

Performance Expectations – “How Performance Will Be Assessed”

All agencies should have an internal demand for high quality performance information so they can operate in the best possible way. This guidance assists agencies to think and write about how they will assess and demonstrate their performance in their external reporting. Deciding how to do this can be tough. Your Treasury team or your monitoring agency can help. Talk to them. Questions about this guidance can be emailed to: performanceinfo@treasury.govt.nz

The 2013 amendments to the Public Finance Act 1989 (PFA) and the Crown Entities Act 2004 (CEA) requires agencies to focus on what is most meaningful and useful for external reporting. In this guidance, external reporting means information agencies provide to Parliament in support of the Estimates on Budget Day, in statements of intent (SOIs), and in Crown entity statements of performance expectations.

What’s gone?

The PFA and CEA still require agencies to assess and describe their performance, but are less prescriptive in how this may be done. Phrases such as “set out the specific impacts, outcomes or objectives” an agency seeks to achieve and words such as “measures and standards” have been removed.

What’s new?

For strategic intentions –

- ▶ Each Crown entity must explain in its SOI how the entity proposes to assess its performance.
- ▶ Each department doesn’t need to include in its SOI how it intends to assess its performance – but should still think when it might be useful to do so.

For expenditure – unless otherwise stated in the PFA or the CEA, or an exemption is in place agencies must provide a **concise** explanation of “*how performance will be assessed*” for the following expenditure:

Related link: The [What’s intended to be achieved](#) guidance assists agencies to think and write about what they want to achieve. The connection between “*what’s intended to be achieved*” and “*how performance will be assessed*” should be self-evident. If not self-evident agencies must be able to demonstrate the connection.

Expenditure	Explanation provided by
Appropriations	Administering department
Categories of multi-category appropriations (also known as MCAs)	Administering department
Reportable outputs, which includes use of funds from appropriations	Crown entity

A brief overview of the legislative requirements and exemptions is in Appendix 1.

Demonstrating performance

Agencies deliver a very wide range of services; from providing passports and customs clearances through to meeting the rehabilitation needs of amputees. Accordingly, there are many frameworks and methods that can assist agencies to demonstrate performance. Below, in no particular order, are some possible approaches:

- ▶ The Investment-to-Outcomes Method. This is the method most agencies have been using (refer to Appendix 2 for full information on this method).
- ▶ Case studies, as used by the New Zealand Defence Force in their 2011 Annual Report (page 33) for reporting operations in the Solomon Islands, Timor-Leste, and Afghanistan.
- ▶ Special assessment models, as used by ACC reporting of its Investment Scheme Performance (see Annual Reports 2011 and 2012).
- ▶ [The New Zealand Treasury's Living Standards Framework](#).
- ▶ [The Balanced Scorecard](#), which the Christchurch City Council successfully adopted in 2007 and received a Balanced Scorecard Hall of Fame award in 2010 (see Council Annual Plans and Annual Reports from 2007 onwards). The Advanced Performance Institutes free case study on the Christchurch City Council's use of the Balanced scorecard is available at: <http://www.ap-institute.com/case-studies.aspx>.
- ▶ The [British Quality Foundation's EFQM Excellence Model](#).
- ▶ The [Baldrige Criteria for non-profit/government performance excellence](#).
- ▶ The 2013 Te Puni Kokiri publication [Measuring performance and effectiveness for Māori: Key themes from the literature](#) provides illustrative examples particularly in relation to employment services, but will be of interest to agencies involved in measuring and reporting on the performance of any government services that are provided to Māori and is intended to be widely applicable across the government sector.
- ▶ A wide range of evaluation and research approaches such as; contribution analysis, developmental evaluation, participatory evaluation, randomised controlled trials, social return on investment, and utilisation-focussed evaluation.

One or more of these approaches may be used to meaningfully tell an annual and ongoing performance story.

To help select a meaningful approach, agencies are encouraged to consult internally and externally to test that the performance approach is understandable, implementable and meaningful.

