers around the degree to which the inclusion of this performance indicator data can be seen as enhancing the quality of accountability discharged as a result of the publication of Budget papers. In this paper, the preferred methodological approach to achieving this task is to concentrate on the primary source data (Broadbent and Guthrie 1992) within the budget papers (Shaoul 1997, Edwards and Shaoul 1996), rather than undertaking analysis of (in this case limited) secondary sources on the matter.

4. Empirical Investigation of Performance Indicator Disclosures in Budget Papers

Table 1 (above) outlined the changing ratio of disclosure between non-financial performance indicators and traditional financial data. An alternative means of capturing the increase in volume in performance indicator data disclosures is to examine the absolute number of performance indicators disclosed by Departments. Table2 (Departmental Performance Indicator Counts in Budget Papers) shows this data, and demonstrates that in the case of most departments, there has been significant growth in

[3] The ratios within the tables are calculated on the basis of page counts.

the quantity of performance indicator disclosure since 1999. The overall growth in performance indicator disclosure over the three year period studied was 32.5%.

Table 2 – Departmental Performance Indicator Counts in Budget Papers

Department	**1999/00**	**2000/01**	**2001/02**
Education	131	176	165
Human Services	143	206	258
Infrastructure	158	265	282
Justice	184	207	227
Natural Resources and Environment	268	256	282
Premier and Cabinet	150	192	131
State and Regional Development	225	254	280
Treasury and Finance	147	265	237
Total	**1406**	**1821**	**1862**

Growth rates varied from this average in individual departments, the highest rate of growth being experienced in the Department of Human Services, whose performance indicator count appears to have increased by 80% over the three year data horizon. Over the same period of time, the Department of the Premier and Cabinet actually reduced the number of performance indicators reported on in its budget paper series. This data suggests a prima facie commitment to disclosure quality enhancement by means of increased performance indicator disclosure.

However, despite the material increases in volumes of disclosures, concerns have been raised about the usefulness of these additional disclosures, especially as a result of apparently low survival rates for performance indicators (VPAEC, 2000). Variation in performance indicator disclosure can be measured in several ways. The simplest is to track the rate of change in number of disclosed indicators over time. This provides a basic measure of variation. However, because existing measures may be deleted over time and replaced with new measures, examining the quantity of disclosed measures alone provides insufficient data for a detailed analysis. For this reason, two other phenomena must be studied.

The first of these is the “survival rate”. This quantifies the propensity of performance indicators to persist through several reporting cycles. The second is the “novelty rate”, which measures the proportion of each year’s performance indicators which have been newly introduced relative to the reported set of indicators for a given base year. Together, these three metrics - number, survival and novelty - provide a detailed picture of the stability of performance indicator reporting over time, and therefore allow insights into the quality of disclosure and accountability, particularly from an inter-temporal perspective.

In order to develop more detailed insights into performance indicator disclosure characteristics, two of eight Departments were chosen, at random, for examination. These were: 1.Department of Education; 2. Department of Infrastructure.

Within each of these departments, an output group was selected for detailed review. The output groups selected for each of the departments were;

1. Education – (School Education)
2. Infrastructure – (Metropolitan Transport Services)

All performance indicators for each output within these output groups were then examined on a time series basis[4]. Survival rates stated in the tables are calculated using the 1999/00 disclosures as the base year. Thus, if for a particular output in 1999/00, five performance measures had been reported on, and by 2000/01 only three of the original five continued to be reported on, the stated survival rate for 2000/01 would be 60%. If by 2001/02, only two of the original five indicators set out in the 1999/00 budget papers, the stated 'survival rate' as at 2001/02 would be expressed as 40%.

'Novelty rates' are calculated as follows. If five performance indicators had been specified in 1999/00, and all five continued to be reported on in 2000/01, but an additional five performance indicators were added to the disclosure inventory for that output in that year, then the novelty rate for that output / year would be 50%. If in the following year (2001/02), all of the original ratios continued to survive but an additional five ratios were added, bringing the total disclosed to fifteen, then the novelty rate would be expressed as 67%, because two thirds of the performance indicators reported on for that year would be new, vis a vis the base year (1999/00).

High disclosure instability will therefore be suggested where low survival and high novelty rates are observed. On the other hand, low novelty rates and high survival rates indicate a stable reporting format and content, giving rise to conditions conducive to meaningful reporting and performance analysis, assuming that the reported content is meaningful and representative of the underlying activities of the budget sector entity under review.

