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1 May 2015

Dr Andrew Southcott MP
Chair
Joint Committee of Public Accounts and Audit
Parliament House
CANBERRA ACT 2600

Inquiry into Development of the Commonwealth Performance Framework

Thank you for the opportunity to make a submission to the Joint Committee of Public Accounts and Audit (JCPAA) inquiry into the development of the Commonwealth Performance Framework.

The attached submission addresses a number of issues relevant to ensure an effective, integrated performance management system that continues to improve accountability to the Parliament and the public. In particular, the use of high level, qualitative performance information in Portfolio Budget Statements (PBS) is necessary to ensure appropriate scrutiny over the proposed use of resources, and the outcomes expected to be achieved for the Australian community.

We would be very happy to expand on the issues raised in our submission with the Committee or representatives of the Committee Secretariat. My mobile phone number is [REDACTED] and my email address is [REDACTED].

Yours sincerely

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Kevin Riley FCA FCPA CPFA
Managing Director

Capital Training Proprietary Limited Submission to the JCPAA Inquiry into Development of the Commonwealth Performance Framework

Introduction

Capital Training Proprietary Limited (trading as Capital Training College) works extensively across Australian Commonwealth and State government departments and agencies. Our focus is on developing managers' skills and capabilities in financial literacy, risk management, internal control, planning and performance management and providing advice to senior executive service (SES) officials on financial and performance frameworks.

Capital Training College is a member of the Department of Finance (Finance) panel of providers of the *Resource Management and Budget* (RMB) and *Risk Management* training programmes. Our Managing Director, Kevin Riley has contributed to a number public sector publications, conferences and training events for CPA Australia and Chartered Accountants Australia and New Zealand (CAANZ).

Our submission is based on our ongoing engagement with Australian Government departments and agencies and our experience working across a number of State government's financial frameworks.

Overview of the Enhanced Commonwealth Performance Framework

The *Public Governance, Performance and Accountability Act 2013* (PGPA Act) introduced the concept of the "purposes of the entity". While we believe the concept of the "purposes of the entity" can enhance the manner in which performance of Commonwealth entities is assessed, our concern is that the linkage and logical flow from Appropriations to Outcomes, Programmes and Purposes is unclear. We believe that without clarity around these linkages, there will be confusion, duplication and a loss of transparency and accountability for the use of public resources.

The *Draft Resource Management Guide No. 124 Enhanced Commonwealth Performance Framework* (draft RMG) set out the elements of the Enhanced Commonwealth Performance Framework (the Framework). These elements were presented in a 'hierarchical structure' from Appropriations, to Purposes Statement, Outcome Statements, Programme Objectives, Programme Outputs, Programme Resources and Expenses¹.

We believe these elements flow more logically if the ordering of Purposes Statements and Outcome Statements is reversed.

By making this suggested alteration Appropriations directly link to Outcome Statements, in the same way that they do within Appropriations Acts and as set out in Portfolio Budget Statements (PBS). Outcome Statements then flow to the entity's Purposes Statement. We believe this re-ordering allows for a stronger hierarchical structure from Government Outcomes through to Purposes Statements, which are likely to include major ongoing functions, and then more specific Programme Objectives.

The *Resource Management Guide No. 130 Overview of the Enhanced Commonwealth Performance Framework* (RMG 130) issued in April 2015 refers to the need for "a clear

¹ Department of Finance, *Draft Resource Management Guide No. 124 Enhanced Commonwealth Performance Framework*, Canberra, 2014, p.5.

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line of sight between the allocation and use of public resources”² and goes on to state that “clear links must be able to be made between the appropriations reported in the PBS and the performance information reported in corporate plans and annual performance statements.”³

However, RMG 130 does not replicate the ‘hierarchical structure’ that was originally included in the draft RMG. The inclusion of the ‘hierarchical structure’ would provide a much clearer picture of how the various elements of the performance framework fit and work together.

The detailing of the ‘hierarchical structure’ would also provide a much clearer identification of the high level outcome and programme performance information, to be included in the PBS, and the more detailed strategic performance information to be included in the corporate plan.

Without a clearer structure of the hierarchy of performance information, and without an appropriate focus on outcomes and programmes in the PBS, we believe there would be a weakening of the accountability of the Executive to the Parliament. We were pleased to note that the Department of Finance has now included on the PMRA website that, at the request of the JCPAA, planned performance information is to be retained in the PBS.