As agencies become familiar with demonstrating performance in new ways, we expect that thinking on how to report on performance will mature and change.

In deciding how to demonstrate performance, agencies need to be mindful of where generally accepted accounting practice (GAAP) requirements will apply at year-end. Appendix C of the External Reporting Board's PBE IPSAS 1 *Presentation of Financial Statements*, sets out the GAAP requirements from 1 July 2014. It is available here: <http://www.xrb.govt.nz/includes/download.aspx?ID=127868>.

Characteristics of good performance information

Whatever the approach(es) selected, it must provide meaningful information for users. What is meaningful can be judged according to the extent the information meets the following four qualitative characteristics.¹

Qualitative characteristics

1 Understandability – The information must be readily understandable by users. Users are assumed to have a reasonable knowledge of the business and a willingness to study the information with reasonable diligence. Information about complex matters that should be included because of its relevance should not be excluded merely on the grounds that it may be too difficult for certain users to understand.

2 Relevance – To be useful, information must be relevant to the decision-making needs of users. Information has the quality of relevance when it influences the users by helping them evaluate past, present or future events or confirming, or correcting, their past evaluations. In order to be relevant, information must also be timely. Materiality is also an important consideration as agencies need to avoid information overload. Information is material if its omission or misstatement could influence the decisions of users.

3 Reliability – To be useful, information must also be reliable. Information has the quality of reliability when:

- ▶ it represents what it purports to represent or could reasonably be expected to represent
- ▶ it is presented in accordance with substance and reality and not merely meets the legal requirements
- ▶ it is neutral ie, free from bias
- ▶ a degree of caution was exercised when judgements were needed in the face of uncertainty, and
- ▶ it is complete within the bounds of materiality.

4 Comparability – To be useful, users should be able to compare performance through time and also with similar functions in other agencies.

Constraints on Relevant and Reliable Information

Timeliness – If there is undue delay in the reporting of information it may lose its relevance.

Balance between Benefit and Cost – The benefits derived from information should exceed the cost of providing it.

Balance between qualitative characteristics – Balancing between qualitative characteristics is often necessary. Generally the aim is to achieve an appropriate balance among the characteristics in order to provide meaningful reporting.

True and Fair View/Fair Presentation – The information should convey what is generally understood as a true and fair view of the information.

¹ The information is drawn from a “Pronouncement” for financial reporting issued by the NZASB under section 24(1)(d) of the Financial Reporting Act 1993, and adapted for non-financial performance reporting:
<http://www.xrb.govt.nz/includes/download.aspx?ID=127965>

Appendix 1 – Legislation at a glance

It is important to familiarise yourself with the full context and other requirements by reading the legislation. If you are in any doubt as to how the law is applied, talk to your legal team.

Table 1 – Appropriations

Legal requirement	Legislation	Document	Coverage
“a concise explanation of how performance against the appropriation will be assessed”	PFA s15C(1)(a)	Annually in the Supporting Information in the Estimates.	For each annual, multi-year or permanent appropriation. This includes the use of funds from appropriations by Crown entities or other agencies. (Other than an appropriation) <ul style="list-style-type: none"> • for expenses and capital expenditure to be incurred by an intelligence and security department PFA s15A(4)(a) • for borrowing expenses PFA s15A(4)(b) • where an exemption has been granted by the Minister of Finance PFA s15D)
“a concise explanation of how performance against each category of the appropriation will be assessed”	PFA s15C(1)(b)	Annually in the Supporting Information in the Estimates	For each category of a multi-category appropriation. (Unless an exempted by the Minister of Finance under PFA s15D)