Data for each of the detailed reviews is set out in tables 3 to 6 below. The analysis suggests a significant variation in the performance indicator selection and reporting practices of Victorian government departments. Both of the output groups studied (School Education and Metropolitan Transport Services) revealed a surprisingly high rate of performance indicator change, novelty and correspondingly low survival rates over the time series. Note that the performance indicators examined in the tables set out below categorise performance indicators according to three general descriptions – quantity, quality and timeliness. These categories, used in the budget papers, are also used here for the sake of consistency and interpretability.

Table 3 Department of Education - School Education Output Group Performance Indicator Count

	1999/00	**2000/01**	**2001/02**
Primary P – 6			
Quantity	7	7	11
Quality	4	5	14
Total	**11**	**12**	**25**
Junior Secondary			
Quantity	6	6	10
Quality	4	5	10
Total	**10**	**11**	**20**
Senior Secondary			
Quantity	3	4	5
Quality	4	5	11
Total	**7**	**9**	**16**
Grand Total	**28**	**32**	**61**

Table 4 – Department of Education – School Education, Survival and Novelty Analysis

	Survival Base + 1	Survival Base + 2	Novelty Base + 1	Novelty Base + 2
Primary Education				
Quantity	57%	14%	43%	91%
Quality	50%	50%	60%	80%
Junior Secondary				
Quantity	67%	33%	33%	80%
Quality	100%	100%	25%	60%
Senior Secondary				
Quantity	100%	33%	25%	80%
Quality	100%	75%	20%	73%

Table 5 Department of Infrastructure – Metropolitan Transport Services Performance Indicator Count

	1999/00	2000/01	2001/02
Metropolitan Train Services			
Quantity	1	2	2
Quality	1	4	4
Timeliness	2	0	0
Total	**4**	**6**	**6**
Metropolitan Tram Services			
Quantity	1	3	2
Quality	1	5	6
Timeliness	1	0	0
Total	**3**	**8**	**8**
Metropolitan Bus Services			
Quantity	1	1	2
Quality	3	4	3
Timeliness	1	1	1
Total	**5**	**6**	**6**
Grand Total	**12**	**20**	**20**

Table 6 – Department of Infrastructure – Public Transport Services, Survival and Novelty Analysis

	Survival Base + 1	Survival Base + 2	Novelty Base + 1	Novelty Base + 2
Metropolitan Train Services				
Quantity	0%	0%	100%	100%
Quality	100%	100%	75%	75%
Timeliness	0%	0%	0%	0%
Metropolitan Tram Services				
Quantity	0%	0%	100%	100%
Quality	100%	100%	25%	60%
Timeliness	0%	0%		
Metropolitan Bus Services				
Quantity	100%	100%	25%	80%
Quality	100%	50%		
Timeliness	100%	100%	20%	73%

Note the combined volatility of the underlying performance disclosure inventories, as captured by the three dimensions, number, survival and novelty. This tends to reinforce concerns set out above, in relation to the potential gap between indicator quantity and indicator quality.

5. The Quality of Performance Indicator Disclosures:

There is no necessary nexus between the fact of disclosure and the quality of the information transmitted within the disclosure. The data reported in this paper suggests a growth in the quantity of performance related disclosures over the period studied, both in absolute and relative terms. However, this paper has raised concerns about the ability of that data to effectively articulate useful perspectives on agency performance, due to high turnover, high novelty and low survival rates. From a quantitative analytical perspective, the measurement of change in numbers of reported indicators, survival and novelty rates captures a vital dimension of performance indicator quality. However, in order to be more comprehensive, a six component quality assessment methodology which rates quality in terms of six key factors is proposed. It is posited that performance indicator data captured and reported by agencies should be:

1. Correlative – The suite of indicators selected by an agency should correlate closely with its key operational imperatives and activities. Indicators whose content relates to matters which are largely peripheral or cosmetic should be excluded. If this dimension of quality is satisfied, then performance indicator disclosures assist the accountability process in two interrelated ways. First, the indicators, because they correlate closely with the underlying activities of the agency, provide an additional descriptive framework to assist report users in developing comprehension of the scope and nature of the activities undertaken by the agency. Secondly, and derivatively, they assist report users in assessing the effectiveness and efficiency of the agency's operations. A detailed review of reported performance indicators for a sample of Victorian budget sector agencies suggests that a significant degree of compliance with this quality dimension is currently being achieved.
2. Controllable – In order to facilitate meaningful analysis of the degree to which an agency's changing performance profile has been driven by endogenous rather than exogenous factors, it is preferable that performance information published by agencies relate to factors which are largely within their control. This dimension is far less satisfactorily satisfied in the budget paper disclosures we reviewed. While comprehensively cataloguing the nature of observed deviations from this objective is outside the scope of this paper, a number of common stylistic errors were observed during the conduct of the empirical research. For example, many agencies report extensive data on the number of projects they have initiated or completed during a particular period of time (for example "number of road safety campaigns conducted"). It is suggested however, that whether a program is run or not is largely due to the influence of external funding decisions, rather than factors internal to the agency. A better approach to shaping data in relation to programs undertaken would be to concentrate on the internal value added dimension – for example, level of participation in road safety programs, changed level of awareness as a result of road

