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REVIEWING PERFORMANCE TO IMPROVE DELIVERY: KEY INSIGHTS FROM TWO AUDITORS-GENERAL

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In order to continually improve performance, we need first to understand what we mean by performance, what actually is performance, and what is public sector performance in particular? This chapter will review what Auditors-General have been saying about public sector performance, and in particular performance reporting over the last decade. Some lessons and consistent themes can be drawn from these reports. We will then apply those lessons to several case studies.

At its core, ‘performance’ is about how well an entity or program is accomplishing what is intended, as measured against defined goals, standards or criteria. More broadly, performance may also relate to efforts, capabilities and intent (CCAF 2002).

In most jurisdictions, the performance management focus these days tends to be on outcomes and outputs. We need to appreciate and understand the importance of achieving our outcomes against the objectives that we set for ourselves as organisations. However, when trying to improve performance it is not only the outcome, quality, timeliness or cost of the outputs that need to improve—in many respects the activities and processes also need to improve so that the outcomes can actually be achieved.

Thus, we should not constrain ourselves to focusing solely on outcomes and to some extent outputs (the goods and services we produce)—we must have regard to our inputs and our processes as well.

What is public performance reporting?

‘Public performance reporting’ refers to the formal mechanisms that a government uses to communicate with the public and legislatures in accordance with agreed guidelines (CCAF 2002).

I see public performance reporting not as an end in itself. There are two dimensions. Certainly there is a key accountability dimension—asking where public sector monies are being used, and being accountable for the use of those public sector monies. Auditors-General are fond of saying that when you look at a set of public sector financial statements, they tell you how much, but they never tell you how well. We need to report non-financial information about our performance in order to discharge the accountability that we as public servants have for the expenditure of those monies.

But ultimately, reporting must help us improve our operational performance. The performance information we report publicly must be part of a suite of performance information we are generating internally to use and apply in our business, to understand how we are performing and how we can improve this performance.

In setting out what is good public performance reporting, the guide produced by the Canadian Comprehensive Auditing Foundation (CCAF 2002) endorses some core principles of best practice, including:

- Focus on the few critical aspects of performance—centre on core objectives and commitments.
- Look forward as well as back—track achievement against established expectations, and inform how short-term achievements affect longer-term prospects.

- Explain key risk considerations—identify key risks as viewed by management, explain the influence of risk on choices and directions and relate achievements to levels of risk accepted.
- Explain key capacity considerations—inform about capacity factors that affect, at a strategic level, the ability to sustain or improve results or meet expectations, and apprise of plans to bring expectations and capacity into alignment.
- Explain other factors critical to performance—help users to understand them and their impacts.
- Integrate financial and non-financial information—public reporting should address this relationship. It should explain how management views the link between activities and desired results, show how much is being spent on key strategies and explain how changes in spending affect results.
- Provide comparative information—when it would significantly help to understand or use the report, and when relevant, reliable and consistent information is or can be reasonably available.
- Present credible information, fairly interpreted—embody characteristics of consistency, fairness, relevance, reliability and, most especially, understandability.
- Disclose the basis for reporting—including the definition of the reporting unit; the selection of certain aspects of performance as critical; and decisions to change the way performance is measured or presented.

I consider the first one to be particularly important—focusing on a few critical aspects of performance. A trap we often fall into is to try to measure too much; we get overloaded and side-tracked from the main issues. We need to instead understand which things are the most important to measure.

Reviewing reports of public performance in the last decade—far from best practice

Many of the states and territories have publicly reviewed performance with varying degrees of effectiveness. In the late 1990s, the Victorian government introduced an output/outcomes framework and three tiers of performance reporting at a strategic level and at an organisational and output level. In 2001, a report by the Victorian Auditor-General was definitely not necessarily pleasant reading; things were still under development and there were key components missing, particularly outcomes that had not at that stage been thought through well enough. There was an absence of clear linkages between outcomes and performance indicators (Victorian Auditor-General's Office 2001).