Table 2 – Reportable outputs in the CEA, which includes appropriations

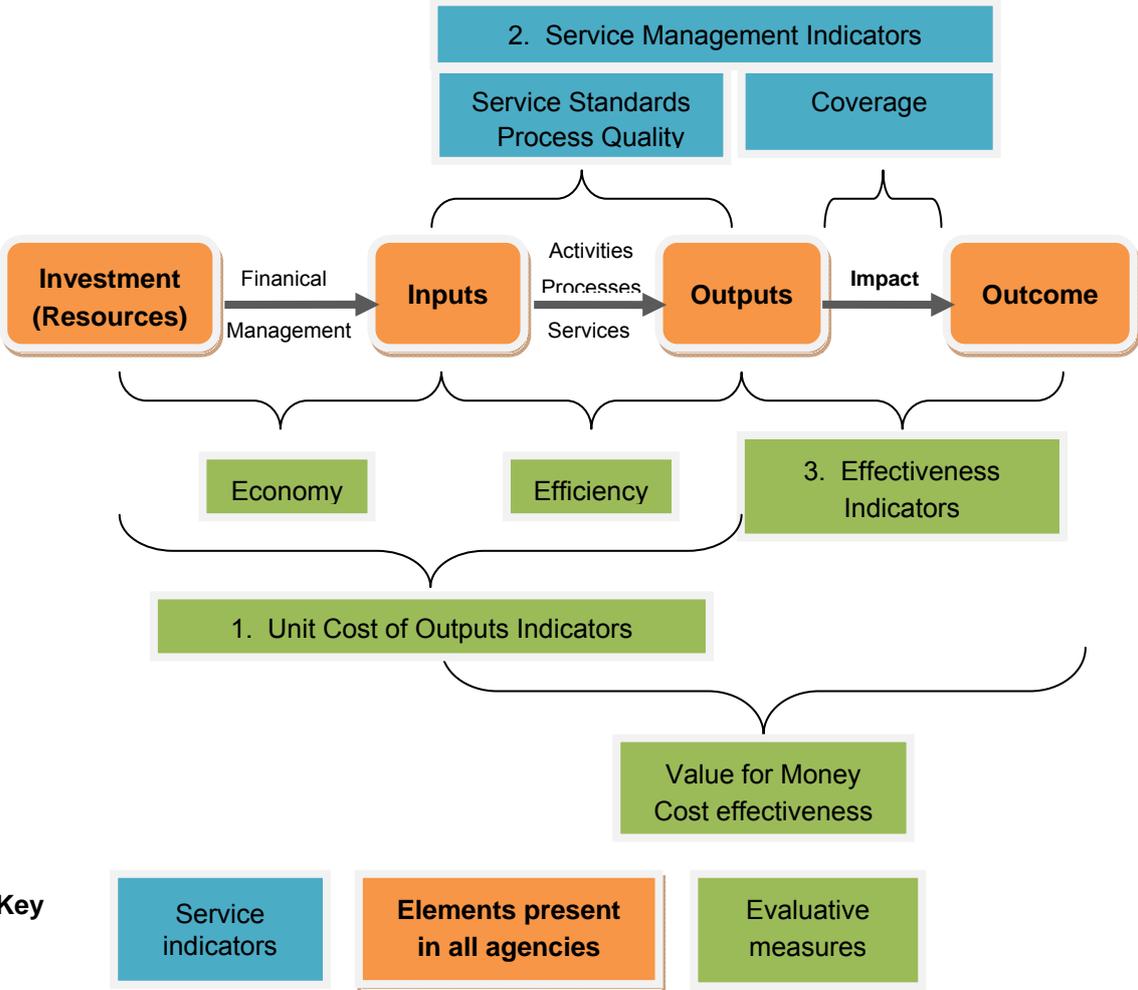
Legal requirement	Legislation	Document	Coverage
“For each reportable class of outputs, the statement of performance expectations <i>must</i> ... <i>include</i> a concise explanation of how the performance of the class of outputs will be assessed”	CEA s149E(2)(c)	Annually in the Statement of Performance Expectations	Reportable outputs, means a class of outputs that is funded (in whole or in part) by the Crown in accordance with: <ul style="list-style-type: none"> • an appropriation (there should be a link between the class or outputs and the Table 1 explanation) or • by grants distributed under any Act or • by levies or • by fees or • by charges prescribed under any Act. (Unless exempted by the Minister of Finance under CEA s149F)

Table 3 – Crown entity strategic intentions

Legal requirement	Legislation	Document	Coverage
“... <i>must also</i> , for the period to which it relates, ...explain how the entity proposes to assess its performance”	CEA s141(2)(d)	Statement of Intent	Strategic intentions must cover a minimum of four years – CEA s139(2) .