safety programs, and so on. A similar problem exists when agencies report on indicators such as "households receiving mains electricity concessions". Again, it is observed that whether or not households are able to receive such concessions is the result of a non agency based policy decision. What would be more useful from an agency focused performance analysis and reporting perspective would be to report data such as "percentage of eligible households receiving mains electricity concessions" and so on. In that way, the operational effectiveness of the implementing agency would be highlighted, rather than the impact of a high level policy decision to offer concessions to a segment of the population.

3. Comprehensible – In order to be useful, report readers must be able to understand reported indicators. A starting point is to ensure that a relevant unit of measure is provided for each reported indicator. There were almost no observed exceptions to this requirement in the Victorian budget papers we reviewed. In addition to clear specification of appropriate unit measures, performance indicators ought to be able to be described succinctly and pointedly. Again, a detailed review suggests that this is generally the case.

4. Contemporaneous – In order to maximise usefulness, reported indicators should relate as closely as possible to the present. Unfortunately, this is a dimension that is systematically breached in budget paper reporting of performance data. In the 2001 / 02 Victorian budget papers, the latest year for which actual data is reported on any performance indicator is 1999. This means that data is largely out of date by the time that it is reported in the budget paper series, a phenomenon which arises from the production of budget estimates before the completion of the prior period, necessitating a two period delay for the disclosure of actual data.

5. Consistent – it is argued that consistency across time is a key dimension of quality in performance reporting. Since earlier sections of this paper have included detailed data on the degree to which a sample of agencies' reported indicators satisfy this criterion (they did not), no further comment is made here other than to reinforce that this quality dimension has been systematically breached in Victorian budget paper disclosures.

6. Constrained – it is argued that the selection of a suite of performance indicators for reporting purposes must be the result of a disciplined, focused process. Reported indicators should be constrained to that set necessary to convey a clear and accurate picture of the operations of a reporting agency, rather than expanded to include measures of potentially little interest or use. An empirical review suggests, on the basis of an observed increase in the population of reported performance measures, that this quality dimension may not be receiving adequate attention at present.

PERFORMANCE INFORMATION AND AUDIT IN VICTORIA

The abovementioned suggested means of improving the quality of performance information and therefore public accountability and confidence in these "new" types of reporting and to ensure transparency of information and accountability of performance information in Budget Papers and departmental annual reports, is to subject this information to scrutiny by an independent body. That is, there is a potential need for independent review and evaluation of the performance information in Budget papers and annual reports.

For at least the last 6 years the VPAEC has raised the issue of reliability and consistency in the reporting of performance indicators in annual reports and budget papers. An example of this is the call made by the Victorian Public Accounts and Estimates Committee in its review of the 1999/2000 Victorian Budget Estimates (VPAEC 2000), in which recommendation 1.3 suggests: "The outputs, performance measures, targets and actual figures reported in the Budget Papers and annual reports should be independently audited or evaluated."

In 1999, the Victorian Parliament amended the Audit Act to provide the authority for the Auditor-General to audit performance measures and to express an opinion as to whether they are:

- Relevant to the stated objectives of the department
- Appropriate for the assessment of actual performance; and
- Fairly represent actual performance

However, the Victorian Auditor General's Office has not, for a variety of reasons, taken up this legislative challenge even though in his most recent report on Ministerial Portfolios it was found that (VAG 2001):

  - "Considerable progress has been made by the Government in implementing a new performance management and reporting framework for the budget sector. The framework is not yet sufficiently developed for audit opinions to be issued regarding the relevance, appropriateness and fair presentation of performance information."
  - "The output measures incorporated in the Government's Budget Papers may not be the most appropriate indicators of departmental performance."

The key Victorian accountability requirements under the *Financial Management Act* 1994, and the Management Reform Program that followed, have been for all departments and public bodies to:

- establish a corporate and business planning process;
- define measures relating to quantity, quality, timeliness and cost measures for various output groups, as part of the annual budget process;
- prepare audited annual financial statements and a report of operations; and
- table the financial statements and report of operations in Parliament, through their relevant Minister.