The next report to discuss was produced by the NSW Audit Office (2006). It too was not very positive about performance reporting and provided an interesting critique of the limitations of not having verifiable sound information on which to base performance judgements. The NSW agencies that were examined in 2006 by the Auditor-General could not tell whether their services actually made a difference to their customers. They had no way of knowing and, as a result, they did not have information about the impact of their services.

What was the root cause of these examples of poor reporting? What was underlying some of the problems with performance information and performance reporting back in the early and mid-2000s in Victoria and New South Wales? Essentially there was a general lack of awareness about the importance of good informative information, and many agencies were merely collecting data on their activities rather than on outputs or outcomes. There were also associated systems limitations—that is, information systems were not in place to capture the data that were required to monitor performance. After years of experience, I still often wonder about the fact that public servants measure things that are easy to measure, rather than things that need to be measured. Much of that experience is driven by the systems that are in place—or perhaps, more accurately, by the systems that are not in place.

In 2008, the Tasmanian Auditor-General also released a report critical of poorly defined policy objectives (Tasmanian Audit Office 2008). He found again a recurring theme—that activity measures were counted rather than evidence of progress towards output/outcome measures. Remember that this is in the context of external public reporting, so the question is: does the public really want to know how busy you claim you are, or do they want to know what you are actually achieving for them? When auditors criticise plain activity measures produced by agencies, we are not criticising them for not being useful to the internal management of an organisation, but rather we are criticising from the perspective of external accountability to the public sector.

Nine years after the first report from the Victorian Auditor-General, there was still a lack of effective outcomes performance reporting in that state (Victorian Auditor-General's Office 2010). It was the same type of problem, and once again framed in the following way: Is what we're doing helping? How is it contributing to the achievement of targets? And are our clients satisfied?

Finally, at the Commonwealth level, Auditor-General Ian McPhee has been running some pilot programs on performance reporting, particularly outcomes/outputs reporting (ANAO 2013). Interestingly, McPhee's most recent comments highlighted a most pertinent concern: namely, while we are still struggling to develop effectiveness indicators (which I equate to outcomes and the achievement of objectives), we have also lost sight of efficiency indicators.

McPhee also remarked on the paucity of the administrative frameworks used by departments, that is, the systems and processes for actually developing and auditing these performance indicators. Similarly, in the various *Reports on Government Services*, produced by the Productivity Commission, quite often there is a focus on ‘effectiveness, equity and efficiency’, but there are not many efficiency indicators obviously apparent in the policy sectors they evaluate, at least in the Commonwealth jurisdiction.

The lesson that I take from that quick survey of Auditors-General’s reports is that if we are going to improve performance, we have to understand performance. In order to understand performance, we cannot afford to become lost in a morass of information—we need to identify the important qualitative and quantitative indicators. As the Auditors-General have commented over the last decade, there should be less focus on activities and more focus on outcomes and outputs, as well as a balance between effectiveness, efficiency and equity. But we cannot achieve that unless we have the necessary underlying systems. We need to start thinking about our enterprise architecture, and design our information systems with the performance information we need at the forefront of our minds. In Queensland, we still have many legacy systems that have a long way to go in generating effective performance information.

A study of performance gone awry—the right of private practice in Queensland public hospitals

A recent audit that we tabled in the Queensland parliament was an investigation into the right of private practice in Queensland public hospitals conducted by doctors, specialists and nursing staff (Queensland Audit Office 2013). On admission to a Queensland public hospital, one question patients may be asked is, ‘Would you like to use your private health insurance?’ This allows the hospital to bill the federal government for Medicare and get some unsourced revenue into the system. But we needed to ask why did hospitals in Queensland introduce private practice? What were the objectives? What were they trying to achieve? Certainly uppermost in their minds was being able to attract and retain the services of senior medical officers (SMOs) in the public health system. At the same time, the initial objective expressed was that this should be cost neutral and, of course, have no adverse health outcomes for public patients in the public health system.