Appendix 2 – Investment-to-Outcomes Method

This method may be more useful where there is a good understanding of the production process of turning inputs to outputs and where the outcomes are more attributable to outputs being produced. Where attribution is weak the Investment-to-Outcomes method is less likely to be useful. A diagram of the method is below.



How to choose

The Investment-to-Outcomes Method can be used to identify three important types of indicators that are useful, individually, in various groupings, or collectively, for demonstrating performance. These are discussed below.

Unit Costs of Outputs Indicators

These costs can be demonstrated several ways by using the Investment to Outcomes quantities directly, or by using evaluative measures:

- ▶ *Economy and Efficiency* – by monitoring the unit costs of inputs, and the efficiency of inputs in delivering outputs, an agency is able to provide in depth reporting of organisational performance. This may be more appropriate for activities or services not directly provided to New Zealanders, the economy or the environment.

- ▶ *Unit Cost of Outputs* – demonstrate cost management by reporting trends in the unit costs of service delivery, expressed as \$/Output. These measures are more useful for medium and large operational agencies that deliver services directly to New Zealanders, the economy, or the environment.
- ▶ *Investment and Output Trends* – tracking investment costs and output volumes over time can be informative, particularly for small agencies that deliver low volumes of specialist services, which makes unit costs of services potentially volatile.

Service Management Indicators

Process quality, compliance with standards and regulations, and coverage are examples of service management indicators.

- ▶ *Process quality* – covers a wide range of measures that may be suitable for an agency in its reporting. Process quality measures can include customer satisfaction rates, uptake and completion rates (including comparative rates by ethnicity such as Māori, Pasifika and New Zealand European), error or rework rates, or even formal audits of service processes.
- ▶ *Service standards* – these measures relate to compliance with service design specifications, and typically include time standards set by management or in regulations.
- ▶ *Coverage* – this measure reflects the delivery of services to target groups. Two aspects of service coverage could be considered; the delivery of services to intended target groups, and the unintended delivery of services to non-target groups. The percentage of the target group who did not access the service is one of the most important set of measures for measuring performance for Māori (Māori report lower levels of service quality for 27 out of 42 frequently-used government services and significantly greater barriers to accessing government services than non-Māori).² These indicators are more useful for medium and large service providers.

Effectiveness Indicators

Effectiveness indicators, which can be the most difficult to develop and apply focus on:

- ▶ *Impacts* – useful when assessing the effectiveness of service delivery agencies, eg, measuring the direct consequence of the service provided to target groups, particularly against control groups or over time.
- ▶ *Outcomes* – useful to a group of sector agencies and/or a policy agency. Outcomes are usually more easily defined and measured when services are delivered directly to New Zealanders, or directly affect the economy, or the environment. Agencies that deliver services to other organisations are prone to experiencing difficulty in defining and measuring outcomes from their activities.

² State Services Commission (2011) *How different groups of New Zealanders experience public services A report from Kiwis Count 2009*.

Agency function and demonstrating performance

The following table discussed how these types of indicators may be applied to different agency functions.