We also believe that without a clearer structure of the hierarchy of performance information there is the risk of confusion and duplication of effort around the specification, capture and reporting of appropriate performance information. What is likely to result is a growth in the number of indicators and measures used, rather than a focusing on the key performance information necessary for transparency and accountability.

High Level Performance Information Across Australian Government

The transcript of the JCPAA public hearing on 19 March 2015 identifies concerns about the failure of agencies to adopt improved performance reporting. It was identified that there was a lack of ‘traction’ around the use and reporting of performance information.

From our experience, the lack of traction is primarily a result of the lack of high level statements of the priority outcomes to be achieved by government. Without this, senior executives within Commonwealth entities are then left to develop the various, Outcome Statements, Purposes Statement and Programme Objectives that drive performance indicators and measures. But this is done this without the benefit of the higher level view of what is to be achieved from the Executive.

This can result in:

- inconsistencies between entities - with a variety of high and low level statements, and without considering joint or shared contributions to outcomes
- uninspiring performance targets - with a focus on what we know we can do, rather than stretching to improve performance, and

² Department of Finance, Resource Management Guide No. 130 *Overview of the Enhanced Commonwealth Performance Framework*, Canberra, 2015, p.8.

³ Ibid.

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- simplistic targets - focus on the quantitative deliverables of programmes that are easy to count, rather than the qualitative results and impacts of programmes.

An example of a jurisdiction where there are consistent high level performance targets set across government is the State of New South Wales. *NSW 2021* is a plan that sets the NSW Government's agenda over ten years and addressing the economy, quality services, infrastructure, local environment and communities, and accountability. The *NSW 2021* plan includes 32 goals with targets, set by the Government and to be monitored by a Cabinet Committee. The goals, targets and actions are to be used in setting the priorities for funding, guiding decisions and focusing the day to day work of the public sector.⁴

Establishing clear priority goals and targets by the Executive will support a stronger performance framework and will work to overcome the lack of traction for performance reporting currently experiences across the Australian Government. Further, by making the performance information real for the Executive, there is likely to be much greater 'traction' within entities in focusing on what they can do to demonstrate a contribution towards whole of Australian Government outcomes and performance targets.

Risk to Achieving Performance Targets

The *Resource Management Guide No. 132 Corporate Plans for Commonwealth Entities* (RMG 132) issued in April 2015 states that "entities should explain how risk management will underpin their approach to achieving their purposes."⁵

A key risk that we believe should be addressed within the corporate plan is the risk of performance targets not being achieved. The Outcomes and Programme Objectives sought by Government will be affected by a range of external events, beyond an individual entity's control. Without acknowledging these risk to achieving the desired performance, we may find that:

- opportunities for innovative services are not pursued because the performance cannot be guaranteed
- 'stretch performance targets' with a focus on continuous improvement may not be used because of perception of failure, or
- quantitative performance information will be used instead of qualitative performance information because the entity has certainty over what it can count, rather than focusing on what might be able to be achieved.

To break away from using safe performance information, and to ensure a focus on doing better with less, we recommend that the identification of the key risks to achieving Outcomes, Programme Objective and Purposes is included within the risk oversight and management section of corporate plans. This information may take the form the entity's risk appetite and risk tolerance statements required by the *Commonwealth Risk Management Policy*.

⁴ NSW 2021 is available at: <http://www.nsw.gov.au/2021>.

⁵ Department of Finance, *Resource Management Guide No. 132 Corporate Plans for Commonwealth Entities*, Canberra, 2015, p.19.

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In this way, when the corporate plan is given to the responsible Minister and the Finance Minister, it includes clear statements of the entity's approach to managing the risk to achieving the desired performance measures and indicators. We believe this will provide a better context for understanding the key risk issues which may affect an entity's performance.

Conclusion

We strongly support the direction being taken to enhance performance information across the Australian Government. Making the focus on performance 'real' for senior executives and other officials is necessary. As has been noted by the JCPAA and the Finance there has been a lack of 'traction' in developing, using and reporting appropriate performance information in the past. We believe it is necessary to recognise that developing traction will require cultural changes as well as improved skills and capabilities.