So, what was the performance like against those three objectives? There was an improvement in the availability of SMOs, but it cost \$800 million more than they thought it would. This is an important consideration, especially when a cost neutral target had been set by Queensland Health. There was also some

indication that Category 2 (elective surgery patients) electing to be treated as public patients would suffer a disadvantage compared to those who elected to go private. Of the three scheme objectives, arguably two failed.

The first objective was arguably successful because there are now approximately 2,200 SMOs in the public hospital system—a significant increase. But crucially, Hospital and Health Services (HHS) had not set employment targets. We cannot be sure whether or not this initiative was actually successful, because HHS did not set a target number of SMOs. Good performance is not just about the outcome but also the target against which you can compare performance.

Why then did the system not work as intended? In Figure 6.1, the big red slice represents the proportion of all the SMOs in the public health system who generated no revenue under their right of private practice. In other words, SMOs were supposed to generate revenue under right of private practice, but almost half of them generated nothing. We found some of them cannot generate income, some because they do not have Medicare numbers to do so, some because they actually work in administration rather than in the hospitals.

Figure 6.1. Distribution of amounts billed, Queensland public hospitals, 2011–12
Source: Queensland Audit Office using data extracted from Queensland Health billing and payroll systems.

It is possible, therefore, that there was some poor design in the implementation of the right of private practice arrangements. Looking at Category 2 elective surgery patients in Figure 6.2, it is apparent that there was a huge disparity

between public and private in the five hospital and health services listed, and this was a statewide issue. This finding indicates some potentially adverse outcomes for public patients in the public health system.

Hospital and Health Service	Category 2 (within 90 days)			
	Public		Private	
	Per cent seen in time	Total patients	Per cent seen in time	Total patients
Children's Health Queensland	75%	1 127	92%	121
Metro North	71%	8 002	90%	933
Metro South	83%	7 872	91%	303
Sunshine Coast	67%	2 548	84%	207
Townsville	66%	3 131	81%	140
Listed HHS	74%	22 680	88%	1 704
Statewide patients (SMOs)¹	72%	38 756	88%	2 210
Statewide patients (all)²	69%	78 547	97%	20 404

1. Statewide (SMOs) includes all category 2 elective surgery performed during 2010–11 and 2011–12 including HHSs not listed.

2. Statewide (all) includes all surgeries performed, including those by registrars and VMOs and in HHSs not listed.

Figure 6.2. Category 2 elective surgery, Queensland public hospitals

Source: Queensland Audit Office using data extracted from Queensland Health clinical and payroll systems.

Our analysis of the data we obtained during the audit uncovered other performance issues, especially in relation to administrative activity measures (note that this now focused on efficiency issues not our assessment of output/outcome performance). Figure 6.3 shows that across the health system it took some hospitals and HHS an inordinately long time to bill for the activity they undertake. In some cases it took HHS up to 650 days to eventually bill the Commonwealth for the activity that was undertaken, a delay that resulted in missing revenue opportunities. We found that through their existing administrative systems, there was an opportunity for HHS to generate more revenue simply by improving administrative practice. This is all part of performance, because one of the performance criteria was to be cost neutral and to maximise their source revenue. We calculated that they were failing to generate approximately \$22 million additional revenue a year through inefficient administrative processes.

Figure 6.3. In-patient billing by system, Queensland public hospitals

Source: Queensland Audit Office using data extracted from Queensland Health billing system.

We also examined how much HHS was paying SMOs. With an increase in the number of available SMOs, overtime in theory should have gone down. Instead, as Figure 6.4 indicates, it went up. We started asking why—surely activity had also gone up? When we examined the records, activity per SMO had in fact dropped, and thus productivity was falling. In addition, we mapped the days of the week when SMO activity happened in the public health system; normal activities occurred mainly on Monday to Thursdays, but almost all the overtime was taken on Fridays. It was then we first encountered the concept of ‘rostered overtime’ on a Friday—SMOs regarded the entire last day of the week as incurring overtime payment.