Function	Cost of outputs	Service management	Effectiveness	Comments
Small regulatory	Trend in total costs Economy indicators	Minister feedback Stakeholder feedback	Sector outcome trends	Defining and measuring outcome indicators for agencies that target other organisations can be difficult.
Medium and large regulatory	Trend in total costs Economy indicators Efficiency trends Trends in unit costs	Minister feedback Stakeholder feedback Sector agency feedback	Agency outcome trends Sector outcome trends	The agency outcome measure is often % compliance with regulations. Defining and measuring outcome indicators for agencies that target other organisations can be difficult.
Small service delivery	Trends in costs and outputs Trend in unit costs	Customer feedback Error rates Service standard compliance rates	Outcome trends	Small service delivery agencies rarely have the resources to complete impact analysis or service coverage measurement.
Medium and large service delivery	Trends in total costs and outputs Trends in economy and efficiency Trends in unit costs of outputs	Error and rework rates Service audits Customer feedback Service coverage rates Compliance with service standards	Impact measures of services upon target groups Agency outcome trends Sector outcome trends	For many large service delivery organisations a useful outcome measure is the rate of repeated service delivery.
Policy advice (Cabinet mandated)	Total cost per output hour	Minister satisfaction score	Technical quality score, which is accompanied by information on the robustness of the method.	Agencies are not limited to these indicators e.g the regulatory agency indicators can work for policy.

Definitions and usage

Investment-Outcomes Method measures and indicators

Indicator	Definition	Usage
Investment (Resources)	Financial resources spent on the inputs for the provision of a service. Investment can include appropriations, fees, and other revenue sources.	This data is used in audited accounts, as well as many of the secondary indicators. Trends in investment over time can be used to demonstrate cost-effectiveness.
Inputs	The factors of production, such as capital goods, labour, and raw materials.	This data is collated as costs in accounting. It is used in calculation of both economy and efficiency secondary indicators, and is essential for cost management.
Outputs	A count of completed services, activities, processes, or goods produced for third parties. It excludes goods and services produced for internal consumption (eg legal, HR, IT). ³	This data is used for observing trends in service delivery over time, unit costs analysis, and efficiency and effectiveness indicators.
Outcomes and Impacts	<p>Changes in the state or condition of the target group of the society, economy or environment resulting from the services of the reporting agency.</p> <p>Impact measures often refer to immediate outcome for recipients of a service.</p> <p>Outcome measures normally refer to indicators of state that can include non-recipients of a service.</p>	<p>Impact measures are used by management to assess the effectiveness of a single service. Recipients of a service should have better outcomes than a control group of non-recipients.</p> <p>Outcome measures are used for analysis of sector or high-level organisational performance.</p>

Service Management Indicators

Service Management indicators measure service delivery efficacy in other important dimensions, such as service compliance with standards, service quality and service coverage.

Indicator	Definition	Usage
Service Standards	Compliance with published and unpublished performance standards. Typically these are maximum time limits for service completion.	Service standards can be fundamentally important to maximise the benefit of a service. Services that are delivered too late can often have less impact on outcomes than services delivered within standard timeframes.
Service Quality	Services delivered according to service design specifications.	These measures can include: customer satisfaction, service error or rework rates, audited service compliance rates. These measures are important for ensuring proper service delivery and the minimisation of waste.

³ Central government: Cost-effectiveness and improving annual reports, Office of the Auditor General, June 2011, page 52, <http://www.oag.govt.nz/2011/improving-annual-reports>

Indicator	Definition	Usage
Service Coverage	The % of targeted recipients who received a service according to service entry requirements The % of non-targeted recipients who received a service contrary to entry requirements	These measures are important to minimise waste and focus service delivery on the intended recipients.

Evaluative Measures

Evaluative indicators reveal the efficacy of the various stages of the transformation process from investment to outcomes. Effectiveness indicators are much more useful for strategic analysis than economy measures.

Indicator	Definition	Usage
Economy	Investment / Input	These measures enable management to monitor the unit costs of inputs of a service. Typically these will be \$/FTE, and tend to be un-volatile as collective agreements and salary increases are the primary drivers of \$/FTE.
Efficiency	Output / Input	These measures are typically considered productivity indicators and have an important role in monitoring services, case loads. Unexpected changes in efficiency measures can indicate problems or issues with service delivery.
Effectiveness	Outcome(Impact) / Output	This can be demonstrated as a marginal gain in impacts/outcomes per extra output, or by correlation between outputs or costs, and impacts or outcomes. These measures are essential for strategic analysis of overall system effectiveness and in the cost/benefit analysis of further investment.
Unit Cost of Service Delivery	Investment / Outputs Can include direct costs or full costs, and can be adjusted to provide real and nominal unit costs over time.	Monitoring the direct and full unit costs of service delivery is basic management information. Real productivity gains over time should be apparent in these measures.