In the past decade a number of Victorian performance audits have examined and reported on the quality of performance information reported by departments. As indicated above, the audit legislation was amended in December 1999 to provide the Auditor-General with a further mandate. The legislation specifically provides for the following:

"*The Auditor-General may audit any report of the operations of an authority under section 45 of the Financial Management Act 1994 to determine whether any performance indicators in the report of operations:*

(a) are relevant to any stated objectives of the authority; and

(b) are appropriate for the assessment of the authority's actual performance; and

(c) fairly represent the authority's actual performance."

These provisions are clearly directed at providing the Auditor-General with discretion to issue audit opinions on performance information reported publicly by departments and public bodies, including in Budget papers and annual reports.

However, the current VAG has not taken up this legislative challenge as

"4.1.19… **We have formed the view that it has not yet been sufficiently developed to enable audit opinions to be issued regarding the relevance, appropriateness and fair presentation of performance indicators (**emphasis in original**).** We have also identified a number of areas relating to the framework which need to be addressed, to achieve a sound public reporting regime."

This concern with budget papers and performance information is not confined to Victoria. Recently the Commonwealth Joint Committee of Public Accounts and Audit announced a major public hearing as part of its review of the effectiveness, and options for enhancing the format and content of, the current budget documentation. In announcing the public hearing the Chairman, Mr Bob Charles MP (JCPA 2001), said:

"The Committee has had an ongoing interest in accrual accounting. In 1995 it recommended to government that it consider the merits of requiring budgets to be prepared and appropriations to be made on an accrual basis. However the Committee has become concerned about the possibility that the benefits of the accrual approach are not being realised. Of fundamental importance to the democratic system is the ability of the Parliament to undertake effective scrutiny of the Executive. The Committee notes the following concerns raised in submissions: information about expenditure on particular Government activities is being obscured by the way in which it is reported; the inability for observers to track the expenditure on particular programs from year to year; and performance measures being used by agencies are not meaningful."

Further evidence of significant interest in these issues by various jurisdictions can be found in the report from the 2001 Australasian Council of Public Accounts Committees 6th Biennial Conference held in Canberra (ACPAC 2001). While we note that there is currently high interest in the potential need for audit of performance related disclosures, we conclude that in Australia at least, for the present, this quality control is not being systematically applied.

6. Summary and Conclusions

The empirical review of performance indicator disclosure in recent Victorian budget papers over three budget cycles reveals considerable turmoil in indicator disclosure. This runs contrary to the goal of enhancing the quality of disclosures in budget papers, because users are often, by reason of high turnover, unable to observe time series results. Furthermore, when new indicators are added to budget papers, it will often be the case that no data relating to actual outcomes with respect to that indicator will be available for up to 2 years after the indicator is first reported. Given the low survival rates noted in our empirical analysis, this means that in many cases, no actual data is ever reported in respect of performance indicators. Instead, during the (often brief) period of their survival, the only reported data is in the form of targets. An inability to compare actual outcomes with targeted outcomes is a fundamental flaw in any system of accountability. Likewise, the inability to construct consistent performance time series represents a serious weakness in the current budget accountability regime in Victoria.

These difficulties should be viewed in light of the technical characteristics of the reform process and model outlined above. Specifically, recall that a key claim made in relation to the operation of the accrual output based budgeting and management model is that it is a causal trigger for enhanced agency and sector performance. That causal link, however, rests on the structure provided by reflexive performance feedback generated with respect to the linkages between inputs, outputs and subsequent outcomes. The empirical analysis conducted within this paper suggests, however, that the information performance bridge necessary for the sustenance of the reflexive improvement process, discussed above, is consistently and systematically broken, as a result of performance disclosure inconsistency.

This paper has not speculated about the causes of the apparently high turnover, low survival and high novelty rates of performance indicator disclosures in Victoria over the period under consideration. A hypothesis proposed elsewhere in relation to annual report disclosures suggests that disclosure variability may be related to a desire on the part of report preparers to obfuscate (Courtis 1998). Explanations of variation in the budget papers we examined tended to suggest that changes were based on a desire to improve the extant performance indicator inventory, to provide an enhanced view of the underlying operations, efficiency and effectiveness of Victorian government agencies. At present there appears no reason to prefer either explanation, and this may offer an opportunity for further research in the future. However, irrespective of the inability to reach conclusions as to the cause of the high performance indicator turnover we observed, there is no difficulty in concluding that at least at present, the quality of disclosure has suffered as a result of the observed lack of disclosure stability, as well perhaps as a result of the lack of a systematic audit quality control framework in Australian jurisdictions. Resolving this problem represents a significant challenge for policy makers and practitioners.

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