Much of this was news to Queensland Health. They could not tell us how much SMOs were being paid, or how much overtime they were doing. Why did they not know this? It was partly because of their legacy systems. Queensland Health had not joined their computing and information systems together, they had not integrated their patient billing systems with their administration systems and their payroll systems. They were unable to generate meaningful information to produce the findings we generated as represented in Figures 6.3 and 6.4; they wanted to know the information, but they could not generate it. This goes back to my earlier point about having systems to support the performance information.

Figure 6.4. Total and average overtime paid to SMOs, Queensland public hospitals, 2003–12

Source: Queensland Audit Office using data extracted from Queensland Health payroll system.

So, to conclude, if governments want to improve their performance, they must set the right measures and collect meaningful data to chart progress. In this case, a health department wanted to increase the availability of SMOs, but they needed a target to work towards, and some measurement of levels of activity. They wanted to be cost neutral, but they could not adequately measure whether they were achieving this in a timely manner. And they wanted to improve patient outcomes but could not demonstrate that they had achieved this, and our reading of the situation tended to imply that at least some patients had been disadvantaged.

Peter Achterstraat

In this section of the chapter I will look, in particular, at case studies in the project sphere and in the operations sphere. I will then discuss the lessons we have learned from our audits and how we might improve delivery. For instance, there are tactical responses available to managers to improve performance, but there are also two key strategic responses which have been successful in New South Wales.

Problems with managing the project sphere

I will discuss problems we discovered with three projects: the Sydney Metro, the solar bonus scheme, and some IT projects. With the Sydney Metro, I unfortunately had to report that the government spent \$500 million on this project, and when they cancelled it they had to write off \$428 million—that is, \$428 million was wasted. Why did that happen? How could a project be started and then written off a year later with losses of \$428 million? What could have gone wrong?

Contributing factors included problems with scope, lack of a full understanding of risks and very poor project management. But the main problem was that there was fundamentally no effective business case to begin with. The people responsible thought it was a great idea and decided to jump into it without further consideration.

It was a similar story with the solar bonus scheme. The NSW government decided to pay participants 60c for every kilowatt of electricity they put into the grid, and at the same time allow them to buy it back from the government for approximately 20c. So everyone started selling into the grid for 60c and buying back for 20c. What was that going to cost the government? The original estimate was \$362 million per annum—not too bad perhaps. Eleven months later, another estimate revised the total to \$4 billion. How did such a miscalculation occur? Essentially, the same problems of poor thinking that occurred with the Sydney Metro project were also issues here with the solar bonus scheme. Fortunately, during the course of our audit and before we reported, government was aware of these issues, and they changed some of the parameters. In fact, that loss of \$4 billion did not come to pass.

Turning to IT projects, we know from experience that very few are delivered on time, on budget and on specification. The message to people then is that they do not really have to try particularly hard, because expectations are already low. If specifications are on the web, people are held to account more and have to be more proactive. Yet time and again we are finding that IT projects run over time, go over budget and are affected by under specification. Why is that?

Problems in the operations sphere

Performance problems can and regularly do occur in the operations sphere. For instance, we conducted an audit on injured police, because we were losing far too many highly skilled, highly trained police on medical grounds and thus eroding our capabilities. New South Wales was losing five times more police officers on medical grounds than Victoria. Our audit suggested the poor results for NSW were largely down to operational matters and some neglect. In response

to our findings, the government and the police force eventually made a number of important changes. They have changed some of the rules to reduce liability, and they have also increased the support available to police while they are working. They have made several positive changes.

We also conducted audits on public complaints against RailCorp and looked at efficiencies related to how much time train drivers actually spent at the wheel. Why were passenger complaints going up? Behavioural economics might say that people's expectations were rising too quickly and that RailCorp's performance was not meeting these expectations. When investigating driver performance we discovered that only 28 per cent of the drivers' time is spent actually driving a train. If we could increase that to 31 per cent (a 10 per cent increase), or even double it to 56 per cent, imagine what we could do with the savings.