The remainder of this appendix discuss two agencies end-of-year performance reporting under the Investment to Outcomes Method.

Further reading

Performance Measurement: Advice and examples on how to develop effective frameworks, State Services Commission and The Treasury, August 2008,
http://www.ssc.govt.nz/upload/downloadable_files/performance-measurement.pdf

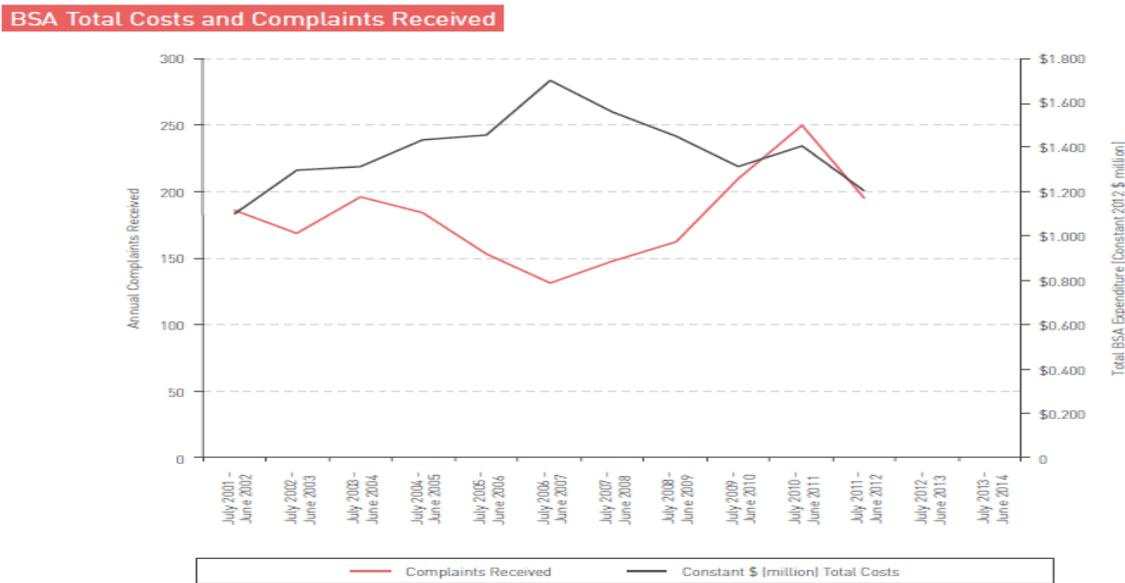
Example 1 – Broadcasting Standards Authority

The Broadcasting Act 1989 (the Act) requires broadcasters to observe standards. It established a system which allowed consumers of broadcasting services or those who might be affected by any broadcast to complain to the broadcaster if it was thought that standards had not been properly observed. The Act established the BSA as a type of judicial body to consider and determine any complaint where a complainant was not satisfied with the response of the broadcaster.⁴

Cost of Outputs and Outcomes – Cost Effectiveness

As a small regulatory entity, the BSA tracks its total costs in conjunction with its primary outcome indicator; total complaints received. This outcome indicator works well for the BSA, as it manages the production and distribution of standards, and educates the public about the complaint process, so that issues are resolved between the broadcaster and the complainant. When this systems “fails” then appeals are lodged with the BSA to make a determination. If the system is effective, then the BSA will not have to make many determinations. The Figure below illustrates the cost effectiveness of its services by correlation. When BSA expenditure on its services declines there was an increase in the number of complaints received by the BSA. Then as expenditure increased, the number of complaints received declined.

OVERALL PERFORMANCE AND COST ANALYSIS



The BSA is simply tracking its total costs and outcomes to demonstrate performance and cost effectiveness. The information used to complete this accountability reporting was contained within the BSA’s own administrative databases. The BSA does not report the unit cost of its decisions as these are misleading. By providing clear standards, and raising awareness of the standards and the complaints process, the BSA should see a reduction in the number of appeals made to the BSA, thus driving up unit costs. As a consequence, measuring unit costs is not a particularly useful accountability measure for the BSA. Finally, the BSA does report its outputs in detail, as these remain an important component of the accountability framework.

⁴ p4, BSA, 2011/ 2012 Annual Report

Service Management

The BSA uses a range of measures to assess its service management performance. The combination of service quality indicators (error rate), a service standard indicator, and customer satisfaction provide useful service management information.

Measure	Reporting
Service Standard Measure	The BSA reports “% of decisions issued within 20 working days” ⁵
Service Quality Measure	The BSA reports: <ol style="list-style-type: none"> an error rate measure – the number of decisions appealed to the High Court. An appeal to the High Court that is upheld implies an incorrect decision made by the BSA.⁶ a customer satisfaction measure – a complainants survey⁷
Service Coverage Measure	The BSA uses occasional benchmark surveys to assess the level of awareness of New Zealanders of the broadcasting standards complaints process ⁸

Effectiveness Measures

The BSA monitors a set of system performance measures for monitoring overall impact. All three measures tell the BSA about the performance of its different services. One of these measures, Complaints Received, is used in its cost effectiveness analysis.

BSA System Performance Indicators



⁵ p15, BSA, 2011/ 2012 Annual Report.

⁶ p13, BSA, 2011/ 2012 Annual Report.

⁷ p11, BSA, 2011/ 2012 Annual Report.

⁸ p14, BSA, 2011/ 2012 Annual Report.

Example 2 – Department of Corrections

The Department of Corrections is a very large service provider with the goal of reducing reoffending by 25% by 2017. Correction's total expenditure in 2011/12 was over \$1.1 billion for its public prison services and community sentence services. A major part of its expenditure is for services and programmes that are designed to reduce the risk of reoffending by those who receive the services. These services include education, employment training, and rehabilitation services. Large service providers normally have good cost and output data, which is essential for management decision-making. The following examples and data are taken from pages 10 to 24 of the Corrections 2011/2012 Annual Report.

Cost of Outputs

Corrections publish the direct and full unit costs of its prison and community based services. This trend chart shows the average daily cost of a prisoner.

Service Management

Corrections' service management indicators focus on error and adverse event reporting. This is appropriate for a prisons service. Customer satisfaction surveys are unlikely to provide honest management feedback on service performance. Examples adverse event indicators include self-harm incidents, un-natural deaths in custody, and escapes from prison.

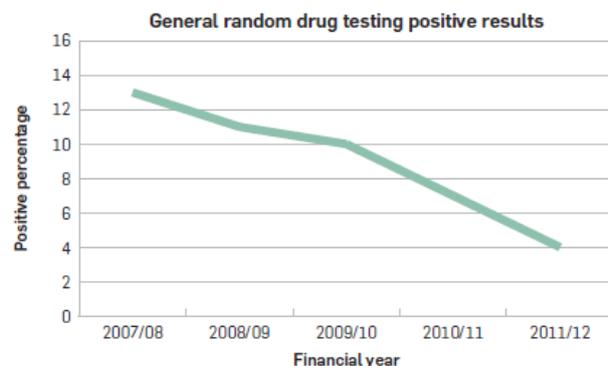
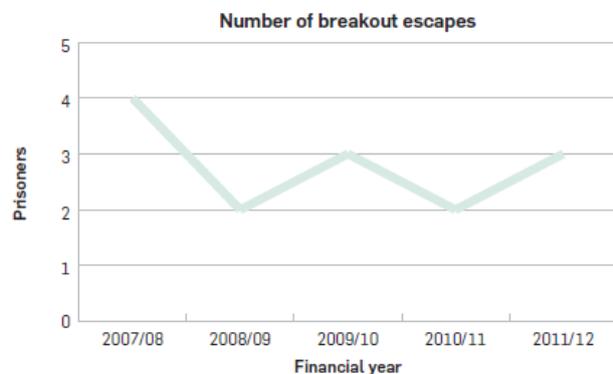
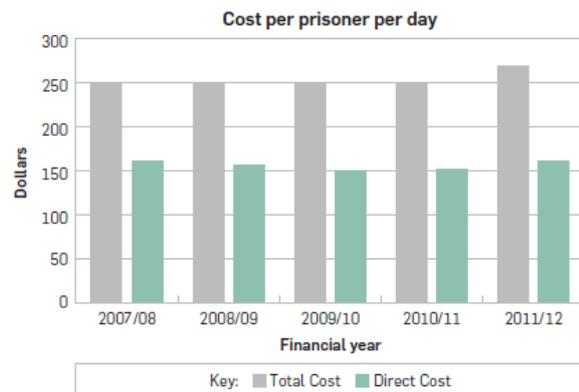
Corrections also include a service standards indicator. They have started publishing an indicator for the number of prisoners released on their lawful due date.