Levers to improve performance

Why do we have these projects and operations that do not do as well as they should? There are many 'tactical issues' that auditors can uncover. By 'tactical issues', I mean the elements of best business practice such as better business cases, better gateway reviews, service level agreements (i.e. spelling out exactly what's expected from people), quality assurance processes, better contracts, HR and IT capacities, security of information and so on. If we could do all of those things a little better we might improve, for example, from 28 per cent to 31 per cent of drivers' time at the wheel.

We can undertake these changes incrementally. However, there are more effective options available to improve performance, particularly focusing on the strategic aspects of policymaking—and I would nominate governance and leadership as the two most important 'levers'. In recent times, there is evidence we have been able to use these to good effect in NSW.

Governance

Research from the Commonwealth Treasury shows that corporations which follow the Australian Securities Exchange (ASX) principles of corporate governance have higher earnings per share (EPS) and higher sales growth than corporations that have poorer governance (Brown and Gørgens 2009). The reasoning is that better governance means you know the checks and balances are there, and also that people will feel comfortable taking greater risks if they know there is an effective governance structure in place.

In New South Wales, we found that most public organisations have only part of a governance structure in place—for example, a risk management model, code of conduct, ethics, annual audit committees—but they were not always

harmonised, and they were not integrated. So we began a project that brought all these pieces of corporate governance together into a best practice model. We assembled a corporate governance lighthouse of 17 components, adapting the ASX's governance principles for the public service. For example, the ASX emphasises a good ethical environment; we say as a bare minimum, agencies need to have a code of conduct, fraud and corruption control, compliance management and diversity policy. The organisations that use this model are more effective than those that do not.

In putting together the corporate governance lighthouse, the biggest issue we have encountered is that people think that having these 17 components, ticking all the boxes, is all they are required to do—end of story. The challenge is to show that this is a bare minimum—we need to have a much more effective culture at the top to achieve change.

Leadership

In speaking recently to the heads of the agencies whose projects had underperformed or failed in some way, I said, 'Something went wrong. How can we do it better? What can we do?' I spoke one-on-one with these people—28 leaders in total—and asked them their opinion on how we could do things better. It all boiled down to leadership and the leadership skills we need in the public service.

In our 2011 survey of leadership in the NSW public sector, on a scale of 0 to 10 (0 meaning hopeless leaders and 10 meaning excellent), perception of the public sector leadership was at 5.2. In 2012, this rose slightly to 5.6, and in 2013 there was a further increase—but not a comforting result. What was the response from my survey of agency heads? They all said to me, 'Well, there's no definition of what is an effective leader', which dodges the issue. My basic criterion for an effective leader is one whose peers think they are an effective leader.

The CEOs and chairs I spoke to talked about the attributes of a leader, the skills of a leader, and the behaviours of a leader. Attributes of course are who we are. The skills are what we can do, and the behaviours are what we actually do. Each of my interviewees had a big list of what they thought were the necessary skills, behaviours and attributes of a leader and we were able to systematically analyse these to get an idea about what makes a good leader.

The commonalities my interviewees highlighted between the public and the private sector included being a good communicator; able to set a vision; and be people-focused. There is a list of many common things, but there is also a list of some differences. Differences include the reality that in the public sector you must be able to lead through ambiguity (this came out loud

and clear), and the fact that you are responsible to ministers rather than a Board of Directors—a significant difference. Also the public sector has different stakeholders (and a wider range of stakeholders), different values, different scrutiny, a need for thicker skin (particularly in operational areas), the need to inspire and motivate staff, the tools rather than remuneration. Those are important differences.

Then there is the volatility, uncertainty, complexity and ambiguity of the environment, requiring new skills to be able to meet those changes in the public service. There is tension between the short-term and the long-term approach in the public sector—we need to focus on the long term, but we also need to meet short-term needs. Essentially, however, my interviewees said that what makes a good leader comes back to values. Whether we call it integrity or genuineness or authenticity, unless we develop these qualities in the public or the private sector, our leaders will not make it to square one and they will be unable to enthuse their staff and organisations.

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