Effectiveness

Corrections publish both impact measures and outcomes trends for their services. Impact measures reveal the effectiveness of their services and programmes upon the target groups. Outcome measures reveal the effectiveness of the whole system.

Impact measures

Corrections publish impact measures for most of its major services; education, employment, prisoner intervention, and rehabilitation.



The impact of programmes to reduce supply and demand for drugs in prison has resulted in a long-term decline in the rate of positive results from their random drug testing.

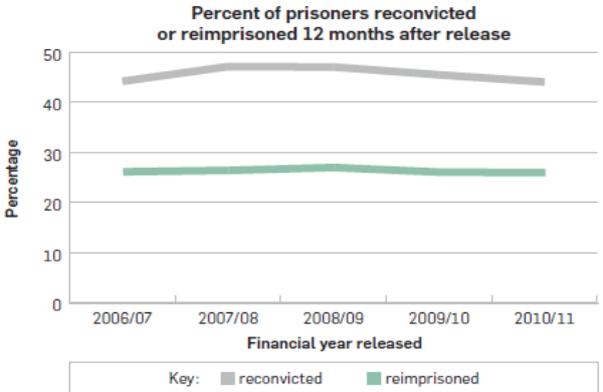
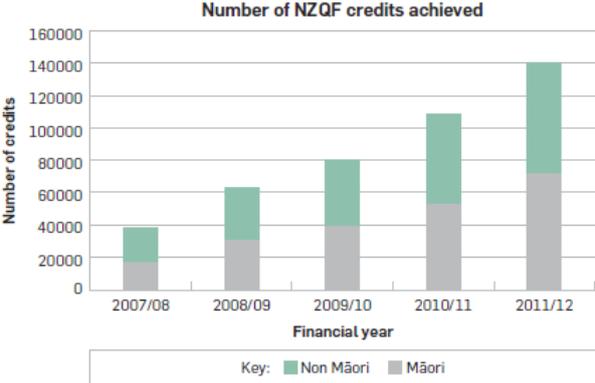
The education programmes have resulted in a rapid gain in the total number of NZQF credits achieved.

Corrections measures the impact of its intervention programmes by comparing the change in the re-imprisonment rate of prisoners who receive these services compared to control groups with the same risk profile.

Outcome measures

Corrections monitor the rates of recidivism of all prisoners receiving custodial and community based sentences.

This outcome measure is used to define its strategic goal of reducing by 25% by 2017.



Prisoner interventions	Reimprisonment (12 month follow up)	Reimprisonment (24 month follow up)
Special Treatment Unit (sex offenders)	-3.70	-10.00
Special Treatment Unit rehabilitation programme	-2.50	-3.60
Drug Treatment Units	-6.40	-5.00
Medium-intensity programme	0	-3.20
Short rehabilitation/ motivational programmes	-7.00	-11.10
Corrections Inmate Employment	-3.10	-0.30
Trade and Technical Training	-7.70	na
Release to Work	-8.10	na

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ISBN 978-0-478-40396-1 (Online)



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